

# KBW 2014 Insurance Conference

---

September 3, 2014

# Safe Harbor Statement and Non-GAAP Financial Measures

---

Certain statements made in this presentation should be considered forward-looking as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements give expectations or forecasts of future events. These statements are related to our intentions, beliefs, projections, estimations or forecasts of future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results to be materially different from those expressed or implied by the forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe” and other words and terms of similar meaning in connection with a discussion of future operating or financial performance. We caution investors that these forward-looking statements are not guarantees of future performance, and actual results may differ materially. Investors should consider the important risks and uncertainties that may cause such differences, including those risks discussed in our most recent Form 10-K and Form 10-Q filed with the Securities and Exchange Commission. Our forward-looking statements speak only as of the date of this presentation or as of the date they were made, and we undertake no obligation to update those statements.

The historical and forward-looking financial information contained in this presentation includes financial measures which are based on methodologies other than Generally Accepted Accounting Principles (“GAAP”) such as operating income, operating earnings per share, pre-tax reporting segment income excluding DAC/VIF unlocking and book value per share excluding some components of accumulated other comprehensive income. A reconciliation of non-GAAP measures to the closest GAAP measures is available in our earnings release.

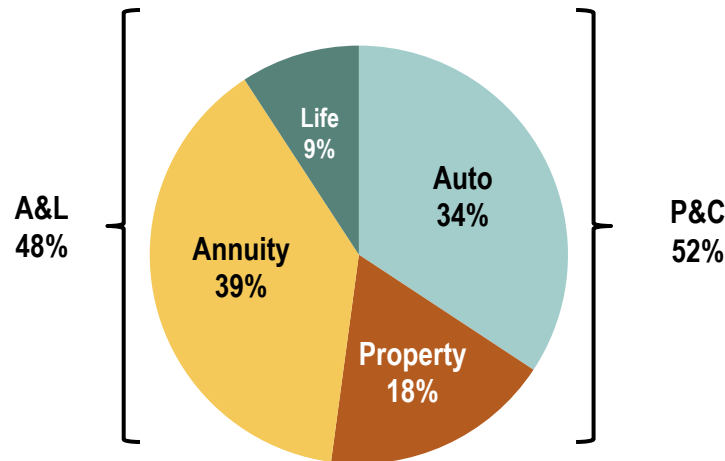
# Solid Foundation and Proven Performance

---

Dwayne Hallman, Executive Vice President and Chief Financial Officer

# National insurer that offers Auto, Property and traditional Annuity and Life products largely through a captive agency distribution model

**2013 Premium & Contract Deposits**  
(\$1,094mm)



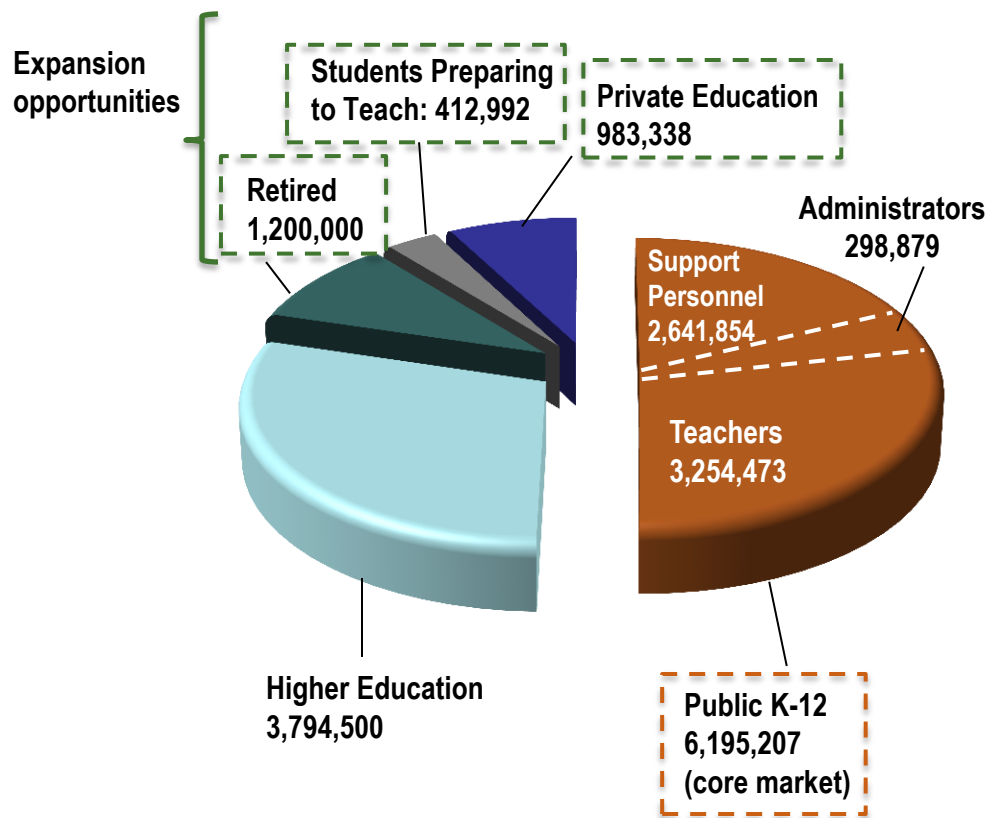
Exchange / Ticker	NYSE: HMN
Share price (6/30/14)	\$31.27
2-year TSR	145.1% <sup>(1)</sup>
Shares outstanding	40.9 million <sup>(2)</sup>
Market Cap	\$1.28 billion
Annualized dividend per share	\$0.92
Dividend yield per share	2.9%
Book value per share ex 115	\$24.51

- True multiline company: diversified revenue streams that provide financial stability in a variety of market cycles
- Long-established leadership position in the K-12 403(b) retirement savings market
- Conservative balance sheet, disciplined ALM and investment management
- Track record of strong book value and earnings growth; compelling dividend and opportunistic repurchase program

(1) Measurement period beginning 1/1/12

(2) 42.3 million weighted average diluted shares for Q2 2014

# The educator segment is large and growing; opportunities exist outside our core Public K–12 market

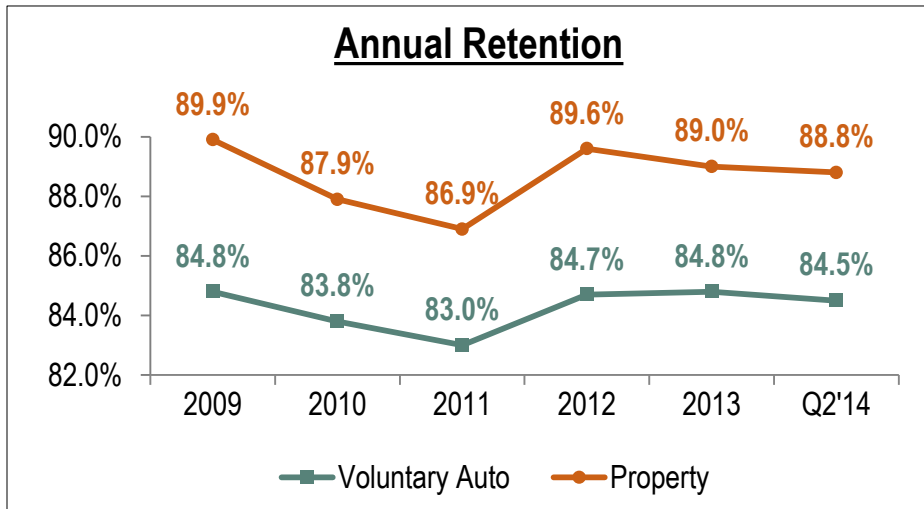
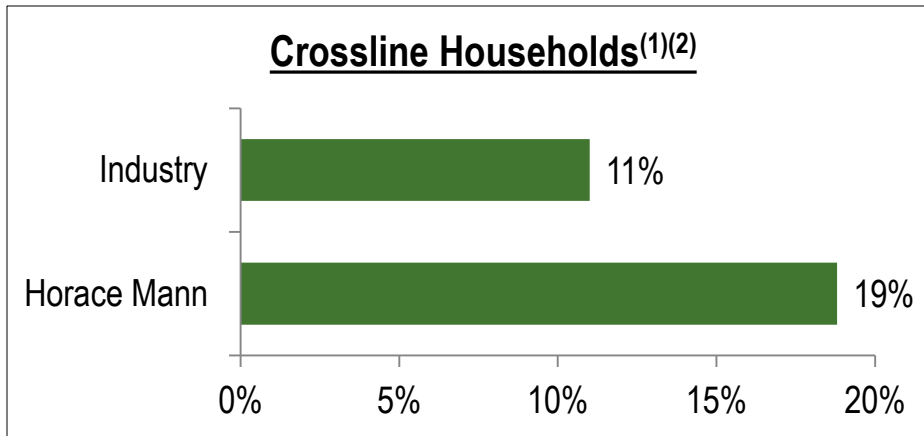


- The Public K-12 teacher and administrator market, which has been our historic core focus, is projected to grow by 14% by 2020<sup>(1)</sup>
- Distribution is primarily captive agent force that meets with educators at their worksite
  - Supplemented by independent agents that offer Annuity products in certain markets
- Opportunities exist to improve productivity of existing agency force, expand distribution points and enter adjacent markets

Source: 2012 NCES Digest of Education Statistics

(1) Department of Labor 2012 Occupational Outlook Handbook

# Our agents are trusted advisors; multiline and crossline penetration exceed industry averages, with room to grow

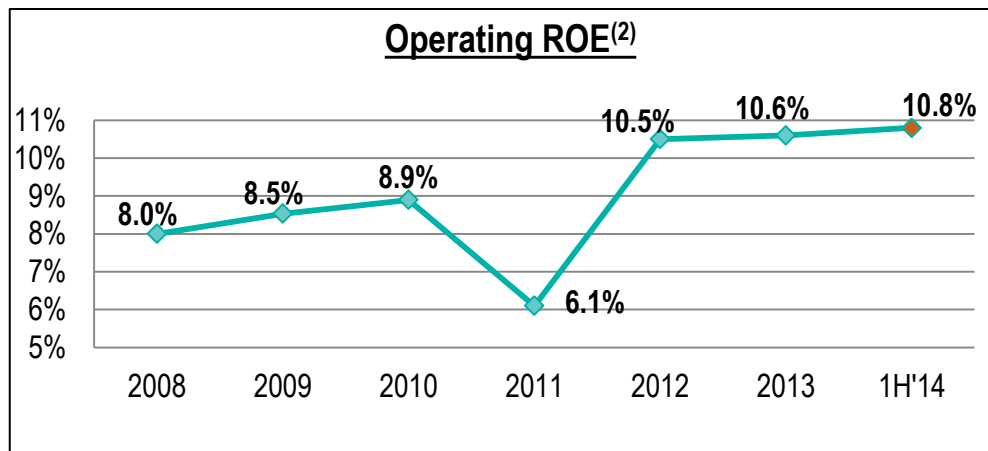
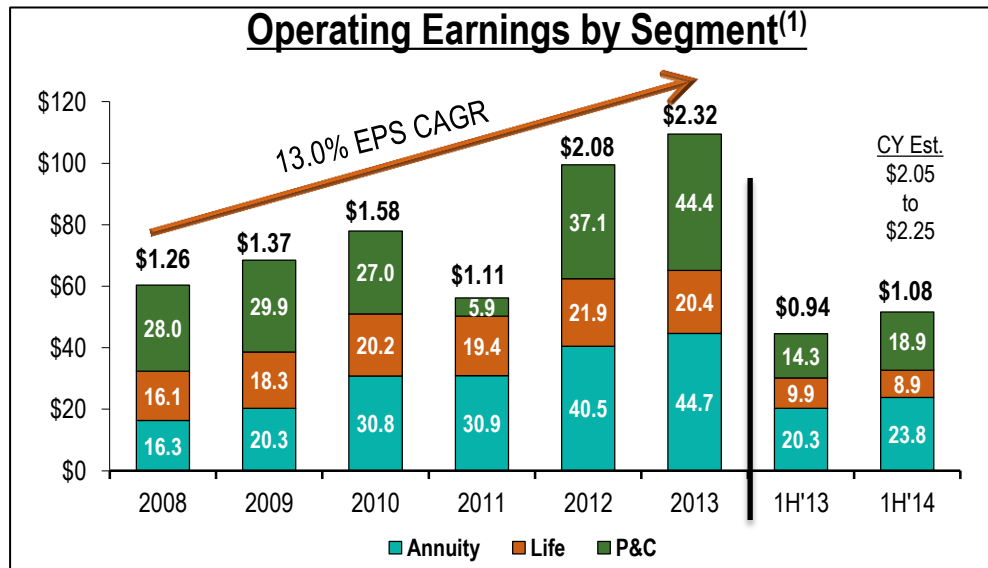


- Crossline penetration significantly exceeds industry
  - Majority of P&C policyholders purchase both auto and homeowner products
- P&C retention ratios have been relatively stable despite sizable rate actions
- Life and Annuity persistency ratios have been consistently strong and stable, around 95%
- Targeted marketing programs to drive higher retention and crossline sales
  - State teacher retirement seminars
  - Donorschoose.org relationship
  - Payroll deduct expansion for Auto, Annuity and Life products

(1) Households with Auto and/or Property plus Annuity, Life and/or Group

(2) HMN data: Educator households as of June 2014; Industry data per LIMRA, 2011 multiline exclusive agent average

# Multiline business model has generated steady, growing operating earnings during a variety of economic cycles



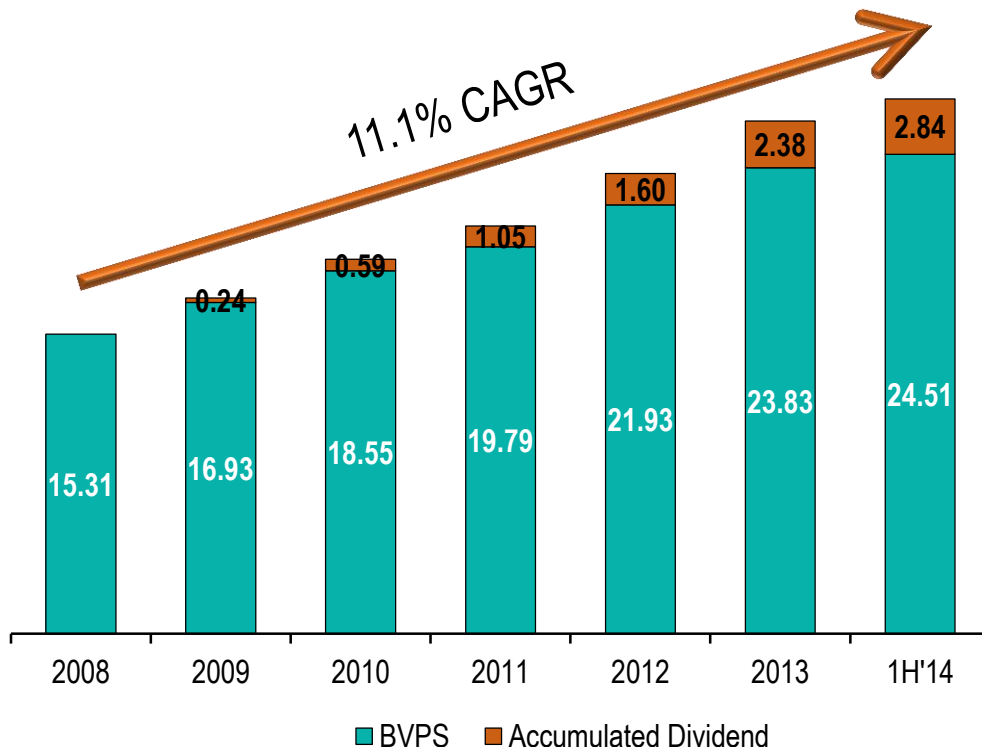
- Operating earnings per share<sup>(1)</sup> have grown 13% on an average annual basis, led by Annuity and P&C
  - Continued P&C profitability improvement
  - Strong Annuity sales and assets under management growth have generated 20+% earnings growth CAGR
  - Life earnings reflect the maturity of in force block
- Investing in all three business segments to accelerate Operating EPS growth and improve ROE

(1) Operating earnings reflects net income excluding realized investment gains and losses

(2) Operating ROE excluding unrealized gains and losses; 2010 and prior are before the retroactive application of new accounting guidance for deferred policy acquisition costs

# Solid financial results have resulted in sustained book value growth and a compelling dividend yield

## Book Value Plus Accumulated Dividends<sup>(1)</sup>



- \$24.51 book value per share excluding FAS 115 as of June 30, 2014
- Annualized 2014 shareholder dividend of \$0.92
  - Dividend yield of 2.9%<sup>(2)</sup>
  - Reflects ~40% payout ratio
- Opportunistic share buyback program
  - Repurchases of \$25.5 million since December 2011 at an average price of \$18.47 versus VWAP of \$22.81<sup>(3)</sup>
  - \$24.5 million remaining under authorization

(1) Book value per share excluding unrealized investment gains/losses (ex. FAS 115). 2008-2011 numbers have been restated to include the retrospective application of new accounting guidance for deferred policy acquisition costs.

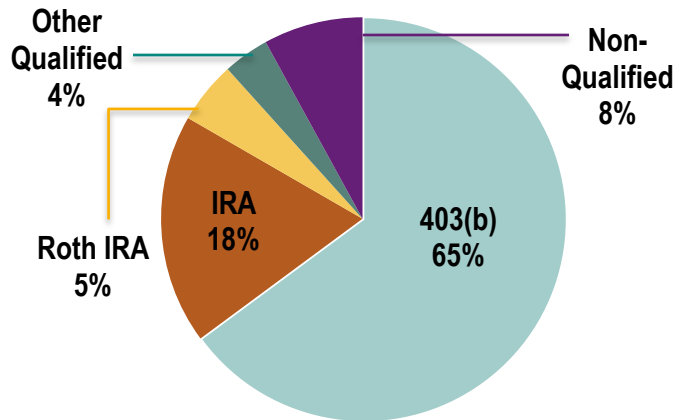
(2) Based on 6/30/14 stock price of \$31.27

(3) Repurchase activity through 6/30/14

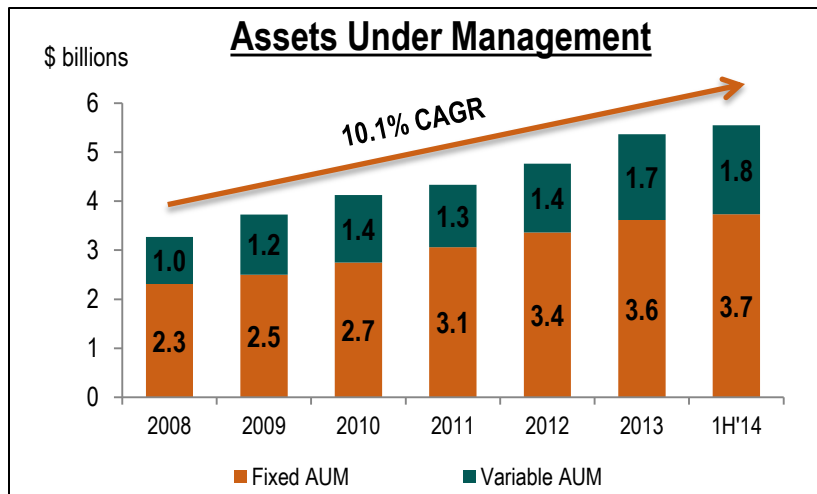


# Annuity segment assets under management and sales continue to grow

**Product Composition<sup>(1)</sup>**



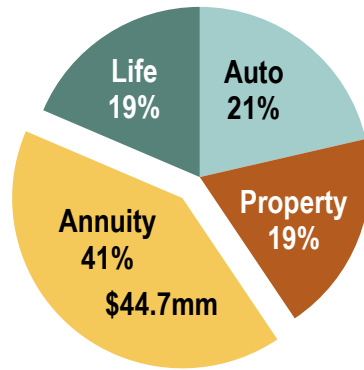
- 92% of Annuity assets under management are tax-qualified accounts
  - Consistently strong persistency ~95%
  - Roughly two-thirds of underlying assets are Fixed Annuities; remaining one-third is Variable Annuities with no living benefits
- Assets under management growing at steady pace
  - Introduction of new Fixed Indexed Annuity product in Q1'14 has accelerated AUM growth
- Sales momentum for Annuity is strong and growing
  - 27% increase in Annuity product sales over 1H'13, led by the new Fixed Indexed Annuity product



(1) Based on Assets Under Management as of June 30, 2014

# Maintained annuity segment margins in a low interest rate environment; well positioned for rising interest rates

## Annuity Earnings Contribution<sup>(1)</sup>

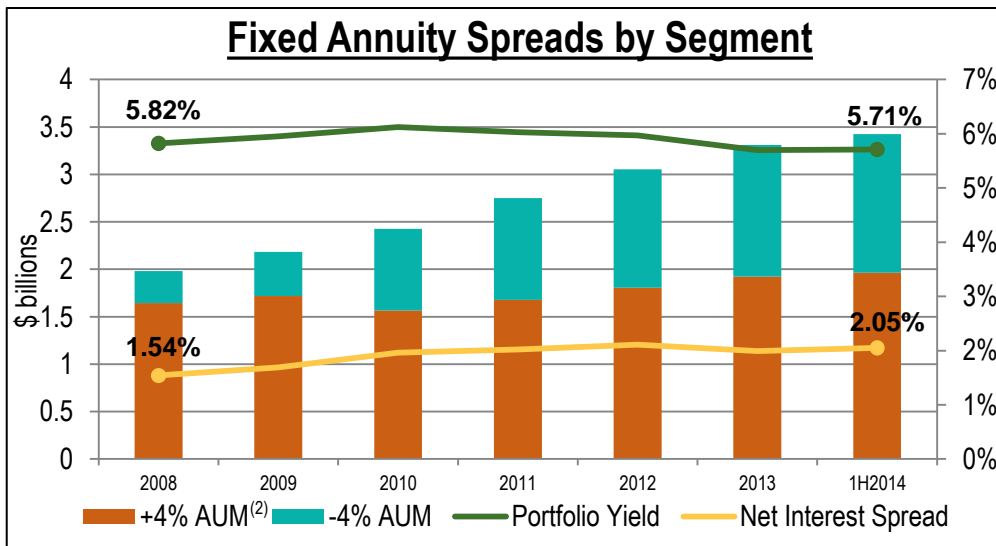


- Annuity earnings have grown substantially; driven by increases in assets under management
  - Proactive crediting rate actions and prudent investment management have resulted in favorable net interest margins

- Layering of new business at spreads above target levels has limited return pressure of the older fixed annuity block
  - New business spreads continue to exceed target
  - As rates rise, we expect the older fixed annuity block spreads to increase, lifting overall returns

- Business is priced to generate a low double-digit ROE at targeted spreads of 200 to 250 bps

## Fixed Annuity Spreads by Segment

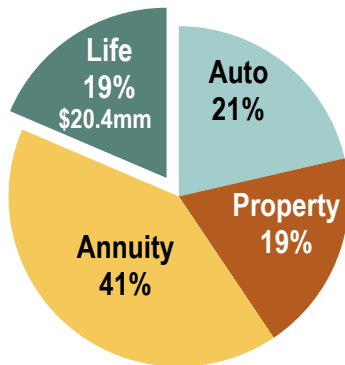


(1) Based on FY 2013 Operating Earnings by Segment, excluding Corporate and Other segment

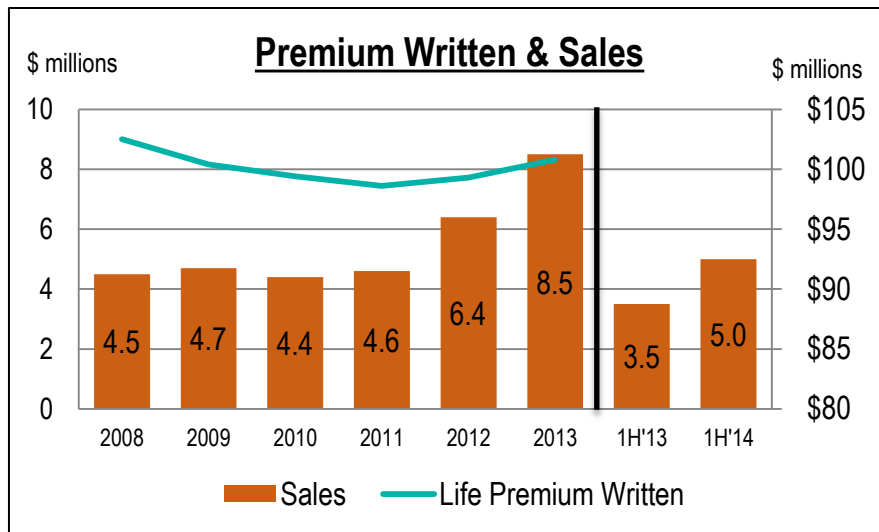
(2) Discontinued products with guaranteed crediting rates of 4% or higher

# Reigniting growth in the profitable Life segment

## Life Earnings Contribution<sup>(1)</sup>



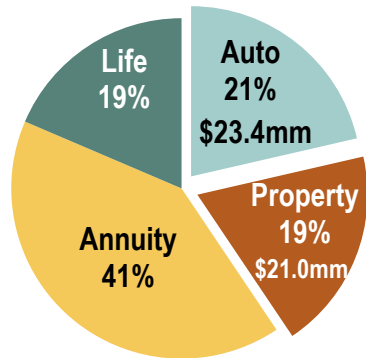
- Mature book of whole and term life products
  - Over 200,000 policies in force with ~96% retention ratio
- Business is priced to generate a low double-digit ROE
- Targeted growth initiatives have resulted in a 43% increase in life sales for 1H'14
  - Strategic focus to grow this segment of profitable business



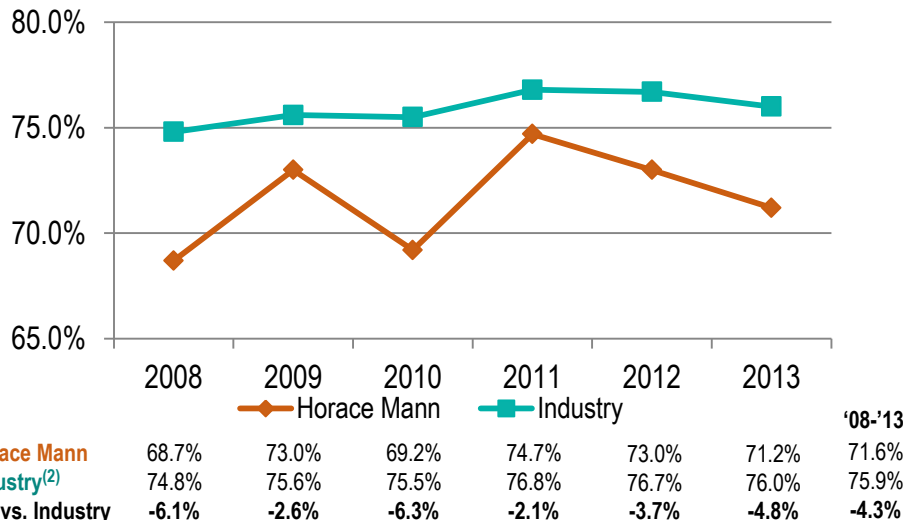
(1) Based on FY 2013 Operating Earnings by Segment, excluding Corporate and Other segment

# Personal Lines P&C segment has improving combined ratios that are stronger than industry averages

**P&C Earnings Contribution<sup>(1)</sup>**



**Auto Loss Ratio vs Industry**

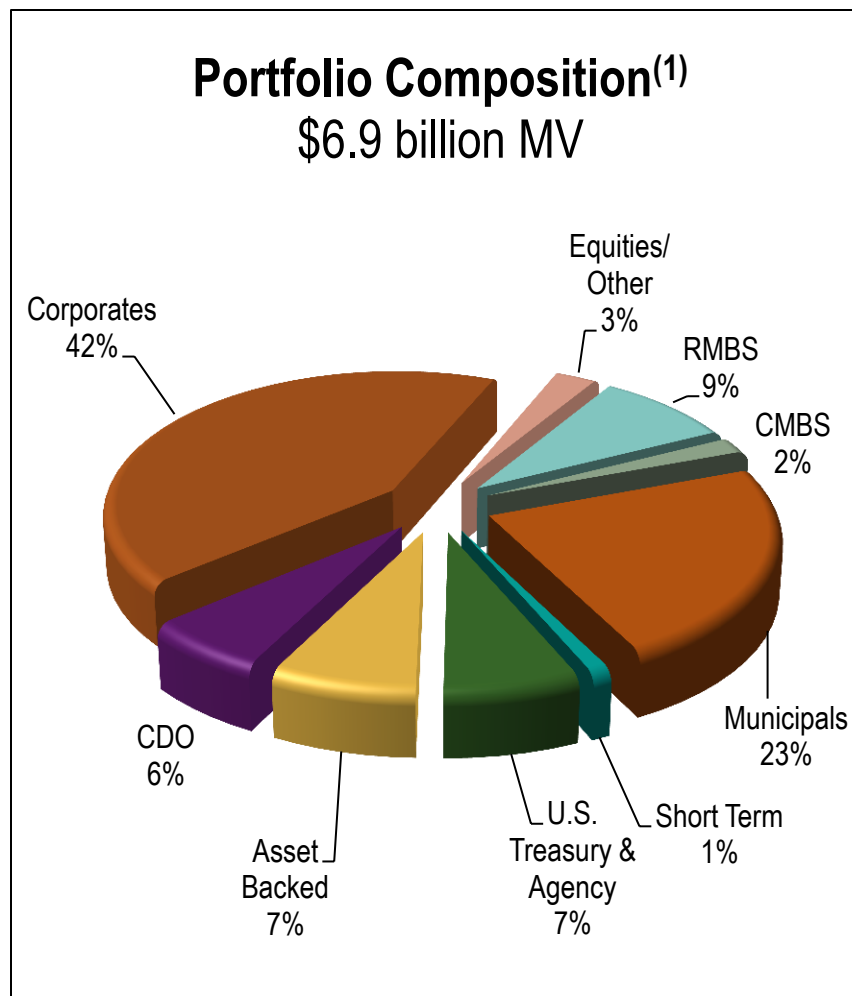


- Profitable book of preferred customers with retention that exceeds industry averages
  - Majority of customers purchase both Auto and Property insurance
  - Mid 80s retention in Auto; High 80s in Property
- Strong defense over past few years to reduce coastal concentrations, exit Florida homeowners and improve margins
  - Rate increases continue to exceed loss cost trends
- Targeting a mid-90s reported combined ratio would generate a 12% ROE at 1.5x leverage

(1) Based on FY 2013 Operating Earnings by Segment, excluding Corporate and Other segment

(2) AM Best industry composite based on statutory incurred losses

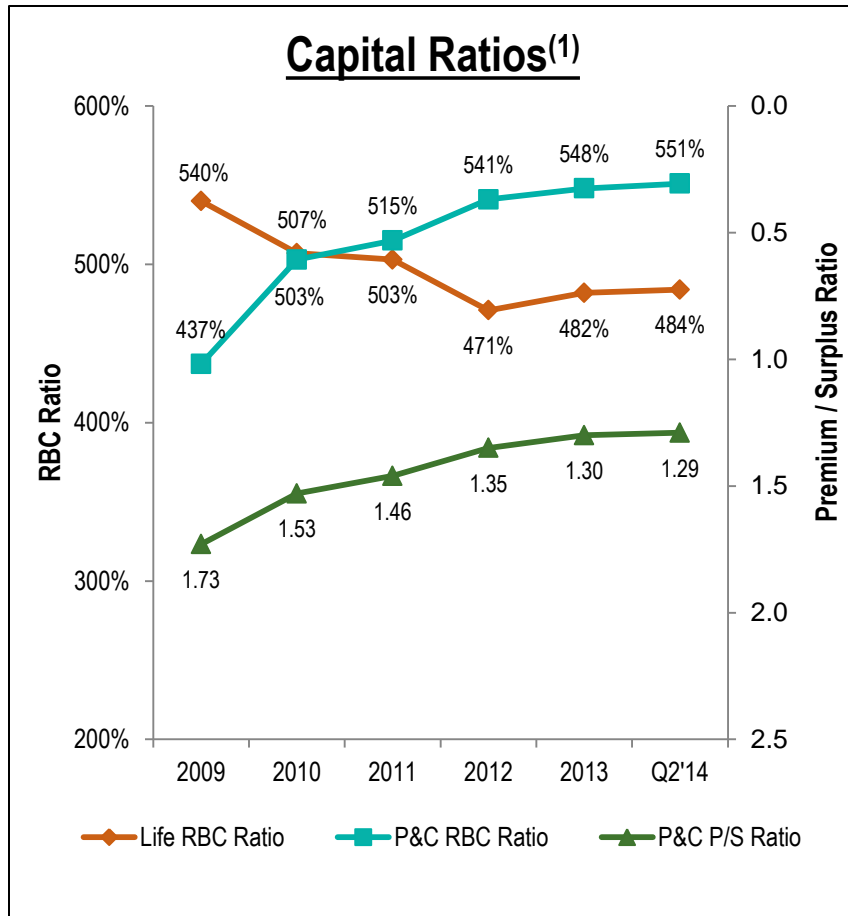
# Conservative and well diversified investment portfolio that is designed to support our product offerings



- High quality, well diversified portfolio across fixed income sectors
  - Weighted average quality: A
  - Average duration 6.2
- Focused on risk and asset liability management
  - \$6.0 billion MV portfolio supports long dated Annuity & Life liabilities
  - \$0.9 billion MV portfolio supports P&C
  - \$501 million net unrealized gain; majority in Annuity & Life portfolios
- New purchases focused on maintaining portfolio quality and yield
  - Q2'14 new money rate of just over 4%

(1) As of June 30, 2014; excludes policy loans

# Capital ratios have improved significantly and reflect more than adequate capital to grow our businesses



(1) 2014 RBC results are estimates

(2) Excluding unrealized gains/losses on investments

- Consistent earnings and conservative bias have resulted in strong capital ratios
  - P&C loss reserves held at top end of independent actuarial range
  - Annuity and Life product design
  - Investment portfolio construction / historical loss experience
- Q2'14 debt-to-capital ratio<sup>(2)</sup> of 19.2%
- Excess capital deployed for organic growth, which results in modest ROE expansion

# Strategic Overview:

Find more, win more, keep more educators

---

Marita Zuraitis, President and Chief Executive Officer

# Where we are today: A solid, stable, conservative company with excess capital earmarked for growth

---

- Unique and compelling value proposition for educators
- P&C combined ratios that outperformed industry averages
- Traditional Annuity and Life product suite with growing AUM
- Distribution largely through a loyal captive agency force
- Industry leading retention, persistency and cross-sell ratios

**All of which resulted in more than 10% average annual book value<sup>(1)</sup> and accumulated dividend growth per share over the past decade**

*(1) Book value per share excluding unrealized investment gains/losses (ex. FAS 115)*



# Our Vision: To be the preferred insurance and financial services provider to the nation's educators

---

Horace Mann will protect educators' short-term risks and secure their financial future throughout their life cycle through ...

Tailored Product designed to meet educators' needs and cover their risks

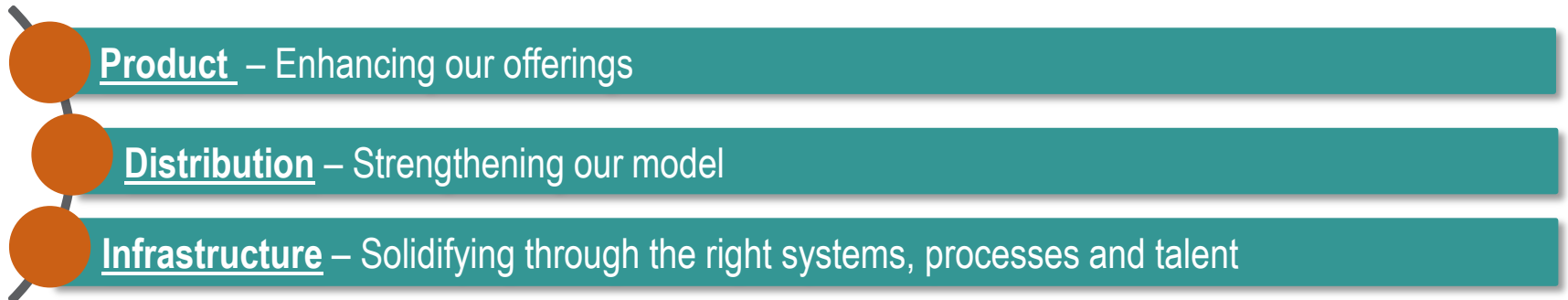
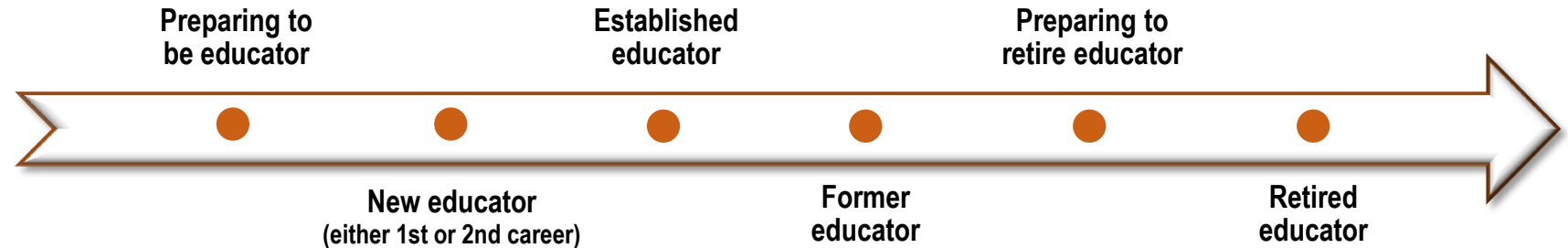
Trusted, knowledgeable Distribution tailored to educator needs and preferences

Modern Infrastructure that is efficient and scalable and easy to do business with

... while providing shareholders with a compelling return through various market cycles

# Horace Mann will become a larger, more dominant player by executing our strategy at each stage of the educator life cycle

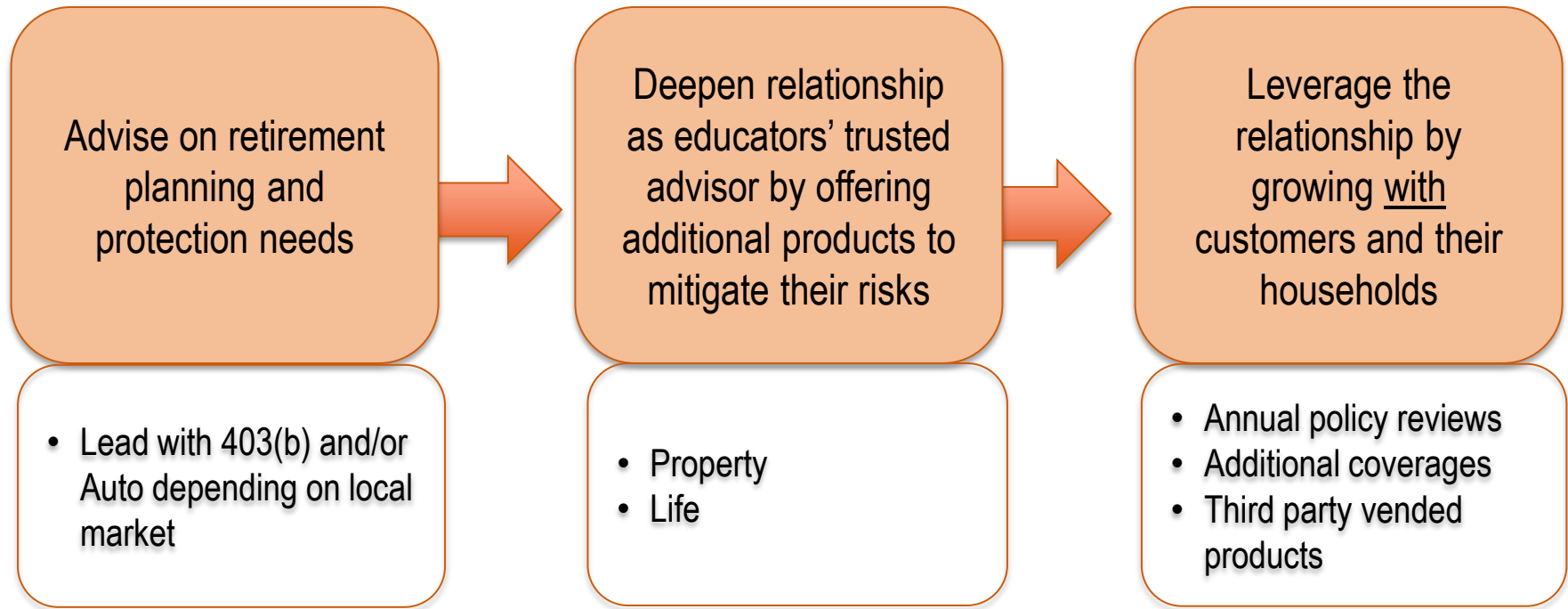
---



- Know the profile and needs to properly serve each stage of the educator life cycle
- Know this profile better – and capture, retain and use the data better – than anyone else

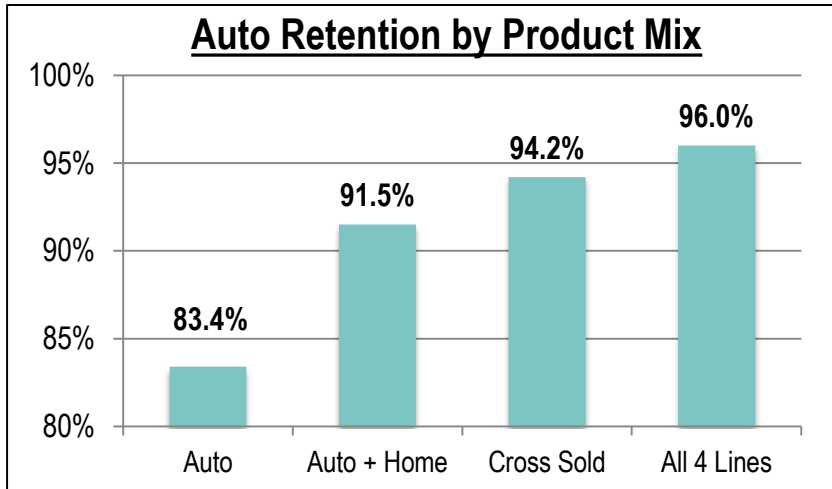
# By being trusted advisors to educators, we're focused on finding, winning and keeping more educator households

---

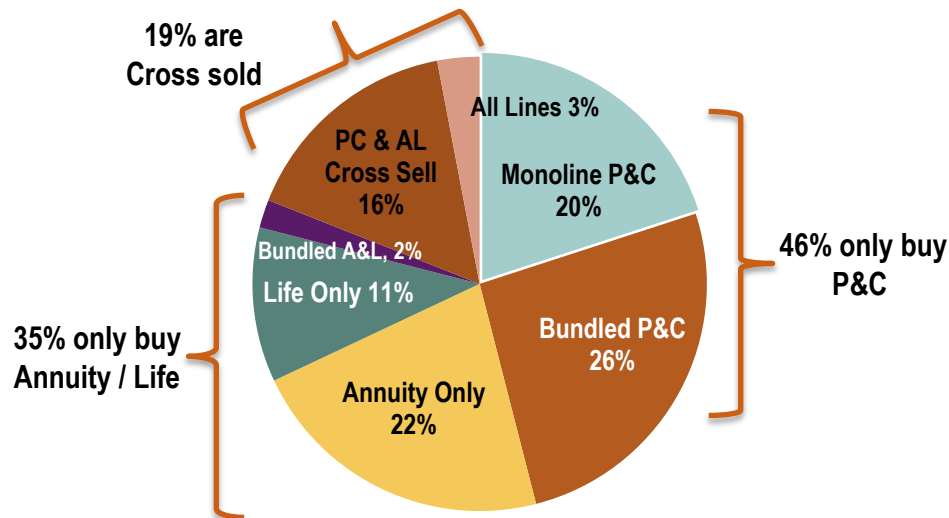


The objective is to acquire an educator household, and then penetrate the household with multiple products and services – ***Find more, win more, keep more!***

# As educator households buy more than one product, auto retention improves; significant opportunity to sell to existing customers





## Educator Household Distribution by Product



- Auto retention increases with each additional product sold
  - Monoline Auto - 83%
  - Increases over 8 points by bundling with Property
  - Increases over 10 points by cross selling
- In addition, we see modest persistency benefits in Annuity and Life for cross sold business
- Significant additional cross sell opportunities within existing educator customer base
  - 46% of educator households are only buying P&C products
  - 35% of educator households are only buying Annuity / Life products

# Products tailored to the educator niche – with more to come

---

	ALG	P&C
HM Underwritten 	<ul style="list-style-type: none"> <li>Traditional annuity / life products</li> <li><b>Fixed indexed annuity</b></li> <li><b>Universal life</b></li> </ul>	<ul style="list-style-type: none"> <li>Auto</li> <li>Property</li> <li>Renters</li> <li>Umbrella</li> </ul>
Preferred Third-Party Vendors 	<ul style="list-style-type: none"> <li>Universal life</li> <li><b>Managed accounts</b></li> </ul>	<ul style="list-style-type: none"> <li>Non-standard auto risks</li> <li>Motorcycle/toys</li> <li><b>Higher-value homes</b></li> <li><b>Commercial coverages</b></li> <li><b>Classic cars</b></li> </ul>
Brokerage Platform	<ul style="list-style-type: none"> <li>Mutual funds</li> <li><b>Survivorship life</b></li> <li><b>Impaired risk life products</b></li> </ul>	<ul style="list-style-type: none"> <li><b>Commercial coverages</b></li> </ul>

Gray = Historically offered

Teal = Introduced in 2014

Orange = Anticipated 2015 launch

# Distribution aligned to educator life cycle needs and preferences

---

- Improve the **Exclusive Agent** model through enhanced productivity standards and training
- Provide complementary **Direct** support; enable new and existing customers to transact directly with home office
- Leverage the **Independent Agent** channel for 403(b) product offerings
- Continue to build out **Institutional Sales** channel for larger school districts

# Modern processes and systems to efficiently support our business strategy

---

- Planned infrastructure improvements are an important reinvestment and at the forefront of our modernization efforts
- Implementing new Annuity and Life policy administration system
- Evaluating new P&C policy administration systems and improved data aggregation and analytic tools
- Implementing new Customer Care Center technology and software to improve the customer experience

# Our efforts in the next 12–18 months are focused on ...

---

## Product

- Launch HMN Universal Life products
- Further enhance P&C segmentation to refine new business pricing
- Explore additional third-party vended products

## Distribution

- Improve agent training and support
- Increase agent productivity and quality standards
- Enhance Call Center capabilities
- Increase Independent Agent 403(b) sales
- Build out large district / institutional sales channel

## Infrastructure

- Continue successful implementation of the Life/Annuity admin system
- Complete P&C system due diligence
- Continue to assess talent needs
- Improve worksite capabilities
- Expand broker-dealer operations



## . . . which will result in growth in educator households and strong performance for shareholders

---

- Continued strong double-digit earnings growth
  - Led by Annuity in the near-term
  - With P&C following as we successfully attract new business
- Expanded Operating ROEs as we better leverage our capital position and expense structure
- Sustained double-digit book value and accumulated dividend growth per share<sup>(1)</sup>

(1) Book value per share excluding unrealized investment gains/losses (ex. FAS 115)



Horace Mann<sup>®</sup>

*Founded by Educators for Educators*