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PRESENTATION

Operator

Good morning. My name is Cheryl, and I will be your conference operator today. At this time I would like to welcome everyone to the Horace Mann second-quarter 2014 earnings conference call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. (Operator Instructions)

Ryan Greenier, Vice President of Investor Relations, you may begin your call.

Ryan Greenier *- Horace Mann Educators Corporation - VP, IR*

Thank you, Cheryl, and good morning, everyone. Welcome to Horace Mann's discussion of our second-quarter 2014 results. Yesterday we issued our earnings release and investor financial supplement. Copies are available on the investor page of our website.

Our speakers today are Marita Zuraitis, President and Chief Executive Officer; and Dwayne Hallman, Executive Vice President and Chief Financial Officer. Steve Cardinal, Executive Vice President of Property/Casualty; and Matt Sharpe, Executive Vice President of Annuity and Life, are available for the question-and-answer session that follows our prepared comments.

Before turning it over to Marita, I'd like to note that our presentation today includes forward-looking statements as defined in the Private Securities legislation (sic - Litigation) Reform Act of 1995. The Company cautions investors that any forward-looking statements include risks and uncertainties and are not guarantees of future performance.

These forward-looking statements are based on management's current expectations, and we assume no obligation to update them. Actual results may differ materially due to a variety of factors which are described in our press release and SEC filings.

In our prepared remarks we may use some non-GAAP financial measures. Reconciliations of these measures to the most comparable GAAP measures are available in the supplemental sections of our press release.

And now I'll turn the call over to Marita Zuraitis.

Marita Zuraitis - *Horace Mann Educators Corporation - Director, President, and CEO*

Thanks, Ryan. Good morning, everyone, and welcome to our call. After yesterday's market closed, Horace Mann reported second-quarter operating income of $0.43 per share, a good result considering spring storm activity. Catastrophe losses were $23.5 million, which was a similar level to last year. Auto catastrophe losses were particularly elevated as we saw an increase in frequency and severity of hail activity.

Looking past the weather, this was another solid quarter for Horace Mann. P&C profitability continued to improve, and on a year-to-date basis the underlying combined ratio is running 2 points better than last year at 90.3 points. This is largely driven by continued underlying improvement in auto. Total written premium continued to climb, up 3%, largely on rate actions; and reserves continued to develop favorably.

Ex-DAC, annuity earnings increased 14%, reflecting an 11% increase in assets under management as well as higher-than-anticipated net investment income. Annuity sales were very strong, led by our new fixed indexed annuity product.

Life sales increased over 70%, largely on single-premium whole life sales, which more than doubled over the prior year. Earnings for the life segment were 11% lower this quarter than the prior year, consistent with modeled mortality compared to favorable experience we saw in the prior-year quarter. Altogether the results contributed to an 8% annual increase in book value per share, which ended the quarter at $24.51, excluding net unrealized gains on investments.

From a business perspective we continue to make progress on the product distribution and infrastructure initiatives that support our multi-year strategy to further improve profitability and to accelerate organic growth. As part of our effort to ensure we have a complete product suite to meet the needs of educators throughout their lifecycle, we have identified areas where we can bolster our product offering, either through Horace Mann underwritten products or through a brokered or vendored product solution.

In the first half of the year we enhanced the offering at our home office agency and partnered with preferred third-party vendors to offer classic car coverage as well as a small business owner policy option. By placing these capabilities at the home office agency, we can now offer these types of coverages without distracting our agency force. In addition to some minor incremental fee income, these programs allow us to better meet the coverage needs of educators, including those educators that we've not been able to attract before.

As we know from our past experience, every additional product we place in an educator household supports our already strong retention and persistency levels. As a result we continue to look for additional opportunities to provide expanded coverage options and provide a complete solution that will both protect the short-term risk and help secure the long-term financial future of educators.

On the life and annuity front, the new fixed indexed annuity product introduction was very successful. The product we built was tailored to our customer base and offered a less complicated, conservative retirement savings solution with a compelling opportunity for higher crediting rates than a traditional fixed annuity contract.

Sales for the first full quarter of production of our Horace Mann underwritten FIA product were very strong. As expected, we are successfully capturing former third-party business volume, but we're also capturing incremental business from our agency force -- more than we anticipated, or quicker than we anticipated. To date over 400 agencies have submitted applications for the new product; that's a significant increase over the number of agents that previously sold third-party FIA products.

We're encouraged by this success, as it provides a clear indication that when we provide a combination of the right product, the right training, and appropriate marketing support, not only does our agency force respond with enthusiasm, but more importantly our educated customer base is receptive to our new product offerings.

Sales production in the quarter was also strong in our life segment, and P&C sales were modestly higher than the previous year.

Turning to distribution, we remain focused on improving the quality and productivity of our agency force. Our agent count declined in the second quarter, but the vast majority of the terminations were lower-tier performers that had cross-sell, productivity, and penetration levels that lagged national and regional averages.

Our sales and marketing operations are working diligently with our agency force to ensure we have the right support to drive higher productivity across our entire product suite. As an example of our efforts to improve agent training and support, we created a team of dedicated resources to help agencies become more proficient in finding and writing more annuity and life business. We are clearly seeing that success in this new initiative in higher sales levels.

In addition to our efforts to improve the productivity of our existing agencies, we continue to recruit and appoint new agents. Our efforts here are focused on finding agents that exhibit the qualities that our most successful agents have, such as financial services proficiency, a connection to the educator community, and an entrepreneurial spirit.

From an infrastructure perspective, we continue to invest in our business. As I mentioned last quarter, we have been successful in attracting top talent, and we are filling out key positions within our organization.

During this quarter we added talent to our IT organization to support system project implementation. We filled key institutional sales roles within life and annuity, and we announced a new Chief Human Resource Officer. We are confident we are building the right mix of existing and new talent that will continue to drive our strategic results.

During the quarter we also completed the initial phase of system implementation in our contact center and annuity and life operations. Our goal is to drive and build out operating efficiencies and to modernize the administration system. This will ultimately allow us to better serve our customers and support additional product introductions.

I continue to be encouraged by the successful implementation of our multiyear strategy to profitably grow our business and become a larger, more dominant player in the educator space. Given the strong year-to-date sales and retention metrics as well as solid financial performance, I believe we are clearly on the right path.

And with that, I'd like to turn it over to Duane for some additional financial highlights. Dwayne?

Dwayne Hallman - *Horace Mann Educators Corporation - EVP and CFO*

Thanks, Marita, and good morning. Second-quarter operating income was $0.43 per diluted share, which was 10% better than the prior year. The improvement in operating income was primarily related to higher annuity earnings and improved underlying P&C results.

That said, the second quarter has historically been the most volatile catastrophe quarter, and this year's second quarter was no exception. Catastrophe losses in the quarter of $23.5 million were primarily driven by spring storms that generated sizable wind and hail activity. These losses were particularly high in the auto line, where we incurred 4.2 points of catastrophe-related losses.

With regard to annuity and life, we continue to produce favorable annuity spreads, and life results reflected more normal mortality levels. Looking in more detail at P&C, after-tax income of $4.9 million was 20% higher than the prior-year quarter.

The quarter's ex-cat results were quite good, similar to the strong underlying results we experienced in the second quarter of last year. The improvement in the combined ratio was related to a decline in the expense ratio, which was 26.7% for the quarter. We expect the expense ratio to end the year between 27% and 28%, with the increase in the second half of the year related to the progression of strategic projects and investments.

Catastrophe losses were 16.3 points in the quarter, in line with the prior year. While we saw a decline in tornadic activity this year, we did experience an increase in frequency and severity of hailstorms during May and June, particularly in the Midwest and the Southeast. Auto hail losses were unusually severe due to vehicle damage that was beyond the scope of the traditional paintless dent repair methods. As a result, auto catastrophe losses increased 2 points from the prior year to 4.2 points.

That said, we did see a 5% decline in property cat losses compared to the prior year. On a year-to-date basis the underlying combined ratio was 90.3, a 2-point improvement from the prior year. The largest driver was almost a 3-point improvement in the underlying auto combined ratio, which was 98.1 for the first half of the year.

Within auto we continued to see the benefit of rate actions. Underlying margins have expanded as rate increases outpace loss costs.

We continue to see favorable BI frequency trends. Our BI severity level is modestly higher, but overall our rate plan exceeds loss cost trends. For prior accident years, the favorable reserve development was primarily in BI.

While we are pleased with yet another quarter of solid underlying P&C results, we remain focused on achieving our target of a mid-90s reported combined ratio, which is comprised of a high 90s result in auto and a low 90s in property over the course of a full year. At the halfway mark we are at 98.2 points, about 2 points better than last year.

Our efforts to reduce the concentration of our property exposures in Florida are proceeding more favorably than we anticipated and is reflected in the property retention ratios and PIF counts. The auto retention ratio in Florida has remained relatively stable despite the property nonrenewal actions.

Turning to annuity, operating income excluding DAC unlocking was $11.2 million, a 14% increase over the previous year. Assets under management grew by 11% from a year ago, reflecting strong sales, equity market appreciation within the variable annuity book, and a strong deposit persistency. The annualized net interest spreads for the quarter and on a year-to-date basis were 196 and 205, ahead of prior year. The spreads reflect strong performance in our investment portfolio and continued proactive crediting rate management.

In the life segment, operating earnings declined 11% to $5 million. This quarter's results reflected a more normal level of mortality compared to the favorable experience in the prior year. Life sales continued to be strong, up significantly over the prior year.

Net investment income was $81.4 million, up 5% from prior year due to higher asset balances in the annuity segment. With the decline in interest rates and tighter spreads, finding new opportunities to put money to work remains challenging. We continue to look for opportunities in conservative asset classes such as investment grade corporates, municipals, and the high quality asset-backed securities.

Our new money reinvestment rate for the quarter was just over 4%. Assuming a continued low rate environment, we anticipate further declines in portfolio yields as we move through 2014.

In total the Company's solid earnings generated an 8% increase in book value per share, excluding net unrealized gains on investments, which ended the quarter at $24.51. On a reported basis book value increased to $31.40 as the decline in interest rates and tighter spreads increased the net unrealized gain position, which was roughly $500 million at the end of the quarter.

We continued to build book value, excluding net unrealized gains on investments, and pay shareholders a compelling dividend. This combination has resulted in a cumulative annual growth rate of 10% over the past five years.

Notwithstanding the elevated level of catastrophe losses, second-quarter results were good. P&C underlying margins continued to improve, annuity margins remained favorable, and both annuity and life sales were strong. As we enter the second half of the year, we are confident in the earnings power of all three of our businesses and have healthy sales momentum in annuity and life operations.

We look forward to sharing more successes with you as we implement initiatives to enhance our products, distribution, and infrastructure. These efforts will increase our penetration within the educator space and over time will result in continued top-line growth across all of our business segments, as well as continued strong book value and earnings growth.

I will now turn it over to Ryan to start the Q&A.

Ryan Greenier - *Horace Mann Educators Corporation - VP, IR*

Thanks, Dwayne. Cheryl, please open up the line to begin the Q&A portion of the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Bob Glasspiegel, Janney Capital.

Bob Glasspiegel - *Janney Montgomery Scott - Analyst*

Quick question on productivity, Marita. You've been very pleased with the transition in your sales agency to more productive agents persisting, and you can see that definitely in the annuity and the life side.

The productivity enhancements on the property-casualty side are less visible. Is that just because you've been pushing rate more than the field, or your comments on Florida may be hurting historically the productivity overall? Where are we on property-casualty productivity as you measure it?

Marita Zuraitis - *Horace Mann Educators Corporation - Director, President, and CEO*

Yes. I mean, it's a bigger answer, Bob, so I'll go back to -- I thought you were going to ask the agent count question today.

Bob Glasspiegel - *Janney Montgomery Scott - Analyst*

That's the next question.

Marita Zuraitis - *Horace Mann Educators Corporation - Director, President, and CEO*

Maybe we've beat that one enough, but maybe I can combine both the answers.

Bob Glasspiegel - *Janney Montgomery Scott - Analyst*

Good.

Marita Zuraitis - *Horace Mann Educators Corporation - Director, President, and CEO*

We have said from the very beginning that our primary focus is on the quality and productivity of the agency plan -- not only to drive consistent sales, to your point; and we are seeing that in life and annuity. I believe we will see it in P&C.

But we are also driving it to provide a consistent, quality Horace Mann experience to our customers. And I think that's also going to translate into better sales as well.

The reduction in the agency count obviously hasn't negatively affected our top line; we don't expect it to affect our top line. The year-end count, like we have said before, will be relatively flat.

Our focus is really on finding more educators, winning more educators, keeping more educators. It really has become our mantra -- and also, giving our agents the tools they need to do that.

I think you saw this quarter, with the introduction of the FIA product, a really good example: when we give our agents a product, when we support them with the right distribution tools, and we provide a better ease of doing business with our infrastructure, our agents are going to sell. So that gives me a lot of hope that as Steve builds offense, we'll get that same result on the P&C side.

From a PIF perspective, when you step back, the property PIF is down in the quarter. But the majority of that is self-inflicted to improve profitability, and the largest percentage of that being Florida, as we've discussed before.

And auto is relatively flat. So to your point, we pushed rate and we held retention. And I think the fact that we proved that by the fact that we could hold onto that retention with pushing rate, once we start building a little more offense on top of this, I feel good that the P&C production will follow as well.

Bob Glasspiegel - *Janney Montgomery Scott - Analyst*

Could you put a timing on when you'd be disappointed if it didn't happen by? I mean, I know it's not going to happen next quarter; you're not going to give me the exact quarter. But are we talking a year or two, or 3 to 5 years? When do you think we'll see the agent productivity manifesting itself in property and auto?

Marita Zuraitis - *Horace Mann Educators Corporation - Director, President, and CEO*

I can't give you a timeline, but you should go back and look at life and annuity, and the things that Matt has been saying quarter over quarter, and what you saw in FIA. And look for what Steve builds, and what we roll out, and the quality of the agency plan to sell that. So I can't give you exact timing, but we are encouraged by the fact that when we do it well, our agents respond, and the production follows.

Bob Glasspiegel - *Janney Montgomery Scott - Analyst*

Okay. And last question: expense ratio showed a demonstrative improvement. I suspect there may have been one-timers, because you had given guidance of a higher expense ratio for the year. But what -- give some color on what happened in the quarter.

Dwayne Hallman - *Horace Mann Educators Corporation - EVP and CFO*

Bob, this is Dwayne. Our guidance for the full year, as I mentioned, 27%, 28% still holds. We do have some fluctuations between quarter, so it's really just a timing of our activities, as I mentioned, for some of our investments -- strategic investments, some of the investments we have made in Matt's area, and that will build its way in in the second half of the year. So really just a timing -- it's not a 1 point improvement that's the new run rate. So I would stick with our previous guidance.

Bob Glasspiegel - *Janney Montgomery Scott - Analyst*

So there's nothing funny in the numbers that dropped it low this quarter that was one-time in nature?

Dwayne Hallman - *Horace Mann Educators Corporation - EVP and CFO*

No, I wish I was able to find negative expenses, but nothing in this quarter. It's just really timing between the four quarters.

Bob Glasspiegel - *Janney Montgomery Scott - Analyst*

Thank you.

Operator

Bijan Moazami.

Bijan Moazami - *Guggenheim Partners - Analyst*

Good morning, everyone. Dwayne, you mentioned a significant decrease in BI severity and the consequent improvement in the reserves and the releases from there. Could you also comment on the PD frequency and severity in auto? What's going on in there?

And the second question, regarding the property -- obviously, you have pointed out that the underlying loss ratio is increasing. We also noticed a big increase in the frequency and severity there in the first quarter. Could you comment in terms of what is driving the increased loss cost in the property side, once we take catastrophe out of the equation?

Dwayne Hallman - *Horace Mann Educators Corporation - EVP and CFO*

Hi, Bijan, this is Dwayne. Yes, I will go back to the comments on BI. My severity comment was -- you know, just slightly elevated in the last couple of quarters. So it's not an improvement in severity. It was really more a comment on the current period.

As far as the prior-year activity, we do tend to set our reserves at a conservative level. BI is, in our world, the one with the longest tail. A bit more conservative in that line than other lines.

So we continue to see the favorable development of BI. And that can be both driven by our assumptions on frequency and severity. Nothing in particular or unique that has -- that is any different than prior years.

As far as PD and collision, relatively flat if you take into account the weather activity. So, really, no significant movement in those lines. As far as the weather is concerned, or in property, if you look at it in a more normalized basis year over year, it's a slight increase. If you looked on a year-to-date basis, maybe 4/10. And knowing we have some non-cat weather this year, I guess the way we look at it is the 4/10 is not a significant concern given the non-cat weather.

So I'd call it relatively flat year over year. So we're not seeing or calling for a deterioration in the underlying property results.

Marita Zuraitis - *Horace Mann Educators Corporation - Director, President, and CEO*

The only thing I'd add to that is both our BI and PD severity and frequency trends are relatively benign, and our auto rate continues to outpace those loss cost trends. So although we talk about slight fluctuation, we tend to be relatively benign in our patterns.

Bijan Moazami - *Guggenheim Partners - Analyst*

So you guys had, like, 0.5 points of improvement in the underlying combined ratio. Could you just give us an indication in terms of how much better rates you are getting than the underlying loss trends? So when we are trying to project you going forward, we get a better understanding of the margins that you could be running?

Dwayne Hallman - *Horace Mann Educators Corporation - EVP and CFO*

As we mentioned, our rates have been exceeding our loss costs over the last few years. Not by a significant margin, but keeping pace. And keep in mind, those rate increases are on premium, fairly consistent with the loss cost increases on the losses. So there is some expansion there.

I think if you look at the year-to-date numbers, you can see that rolling through the results. And as I remind people from time to time, given our size, looking at it on a year-to-date basis is probably the appropriate way to continue to evaluate what you see coming through as loss cost versus rate.

Marita Zuraitis - *Horace Mann Educators Corporation - Director, President, and CEO*

Yes. And what you see in the supplement -- it is about 2 points on a year-to-date basis, to give you a precise number. But that's going to be slightly up or down in any given period.

Dwayne Hallman - *Horace Mann Educators Corporation - EVP and CFO*

Bijan, keep in mind, our goal is to get to the mid-90s on P&C. And that's the direction we are driving.

Bijan Moazami - *Guggenheim Partners - Analyst*

Okay. On the annuity side, excellent growth rate on that front, good sales. But a good decline on the independent agency side. Could you give us a little bit of an idea of what might be putting pressure on that distribution side?

Matt Sharpe - *Horace Mann Educators Corporation - EVP, Annuity and Life*

Sure, Bijan. It's Matt. The independent agent side is roughly 10% to 15% of our overall distribution, and it's in line with the expectations in that range, in the 10% to 15%. They came in a little light this quarter.

The introduction of the fixed indexed annuity was not intended to be a major driver of our independent distribution. The fixed indexed annuity is designed mostly for our exclusive agent population from a single-premium perspective. But I do expect to get a lift in the independent channel in the flexible premium space, where I think the product has more applicability, but that takes time.

We have to get the product up on the payroll slots. And that's going to take probably more than 18 months before we start to see a major lift on the independent side.

Bijan Moazami - *Guggenheim Partners - Analyst*

Thanks.

Operator

(Operator Instructions)

Vincent DeAugustino, KBW.

Vincent DeAugustino - *Keefe, Bruyette & Woods - Analyst*

Marita, just to start, you had mentioned hail frequency and severity in the quarter. To your point on the trajectory -- either your data or just looking at, here in particular, auto, over a number of quarters -- we did see the margin expansion slow a little bit. Again, there's probably some justification from a volatility standpoint. But what I'm kind of curious about is if there was any higher frequency of non-cat hail that had impacted the auto results that would kind of lead us to look at what happened in second quarter relative to the last few?

Marita Zuraitis - *Horace Mann Educators Corporation - Director, President, and CEO*

Would it be too short to say, of course? You can't have the type of storms that were declared cats over a quarter and not have a fair amount of non-cat weather, especially when those events are hail- and wind-related.

You know, when you think about the amount of states that were involved in many of the larger cats, I don't think the hail knows whether it's in a declared cat or not in a declared cat area. This was a pretty dramatic weather quarter, and some of it fits within the cat bucket. And you do the best you can from a claim perspective, picking that all up, and then some of it falls outside of the cat bucket.

And, you know, it will take companies a few additional months and a few additional quarters to look back, and to count that all up, and to get a better estimate of exactly what was cat and what was non-cat. But I can guarantee you that in the numbers, there's some in there.

Vincent DeAugustino - *Keefe, Bruyette & Woods - Analyst*

Okay. That's good to know. And then switching over to Matt, just the topic du jour here is the FIA product. So I'm just curious if the strong reception that you guys have received here in the first few months of the launch -- if that accelerates any of your interest in bringing some of the other third-party manufactured life products in annuity in-house at all?

Matt Sharpe - *Horace Mann Educators Corporation - EVP, Annuity and Life*

Let me start, Vincent, by saying the answer is yes. Our desire is to bring new product to the street as fast as we can. But that ties it right back into our overarching strategy, and there's really three parts to it.

One was to enhance the product set -- the FIA was the second or third piece along that line. And we'll continue to enhance that product, particularly on the life insurance side. But we have to increase our capabilities around administration. And that's part of the new administrative system project that's going on today. So hopefully sometime next year we'll be able to introduce a new life insurance product to the market, depending on how the new administration build goes.

We also added in the electronic application components around the front end of it, so that when the new administrative platform comes online, there's no agent impact. We can just continue to do business the way we've been doing business.

And then last piece of it is adding out all of the additional capabilities around our agent population to sell these types of products. So the introduction of the fixed indexed annuity is an example of how all of those pieces and parts come together. And when we put it all together, and we introduce it to our agent population in a package like we have, we've had pretty good success. And I would expect the same thing to happen as we start to introduce additional products next year.

Marita Zuraitis - *Horace Mann Educators Corporation - Director, President, and CEO*

That's absolutely right, Matt. I mean, I think that the reaction also showed some pent-up demand in our space for the product. And the idea that Matt talked about as far as prepared delivery also speaks well to how we will roll out future products.

Vincent DeAugustino - *Keefe, Bruyette & Woods - Analyst*

And then, Marita, to your point on pent-up demand -- so if we go back -- I think, if my memory has served me correctly, that we were kind of thinking about $20 million to $30 million on the third-party manufactured FIA product. If we look at what the contract deposit growth is and think about that as maybe being mostly FIA driven, does that imply something in the neighborhood of maybe an incremental $80 million in FIA flows coming through? Or is my back-of-the-envelope math there not right?

Matt Sharpe - *Horace Mann Educators Corporation - EVP, Annuity and Life*

I'll answer that one, Vincent. I think we're settling into what I would describe as more of a new normal run rate. I'm not going to put a number on it, but I guess I would say the levels that I'm seeing now, I think, are about the new normal. I don't know if that helps you.

Vincent DeAugustino - *Keefe, Bruyette & Woods - Analyst*

It does. And just one last one: Dwayne, to your comment on the expense ratio impact here in the second half, kind of as we start to build out our models for 2016 -- I know we're getting ahead of ourselves -- but should we be thinking about something in the neighborhood of about 50 basis points rolling off the expense ratio in 2016 time frame as some of the system upgrades wrap up? Do you think that timing and magnitude seems about right?

Dwayne Hallman - *Horace Mann Educators Corporation - EVP and CFO*

I don't want to get too ahead of ourselves. You mentioned 2016; we still have 2015 to look at as well. I think, as we have discussed, we are making investments. All things being equal, I think between 27% and 28% would be the run rate.

Now, the qualifier I would put on that is as we began to see growth in P&C as our investments start to produce results, all things being equal, we could see possibly some decline in the expense ratio, driven by the growth components. So the two are going to be going in tandem.

But at this point I'm not prepared to call the 2016 number for you. But as far as looking ahead to 2015, I think the way we're guiding you this year would be a similar number in 2015.

Vincent DeAugustino - *Keefe, Bruyette & Woods - Analyst*

Okay. Takes for all the color, guys.

Operator

Sean Dargan, Macquarie.

Sean Dargan - *Macquarie Research - Analyst*

If I could come back to the FIA again, I'm just trying to think about the ROE drivers in the annuity segment. Based on commentary of other companies, is it correct to say that it takes more capital to back $1 of deposits in a FIA than it does in a traditional fixed annuity?

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Matt Sharpe - *Horace Mann Educators Corporation - EVP, Annuity and Life*

Good morning, Sean; it's Matt. The capital usage between the traditional fixed annuity and the fixed indexed annuity are roughly equivalent, based on our pricing. The other thing to remember -- and actually I'll pass it over to Dwayne to comment on it -- is we are talking about a relatively small amount of assets relative to the book.

Dwayne Hallman - *Horace Mann Educators Corporation - EVP and CFO*

Sean, this is Dwayne. So to Matt's point, you might see some discuss that the FIA is more capital intensive than some other annuity products, knowing that all annuity products aren't created equal. In our case, comparing our traditional fixed product to the FIA -- it's generally the same capital, and our expected spreads are generally the same.

And what Matt was alluding to in the whole scheme of things, when you think about the layering on of this new business compared to what we carry on our balance sheet with the very high persistency, I would say you won't see any changes; if there was a difference, you wouldn't see any changes to capital requirements related to just this product. So more importantly, to Matt's point, apples and apples, there's really no increase or decrease in capital related to the product.

Sean Dargan - *Macquarie Research - Analyst*

Is that because their duration are similar? Because I've heard other companies say that, for instance, for FIAs -- the required capital is 5% to 8% of account balance.

Matt Sharpe - *Horace Mann Educators Corporation - EVP, Annuity and Life*

Yes, the capital required for both the traditional fixed annuity and the FIA, based on our pricing, is somewhere between the 5% and 6% range. And they are both within that range.

So let me elaborate just a tiny little bit. The difference between the traditional and the FIA in terms of compensation to our agents and overall profile are almost -- or very similar to each other. So we're not trying to drive one product over the other; we are trying to make an offer to our customers that would allow them to choose between a traditional fixed annuity and a fixed indexed annuity. And we didn't want to incent it one way or the other.

So other companies sometimes have different strategies as it relates to the products that they offer. And those differences play out in the way the capital is required. But in our particular case they are roughly equivalent.

Dwayne Hallman - *Horace Mann Educators Corporation - EVP and CFO*

And, Sean, another way you might want to look at it as well is being a captive distribution for us. If another company was selling through independents -- truly through independents -- and selling a five- or seven-year duration type product, the chances are on the persistency side, they are going to see quite a bit of an elevated exit at the end of five years. So by default that pushes a higher capital charge forward.

Sean Dargan - *Macquarie Research - Analyst*

Good. Thank you. That's helpful. Switching over to life, did I hear you say that what was driving life sales was single-premium whole life in the quarter?

Matt Sharpe - *Horace Mann Educators Corporation - EVP, Annuity and Life*

Yes, single-premium whole life was a large mover. We had $1.7 million this quarter relative to $700,000 last quarter. Single-premium numbers obviously are lumpy from quarter to quarter. So depending on what comes in, it can move the number.

The number I like to point out, though, is the recurring premium number. We had pretty good growth, up about 30% year over year in the recurring premium product. That's traditional term insurance and whole life sales, as well. So that's the number that we concentrate on. And then the single-premium number -- it just comes in in lumps.

Sean Dargan - *Macquarie Research - Analyst*

Okay. Because I was wondering about if you were trying to drive that in this low interest rate environment, where you really have limited upside from reinvesting in higher rates later on.

Matt Sharpe - *Horace Mann Educators Corporation - EVP, Annuity and Life*

No, we're not trying to drive single-premium life sales; we are trying to drive life sales in general. Single-premium life is a fallout of that strategy.

Marita Zuraitis - *Horace Mann Educators Corporation - Director, President, and CEO*

And this isn't it quantitative response, but there's obviously renewed life in our life business. Our agents are focusing on the life side of the business, and we're giving them the support to do that.

Sean Dargan - *Macquarie Research - Analyst*

Great. Thank you.

Operator

Vincent DeAugustino, KBW.

Vincent DeAugustino - *Keefe, Bruyette & Woods - Analyst*

Unfortunately, it's an industry curveball question for Marita. We've been seeing some headlines about subprime auto lending bubbles, and there's all sorts of concerns about what that means for lending practices -- but also, a noted impact in pushing up used car pricing.

So what I'm curious about is if you guys have any thoughts about on whether this dynamic might impact the values that you would have to pay out for a total loss? And then, also, in terms of whether this pricing bubble works its way through recycled auto parts pricing, and whether that ultimately boosts the cost to repair vehicles? Thank you.

Marita Zuraitis - *Horace Mann Educators Corporation - Director, President, and CEO*

I do have some thoughts, but I know Mr. Cardinal probably has more intelligent thoughts, so I'm going to pass the ball over to Steve.

Steve Cardinal - *Horace Mann Educators Corporation - EVP, Property and Casualty*

Thanks, Marita. Vincent, this is Steve Cardinal here. We've seen -- when we look at our book of business, we are aware of some of the data that you have there. We see that more in our total loss category but it's a relatively small part of our claims that we would pay out.

And when we look at our book of bids, we haven't seen that emerge in our data yet from the claims side. We've been mindful of -- our customer base is pretty homogenous. They are relatively stable, good insurance scores. We don't have a lot of the same characteristics of the type of person, and we haven't seen it come back through on the claims settlement side as well.

Vincent DeAugustino - *Keefe, Bruyette & Woods - Analyst*

Okay. Good to know. Thank you.

Dwayne Hallman - *Horace Mann Educators Corporation - EVP and CFO*

And Vincent, just a follow-up that in our world, where it might actually help us is on the salvage side. If those values are increasing, we might actually pick up the benefit there and not necessarily have the exposure on the front end.

Vincent DeAugustino - *Keefe, Bruyette & Woods - Analyst*

That's a good point. Thanks.

Operator

And there are no further questions in the queue at this time. I will turn to call back over to the presenters.

Ryan Greenier - *Horace Mann Educators Corporation - VP, IR*

Thank you, Cheryl. And thank you for joining us this morning on Horace Mann's second-quarter earnings call. If there are any further questions, please don't hesitate to reach out to me. Thanks.

Operator

This concludes today's conference call. You may now disconnect.
