TORCHMARK CORP
Form 10-K/A
September 13, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

OR

¨ **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: 001-08052

TORCHMARK CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**63-0780404**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
3700 South Stonebridge Drive, McKinney, TX	**75070**
(Address of principal executive offices)	**(Zip Code)**

972-569-4000

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**CUSIP**	**Name of each exchange on which registered**
Common Stock, $1.00 par value per share	891027104	New York Stock Exchange
Common Stock, $1.00 par value per share	891027104	The International Stock Exchange, London, England
7.10% Trust Originated Preferred Securities	89102W208	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x 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 x No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer x   Accelerated filer ¨

Non-accelerated filer ¨ (Do not check if smaller reporting company) Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

As of June 30, 2011, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $4,506,812,451 based on the closing sale price reported on the New York Stock Exchange.

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

Class	Outstanding at February 14, 2012
Common Stock, $1.00 par value per share	100,186,568 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts into Which Incorporated
Proxy Statement for the Annual Meeting of Stockholders to be held April 26, 2012	Part III

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Explanatory Note

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 repealed Rule 436(g) promulgated under the Securities Act of 1933, as amended (the Securities Act), thereby eliminating the exemption from the expert consent and liability provisions under the Securities Act for any credit ratings issued by a nationally recognized statistical rating organization. As a result, companies that wish to include certain information relating to their ratings in periodic reports that may be incorporated by reference into registration statements or prospectuses must obtain the consent of the applicable rating agencies. The rating agencies have indicated that they are not providing any consents at this time.

This Amendment No. 1 on Form 10-K/A (the Amendment) solely modifies Part II, Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations) in our Form 10-K for the year ended December 31, 2011, originally filed with the U.S. Securities and Exchange Commission on February 28, 2012 (the Original Form 10-K), to delete disclosures of our credit ratings on page 50 of the Original Form 10-K, as such disclosures may not constitute issuer disclosure-related ratings information under Compliance & Disclosure Interpretations issued by the Staff of the Securities and Exchange Commission which would be permitted to be disclosed without the need for rating agencies consent. All other Items of the Original Form 10-K are unaffected by this Amendment and such Items have not been included in this Amendment. Information included in this Amendment is stated as of December 31, 2011, and does not reflect any subsequent events occurring after the filing of the Original Form 10-K.

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PART II

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the *Selected Financial Data* and Torchmark s *Consolidated Financial Statements* and Notes thereto appearing elsewhere in this report.

RESULTS OF OPERATIONS

Discontinued Operations: As described in *Note 3 Discontinued Operations* in the *Notes to the Consolidated Financial Statements*, we sold our subsidiary United Investors Life Insurance Company (United Investors) as of December 31, 2010. Because of the sale, United Investors financial results are excluded from this discussion since those operations are discontinued.

How Torchmark Views Its Operations: Torchmark is the holding company for a group of insurance companies which market primarily individual life and supplemental health insurance, and to a limited extent annuities, to middle income households throughout the United States. We view our operations by segments, which are the major 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. As fully described in *Note 14 Business Segments* in the *Notes to the Consolidated Financial Statements,* the product line segments involve the marketing, underwriting, and benefit 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:

Interest credited to net policy liabilities

Financing costs

The tables in *Note 14 Business Segments* reconcile Torchmark s revenues and expenses by segment to its major income statement line items for each of the years in the three-year period ending December 31, 2011. Additionally, this Note provides a summary of the profitability measures that demonstrates year-to-year comparability and which reconciles to net income. That summary is reproduced below from the *Consolidated Financial Statements* to present our overall operations in the manner that we use to manage the business.

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Analysis of Profitability by Segment

(Dollar amounts in thousands)

	2011	2010	2009	2011 Change	%	2010 Change	%
Life insurance underwriting margin	$ 486,235	$ 455,266	$ 427,412	$ 30,969	7	$ 27,854	7
Health insurance underwriting margin	161,991	170,059	170,410	(8,068)	(5)	(351)	0
Annuity underwriting margin	2,345	1,348	312	997		1,036	
Other insurance:							
Other income	2,507	2,834	2,914	(327)	(12)	(80)	(3)
Administrative expense	(159,109)	(155,615)	(150,325)	(3,494)	2	(5,290)	4
Excess investment income	292,597	297,145	275,650	(4,548)	(2)	21,495	8
Corporate and adjustments	(22,647)	(20,657)	(19,450)	(1,990)	10	(1,207)	6
Pre-tax total	763,919	750,380	706,923	13,539	2	43,457	6
Applicable taxes	(249,495)	(252,357)	(238,153)	2,862	(1)	(14,204)	6
After-tax total, before discontinued operations	514,424	498,023	468,770	16,401	3	29,253	6
Discontinued operations (after tax)	0	27,932	26,810	(27,932)		1,122	4
Total	514,424	525,955	495,580	(11,531)	(2)	30,375	6
Realized gains (losses) investments (after tax)*	16,838	24,270	(85,345)	(7,432)		109,615	
Realized gains (losses) discontinued operations (after tax)	0	1,852	(7,909)	(1,852)		9,761	
Loss on disposal of discontinued operations (after tax)	(455)	(35,013)	0	34,558		(35,013)	
Tax settlements (after tax)	0	0	2,858	0		(2,858)	
Cost of legal settlements (after tax)	(7,800)	0	0	(7,800)		0	
State administrative settlement (after tax)	(4,486)	0	0	(4,486)		0	
Loss on Company-occupied property (after tax)	0	0	(231)	0		231	
Loss on sale of equipment (after tax)	(636)	0	0	(636)		0	
Net income	$ 517,885	$ 517,064	$ 404,953	$ 821	0	$ 112,111	28

* See the discussion of *Realized Gains and Losses* in this report.

Torchmark s operations on a segment-by-segment basis are discussed in depth under the appropriate captions following in this report.

Summary of Operations: Net income increased slightly from $517 million to $518 million in 2011. It rose 28% or $112 million in 2010, largely as a result of after-tax realized investment gains of $24 million in 2010, compared with losses of $85 million after tax in 2009. The 2009 losses included $94 million of write downs of fixed maturities which were determined to be other-than-temporarily impaired. Realized investment gains were $17 million in 2011. On a diluted per share basis, 2011 net income increased 12% to $4.72, after an increase in 2010 of 29% to $4.20.The above-mentioned after-tax realized investment gains added $.15 to 2011 net income per diluted share and $.20 per share in 2010, while the 2009 loss reduced net income $.69 per share of which the impairment writedowns accounted for $.76 of the loss. More information concerning realized investment gains and losses can be found under the caption *Realized Gains and Losses* in this report where there is a more complete discussion. Also, as explained in *Note 14 Business Segments* in the *Notes to the Consolidated Financial Statements*, we do not consider realized gains and losses to be a component of our core insurance operations or operating segments. Also included in 2010 results is a $35 million after tax loss on the disposal of United Investors, representing $.28 per diluted share.

As shown in the above chart, after tax segment operations, before discontinued operations, rose each year over the prior year from $469 million in 2009 to $498 million in 2010 to $514 million in 2011. The primary contributor to the growth in both 2011 and 2010 was the underwriting margin in our life insurance segment, which margins rose $31 million in 2011 and $28 million in 2010. The life insurance segment is our strongest segment and is the largest contributor to earnings in each year presented. Growth in 2010 was also affected positively by the $21 million increased contribution of excess investment income, the measure of profitability of the investment segment. Excess investment income in 2010 increased over 2009 investment segment income largely because of the unusually large holdings in low-yielding cash and short-term investments held in 2009 due to the uncertain economic climate at that time. These short-term holdings were invested in 2010 as financial conditions improved. Excess investment income was also negatively affected in 2009 because of our issuance of a $300 million 9 $^{1}/_{4}$%

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debt security in June, 2009 (net proceeds of $296 million) and repayment of a $99 million 8 $^{1}/_{4}$% security which matured in August, 2009. These transactions resulted in a net increase in our financing costs in 2009 and reduced excess investment income. Growth in 2011 earnings was negatively affected by a decline in the health insurance segment underwriting margin of $8 million, and a $5 million decline in excess investment income from the investment segment. The 2011 decline in health contribution was largely a result of the discontinuance of sales of certain limited-benefit health insurance products because of healthcare reform. The decline in excess investment income was due to the continuing low-interest rate environment which has pressured investment yields and spreads over policy benefit requirements, discussed more fully under the captain *Investments* in this report.

Total revenues were flat in 2011 at $3.38 billion compared with $3.37 billion in 2010. Revenues increased 8% in 2010 over revenues of $3.12 billion in 2009. Life premium rose 4% or $63 million in 2011 and $72 million in 2010. Net investment income rose 2% or $17 million in 2011, compared with $44 million in 2010. However, growth in revenues in 2011 and 2010 were negatively affected by the declines in health premium described further under this caption.

While life insurance premium has grown steadily in each of the three years ending December 31, 2011, margins as a percentage of premium rose in 2011 to 28% from 27% in 2010 and 2009. Segment profits for life insurance were not only positively affected by the premium growth, but also by improvements in mortality and persistency in both periods. Life net sales declined 1% in 2011 to $325 million but rose 1% in 2010 to $330 million. Life insurance segment results are discussed further in this report under the caption *Life Insurance.*

We primarily market two health insurance products: Medicare Supplement insurance and the Medicare Part D prescription drug benefit. We also market limited-benefit cancer and accident health products and prior to September, 2010, an under-age-65 limited-benefit hospital-surgical product. Health premium declined 6% in 2011 to $929 million from $987 million in 2010. Health premium declined 3% in 2010. The decreases in both years were caused primarily by the de-emphasis and discontinuance of sales in 2010 of our limited-benefit hospital-surgical health product. Declines in agent counts in the distribution units that market our health products were another negative factor. These factors have caused reductions in net sales of health products which have in turn pressured premium growth. Medicare Supplement remains our largest contributor to total health premium, but increased competition has also dampened sales of this product in recent years, resulting in premium declines in each successive year. Our Medicare Part D premium declined 6% in 2011, after having increased 14% in 2010. However, enrollees into our Medicare Part D program for the plan year 2012 were 225 thousand, an increase of 56% over the 2011 enrollees. Therefore, we expect premium growth in 2012 at approximately the same rate. See the discussion under *Health Insurance* for a more detailed discussion of health insurance results.

We offer fixed annuities, but we do not emphasize sales of annuity products, favoring life insurance instead. With the sale of United Investors in 2010, we disposed of 37% of our annuity deposit balance. See the caption *Annuities* for further discussion of the Annuity segment.

As previously mentioned, the investment segment s pretax profitability, or excess investment income, increased $21 million in 2010 but declined $5 million in 2011. Profitability in this segment is based on three major components: net investment income, required interest on net policy liabilities (interest applicable to insurance products), and financing costs. In recent years, growth in net investment income has been restricted in relation to the growth in the size of our portfolio. One reason that investment income has grown at a lower rate than mean invested assets has grown in recent years is that new investments have been made at yield rates lower than the yield rates earned on securities that matured or were otherwise disposed of. Also, there is sometimes a lag between the time when proceeds from maturities and dispositions are received and when the proceeds are reinvested, in which the funds are held in cash. Growth in total investment income has also been somewhat negatively affected by Torchmark s share repurchase program (described later under this caption), which has diverted cash that could have otherwise been used to acquire investments. In 2011, net investment rose 3% while the portfolio (at amortized cost) grew 4%, in accordance with the general pattern in recent periods. However, in 2010, the growth in net investment income slightly exceeded the growth in the average portfolio for the first time in many years, primarily as a result of the special constraints on the growth in 2009 net investment income. During 2009, due primarily to uncertainty about liquidity in the financial markets, we held significantly more cash and short term investments than we normally would. Additionally, in 2009, we sold a significant portion of higher-yielding but lower-rated fixed maturities and reinvested the proceeds in lower-yielding but higher-rated bonds in 2009 and early 2010 to improve our risk-adjusted return. These factors contributed to reduced 2009 net investment income.

The interest required on net policy liabilities is deducted from net investment income, and generally grows in conjunction with the net policy liabilities that are supported by the invested assets. The lower new-money yields resulting from the low-interest-rate environment noted above have had the effect of compressing excess investment income as required interest has grown. We have implemented certain strategies to offset this effect, including lowering the discount rate going forward and increasing premium rates on sales of new products. Financing costs, which consist of the interest required for debt service on our long and short-term debt, are also deducted from net investment income. Financing costs in 2011 were $78 million, an increase of 3% over $75 million in 2010. This increase was primarily a result of increased charges related to our letters of credit facility. In 2010, financing costs increased 8% as interest expense on our long-term debt rose $9 million or 13%. As noted earlier, in 2009 we issued our $300 million 9 $^{1}/_{4}$% Senior Notes but repaid our $99 million 8 $^{1}/_{4}$% Senior Debentures, resulting in a higher balance of debt outstanding at a higher interest rate in 2010.

Torchmark s current investment policy limits new investment acquisitions to investment-grade fixed maturities generally with longer maturities (often exceeding twenty years) that meet our quality and yield objectives. Approximately 96% of our invested assets at fair value consist of fixed maturities of which 95% were investment grade at December 31, 2011. The average quality rating of the portfolio was A-. The portfolio contains no securities backed by sub prime or Alt-A mortgages, no direct investment in residential mortgages, no direct investment in European Sovereign debt, no counterparty risks, no credit default swaps, or derivative contracts. See the analysis of excess investment income and investment activities under the caption *Investments* in this report and *Note 4 Investments* in the *Notes to Consolidated Statements of Operations* for a more detailed discussion of this segment.

As mentioned earlier, we used a portion of the $296 million proceeds from the offering of our 9 $^{1}/_{4}$% Senior Notes ($300 million par amount) in 2009 to repay our $99 million 8 $^{1}/_{4}$% Senior Debentures which also matured in 2009. More information on these transactions can be found in *Note 11 Debt* in the *Notes to Consolidated Financial Statements* and in our discussion of *Capital Resources* in this report.

In each of the years 2011 and 2009, income from continuing operations was affected by certain significant, unusual, and nonrecurring nonoperating items. We do not view these items as components of core operating results because they are not indicative of past performance or future prospects of the insurance operations. As reported in *Note 1 Significant Accounting Policies* in the *Notes to Consolidated Financial Statements* under the caption *Settlements*, we have been involved in certain issues in 2011 or 2009 in which we either received settlements or incurred settlement losses and expenses. In 2011, we settled a state administrative matter in the pretax amount of $6.9 million ($4.5 million after tax) and accrued an estimated liability for a litigation settlement expected to settle in early 2012 in the pretax amount of $12.0 million ($7.8 million after tax). Both of these issues involved matters arising many years ago. Additionally, as described under the same caption of Note 1, we received a tax settlement in the amount of $2.9 million in 2009. The tax settlement primarily involved the results of prior year examinations. The state administrative settlement and the litigation accrual are included in Other operating expense and the tax settlement is an adjustment to Income taxes in the *Consolidated Statements of Operations*. However, as described in *Note 1*, we remove items such as these that are concerned with prior periods when evaluating the results of current operations, and therefore exclude such matters from our segment analysis for current periods.

Torchmark has in place an ongoing share repurchase program which began in 1986. With no specified authorization amount, we determine the amount of repurchases based on the amount of the Company s excess cash flow, general market conditions, and other alternative uses. The majority of these

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purchases are made from excess operating cash flow when market prices are favorable. Additionally, when stock options are exercised, proceeds from these exercises and the tax benefit are used to repurchase additional shares on the open market to minimize dilution as a result of the option exercises. Due to poor economic conditions, we temporarily suspended our share repurchase program in the first quarter of 2009. However, in the first quarter of 2010, the Board of Directors reactivated the Company s share repurchase program in amounts and with timing that management, in consultation with the Board, determines to be in the best interest of the Company. The following chart summarizes share purchase activity for each of the three years ended December 31, 2011, retroactively restated for the three-for-two stock split described in *Note 1 Significant Accounting Policies* in the *Notes to Consolidated Financial Statements*.

Analysis of Share Purchases

(Amounts in thousands)

	2011		2010		2009	
Purchases	**Shares**	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**
Excess cash flow and borrowings	18,901	$ 787,697	5,707	$203,566	3,075	$ 46,695
Option proceeds	4,380	184,859	1,074	42,440	30	869
Total	23,281	$ 972,556	6,781	$246,006	3,105	$ 47,564

Option proceeds increased significantly in 2011 due to optionholders exercising several years of option grants that are due to expire in 2012.

Throughout the remainder of this discussion, share purchases refer only to those made from excess cash flow and borrowings.

A discussion of each of Torchmark s segments follows. The following discussions are presented in the manner we view our operations, as described in *Note 14 Business Segments*.

Life Insurance. Life insurance is our largest insurance segment, with 2011 life premium representing 65% of total premium. Life underwriting income before other income and administrative expense represented 75% of the total in 2011. Additionally, investments supporting the reserves for life products result in the majority of excess investment income attributable to the investment segment.

We completed the process of combining selected United American (UA) Exclusive Agency Branch Offices with the Liberty National Exclusive Agency during 2011. For this reason, all data will be reported on a combined basis in this report.

Life insurance premium rose 4% to $1.73 billion in 2011 after having increased 5% in 2010 to $1.66 billion. Life insurance products are marketed through several distribution channels. Premium income by channel for each of the last three years is as follows:

LIFE INSURANCE

Premium by Distribution Method

(Dollar amounts in thousands)

	2011		2010		2009	
	Amount	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
American Income Exclusive Agency	$ 607,914	35%	$ 560,649	34%	$ 507,899	32%
Direct Response	593,650	34	566,604	34	536,878	34
Liberty National Exclusive Agency	288,308	17	294,587	18	298,485	19
Other Agencies	236,372	14	241,859	14	248,591	15

	$ 1,726,244	100%	$ 1,663,699	100%	$ 1,591,853	100%

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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, net of cancellations in the first thirty days after issue, except in the case of 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 superior indicator of the rate of premium growth relative 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.

Annualized life premium in force was $1.81 billion at December 31, 2011, an increase of 3% over $1.75 billion a year earlier. Annualized life premium in force was $1.69 billion at December 31, 2009.

The following table shows net sales information for each of the last three years by distribution method.

LIFE INSURANCE

Net Sales by Distribution Method

(Dollar amounts in thousands)

	2011		2010		2009	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
American Income Exclusive Agency	$ 141,793	44%	$ 137,554	42%	$ 127,688	39%
Direct Response	136,663	42	136,653	41	$ 131,566	40
Liberty National Exclusive Agency	36,338	11	44,763	14	55,146	17
Other Agencies	10,404	3	10,561	3	11,518	4
	$ 325,198	100%	$ 329,531	100%	$ 325,918	100%

The table below discloses first-year collected life premium by distribution channel.

LIFE INSURANCE

First-Year Collected Premium by Distribution Method

(Dollar amounts in thousands)

	2011		2010		2009	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
American Income Exclusive Agency	$ 113,151	46%	$ 110,751	45%	$ 95,693	42%
Direct Response	88,962	37	89,542	37	84,775	37
Liberty National Exclusive Agency	31,296	13	34,845	14	35,137	16
Other Agencies	9,413	4	10,364	4	10,313	5
	$ 242,822	100%	$ 245,502	100%	$ 225,918	100%

The **American Income Exclusive Agency** focuses primarily on members of labor unions, but also on credit unions and other associations as well as referrals from new customers for its life insurance sales. It is Torchmark s highest profit margin business. The American Income Agency was also the largest contributor to life premium and net sales of any Torchmark distribution method in 2011. Life premium for this agency rose 8% to $608 million in 2011, after having increased 10% in 2010. Net sales increased 3% in 2011 to $142 million, after having risen 8% in 2010. Net sales rose 18% in 2009. First-year collected premium rose 2% in 2011 to $113 million, after having increased 16% in 2010. The average face amount of policies issued in 2011 was approximately $34 thousand. As in the case of all of Torchmark s agency distribution systems, continued increases in product sales are largely dependent on increases in agent count. The American Income agent count was 4,381 at December 31, 2011 compared with 3,912 a year earlier, an increase of 12%. However, the agent count had declined 6% in 2010 from 4,154 a year earlier. This agency continues to recruit new agents focusing on an incentive program to reward growth in both the recruiting of new agents and in the production of new business. Additionally, the systematic, centralized internet recruiting program has enhanced the recruitment of new agents.

Direct Response consists of two primary components: insert media and direct mail. Insert media targets primarily the adult market. It involves placing insurance solicitations as advertising inserts into a variety of media, such as coupon packets, newspapers, bank statements, and billings. Direct mail focuses primarily on young middle-income households with children. The juvenile life insurance policy is a key product for this group. Not only is the juvenile market an important source of sales, but it also is a vehicle to reach the parents and grandparents of the juvenile policyholders. Parents and grandparents of these juvenile policyholders are more likely to respond favorably to a Direct Response solicitation for life coverage on themselves than is the general adult population. Also, both the juvenile policyholders and their parents are low acquisition-cost targets for sales of additional coverage over time. At this time, we believe that the Direct Response unit is the largest U.S. writer of juvenile direct mail life insurance. We expect that sales to this demographic group will continue as one of Direct Response s premier markets.

The Direct Response operation accounted for 34% of our life insurance premium during 2011, increasing 5% over 2010 premium. Life premium for this channel rose 6% in 2010 and 5% in 2009. Net sales were flat in 2011 after a 4% increase in 2010 to $137 million. First-year collected premium declined 1% to $89 million in 2011 after a 6% gain in 2010. The average face amount of policies issued in 2011 was approximately $20 thousand.

The **Liberty National Exclusive Agency** markets primarily life insurance and supplemental health insurance, focusing primarily on middle-income customers. Life premium income for this agency was $288 million in 2011, a 2% decrease compared with $295 million in 2010. Life premium for this agency declined 1% in 2010 from 2009. First-year collected premium declined 10% to $31 million in 2011, after having also declined 1% in 2010. The average face amount of policies issued in 2011 was approximately $25 thousand.

The Liberty Agency s net sales declined 19% to $36 million in 2011, after also having declined 19% a year earlier. As noted above, in the case of all of our agencies, the size of the agency drives product sales. This agency had 1,345 producing agents at December 31, 2011, compared with 2,001 a year earlier, a decline of 33%. The agent count at Liberty had also declined 19% in 2010 from 2,471. The decrease in agent count has been due in part to the closing of several offices which had low production. In addition, agent compensation issues that arose in 2009 have negatively impacted agent counts. The bonus thresholds proved more difficult for producing agents to meet than anticipated. Management reduced the bonus threshold later in 2009. Also, due to deteriorating first-year persistency, management modified compensation incentives in 2009 to place more emphasis on the persistency of newly issued policies. These changes resulted in the departure of a number of the less productive agents in 2010 and 2011. While these modifications caused a loss of agents, they resulted in improved persistency and margins, and contributed to Torchmark s overall improvement in life insurance margins.

The Liberty Exclusive Agency agent counts have also decreased due to issues related to its health insurance business. This agency s health insurance marketing efforts had historically been focused on limited-benefit hospital-surgical plans. These plans were subject to intense competition from other companies which offered lower-margin products providing agents with products that were easier to sell, thus discouraging sales of our products and ultimately resulting in decreases in agent counts. In addition, these limited-benefit hospital-surgical plans became less marketable due to healthcare reform developments. Sales of these limited-benefit hospital/surgical plans were discontinued after September, 2010. These developments caused further increases in agent turnover. In response, the agency has shifted its marketing focus to a product mix more weighted towards life insurance and supplemental health insurance products (not affected by healthcare reform) that have higher margins and persistency. Additionally, we are in the process of changing the cost structure of this agency to a more commission-driven model. Going forward, branch office operating expenses will be the responsibility of the branch managers and all new agent recruits will be independent contractors rather than employees. We are also implementing new agent recruiting and training programs similar to those used at American Income. We believe these changes will increase the Agency s profitability and stability in the long run.

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We also offer life insurance through **Other Agencies** consisting of the Military Agency, the United American Independent Agency, and other small miscellaneous sales agencies. The Military Agency consists of a nationwide independent agency whose sales force is comprised primarily of former military officers who have historically sold primarily to commissioned and noncommissioned military officers and their families. This business consists of whole-life products with term insurance riders. Military premium represented 11% of life premium at December 31, 2011. The United American Independent Agency represented approximately 1% of Torchmark s total life premium at that date. This agency is focused on health insurance, with life sales being incidental.

LIFE INSURANCE

Summary of Results

(Dollar amounts in thousands)

	2011		2010		2009	
	Amount	% of Premium	Amount	% of Premium	Amount	% of Premium
Premium and policy charges	$ 1,726,244	100%	$ 1,663,699	100%	$ 1,591,853	100%
Policy obligations	1,118,909	65	1,082,423	65	1,040,249	65
Required interest on reserves	(458,029)	(27)	(434,319)	(26)	(410,917)	(26)
Net policy obligations	660,880	38	648,104	39	629,332	39
Commissions and premium taxes	75,480	5	72,559	5	72,272	5
Amortization of acquisition costs	503,649	29	487,770	29	462,837	29
Total expense	1,240,009	72	1,208,433	73	1,164,441	73
Insurance underwriting margin before other income and administrative expenses	$ 486,235	28%	$ 455,266	27%	$ 427,412	27%

Gross margins, as indicated by insurance underwriting margin before other income and administrative expense, rose 7% in both 2011 and 2010. The margin increased to $486 million in 2011 after rising to $455 million in 2010. As a percentage of life insurance premium, the 2011 margin rose to 28%. In the two prior years, margins were stable at 27%. Margin growth in all periods was primarily the result of premium growth. Improved mortality was also a factor in 2011.

Health Insurance. Health insurance sold by Torchmark includes primarily Medicare Supplement and Part D prescription drug coverage to enrollees in the federal Medicare program, cancer coverage, and accident coverage. All health coverage plans other than Medicare Supplement and Part D are classified here as limited-benefit plans. For several years, our primary health insurance product had been limited-benefit hospital/surgical plans. However, as previously discussed under the caption *Life Insurance*, these plans became subject to intense competition which resulted in decreasing agent counts, most notably in the Liberty National Exclusive Agency but also in the UA Independent Agency. In addition, these plans became less marketable due to healthcare reform developments. These factors contributed to the Company s decisions to discontinue the marketing of these limited-benefit hospital/surgical products after September, 2010. We do continue to market the limited-benefit cancer and accident products. Since 2009, Medicare Supplement sales have exceeded those of the limited-benefit products, and represented 59% of health net sales exclusive of Medicare Part D in 2011. Medicare Supplement sales have been stronger than limited-benefit sales due in part to changes in agent counts in our health distribution groups discussed below.

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Total health premium represented 35% of Torchmark s total premium income in 2011. Excluding Part D premium, health premium represented 28% of total premium income in 2011, compared with 29% in 2010 and 32% in 2009. Health underwriting margin, excluding Part D, accounted for 21% of the total in 2011, compared with 23% in 2010 and 25% in 2009. These declines in the health percentages are indicative of the growth in the premium and profitability of our life segment in relation to our health segment. Health results have also been affected by the discontinuance of sales of the previously-mentioned health products. The following table indicates health insurance premium income by distribution channel for each of the last three years.

HEALTH INSURANCE

Premium by Distribution Method

(Dollar amounts in thousands)

	2011		2010		2009	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
United American Independent Agency						
Limited-benefit plans	$ 36,461		$ 47,244		$ 60,292	
Medicare Supplement	270,029		267,280		266,150	
	306,490	42%	314,524	40%	326,442	39%
Liberty National Exclusive Agency						
Limited-benefit plans	175,133		201,037		243,568	
Medicare Supplement	114,974		130,019		144,954	
	290,107	39	331,056	43	388,522	46
American Income Exclusive Agency						
Limited-benefit plans	79,302		78,141		74,015	
Medicare Supplement	817		918		1,082	
	80,119	11	79,059	10	75,097	9
Direct Response						
Limited-benefit plans	372		398		438	
Medicare Supplement	56,695		53,930		46,117	
	57,067	8	54,328	7	46,555	6
Total Premium (Before Part D)						
Limited-benefit plans	291,268	40	326,820	42	378,313	45
Medicare Supplement	442,515	60	452,147	58	458,303	55
Total Premium (Before Part D)	733,783	100%	778,967	100%	836,616	100%
Medicare Part D*	196,710		208,970		183,586	
Total Health Premium*	$ 930,493		$ 987,937		$ 1,020,202	

* Total Medicare Part D premium and health premium exclude $1.0 million in 2011, $516 thousand in 2010, and $2.5 million in 2009 of risk-sharing premium paid to the Centers for Medicare and Medicaid Services consistent with the Medicare Part D contract. This risk-sharing amount is a portion of the excess or deficiency of actual over expected claims, and therefore we view this payment as a component of policyholder benefits in our segment analysis.

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We market supplemental health insurance products through a number of distribution channels with the United American Independent Agency being our market leader. The following table presents net sales by distribution method for the last three years.

HEALTH INSURANCE

Net Sales by Distribution Method

(Dollar amounts in thousands)

	2011		2010		2009	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
United American Independent Agency						
Limited-benefit plans	$ 1,065		$ 4,596		$ 12,256	
Medicare Supplement	31,584		27,444		30,431	
	32,649	51%	32,040	50%	42,687	44%
Liberty National Exclusive Agency						
Limited-benefit plans	15,033		10,385		25,306	
Medicare Supplement	1,814		3,804		4,461	
	16,847	26	14,189	22	29,767	31
American Income Exclusive Agency						
Limited-benefit plans	9,572		13,081		13,393	
Medicare Supplement	0		0		0	
	9,572	15	13,081	20	13,393	14
Direct Response						
Limited-benefit plans	868		549		665	
Medicare Supplement	4,123		4,548		10,233	
	4,991	8	5,097	8	10,898	11
Total Net Sales (Before Part D)						
Limited-benefit plans	26,538	41	28,611	44	51,620	53
Medicare Supplement	37,521	59	35,796	56	45,125	47
Total Net Sales (Before Part D)	64,059	100%	64,407	100%	96,745	100%
Medicare Part D*	115,122		38,799		43,004	
Total Health Net Sales	$ 179,181		$ 103,206		$ 139,749	

* Net sales for Medicare Part D represents only new first-time enrollees.

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The following table discloses first-year collected health premium by distribution method.

HEALTH INSURANCE

First-Year Collected Premium by Distribution Method

(Dollar amounts in thousands)

	2011		2010		2009	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
United American Independent Agency						
Limited-benefit plans	$ 1,531		$ 5,638		$ 11,459	
Medicare Supplement	28,044		29,999		16,066	
	29,575	51%	35,637	47%	27,525	35%
Liberty National Exclusive Agency						
Limited-benefit plans	10,432		12,435		28,003	
Medicare Supplement	2,144		3,324		4,973	
	12,576	21	15,759	21	32,976	42
American Income Exclusive Agency						
Limited-benefit plans	11,652		13,965		12,996	
Medicare Supplement	0		0		0	
	11,652	20	13,965	19	12,996	17
Direct Response						
Limited-benefit plans	572		488		384	
Medicare Supplement	4,209		9,162		4,251	
	4,781	8	9,650	13	4,635	6
Total First-Year Collected Premium (Before Part D)						
Limited-benefit plans	24,187	41	32,526	43	52,842	68
Medicare Supplement	34,397	59	42,485	57	25,290	32
Total (Before Part D)	58,584	100%	75,011	100%	78,132	100%
Medicare Part D*	26,823		48,945		26,708	
Total First-Year Collected Premium	$ 85,407		$ 123,956		$ 104,840	

* First-year collected premium for Medicare Part D represents only premium collected from new first-time enrollees in their first policy year.

The Medicare Part D Health product will be presented and discussed separately in this report.

Health insurance, excluding Medicare Part D. Health premium other than Part D has declined in each successive year presented, falling 6% in 2011 to $734 million and 7% in 2010. Net sales decreased 1% in 2011 to $64 million after a decline of 33% in 2010. First-year collected premium has also declined in each period considered. These declines in sales and premium resulted from several factors: (1) our previously-mentioned emphasis on life sales, due to life s superior margins and its greater contribution to investment income; (2) the discontinuance of sales of various limited-benefit health products; and (3) the decline in agent counts in certain distribution units that market health products.

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Medicare Supplement provides the greatest amount of health premium, partially because Medicare Supplement products are generally more persistent than the limited-benefit products, but also because of more stable sales in recent periods. Medicare Supplement premium also continues to grow in relation to our limited-benefit health premium. Medicare Supplement premium represented 60% of non-Part D health premium in 2011, compared with 58% in 2010 and 55% in 2009.

The **Liberty National Exclusive Agency** represented 39% of all Torchmark non-Part D health premium income at $290 million in 2011. The Liberty Agency markets Medicare Supplements and limited-benefit health products consisting primarily of cancer insurance. In 2011, health premium income in this Agency declined 12% from prior year premium of $331 million. Premium also fell 15% in 2010 from $389 million. First-year collected premium declined 20% to $13 million in 2011, after declining 52% a year earlier. As noted earlier, the discontinuance of sales of certain health products and the earlier increased competition in the health insurance market had caused steep declines in the agent count in this Agency. As of December 31, 2011, this Agency had 1,345 agents, a decline of 33% from the 2010 year end count of 2,001. In 2010, the number of agents fell 19% from 2,471 at year end 2009. The decline in agent counts has resulted in decreased new sales, translating into declines in premium. Net sales for 2011 rose 19% from $14 million in 2010 to $17 million due to the introduction of new products. In 2010, this Agency s net sales fell 52%. Also discussed under the *Life Insurance* caption are efforts designed to strengthen this Agency.

The UA Independent Agency is Torchmark s largest in terms of health premium income. This Agency is composed of independent agencies appointed with Torchmark whose size range from very large, multi-state organizations down to one-person offices. All of these agents generally sell for a number of insurance companies. Torchmark had 1,447 active producing agents at December 31, 2011 compared with 1,406 a year earlier. This agency is our largest distributor of non-Part D health insurance in terms of health net sales, representing 51% in 2011. This Agency is also our largest producer of Medicare Supplement insurance, with $270 million or 61% of our Medicare Supplement premium income in 2011. Net sales for this Agency increased 2% to $33 million in 2011, after having declined 25% in 2010 from $43 million in 2009. The greater amount of net sales in 2009 were due to increases in group Medicare Supplement sales. Group Medicare Supplement sales fluctuate greatly from period to period and do not indicate a trend. Total health premium income for the UA Independent Agency was $306 million in 2011, a 3% decline from 2010 premium of $315 million. Premium income also declined 4% in 2010. These declines in premium have resulted as new sales have not compensated for lapses.

The American Income Exclusive Agency, predominantly a life insurance distribution channel, is our third largest health insurance distributor based on premium income. Its health plans are comprised of various limited-benefit plans. Approximately 69% of the agency s 2011 health premium was from accident policies. Sales of the plans by this Agency are generally made in conjunction with a life policy being sold to the same customer.

Health premium at this agency rose 1% in 2011 to $80 million, after having increased 5% to $79 million in 2010. However, net health sales declined 27% to $10 million in 2011. Net sales were $13 million in both 2010 and 2009. Net health sales comprised only 6% of the American Income Agency s total net sales in 2011.

Direct Response, primarily a life operation, also offers health insurance, which is predominantly Medicare Supplements sold directly to employer or union sponsored groups. In both 2011 and 2010, net health sales were $5 million. In 2011, net health sales for this group represented approximately 4% of Direct Response s total life and health net sales. Direct Response health premium income has risen each year over the prior year. Health premium rose 5% in 2011 to $57 million and 17% in 2010.

Medicare Part D. Torchmark, through its subsidiary United American, offers coverage under the government s Medicare Part D plan. The Medicare Part D plan is a stand-alone prescription drug plan for Medicare beneficiaries. Part D is regulated and partially funded by the Centers for Medicare and Medicaid Services (CMS) for participating private insurers like United American. Under Part D, private carriers are the primary insurers, while CMS provides significant premium subsidies and reinsurance. Total Medicare Part D premium was $197 million in 2011, compared with $209 million in 2010, a decline of 6%. Part D premium rose 14% in 2010. Changes in Part D premium generally result from changes in the number of

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enrollees. At December 31, 2011, United American had approximately 225 thousand enrollees for the 2012 Part D plan, compared with 144 thousand for the 2011 plan year and 158 thousand for the 2010 plan year. Growth for the plan year 2012 was largely a result of a new lower cost Part D plan which allowed us to pick up a large number of low-income automatic enrollees and to grow our own individual sales. The new product is priced to achieve the same underwriting margin as our existing product. Our Medicare Part D product is sold through the Direct Response operation and to groups through the UA Independent Agency. Part D net sales were $115 million in 2011, compared with $39 million in 2010 and $43 million in 2009. We count only sales to new first-time enrollees in net sales, and the majority of premium income was from previous enrollees.

We believe that the Medicare Part D program is a meaningful component of our health product offerings because of our experience with the senior-age market and with Medicare Supplements, the government assurances with regard to the risk-sharing agreements for participating insurers, limited-risk due to the incremental income added to our health insurance margins, and the renewal of the business every year. Due to our experience with service to the senior-age market and the use of our existing Direct Response marketing system, entry to this business required little new investment. However, as with any government-sponsored program, the possibility of regulatory changes could change the outlook for this market.

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As presented in the following table, Torchmark s health insurance underwriting margin before other income and administrative expense declined 5% in 2011 to $162 million but remained flat at $170 million in 2010. As a percentage of premium income, margins were stable in all periods at approximately 17%.

HEALTH INSURANCE

Summary of Results

(Dollar amounts in thousands)

	2011					
	Health*	% of Premium	Medicare Part D	% of Premium	Total Health	% of Premium
Premium**	$ 733,783	100%	$ 196,710	100%	$ 930,493	100%
Policy obligations	470,901	64	161,946	82	632,847	68
Required interest on reserves	(36,729)	(5)	0	0	(36,729)	(4)
Net policy obligations	434,172	59	161,946	82	596,118	64
Commissions and premium taxes	41,144	6	7,798	4	48,942	5
Amortization of acquisition costs	120,028	16	3,414	2	123,442	14
Total expense	595,344	81	173,158	88	768,502	83
Insurance underwriting income before other income and administrative expenses	$ 138,439	19%	$ 23,552	12%	$ 161,991	17%

	2010					
	Health*	% of Premium	Medicare Part D	% of Premium	Total Health	% of Premium
Premium**	$ 778,967	100%	$ 208,970	100%	$ 987,937	100%
Policy obligations	497,576	64	172,131	82	669,707	68
Required interest on reserves	(35,368)	(5)	0	0	(35,368)	(4)
Net policy obligations	462,208	59	172,131	82	634,339	64
Commissions and premium taxes	44,960	6	8,341	4	53,301	6
Amortization of acquisition costs	126,052	16	4,186	2	130,238	13
Total expense	633,220	81	184,658	88	817,878	83
Insurance underwriting income before other income and administrative expenses	$ 145,747	19%	$ 24,312	12%	$ 170,059	17%

	2009					
	Health*	% of Premium	Medicare Part D	% of Premium	Total Health	% of Premium
Premium**	$ 836,616	100%	$ 183,586	100%	$ 1,020,202	100%
Policy obligations	528,189	63	151,621	82	679,810	67

Required interest on reserves	(34,243)	(4)	0	0	(34,243)	(3)
Net policy obligations	493,946	59	151,621	82	645,567	64
Commissions and premium taxes	50,114	6	6,960	4	57,074	5
Amortization of acquisition costs	143,299	17	3,852	2	147,151	14
Total expense	687,359	82	162,433	88	849,792	83
Insurance underwriting income before other income and administrative expenses	$ 149,257	18%	$ 21,153	12%	$ 170,410	17%

* Health other than Medicare Part D.

** Total Medicare Part D premium and health premium excludes $1.0 million in 2011, $516 thousand in 2010, and $2.5 million in 2009 of risk-sharing premium paid to the CMS consistent with the Medicare Part D contract. This risk-sharing amount is a portion of the excess or deficiency of actual over expected claims, and therefore we view this payment as a component of policyholder benefits in our segment analysis.

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Annuities. As described in *Note 3 Discontinued Operations*, we sold our subsidiary United Investors. United Investors was our carrier of variable annuities and a primary carrier of fixed annuities. As a result of the sale, we disposed of approximately 37% of our annuity deposit balance as of December 31, 2010, including all of our variable annuities. Accordingly, we do not expect that annuities will be a significant portion of our business or marketing strategy going forward.

Our fixed annuity balances at the end of 2011, 2010, and 2009, were $1.29 billion, $1.24 billion, and $959 million, respectively. Underwriting income was $2.3 million, $1.3 million, and $3.2 thousand in each of the years 2011, 2010, and 2009, respectively.

While the fixed annuity account balance has increased each year over the prior year, policy charges and underwriting income have fluctuated only modestly. The stability in fixed annuity policy charges has resulted as the charges consist primarily of surrender charges and are not based on account size. These charges have remained somewhat level in recent periods. A considerable portion of fixed annuity profitability is derived from the spread of investment income exceeding contractual interest requirements, which can result in negative net policy obligations. In each of the years presented, the spreads for fixed annuities increased over the prior year as a result of credited rate reductions on the inforce annuities. Furthermore, spreads were increased by the introduction of a new annuity form on Liberty National paper in mid-2009. The amortization of deferred acquisition costs also rose as these costs are amortized in relation to gross profits.

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Administrative expenses. Operating expenses are included in the Other and Corporate Segments and are classified into two categories: insurance administrative expenses and expenses of the parent company. The following table is an analysis of operating expenses for the three years ended December 31, 2011.

Operating Expenses Selected Information

(Dollar amounts in thousands)

	2011		2010		2009	
	Amount	**% of Prem.**	**Amount**	**% of Prem.**	**Amount**	**% of Prem.**
Insurance administrative expenses:						
Salaries	$ 76,206	2.9%	$ 73,034	2.8%	$ 74,317	2.9%
Other employee costs	30,294	1.1	34,109	1.3	27,356	1.1
Other administrative expense	43,085	1.6	41,736	1.6	40,294	1.5
Legal expense insurance	9,524	.4	6,736	.2	8,358	.3
Total insurance administrative expenses	159,109	6.0%	155,615	5.9%	150,325	5.8%
Parent company expense	7,693		8,809		9,590	
Stock compensation expense	14,954		11,848		9,860	
State administrative settlement	6,901		0		0	
Settlement of prior period litigation	12,000		0		0	
Loss on sale of property and equipment	979		0		355	
Total operating expenses, per *Consolidated Statements of Operations*	$ 201,636		$ 176,272		$ 170,130	
Insurance administrative expenses:						
Increase (decrease) over prior year	2.2%		3.5%		(3.7)%	
Total operating expenses:						
Increase (decrease) over prior year	14.4%		3.6%		(6.6)%	

Insurance administrative expenses have trended upwards and rose 2% in 2011, after having increased 4% in 2010. As a percentage of premium, they increased .1% in each successive year to 6.0% in 2011. Employee costs increased 25% in 2010, primarily as a result of unusually high employee health insurance costs in that year. Partially offsetting the increase in 2010 employee costs was a decline in legal costs, as we favorably settled certain previously reserved litigation during 2010. In 2011, however, legal expenses returned to normal levels. Expenses for 2011 correlated more closely by expense component to 2009 expenses, as 2010 expenses reflected the aforementioned unusual items. Parent Company expense declined in 2011 primarily as a result of the decline in certain employee benefit liabilities related to retired employees. Stock compensation expense has risen in each successive year as the value of Torchmark stock has increased, resulting in higher values for grants of stock and options. As stated in *Note 14 Business Segments* in the *Notes to Consolidated financial Statements*, management views stock compensation expense as a corporate expense, and therefore treats it as a Parent Company expense.

As mentioned in Note 1 *Significant Accounting Policies* in the *Notes to Consolidated Financial Statements*, we incurred two settlement expense issues in 2011 that related to events occurring many years ago: the settlement of a state administrative issue of $7 million and a litigation issue in the estimated amount of $12 million. In addition to these two items, we recorded two nonrecurring charges. In 2011, we sold aviation equipment at a loss of $979 thousand and in 2009, we wrote down Company-occupied real estate that was other-than-temporarily impaired in the amount of $355 thousand. While these nonrecurring expenses were included in Operating expenses for the respective year in the *Consolidated Statements of Operations* in accordance with accounting guidance, they are considered as non-operating expenses by management.

Investments. 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. It is the measure that we use to evaluate the performance of the investment segment as described in *Note 14 Business Segments* in the *Notes to the Consolidated Financial Statements.* It is defined as net investment income less both the required interest attributable to net policy liabilities and the interest cost associated with capital funding or financing costs. We also view excess investment income per diluted 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 over $5 billion of cash flow to repurchase Torchmark shares after determining that the repurchases provided a greater return than other investment alternatives. Share repurchases reduce excess investment income because of the foregone earnings on the cash that would otherwise have been invested in interest-bearing assets, but they also reduce the number of shares outstanding. 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.

Excess Investment Income. The following table summarizes Torchmark s investment income and excess investment income.

Analysis of Excess Investment Income

(Dollar amounts in thousands except for per share data)

	2011	2010	2009
Net investment income	$ 693,028	$ 676,364	$ 632,540
Reclassification of low income housing expense(1)	14,277	9,153	0
Reclassification of interest amount due to deconsolidation(2)	(264)	(264)	(264)
Adjusted investment income (per segment analysis)	707,041	685,253	632,276
Interest credited to net insurance policy liabilities:			
Interest on reserves	(551,798)	(521,683)	(487,000)
Interest on deferred acquisition costs	214,998	208,840	200,042
Net required	(336,800)	(312,843)	(286,958)
Financing costs	(77,644)	(75,265)	(69,668)
Excess investment income	$ 292,597	$ 297,145	$ 275,650
Excess investment income per diluted share	$ 2.66	$ 2.41	$ 2.21
Mean invested assets (at amortized cost)	$ 11,254,566	$ 10,836,788	$ 10,012,673
Average net insurance policy liabilities(3)	6,097,763	5,736,662	5,279,621
Average debt and preferred securities (at amortized cost)	1,119,964	1,112,147	1,111,940

(1) Reclassified amortization of non-guaranteed low-income housing interests included in Net investment income in the *Consolidated Statements of Operations* but recorded in Income taxes in the segment analysis. See *Note 1 Significant Accounting Policies* in the *Notes to Consolidated Financial Statements* under the caption *Low-Income Housing Tax Credit Interests* for an explanation.

(2) Deconsolidation of trusts liable for Trust Preferred Securities required by accounting guidance. See *Note 11 Debt* in the *Notes to Consolidated Financial Statements.*

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

Excess investment income declined $5 million or 2% in 2011 from the prior year. Excess investment income rose $21 million or 8% in 2010. On a per diluted share basis, excess investment income rose 10% to $2.66 per share in 2011, after having risen 9% in the prior year. The favorable increases in the per share amounts relative to the changes in dollar amounts for excess investment income are a result of share purchases.

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The largest component of excess investment income is net investment income, which rose 3% to $707 million in 2011. It increased 8% to $685 million in 2010 from $632 million in 2009. Presented in the following chart is the growth in net investment income compared with the growth in mean invested assets.

	2011	2010	2009
Growth in net investment income	3.2%	8.4%	0.9%
Growth in mean invested assets (at amortized cost)	3.9	8.2	5.4

Growth in net investment income generally correlates somewhat with the growth in mean invested assets at amortized cost. With the exception of the years 2009 and 2010, growth in investment income has slightly lagged the growth in mean assets for several years. One of the primary reasons that investment income has grown at a lower rate than the growth in mean invested assets in recent years is due to the low-interest-rate environment during that period. As a result, new investments have been made at yield rates lower than the yield rates earned on securities that matured or were otherwise disposed of. Another factor that has contributed to the relatively slower growth rate of investment income is the time lag between the date proceeds from maturities and dispositions are received and the date such proceeds are reinvested. During these lags, we have held cash at lower yields. During 2009, because of the uncertainty about liquidity in the financial markets, we held significantly more cash and short-term investments than in other years. Holding this larger balance of low-yielding securities in 2009 resulted in the extremely low growth rate in income in that year, and also affected the higher growth rate in 2010 as these lower yielding cash balances were invested in 2010. The trend of lags in growth in net investment income in relation to the growth in mean invested assets is expected to continue until yields on suitable new investments exceed the portfolio yield.

Excess investment income is reduced by required interest on net insurance policy liabilities and the interest paid on corporate debt. Information about interest credited to policy liabilities is shown in the following table.

Required Interest on Net Insurance Policy Liabilities

(Dollar amounts in millions)

	Required Interest	Average Net Insurance Policy Liabilities	Average Discount Rate
2011			
Life and Health	$ 275.9	$ 4,898.4	5.63%
Annuity	60.9	1,199.4	5.07
Total	336.8	6,097.8	5.52
Increase in 2011	7.66%	6.29%	
2010			
Life and Health	$ 257.0	$ 4,668.8	5.50%
Annuity	55.8	1,067.9	5.23
Total	312.8	5,736.7	5.45
Increase in 2010	9.02%	8.66%	
2009			
Life and Health	$ 240.8	$ 4,388.6	5.49%
Annuity	46.2	891.0	5.19
Total	287.0	5,279.6	5.44
Increase in 2009	10.18%	9.76%	

The combined average interest discount rate has risen in each of the last three years due to changes in the mix of the in force business. For more specific information on life and health discount rates, please refer to *Note 6 Future Policy Benefit Reserves* in the *Notes to Consolidated Financial Statements*.

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Excess investment income is also impacted by financing costs. Financing costs for the investment segment primarily consist of interest on our various debt instruments and are deducted from excess investment income. The table below reconciles interest expense per the *Consolidated Statements of Operations* to financing costs.

The table below presents the components of financing costs.

Analysis of Financing Costs

(Amounts in thousands)

	2011	2010	2009
Interest on funded debt	$ 72,697	$ 72,889	$ 64,369
Interest on short-term debt	5,207	2,589	5,513
Other	4	51	50
Interest expense per *Consolidated Statements of Operations*	77,908	75,529	69,932
Reclassification of interest due to deconsolidation [(1)]	(264)	(264)	(264)
Financing costs	$ 77,644	$ 75,265	$ 69,668

(1) See *Principles of Consolidation in Note 1 Significant Accounting Policies* in the *Notes to Consolidated Financial Statements* for an explanation of deconsolidation.

Financing costs increased $2 million or 3% in 2011. They rose $6 million or 8% in 2010. The increase in financing costs in 2010 reflects the issuance in June 2009 of $300 million principal amount 9¼% Senior Notes due in 2019. In 2010, we incurred a full year of interest on this issue. The 2011 increase in interest on short-term debt was primarily a result of the $2.1 million increase in financing charges on our letter of credit facility, arising from the December, 2010 restructuring of our credit facility. More information on this facility is disclosed under the caption *Short-Term Borrowings* in the *Financial Condition* section of this report and in *Note 11 Debt* in the *Notes to Consolidated Financial Statements*. The 2010 decrease was due to a decline in short-term rates over the previous year, but was also impacted by a 22% decline in the average balance of commercial paper outstanding compared with 2009.

Excess investment income benefits from increases in long-term rates available on new investments and decreases in short-term borrowing rates. Of these two factors, higher investment rates have the greater impact because the amount of cash that we invest is significantly greater than the amount that we borrow at short-term rates.

However, growth in our excess investment income decreases when growth in income from the portfolio is less than that of the interest required by policy liabilities and financing costs, such as we have experienced in recent periods. In an extended low-interest-rate environment, the portfolio yield will tend to decline as we invest new money at lower long-term rates. We believe, however, the decline would be relatively slow, as only 2% to 3% of fixed maturities on average are expected to run off each year over the next five years. We also believe that the deferred acquisition costs and benefit reserve balances on our life and health business would not be impacted by an extended low-interest-rate environment. While these balances for annuities could be affected, the impact would be immaterial.

In response to the lower interest rates, we raised the new business premium rates on certain life products. The increased premiums will provide additional margin on these policies to help offset the possible future reductions in excess investment income and are not expected to have a detrimental impact on sales.

Investment Acquisitions. Torchmark s current investment policy calls for investing almost exclusively in investment-grade fixed maturities generally with long maturities (maturity date more than 20 years after acquisition date) 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. Further, we believe this strategy is appropriate because our strong positive cash flows are generally stable and predictable. If such longer-term securities do not meet our quality and yield objectives, we consider investing in short-term securities, taking into consideration the slope of the yield curve and other factors at the time. During calendar years 2009 through 2011, Torchmark invested almost exclusively in fixed-maturity securities, primarily with longer-term maturities as presented in the chart below.

The following table summarizes selected information for fixed-maturity purchases. The effective annual yield shown in the table is the yield calculated to the potential termination date that produces the lowest yield. This date is commonly known as the worst call date. Two different average life calculations are shown, average life to the next call date and average life to the maturity date.

Fixed Maturity Acquisitions Selected Information

(Dollar amounts in millions)

		For the Year	
	2011	**2010**	**2009**
Cost of acquisitions:			
Investment-grade corporate securities	$ 1,078.3	$ 1,478.5	$ 1,431.6
Taxable municipal securities	10.7	201.2	754.4
Other investment-grade securities	15.2	33.7	15.4
Total fixed-maturity acquisitions	$ 1,104.2	$ 1,713.4	$ 2,201.4
Effective annual yield (one year compounded*)	5.65%	5.89%	6.43%
Average life (in years, to next call)	27.4	24.2	16.3
Average life (in years to maturity)	28.1	26.1	21.2
Average rating	A-	A-	A

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

We prefer to invest primarily in bonds that are not callable (on other than a make-whole basis) prior to maturity, but we periodically invest some funds in callable bonds when the incremental yield available on such bonds warrants doing so. For investments in callable bonds, the actual life of the investment will depend on whether the issuer calls the investment prior to the maturity date. Given our investments in callable bonds, the actual average life of our investments can not be known at the time of the investment. However, the average life will not be less than the average life to next call and will not exceed the average life to maturity. Data for both of these average life measures is provided in the above chart. The average life of funds invested in 2009 (to both next call and maturity) was lower than that of funds invested during 2011 and 2010 due to actions taken for statutory capital management purposes and the limited availability of longer term investments.

During the three years 2009 through 2011, we have invested primarily in investment-grade corporate bonds. Purchases in 2011 were almost entirely in these corporates. During 2009 and 2010, we acquired a significant amount of taxable municipal bonds, primarily Build America Bonds authorized by the American Recovery and Retirement Act of 2009. The investments in these municipal bonds consisted almost exclusively of general obligation bonds and revenue bonds for essential services. In assessing the creditworthiness of these bonds, we took into account a number of factors, including the geographic location of the municipalities.

New cash flow available for investment is primarily provided through our insurance operations, but has also been affected by other factors. Issuer calls, as a result of the low-interest environment experienced during the past three years are a factor. Issuers are more likely to call bonds when rates are low because they often can refinance them at a lower cost. Calls increase funds available for investment, but they can have a negative impact on investment income if the proceeds from the calls are reinvested in bonds that have lower yields than that of the bonds that were called. Issuer calls were $187 million in 2011, $109 million in 2010, and $181 million in 2009. The higher level of acquisitions in 2009 was primarily due to the additional cash flow available from the special sales transactions noted below.

Sales transactions. During 2009, the Company sold $703 million of fixed maturities at amortized cost, including $293 million of below-investment-grade securities. The market value for some of these securities increased significantly during the period to a level where, even though the sales price was less than amortized cost, management determined that better risk-adjusted returns could be achieved by selling rather than continuing to hold the securities. Other securities were sold at prices that produced gains to offset these losses for tax purposes. Due in large part to selling below-investment-grade securities and reinvesting the proceeds in investment-grade securities, below-investment-grade securities declined significantly as a percentage of total fixed maturities at year end 2009. The reduction in below-investment-grade securities had a positive impact on the risk-based capital position of our insurance subsidiaries at that date and thereafter.

Portfolio Analysis. Because Torchmark has recently invested almost exclusively in fixed-maturity securities, the relative percentage of our assets invested in various types of investments varies from industry norms. The following table presents a comparison of Torchmark s components of invested assets at amortized cost as of December 31, 2011 with the latest industry data.

	Torchmark		
	Amount (in millions)	**%**	**Industry %[1]**
Bonds	$ 9,761	85%	76%
Preferred stock (redeemable and perpetual)[2]	1,177	10	0
Common stocks	1	0	2
Mortgage loans	1	0	10
Real estate	3	0	1
Policy loans	401	4	4
Other invested assets	22	0	4
Cash and short terms	105	1	3
	$ 11,471	100	100

(1) Latest data available from the American Council of Life Insurance as of December 31, 2010.
(2) Includes redeemable preferred of $1.2 billion or 10% and perpetual preferred of $14 million or 0%.

At December 31, 2011, approximately 95% of our investments at book value were in a diversified fixed-maturity portfolio. Policy loans, which are secured by policy cash values, made up an additional 4%. The remaining balance was comprised of other investments including equity securities, mortgage loans, and other long-term and short-term investments.

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Because fixed maturities represent such a significant portion of our investment portfolio, the remainder of the discussion of portfolio composition will focus on fixed maturities. An analysis of our fixed-maturity portfolio by component at December 31, 2011 and December 31, 2010 is as follows:

Fixed Maturities by Component

At December 31, 2011

(Dollar amounts in millions)

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	% of Total Fixed Maturities Amortized Cost	% of Total Fixed Maturities Fair Value
Corporates	$ 8,358	$ 1,051	$ (138)	$ 9,271	77%	78%
Redeemable preferred stock	1,163	27	(68)	1,122	11	10
Municipals	1,213	119	(2)	1,330	11	11
Government-sponsored enterprises	46	1	0	47	0	1
Governments & agencies	36	1	0	37	0	0
Residential mortgage-backed securities	14	1	0	15	0	0
Commercial mortgage-backed securities	0	0	0	0	0	0
Collateralized debt obligations	60	0	(30)	30	1	0
Other asset-backed securities	34	3	(1)	36	0	0
Total fixed maturities	$ 10,924	$ 1,203	$ (239)	$ 11,888	100%	100%

Fixed Maturities by Component

At December 31, 2010

(Dollar amounts in millions)

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	% of Total Fixed Maturities Amortized Cost	% of Total Fixed Maturities Fair Value
Corporates	$ 7,708	$ 423	$ (210)	$ 7,921	74%	75%
Redeemable preferred stock	1,312	36	(80)	1,268	13	12
Municipals	1,212	11	(42)	1,181	12	12
Government-sponsored enterprises	58	0	(1)	57	1	1
Governments & agencies	35	2	0	37	0	0
Residential mortgage-backed securities	16	2	0	18	0	0
Commercial mortgage-backed securities	0	0	0	0	0	0
Collateralized debt obligations	57	0	(34)	23	0	0
Other asset-backed securities	37	2	(1)	38	0	0
Total fixed maturities	$ 10,435	$ 476	$ (368)	$ 10,543	100%	100%

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At December 31, 2011, fixed maturities had a fair value of $11.9 billion, compared with $10.5 billion at December 31, 2010. At December 31, 2011, fixed maturities were in a $964 million net unrealized gain position compared with an unrealized gain position of $108 million at December 31, 2010. Approximately 77% of our fixed maturity assets at December 31, 2011 at amortized cost were corporate bonds and 11% were redeemable preferred stocks. This compares with 74% corporate bonds and 13% redeemable preferred stocks at year end 2010. On a combined basis, residential mortgage-backed securities, other asset-backed securities, and collateralized debt obligations (CDOs) were less than 2% of the assets at amortized cost at December 31, 2011. The $60 million of CDOs at amortized cost made up less than 0.6% of the assets and are backed primarily by trust preferred securities issued by banks and insurance companies. The $14 million of residential mortgage-backed securities are rated AAA. For more information about our fixed-maturity portfolio by component at December 31, 2011 and 2010, including an analysis of unrealized investment losses and a schedule of maturities, see *Note 4 Investments* in the *Notes to Consolidated Financial Statements*.

Due to the strong and stable cash flows generated by its insurance products, Torchmark has the ability to hold securities with temporary unrealized losses until recovery. Even though these fixed maturity investments are available for sale, Torchmark generally expects and intends to hold to maturity any securities which are temporarily impaired.

Additional information concerning the fixed-maturity portfolio is as follows.

Fixed Maturity Portfolio Selected Information

	At December 31, 2011	**At December 31, 2010**
Average annual effective yield (1)	6.49%	6.63%
Average life, in years, to:		
Next call (2)	17.3	16.6
Maturity (2)	22.2	22.3
Effective duration to:		
Next call (2), (3)	9.9	9.0
Maturity (2), (3)	11.6	10.9

(1) Tax-equivalent basis, where 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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Credit Risk Sensitivity. Credit risk is the level of certainty that a security s issuer will maintain its ability to honor the terms of that security until maturity. Approximately 88% of our fixed-maturity holdings at book value are in corporate securities (including redeemable preferred and asset-backed securities). As we continue to invest in corporate bonds with relatively long maturities, credit risk is a concern. We mitigate this ongoing risk, in part, by acquiring only investment-grade bonds and by analyzing the financial fundamentals of each prospective issuer. We continue to monitor the status of issuers on an ongoing basis. We also seek to reduce credit risk by maintaining investments in a large number of issuers over a wide range of industry sectors.

The following table presents the relative percentage of our fixed maturities by industry sector at December 31, 2011.

Fixed Maturities by Sector

At December 31, 2011

(Dollar amounts in millions)

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	% of Total Fixed Maturities At Amortized Cost	% of Total Fixed Maturities At Fair Value
Financial - Life/Health/PC Insurance	$ 1,785	$ 92	$ (63)	$ 1,814	16%	16%
Financial - Bank	1,320	32	(71)	1,281	12	11
Financial - Other	509	41	(17)	533	4	4
Total Financial	3,614	165	(151)	3,628	32	31
Utilities	1,709	319	(9)	2,019	16	17
Energy	1,243	188	0	1,431	11	12
Government	1,295	121	(2)	1,414	12	12
Basic Materials	758	108	(3)	863	7	7
Consumer Non-cyclical	539	90	(4)	625	5	5
Other Industrials	519	60	(19)	560	5	5
Communications	464	66	(12)	518	4	4
Consumer Cyclical	394	34	(9)	419	4	4
Transportation	315	51	0	366	3	3
Collateralized debt obligations	60	0	(30)	30	1	0
Mortgage-backed securities	14	1	0	15	0	0
Total fixed maturities	$ 10,924	$ 1,203	$ (239)	$ 11,888	100%	100%

At December 31, 2011, approximately 32% of the fixed maturity assets at amortized cost (31% at fair value) were in the financial sector, including 16% in life and health or property casualty insurance companies and 12% in banks at amortized cost. Financial guarantors, mortgage insurers, and insurance brokers comprised approximately 4% of the portfolio. After financials, the next largest sector was utilities, which comprised 16% of the portfolio at amortized cost. The balance of the portfolio is spread among 262 issuers in a wide variety of sectors. As previously noted, gross unrealized losses were $239 million at December 31, 2011, declining from $368 million a year earlier. The portfolio was in a net unrealized gain position of $964 million at December 31, 2011.

As shown in the table above, the ratio of gross unrealized losses to book value was approximately 50% for our investments in CDOs. As previously noted, CDOs represented less than 0.6% of our fixed maturity investments at December 31, 2011. We evaluated each of the impaired securities in this and all other sectors to determine whether or not any of the impairments were other-than-temporary. Our portfolio consisted of five CDO investments at December 31, 2011, in which three were carried at a value of $0, one was considered only temporarily impaired, and one was previously considered other-than-temporarily impaired.

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The CDO considered temporarily impaired was carried at an amortized cost of $23.4 million and had a fair value of $7.7 million. The CDO considered other-than-temporarily impaired was previously written down and carried at an amortized cost of $37.0 million, based on the present value of expected cash flows at the original purchase yield. This CDO had a fair value of $22.7 million at December 31, 2011. The collateral underlying these CDOs is primarily trust preferred securities issued by banks and insurance companies, and no sub-prime or Alt-A mortgages are included in the collateral.

In reaching these conclusions concerning the other-than-temporary impairment of our CDOs, we reviewed and discussed with the collateral managers of each of these CDOs the current status of the collateral underlying our investments, the credit events (defaults and deferrals in underlying collateral) experienced to date, and the possibility of future credit events. We calculated expected future cash flows using assumptions for expected future credit events that reflect actual historical experience and expected future experience. We reviewed the actual versus expected cash flows received to date and the impact that potential future credit events could have on our expected future cash flows. We calculated the magnitude of future credit events that could be experienced without negatively impacting the recovery of our investment and our expected yield rate. While there is a possibility that future credit events will exceed our current expectations, we believe there is ample evidence to support our conclusions.

An analysis of the fixed-maturity portfolio by a composite rating at December 31, 2011 is shown in the table below.

Fixed Maturities by Rating

At December 31, 2011

(Dollar amounts in millions)

	Amortized Cost	%	Fair Value	%
Investment grade:				
AAA	$ 473	4.3	$ 505	4.2
AA	1,338	12.2	1,457	12.3
A	2,941	26.9	3,399	28.6
BBB+	2,172	19.9	2,400	20.2
BBB	2,212	20.3	2,419	20.3
BBB-	1,087	10.0	1,129	9.5
Investment grade	10,223	93.6	11,309	95.1
Below investment grade:				
BB	410	3.8	370	3.2
B	170	1.6	134	1.1
Below B	121	1.0	75	0.6
Below investment grade	701	6.4	579	4.9
	$ 10,924	100.0	$ 11,888	100.0%

The portfolio has a weighted average quality rating of A- based on amortized cost. Approximately 93% of the portfolio at amortized cost was considered investment grade. Our investment portfolio contains no securities backed by sub-prime or Alt-A mortgages (loans for which some of the typical documentation was not provided by the borrower). We have no direct investments in residential mortgages, nor do we have any counterparty risks as we are not a party to any credit default swaps or other derivative contracts. We do not participate in securities lending. There are no off-balance sheet investments, as all investments are reported on our *Consolidated Balance Sheets*. We have no direct exposure to European sovereign debt.

Our current investment policy is to acquire only investment-grade obligations. Thus, any increases in below investment-grade issues are a result of ratings downgrades of existing holdings.

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An analysis of changes in below-investment grade fixed maturities at amortized cost is as follows.

	Year Ended December 31, 2011 (in $ millions)
Balance at January 1	$ 863
Downgrades by rating agencies	76
Upgrades by rating agencies	(98)
Disposals	(143)
Amortization	3
Balance at December 31	$ 701

Market Risk Sensitivity. Torchmark s financial securities are exposed to interest rate risk, meaning the effect of changes in financial market interest rates on the current fair value of the company s investment portfolio. Since 96% of the book value of our investments is attributable to fixed-maturity investments (and virtually all of these investments are fixed-rate investments), the portfolio is highly subject to market risk. Declines in market interest rates generally result in the fair value of the investment portfolio exceeding the book value of the portfolio and increases in interest rates cause the fair value to decline below the book value. Under normal market conditions, we do not expect to realize these unrealized gains and losses because it is generally our investment strategy to hold these investments to maturity. The long-term nature of our insurance policy liabilities and strong cash-flow operating position substantially mitigate any future need to liquidate portions of the portfolio. The increase or decrease in the fair value of insurance liabilities and debt due to increases or decreases in market interest rates largely offset the impact of rates on the investment portfolio. However, in accordance with GAAP, these liabilities are not marked to market.

The following table illustrates the market risk sensitivity of our interest-rate sensitive fixed-maturity portfolio at December 31, 2011 and 2010. This table measures the effect of a change in interest rates (as represented by the U.S. Treasury curve) on the fair value of the fixed-maturity portfolio. The data measures the change in fair value arising from an immediate and sustained change in interest rates in increments of 100 basis points.

	Market Value of Fixed Maturity Portfolio ($ millions)	
Change in Interest Rates (in basis points)	At December 31, 2011	At December 31, 2010
-200	$14,847	$12,919
-100	13,261	11,656
0	11,888	10,543
100	10,694	9,559
200	9,650	8,686

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Realized Gains and Losses. Our life and health insurance companies collect premium income from policyholders for the eventual payment of policyholder benefits, sometimes paid many years or even decades in the future. In addition to the payment of these benefits, we also incur acquisition costs, administrative expenses, and taxes as a part of insurance operations. Because benefits are expected to be paid in future periods, premium receipts in excess of current expenses are invested to provide for these obligations. For this reason, we hold a significant investment portfolio as a part of our core insurance operations. This portfolio consists primarily of high-quality fixed maturities containing an adequate yield to provide for the cost of carrying these long-term insurance product obligations. As a result, fixed maturities are generally held for long periods to support the liabilities. Expected yields on these investments are taken into account when setting insurance premium rates and product profitability expectations.

Investments are occasionally sold or called, resulting in a realized gain or loss. These gains and losses occur only incidentally, usually as the result of sales because of deterioration in investment quality of issuers or calls by the issuers. Investment losses are also caused by writedowns due to impairments. We do not engage in trading investments for profit. Therefore, gains or losses which occur in protecting the portfolio or its yield, or which result from events that are beyond our control, are only secondary to our core insurance operations of providing insurance coverage to policyholders.

Realized gains and losses can be significant in relation to the earnings from core insurance operations, and as a result, can have a material positive or negative impact on net income. The significant fluctuations caused by gains and losses can cause the period-to-period trends of net income not to be indicative of historical core operating results nor predictive of the future trends of core operations. Accordingly, they have no bearing on core insurance operations or segment results as we view operations. For these reasons, and in line with industry practice, we remove the effects of realized gains and losses when evaluating overall insurance operating results.

The following table summarizes our tax-effected realized gains (losses) by component for each of the years in the three-year period ended December 31, 2011.

Analysis of Realized Gains (Losses), Net of Tax

(Dollar amounts in thousands, except for per share data)

	Year Ended December 31,					
	2011		2010		2009	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
Investments:						
Sales	$ 673	$ 0.01	$ 10,761	$ 0.09	$ 7,644	$ 0.06
Called or tendered	15,512	0.14	17,265	0.14	1,878	0.02
Writedowns*	(13)	0.00	(3,152)	(0.02)	(94,367)	(0.77)
Loss on redemption of debt	0	0.00	(1,070)	(0.01)	(1)	0.00
Other	666	0.00	466	0.00	(499)	0.00
Total	$ 16,838	$ 0.15	$ 24,270	$ 0.20	$ (85,345)	$ (0.69)

* Written down due to other-than-temporary impairment.

As described in *Note 4 Investments* under the caption *Other-than temporary impairments* in the *Notes to Consolidated Financial Statements,* we wrote certain securities down to fair value during each year 2009 through 2011 as a result of other-than-temporary impairment. The impaired securities met our criteria for other-than-temporary impairment as discussed in *Note 4* and in our *Critical Accounting Policies* in this report. The writedowns resulted in pretax charges of $20 thousand in 2011 ($13 thousand after tax), $5 million in 2010 ($3 million after tax), and $143 million in 2009 ($94 million after tax). The 2009 charge included $83 million on CDOs ($55 million after tax) and $24 million on monoline financial guarantors and mortgage insurers ($16 million after tax). The remaining writedowns in 2009 were from losses on a variety of corporate bonds. In 2010, we acquired $7.3 million book value of our 9 $^{1}/_{4}$% Senior Notes at a cost of $8.9 million, resulting in an after-tax loss on debt redemption of $1.1 million.

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FINANCIAL CONDITION

Liquidity. Liquidity provides Torchmark with the ability to meet on demand the cash commitments required by its business operations and financial obligations. Our liquidity is primarily derived from three sources: positive cash flow from operations, a portfolio of marketable securities, and a line of 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 to meet these long-term 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. The leading source of the excess cash is investment income. However, due to our high underwriting margins and effective expense control, a significant portion of the excess cash comes from underwriting income.

Parent Company Liquidity. Cash flows from the insurance subsidiaries are used to pay interest and principal repayments on Parent Company debt, operating expenses of the Parent, and Parent Company dividends to Torchmark shareholders. In 2011, the Parent received $790 million of dividends and transfers from its insurance subsidiaries, as compared with $401 million in 2010 and $392 million in 2009. The 2011 dividend included $305 million of additional dividends available as a result of the sale of United Investors. After paying debt obligations, shareholder dividends, and other expenses (but before share repurchases), Torchmark Parent had excess operating cash flow in 2011 of approximately $672 million, including the $305 million from the sale of United Investors. Parent Company cash flow in excess of its operating requirements is available for other corporate purposes, such as strategic acquisitions or share repurchases. In 2012, it is expected that the Parent Company will receive approximately $470 million in dividends and transfers from subsidiaries, and that approximately $360 million will be available as excess cash flow. Certain restrictions exist on the payment of these dividends. For more information on the restrictions on the payment of dividends by subsidiaries, see the restrictions section of *Note 12 Shareholders Equity* in the *Notes to Consolidated Financial Statements.* Although these restrictions exist, dividend availability from subsidiaries historically has been sufficient for the cash flow needs of the Parent Company. As additional liquidity, the Parent held $27 million of cash and short-term investments at December 31, 2011, compared with $63 million a year earlier. The Parent also had available a $51 million receivable from subsidiaries at December 31, 2011.

Short-Term Borrowings. An additional source of parent company liquidity is a line of credit facility with a group of lenders which allows unsecured borrowings and stand-by letters of credit up to $600 million. As of December 31, 2011, we had available $177 million of additional borrowing capacity under this facility, as compared with $203 million a year earlier. For detailed information about this line of credit facility, see the *Commercial Paper* section of *Note 11 Debt*.

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The following table presents certain information about our short-term borrowings, all of which was commercial paper.

Short-term Borrowings Commercial Paper

(Dollar amounts in millions)

	At December 31, 2011	2010
Balance at end of period	$ 225.0	$ 199.0
Daily-weighted average interest rate*	0.47%	0.45%
Letters of credit outstanding	$ 198.0	$ 198.0
Remaining amount available under credit line	$ 177.0	$ 203.0

	For the Year 2011	2010	2009
Average balance outstanding during period	$ 206.1	$ 196.3	$ 251.5
Daily-weighted average interest rate*	0.39%	0.43%	1.10%
Maximum daily amount outstanding during period	$ 271.8	$ 250.0	$ 325.0

* Annualized

There have been no difficulties in accessing the commercial paper market under this facility during the three years ended December 31, 2011.

In summary, Torchmark expects to have readily available funds for 2012 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 Company could generate additional funds through multiple sources including, but not limited to, the issuance of additional debt, a short-term credit facility, and intercompany borrowing.

Consolidated Liquidity. Consolidated net cash inflows provided from operations were $859 million in 2011, compared with $1.03 billion in 2010, and $976 million in 2009. In addition to cash inflows from operations, our companies have received $230 million in investment calls and tenders and $180 million of scheduled maturities or repayments during 2011. Maturities, tenders, and calls totaled $639 million in 2010 and $761 million in 2009.

Our cash and short-term investments were $105 million at year-end 2011 and $582 million at year-end 2010. Included in cash at December 31, 2010 was the $343 million of proceeds received from the sale of United Investors on that date. Additionally, we have a portfolio of marketable fixed and equity securities that are available for sale in the event of an unexpected need. These securities had a fair value of $11.9 billion at December 31, 2011. However, our strong cash flows from operations, investment maturities, and the availability of our credit line make any need to sell securities for liquidity unlikely.

Off-Balance Sheet Arrangements. As described in *Note 11 Debt* in the *Notes to the Consolidated Financial Statements* and under the subcaption *Funded Debt,* Torchmark had outstanding $120 million (par amount) 7.1% Trust Preferred Securities at both December 31, 2011 and 2010. The capital trust liable for these securities is the legal entity which is responsible for the securities and facilitates the payment of dividends to shareholders. As described in *Note 15 Commitments and Contingencies* in the *Notes to Consolidated Financial Statements,* we have guaranteed the performance of the capital trust to meet its financial obligations to the Trust Preferred shareholders. The trust is an off-balance sheet arrangement which we are required to deconsolidate in accordance with GAAP rules, because the capital trust is considered to be a variable interest entity in which we have no variable interest. While these liabilities are not on our *Consolidated Balance Sheets*, they are represented by Torchmark s 7.1% Junior Subordinated Debentures due to the trust in the amount of $124 million which is on our balance sheets at both December 31, 2011 and 2010. The 7.1% preferred dividends due to the preferred shareholders are funded by our 7.1% interest payment on our debt to the trusts.

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As a part of its above-mentioned credit facility, Torchmark had outstanding $198 million in stand-by letters of credit at December 31, 2011. However, these letters are issued among our subsidiaries and have no impact on company obligations as a whole.

As of December 31, 2011, we had no other significant unconsolidated affiliates and no guarantees of the obligations of third-party entities other than as described above. All of our guarantees, other than the Trust Preferred guarantee, were guarantees of the performance of consolidated subsidiaries, as disclosed in *Note 15 Commitments and Contingencies.*

The following table presents information about future payments under our contractual obligations for the selected periods as of December 31, 2011.

(Amounts in millions)

	Actual Liability	Total Payments	Less than One Year	One to Three Years	Four to Five Years	More than Five Years
Fixed and determinable:						
Debt principal[1]	$ 1,139	$ 1,151	$ 225	$ 94	$ 250	$ 582
Debt interest[2]	7	741	73	136	122	410
Capital leases	0	0	0	0	0	0
Operating leases	0	13	3	4	3	3
Purchase obligations	109	109	85	23	0	1
Pension obligations[3]	74	185	14	31	34	106
Future insurance obligations[4]	9,572	40,332	1,208	2,351	2,241	34,532
Total	$ 10,901	$ 42,531	$ 1,608	$ 2,639	$ 2,650	$ 35,634

(1) Funded debt is itemized in *Note 11 Debt* in the *Notes to Consolidated Financial Statements* and includes short-term commercial paper.

(2) Interest on debt is based on our fixed contractual obligations.

(3) Pension obligations are primarily liabilities in trust funds that are calculated in accordance with the terms of the pension plans. They are offset by invested assets in the trusts, which are funded through periodic contributions by Torchmark in a manner which will provide for the settlement of the obligations as they become due. Therefore, our obligations are offset by those assets when reported on Torchmark s *Consolidated Balance Sheets*. At December 31, 2011, these pension obligations were $332 million, but there were also assets of $258 million in the pension entities. The schedule of pension benefit payments covers ten years and is based on the same assumptions used to measure the pension obligations, except there is no interest assumption because the payments are undiscounted. Please refer to *Note 10 Postretirement Benefits* in the *Notes to Consolidated Financial Statements* for more information on pension obligations.

(4) Future insurance obligations consist primarily of estimated future contingent benefit payments on policies in force at December 31, 2011. These estimated payments were computed using assumptions for future mortality, morbidity and persistency. The actual amount and timing of such payments may differ significantly from the estimated amounts shown. Management believes that the assets supporting the liability of $9.6 billion at December 31, 2011, along with future premiums and investment income, will be sufficient to fund all future insurance obligations.

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Capital Resources. Torchmark s capital structure consists of short-term debt (the commercial paper facility described in *Note 11 Debt* in the *Notes to Consolidated Financial Statements),* long-term funded debt, Junior Subordinated Debentures supporting its Trust Preferred Securities, and shareholders equity. The Junior Subordinated Debentures are payable to Torchmark s Capital Trust III which is liable for its Trust Preferred Securities. In accordance with GAAP, these instruments are included in Due to affiliates on the *Consolidated Balance Sheets.* A complete analysis and description of long-term debt issues outstanding is presented in *Note 11 Debt* in the *Notes to Consolidated Financial Statements*.

The carrying value of the funded debt was $914 million at December 31, 2011, compared with $913 million a year earlier. As fully explained in *Note 11 Debt*, we issued $300 million principal amount of 9¼% Senior Notes due in 2019 in June of 2009 for proceeds of $296 million. A portion of these proceeds were used to repay the $99 million due upon the August, 2009 maturity of our 8¼% Senior Debentures. In addition, we also used $175 million to strengthen the capital position of certain of our insurance subsidiaries in 2009 in the form of capital contributions and surplus notes. The regulatory capital positions of these subsidiaries had been negatively affected by rating-agency downgrades of bonds in their investment portfolios. The subsidiaries in turn invested these funds in investment-grade fixed maturities.

Our insurance subsidiaries generally target a capital ratio of at least 325% of required regulatory capital under Risk-Based Capital (RBC), a formula designed by insurance regulatory authorities to monitor the adequacy of capital. The 325% target is considered sufficient for the subsidiaries because of their strong reliable cash flows, the relatively low risk of their product mix, and because that ratio is in line with rating agency expectations for Torchmark. At December 31, 2011, our insurance subsidiaries in the aggregate had RBC ratios of approximately 336%. Should we experience additional impairments and ratings downgrades in the future that cause the ratio to fall below 325%, management has more than sufficient liquidity at the Parent Company to make additional contributions as necessary to maintain the ratios at or above 325%.

As noted under the caption *Summary of Operations* in this report, we reactivated our share repurchase program during the first quarter of 2010. We previously had suspended the program indefinitely in March, 2009 due to general economic conditions at that time. However, since reactivation, we have made share purchases each quarter of 2010 and 2011. Under this program, we acquired 19 million shares at a cost of $788 million in 2011 (average of $41.68 per share), 6 million shares for $204 million in 2010, and 3 million shares for $47 million in 2009. The majority of purchased shares are retired each year. Please refer to the description of our share repurchase program under the caption *Summary of Operations* in this report.

Torchmark has recently increased the dividend on its common shares. In the first quarter of 2010, the dividend was increased from $.0933 per share to $.10 per share and in the fourth quarter of 2010, it was further increased to $.1067 per share. In the second quarter of 2011, it was again raised to $.12 per share.

Shareholders equity was $4.2 billion at December 31, 2011, compared with $4.0 billion at December 31, 2010. During the twelve months since December 31, 2010, shareholders equity was reduced by the $788 million in share purchases under the repurchase program and another $185 million to offset the dilution from stock option exercises, but has been increased by the $518 million of net income and by after tax unrealized gains of $538 million in the fixed maturity portfolio as conditions in financial markets have improved.

We plan to use excess cash as efficiently as possible in the future but we will be cautious in doing so. Excess cash flow could be used for share repurchases, acquisitions, increases in shareholder dividends, investment in fixed maturities, or repayment of short-term debt. We will determine the best use of excess cash after ensuring that desired capital levels are maintained in our companies.

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We maintain a significant available-for-sale fixed-maturity portfolio to support our insurance policyholders liabilities. Current accounting guidance requires that we revalue our portfolio to fair market value at the end of each accounting period. The period-to-period changes in fair value, net of their associated impact on deferred acquisition costs and income tax, are reflected directly in shareholders equity. Changes in the fair value of the portfolio can result from changes in interest rates and liquidity in financial markets. While invested assets are revalued, accounting rules do not permit interest-bearing insurance policy liabilities to be valued at fair value in a consistent manner as that of assets, with changes in value applied directly to shareholders equity. Due to the size of our policy liabilities in relation to our shareholders equity, this inconsistency in measurement usually has a material impact on the reported value of shareholders equity. If these liabilities were revalued in the same manner as the assets, the effect on equity would be largely offset. Fluctuations in interest rates cause undue volatility in the period-to-period presentation of our shareholders equity, capital structure, and financial ratios which would be essentially removed if interest-bearing liabilities were valued in the same manner as assets. From time to time, the market value of our fixed maturity portfolio may be depressed as a result of bond market illiquidity which could result in a significant decrease in 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 losses due to fluctuations in market value of fixed maturities caused by interest rate changes and temporarily illiquid markets. Accordingly, our management, credit rating agencies, lenders, many industry analysts, and certain other financial statement users prefer to remove the effect of this accounting rule when analyzing our balance sheet, capital structure, and financial ratios.

The following tables present selected data related to our capital resources. Additionally, the tables present the effect of this accounting guidance on relevant line items, so that investors and other financial statement users may determine its impact on Torchmark s capital structure.

Selected Financial Data

	At December 31, 2011		At December 31, 2010		At December 31, 2009	
	GAAP	Effect of Accounting Rule Requiring Revaluation*	GAAP	Effect of Accounting Rule Requiring Revaluation*	GAAP	Effect of Accounting Rule Requiring Revaluation*
Fixed maturities (millions)	$ 11,888	964	$ 10,543	$ 107	$ 9,104	$ (456)
Deferred acquisition costs (millions)	3,485	(33)	3,406	(4)	3,320	28
Total assets (millions)	17,156	931	16,160	103	16,024	(428)
Short-term debt (millions)	225	0	199	0	233	0
Long-term debt (millions) **	914	0	913	0	920	0
Shareholders equity (millions)	4,229	605	4,016	67	3,399	(278)
Book value per diluted share	41.54	5.95	33.24	0.55	27.25	(2.23)
Debt to capitalization ***	21.2%	(2.7)%	21.7%	(0.3)%	25.3%	1.5%
Diluted shares outstanding (thousands)	101,808		120,815		124,739	
Actual shares outstanding (thousands)	100,579		118,865		124,261	

* Amount added to (deducted from) comprehensive income to produce the stated GAAP item

** Includes Torchmark s 7.1% Junior Subordinated Debentures in each period in the amount of $124 million.

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

Previously, the FASB issued guidance which offered an option which, if elected, would permit us to value our interest-bearing policy liabilities and debt at fair value in our *Consolidated Balance Sheets*. However, unlike current accounting rules which permit us to account for changes in our available-for-sale bond portfolio through other comprehensive income, the new rule requires such changes to be recorded in earnings. Because both the size and duration of the investment portfolio do not match those attributes of our policyholder liabilities and debt, the impact on earnings could be very significant and volatile, causing reported earnings not to be reflective of core results. Therefore, we have not elected this option.

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Torchmark s ratio of earnings before interest and taxes to interest requirements (times interest earned) was 10.7 times in 2011, compared with 11.3 times in 2010 and 9.3 times in 2009. This times-interest-earned ratio is computed by dividing interest expense into the sum of pre-tax income from continuing operations and interest expense. A discussion of our interest expense is included in the discussion of financing costs under the caption *Investments* in this report.

Financial Strength Ratings.

The financial strength of our major insurance subsidiaries is rated by Standard & Poor s and A. M. Best. The following chart presents these ratings for our four largest insurance subsidiaries at December 31, 2011.

	Standard & Poor s	**A.M. Best**
Liberty	AA-	A+ (Superior)
Globe	AA-	A+ (Superior)
United American	AA-	A+ (Superior)
American Income	AA-	A+ (Superior)

A.M. Best states that it assigns an A+ (Superior) rating to those companies which, in its opinion, have demonstrated superior overall performance when compared to the norms of the life/health insurance industry. A+ (Superior) companies have a superior ability to meet their obligations to policyholders over a long period of time.

The AA financial strength rating category is assigned by Standard & Poor s Corporation to those insurers which have very strong financial security characteristics, differing only slightly from those rated higher. The minus sign (-) shows the relative standing within the major rating category.

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OTHER ITEMS

Litigation. Torchmark and its subsidiaries are subject to being named as parties to pending or threatened litigation, much of which involves punitive damage claims based upon allegations of agent misconduct at the insurance subsidiaries. Such punitive damage claims that are tried in Alabama state courts may have the potential for significant adverse results since punitive damages in Alabama are based upon the compensatory damages (including mental anguish) awarded and the discretion of the jury in awarding compensatory damages is not precisely defined. Additionally, it should be noted that our subsidiaries actively market insurance in the State of Mississippi, a jurisdiction which is nationally recognized for large punitive damage verdicts. This bespeaks caution since it is impossible to predict the likelihood or extent of punitive damages that may be awarded if liability is found in any given case. Based upon information presently available, and in light of legal and other factual defenses available to Torchmark and its subsidiaries, contingent liabilities arising from threatened and pending litigation are not presently considered by us to be material. For more information concerning litigation, please refer to *Note 15 Commitments and Contingencies* in the *Notes to the Consolidated Financial Statements.*

NEW UNADOPTED ACCOUNTING RULES

The FASB has issued new accounting guidance potentially applicable to Torchmark, effective in future periods:

Policy Acquisition Costs (ASU 2010-26). This accounting guidance amends the accounting for costs associated with acquiring or renewing insurance contracts in order to address the diversity in practice surrounding the capitalization and deferral of these costs. This guidance will be effective for Torchmark beginning January 1, 2012. Please refer to *Unadopted Accounting Guidance* in *Note 1 Significant Accounting Policies* in the *Notes to Consolidated Financial Statements* for more information concerning the effects of adoption.

Comprehensive Income (ASU 2011-05). Under this guidance, the components of comprehensive income must be presented as either 1) a continuous statement (including the components of net income) or 2) as two separate but consecutive statements (an income statement followed by a comprehensive income statement). This guidance is effective for us in interim and annual periods beginning in 2012. Because we already present comprehensive income as contemplated by the second alternative, this guidance should not result in any change.

Fair Value Measurement and Disclosure (ASU 2011-04). The primary purpose of this new guidance is to converge the measurement criteria and disclosures of fair value in U.S. GAAP with those of International Accounting Standards. The measurement principles are generally consistent with current U.S. GAAP and are not expected to have a material impact on our financial statements. The guidance will require additional disclosures, including expanded disclosures for fair value measurements categorized in Level 3 of the fair value hierarchy and a requirement to disclose the level in the fair value hierarchy of items whose fair value is disclosed but not measured at fair value on the balance sheet. The guidance is effective for us in calendar 2012, with early adoption prohibited.

Goodwill Impairment Testing (ASU 2011-08). The issuance of this update permits an optional qualitative assessment in order to simplify how an entity tests its goodwill for impairment. Under this assessment, if an entity concludes that a reporting units fair value is more likely than not greater than its carrying amount, it would not be required to perform any further impairment testing for that reporting unit. Otherwise, the two-step impairment test under current guidance would be required for the reporting unit. This new guidance lists factors to consider in making the qualitative assessment. The revised guidance is applicable to us beginning in 2012, with early adoption permitted. We do not expect this new guidance to impact the value of our goodwill, only to modify the way we test for its impairment.

Health Insurer s Fees Paid to the Federal Government (ASU 2011-06). Private health insurance carriers will be required to pay a new fee to the Federal government beginning in calendar year 2014 under the Patient Protection and Affordable Care Act. This guidance addresses questions about how to recognize and classify the fees, basically requiring that it be expensed ratably throughout the year. It is effective for Torchmark beginning in the year 2014. Because the majority of Torchmark s health products are excluded from the mandate, the impact of adoption should be immaterial.

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CRITICAL ACCOUNTING POLICIES

Future Policy Benefits. Because of the long-term nature of insurance contracts, our insurance companies are liable for policy benefit payments that will be made in the future. The liability for future policy benefits is determined by standard actuarial procedures common to the life insurance industry. The accounting policies for determining this liability are disclosed in *Note 1 Significant Accounting Policies* in the *Notes to Consolidated Financial Statements.* A list of the significant assumptions used to calculate the liability for future policy benefits is reported in *Note 6 Future Policy Benefit Reserves.*

Approximately 81% of our liabilities for future policy benefits at December 31, 2011 were traditional insurance liabilities whereby the liability is determined as the present value of future benefits less the present value of the portion of the gross premium required to pay for such benefits. The assumptions used in estimating the future benefits for this portion of business are set at the time of contract issue. These assumptions are locked in and are not revised for the lifetime of the contracts, except where there is a premium deficiency, as defined in *Note 1 Significant Accounting Policies* in the *Notes to Consolidated Financial Statements* under the caption *Future Policy Benefits.* Otherwise, variability in the accrual of policy reserve liabilities after policy issuance is caused only by variability of the inventory of in force policies. Torchmark had no premium deficiency event for its traditional business during the three years ended December 31, 2011.

The remaining portion of liabilities for future policy benefits pertains to business accounted for as deposit business, where the recorded liability is the fund balance attributable to the benefit of policyholders as determined by the policy contract at the financial statement date. Accordingly, there are no assumptions used to determine the future policy benefit liability for deposit business.

Deferred Acquisition Costs. The costs of acquiring new business are generally deferred and recorded as an asset. Deferred acquisition costs consist primarily of sales commissions and other underwriting costs of new insurance sales. Additionally, the costs of acquiring blocks of insurance from other companies or through the acquisition of other companies are also deferred and recorded as deferred acquisition costs as indicated in *Note 5 Deferred Acquisition Costs* in the *Notes to Consolidated Financial Statements.* Our policies for accounting for deferred acquisition costs and the associated amortization are reported in *Note 1 Significant Accounting Policies* in the *Notes to Consolidated Financial Statements.*

Approximately 98% of our recorded amounts for deferred acquisition costs at December 31, 2011 were related to traditional products and are being amortized over the premium-paying period in proportion to the present value of actual historic and estimated future gross premiums. The projection assumptions for this business are set at the time of contract issue. These assumptions are locked-in at that time and, except where there is a loss recognition issue, are not revised for the lifetime of the contracts. Absent a premium deficiency, variability in amortization after policy issuance is caused only by variability in premium volume. We have not recorded a deferred acquisition cost loss recognition event for assets related to this business for any period in the three years ended December 31, 2011.

The remaining 2% of deferred acquisition costs pertain to deposit business for which deferred acquisition costs are amortized over the estimated lives of the contracts in proportion to actual and estimated future gross profits. These contracts are not subject to lock-in. The assumptions must be updated when actual experience or other evidence suggests that earlier estimates should be revised. As noted earlier in this report, our variable annuity block was disposed of as of December 31, 2010. Revisions related to our deposit business assets have not had a material impact on the amortization of deferred acquisition costs during the three years ended December 31, 2011.

Policy Claims and Other Benefits Payable. This liability consists of known benefits currently payable and an estimate of claims that have been incurred but not yet reported to us. The estimate of unreported claims is based on prior experience and is made after careful evaluation of all information available to us. However, the factors upon which these estimates are based can be subject to change from historical patterns. Factors involved include the litigation environment, regulatory mandates, and the introduction of policy types for which claim patterns are not well established, and medical trend rates and medical cost inflation as they affect our health claims. Changes in these estimates, if any, are reflected in the earnings of the period in which the adjustment is made. We believe that the estimates used to produce the liability

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for claims and other benefits, including the estimate of unsubmitted claims, are the most appropriate under the circumstances. However, there is no certainty that the resulting stated liability will be our ultimate obligation. At this time, we do not expect any change in this estimate to have a material impact on earnings or financial position consistent with our historical experience.

Valuation of Fixed Maturities. We hold a substantial investment in high-quality fixed maturities to provide for the funding of our future policy contractual obligations over long periods of time. While these securities are generally expected to be held to maturity, they are classified as available for sale and are sold from time to time, primarily to manage risk. We report this portfolio at fair value. Fair value is the price that we would expect to receive upon sale of the asset in an orderly transaction. The fair value of the fixed-maturity portfolio is primarily affected by changes in interest rates in financial markets, having a greater impact on longer-term maturities. Because of the size of our fixed-maturity portfolio, small changes in rates can have a significant effect on the portfolio and the reported financial position of the Company. This impact is disclosed in 100 basis point increments under the caption *Market Risk Sensitivity* in this report. However, as discussed under the caption *Financial Condition* in this report, we believe these unrealized fluctuations in value have no meaningful impact on our actual financial condition and, as such, we remove them from consideration when viewing our financial position and financial ratios.

At times, the values of our fixed maturities can also be affected by illiquidity in the financial markets. Illiquidity would contribute to a spread widening, and accordingly unrealized losses, on many securities that we would expect to be fully recoverable. Even though our fixed maturity portfolio is available for sale, we have the ability and intent to hold the securities until maturity as a result of our strong and stable cash flows generated from our insurance products. Considerable information concerning the policies, procedures, classification levels, and other relevant data concerning the valuation of our fixed-maturity investments is presented in *Note 4 Investments* under the caption *Fair Value Measurements*.

Impairment of Investments. We continually monitor our investment portfolio for investments that have become impaired in value, where fair value has declined below carrying value. While the values of the investments in our portfolio constantly fluctuate due to market conditions, an other-than-temporary impairment charge is recorded only when a security has experienced a decline in fair market value which is deemed to be other than temporary. The policies and procedures that we use to evaluate and account for impairments of investments are disclosed in *Note 1 Significant Accounting Policies* and *Note 4 Investments* in the *Notes to Consolidated Financial Statements* and the discussions under the captions *Investments* and *Realized Gains and Losses* in this report. While every effort is made to make the best estimate of status and value with the information available regarding an other-than-temporary impairment, it is difficult to predict the future prospects of a distressed or impaired security.

Defined benefit pension plans. We maintain funded defined benefit plans covering most full-time employees. We also have unfunded nonqualified defined benefit plans covering certain key and other employees. Our obligations under these plans are determined actuarially based on specified actuarial assumptions. In accordance with GAAP, an expense is recorded each year as these pension obligations grow due to the increase in the service period of employees and the interest cost associated with the passage of time. These obligations are offset, at least in part, by the growth in value of the assets in the funded plans. At December 31, 2011, our gross liability under these funded plans was $282 million, but was offset by assets of $258 million.

The actuarial assumptions used in determining our obligations for pensions include employee mortality and turnover, retirement age, the expected return on plan assets, projected salary increases, and the discount rate at which future obligations could be settled. These assumptions have an important effect on the pension obligation. A decrease in the discount rate or rate of return on plan assets will cause an increase in the pension obligation. A decrease in projected salary increases will cause a decrease in this obligation. Small changes in assumptions may cause material differences in reported results for these plans. While we have used our best efforts to determine the most reliable assumptions, given the information available from company experience, economic data, independent consultants and other sources, we cannot be certain that actual results will be the same as expected. Our discount rate, rate of return on assets, and projected salary increase assumptions are disclosed and the criteria used to determine those assumptions are discussed in *Note 9 Postretirement Benefits* in the *Notes to Consolidated Financial Statements.* The assumptions are reviewed annually and revised, if necessary, based on more current information available to us. Note 9 also contains information about pension plan assets, investment policies, and other related data.

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CAUTIONARY STATEMENTS

We caution readers regarding certain forward-looking statements contained in the foregoing discussion and elsewhere in this document, and in any other statements made by us or on our behalf 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 us or our business, whether express or implied, is meant as and should be considered a forward-looking statement. Such statements represent our opinions concerning future operations, strategies, financial results or other developments.

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 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) Changes in lapse rates and/or sales of our insurance policies as well as levels of mortality, morbidity and utilization of healthcare services that differ from our assumptions;

2) Federal and state legislative and regulatory developments, particularly those impacting taxes and changes to the federal Medicare program that would affect Medicare Supplement and Medicare Part D insurance;

3) Market trends in the senior-aged health care industry that provide alternatives to traditional Medicare, such as health maintenance organizations (HMOs) 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 that we own, or that may impair issuers   ability to pay interest due us on those securities;

6) Changes in pricing competition;

7) Litigation results;

8) Levels of administrative and operational efficiencies that differ from our assumptions;

9) Our inability to obtain timely and appropriate premium rate increases for health insurance policies due to regulatory delay;

10) The customer response to new products and marketing initiatives; and

11) Reported amounts in the financial statements which are based on our estimates and judgments which may differ from the actual amounts ultimately realized.

Readers are also directed to consider other risks and uncertainties described in our other documents on file with the Securities and Exchange Commission.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

Index of documents filed as part of this report:

EXHIBITS

Exhibit No.	
31.1	Rule 13a-14(a)/15d-14(a) Certification by Gary L. Coleman
31.2	Rule 13a-14(a)/15d-14(a) Certification by Larry M. Hutchison
31.3	Rule 13a-14(a)/15d-14(a) Certification by Frank M. Svoboda

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	TORCHMARK CORPORATION
Date: September 13, 2012	By: /s/ Gary L. Coleman Gary L. Coleman Co-Chief Executive Officer
Date: September 13, 2012	By: /s/ Larry M. Hutchison Larry M. Hutchison Co-Chief Executive Officer
Date: September 13, 2012	By: /s/ Frank M. Svoboda Frank M. Svoboda Executive Vice President and Chief Financial Officer