

# Fourth Quarter 2014 Investor Presentation

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December 31, 2014

# Safe Harbor Statement and Non-GAAP Financial Measures

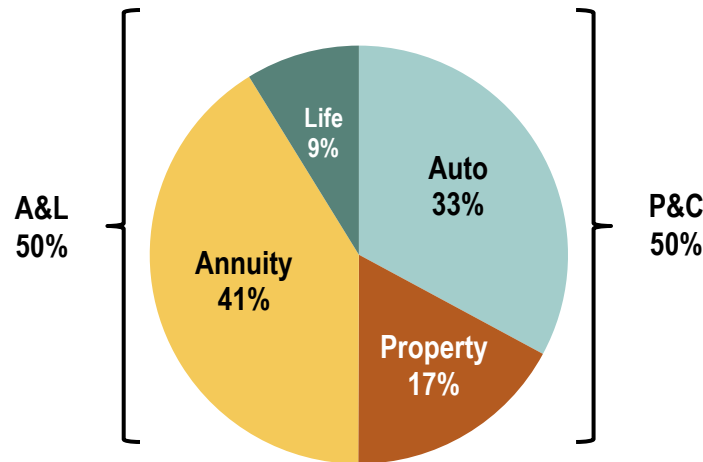
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Certain statements made in this presentation should be considered forward-looking as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements give expectations or forecasts of future events. These statements are related 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.

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

**2014 Premium & Contract Deposits**  
(\$1,168mm)



Exchange / Ticker	NYSE: HMN
Share price (12/31/14)	\$33.18
3-year TSR	167.8% <sup>(1)</sup>
Shares outstanding	40.9 million <sup>(2)</sup>
Market Capitalization	\$1.4 billion
Annualized dividend per share	\$0.92
Dividend yield per share	2.8%
Book value per share ex 115	\$25.38

- Educator niche focus with long-established leadership position in the public K-12 403(b) retirement savings market
- True multiline company: diversified revenue streams that provide financial stability in a variety of market cycles
- 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) 42.2 million weighted average diluted shares for FY 2014

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

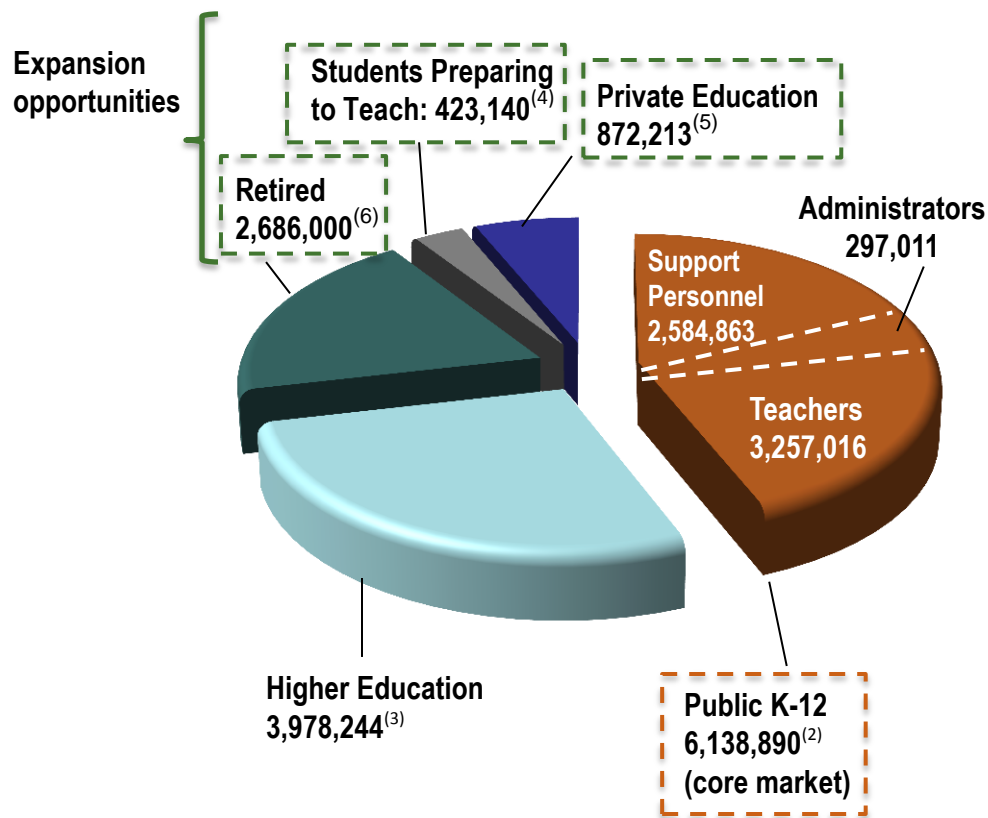
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- Unique and compelling value proposition for educators
- P&C combined ratios outperforming industry averages
- Traditional Annuity and Life product suite with growing AUM
- Distribution largely through a loyal captive agency force with complementary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

**All of which has resulted in over 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)*

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



- The Public K-12 teacher market, which has been our historic core focus, is projected to grow by 15% 2010 to 2021<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

(1) U.S. Dept. of Education, National Center for Education Statistics, *Projections of Education Statistics to 2021*, January 2013

(2) U.S. Dept. of Education, National Center for Education Statistics, *Digest of Education Statistics*, August 2013

(3) U.S. Dept. of Education, National Center for Education Statistics, *Digest of Education Statistics*, August 2013

(4) U.S. Dept. of Education, National Center for Education Statistics, *Higher Education General Information Survey*, July 2013 (Estimated, current year Education major Bachelors Degrees awarded times 4)

(5) U.S. Dept. of Education, National Center for Education Statistics, *Private School Universe Survey*, July 2013 (Total private employment estimated based on public teacher/staff ratio)

(6) *Analysis of 2013 State Teacher and Public Employee Retirement Plans* (Conservative estimate of Public K-12 retirees receiving benefits)

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

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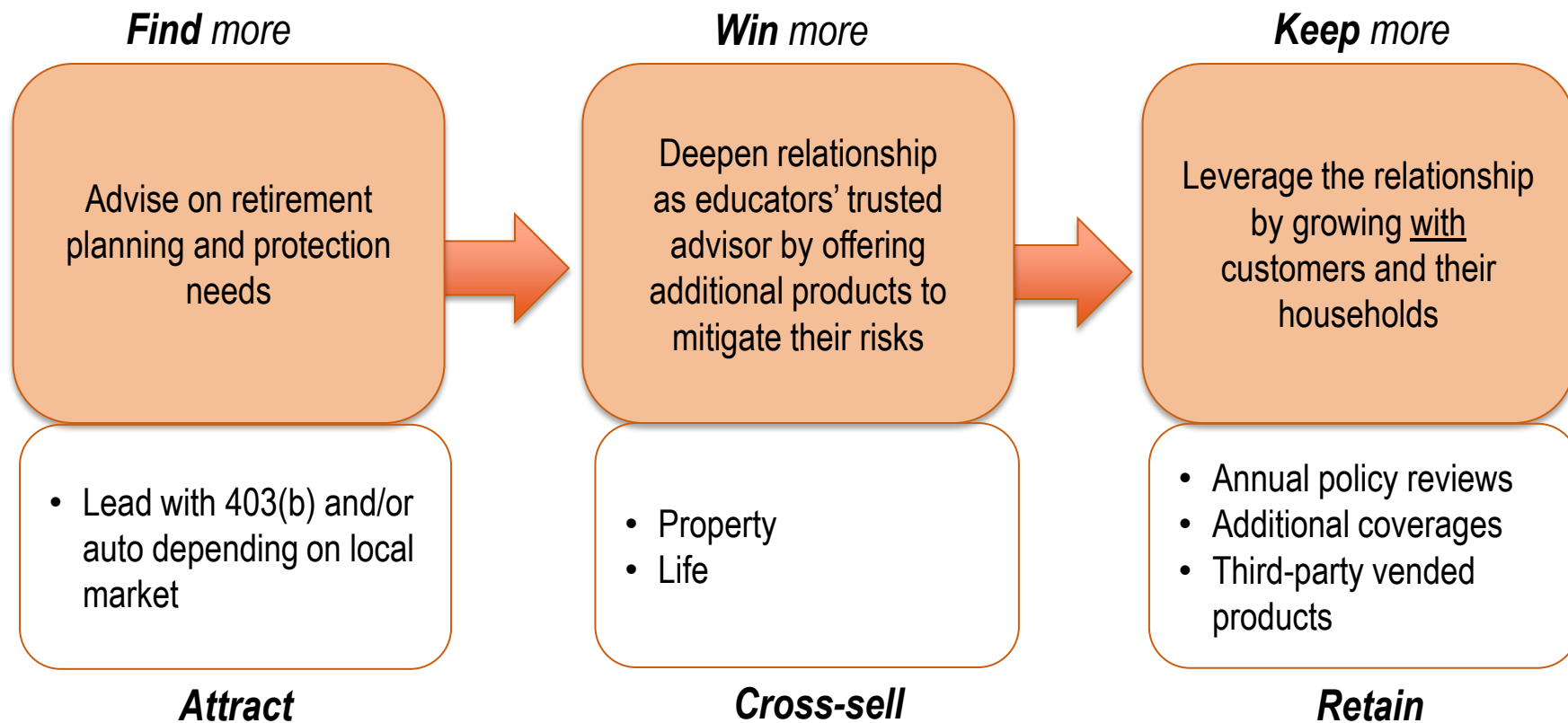
Horace Mann will protect educators' short-term risks and secure their financial future throughout their life cycle through ...

- 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, scalable and easy to do business with

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

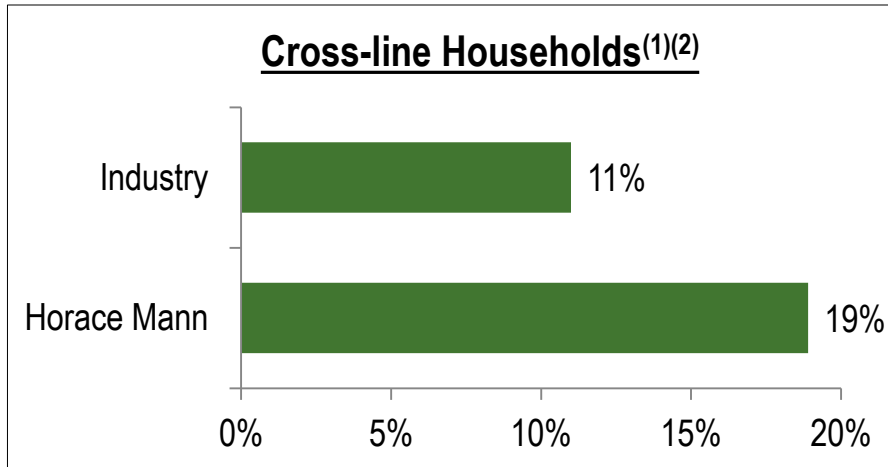
# Our Strategy: As trusted advisors to educators, we're focused on finding, winning and keeping more educator households

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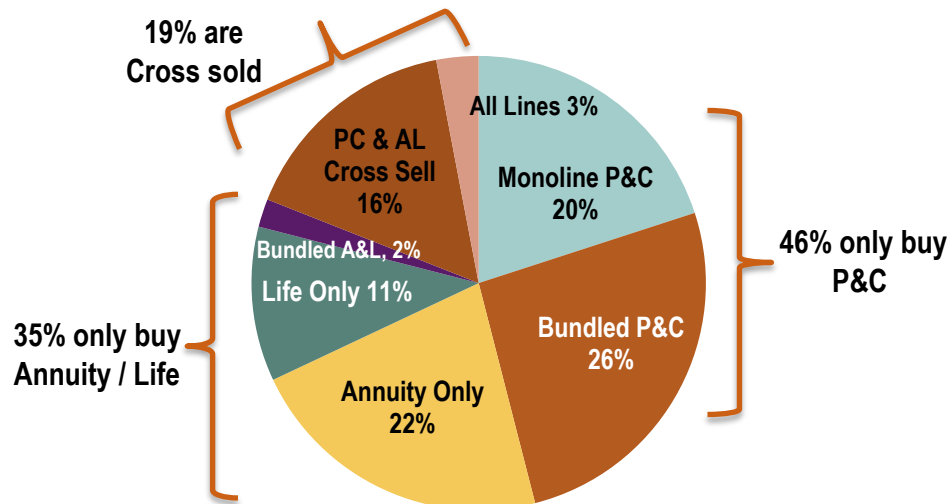
The objective is to acquire an educator household, and then penetrate the household with multiple products and services – **Find more, win more, keep more!**

# In addition to finding more educator households, we are focused on expanding our cross-line penetration in 2015



- Cross-line penetration significantly exceeds industry
  - Majority of P&C policyholders purchase both auto and homeowner products
- Significant additional cross sell opportunities within our existing customer base of ~360,000 educator households
  - 46% of educator households are only buying P&C products
  - 35% of educator households are only buying Annuity / Life products
- In 2015, we are focused on increasing our already industry-leading cross-line penetration ratios

## Educator Household Distribution by Product<sup>(1)</sup>

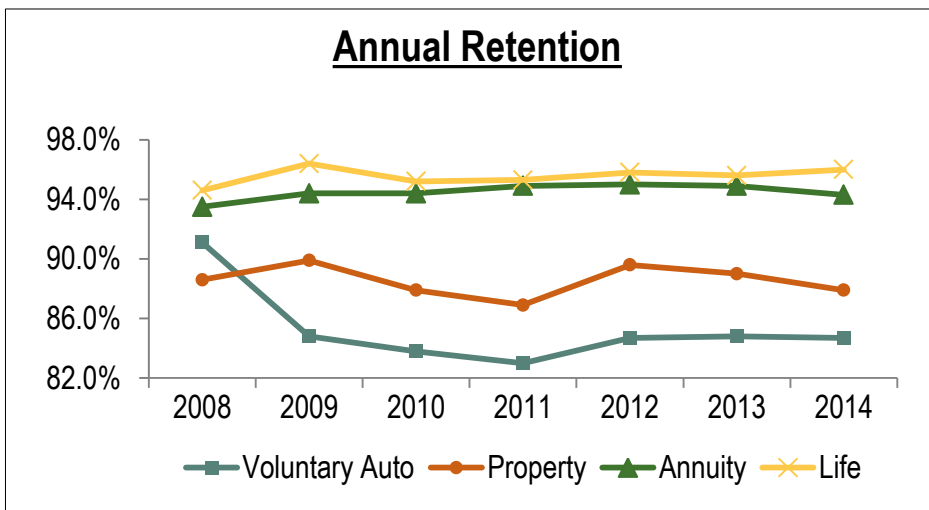
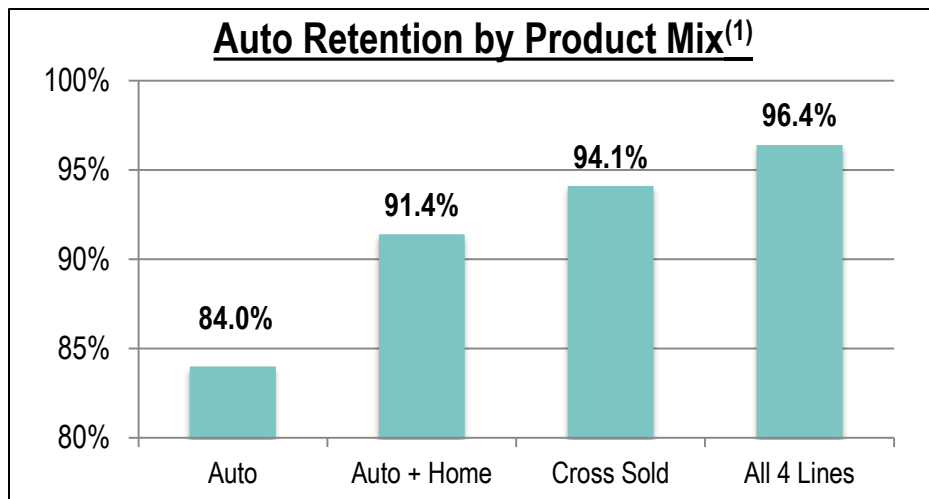


(1) HMN data: ~360,000 educator households as of December 31, 2014; Cross-line households defined as Auto and/or Property plus Annuity, Life and/or Group

(2) Industry data per LIMRA, 2011 multiline exclusive agent average



# Our solid retention ratios reflect the loyalty of our educator customer base, in addition to the power of the cross sell

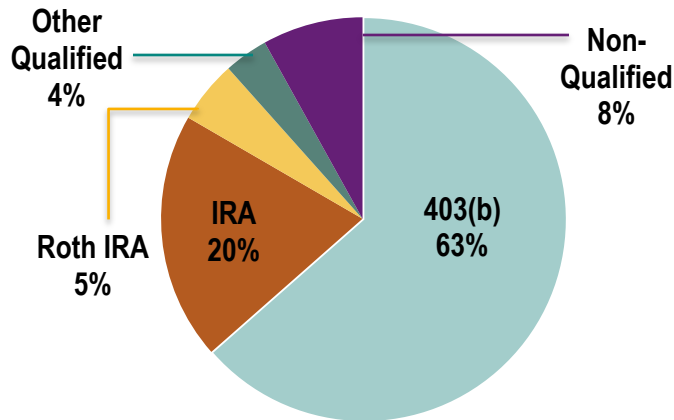


- Auto retention increases with each additional product sold
  - Monoline Auto – 84%
  - Increases over 7 points by bundling with Property
  - Increases over 10 points by cross selling
- In addition, we see modest persistency benefits in Annuity and Life for cross sold business
- P&C retention ratios have been relatively stable despite sizable rate actions
  - Loyal customer base
  - Increasing share of Payroll / EFT policies
- Targeted marketing programs to drive higher retention and cross-line sales
  - State teacher retirement seminars
  - DonorsChoose.org relationship
  - Payroll deduct capability for auto, annuity and life products

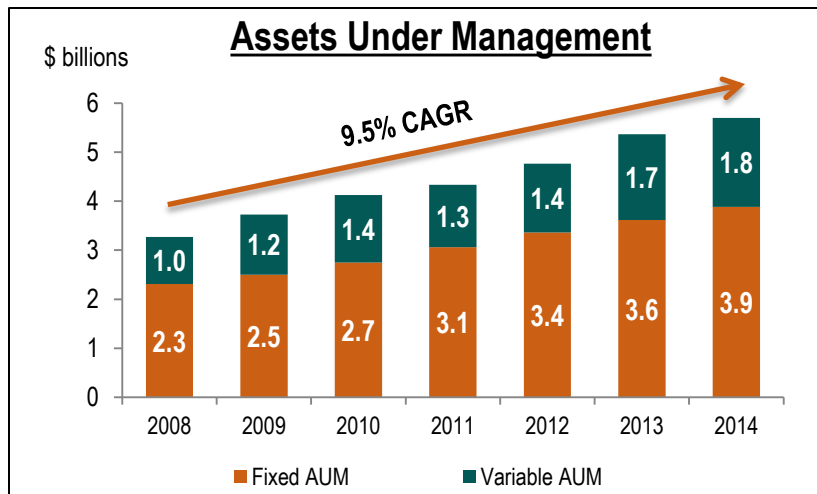
(1) HMN data: ~360,000 educator households as of December 31, 2014; Cross-line households defined as Auto and/or Property plus Annuity, Life and/or Group

# Annuity segment assets under management and sales continue to grow

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



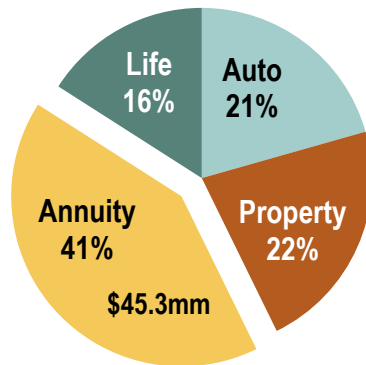
- 92% of Annuity assets under management are tax-qualified accounts
  - Consistently strong persistency ~94%
  - Roughly two-thirds of underlying assets are Fixed Annuities; remaining one-third is Variable Annuities with no living benefits
- Assets under management growing at steady pace
  - Introduction of new Fixed Indexed Annuity product in 2014 has accelerated AUM growth
- Sales momentum for Annuity is strong
  - 22% increase in Annuity product sales over 2013, supported in part by the new Fixed Indexed Annuity product
  - Expect 2015 sales to continue to trend upward from 2014 levels



(1) Based on Assets Under Management as of December 31, 2014

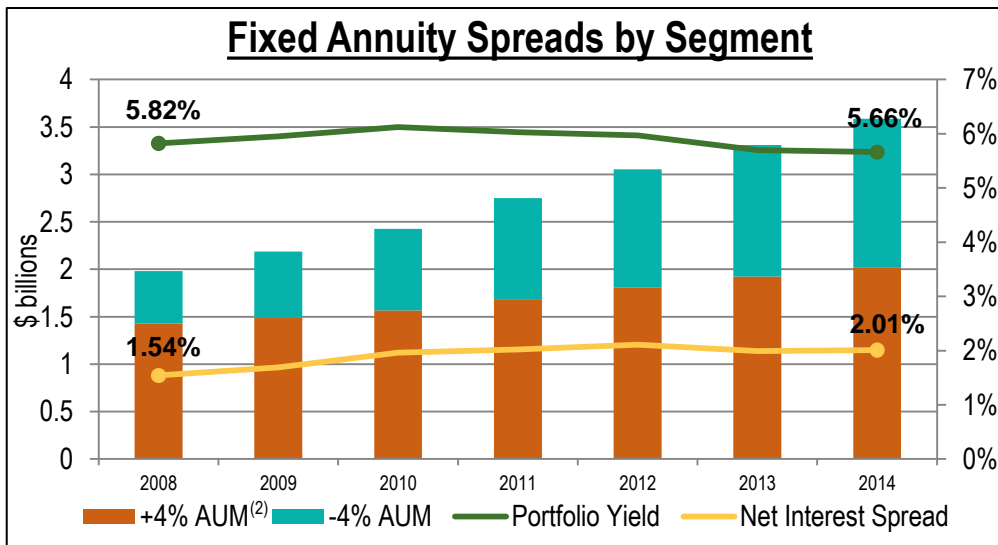
# Maintained annuity segment margins in a low interest rate environment; well positioned for eventual rise in interest rates

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



- Ex-DAC Annuity earnings of \$46.1 million, up 9% from 2013
  - Proactive crediting rate actions and prudent investment management have resulted in favorable net interest spreads that remain above 200
  - Expect 2015 earnings to be modestly lower with spreads declining to mid 180s

## Fixed Annuity Spreads by Segment



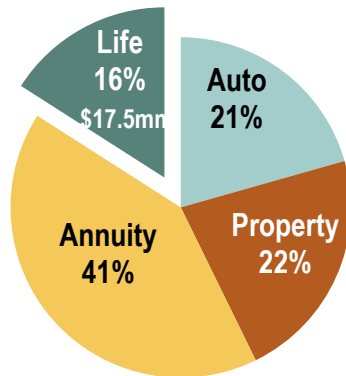
- Layering of new business at spreads above target levels has limited return pressure from the older fixed annuity block
  - New business spreads continue to exceed target
  - As rates rise, we expect the spread on the older fixed annuity block to increase, lifting overall returns
- Business is priced to generate a low double-digit ROE at targeted spreads of 200 to 250 bps

(1) Based on FY 2014 Operating Earnings by Segment, excluding Corporate and Other segment

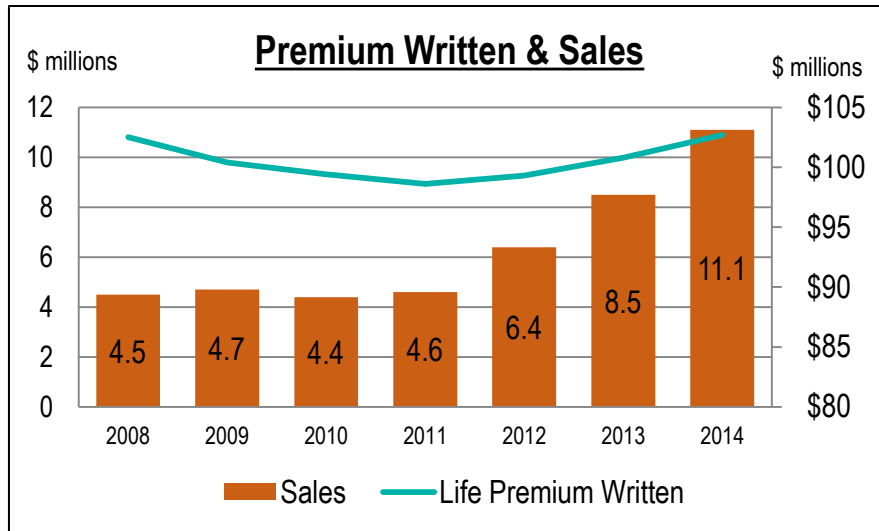
(2) Discontinued products with guaranteed crediting rates of 4% or higher

# Reigniting growth in the profitable Life segment

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



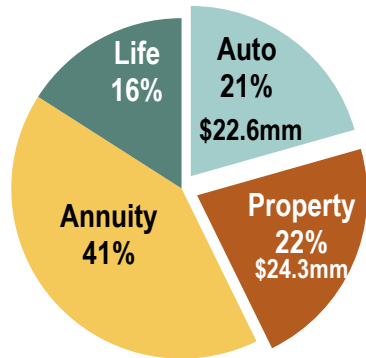
- 2014 earnings of \$17.5 million down from PY on more normal mortality compared to favorable experience in the prior year
  - Expect 2015 earnings to be between \$15 - \$17 million
- Mature book of whole and term life products
  - About 200,000 policies in force with 96% retention ratio
- Business is priced to generate a low double-digit ROE
- Targeted growth initiatives have resulted in a 31% increase in life sales for 2014
  - Strategic focus to grow this segment of profitable business at a double-digit pace
  - Plan to launch new Indexed Universal Life product in late 2015



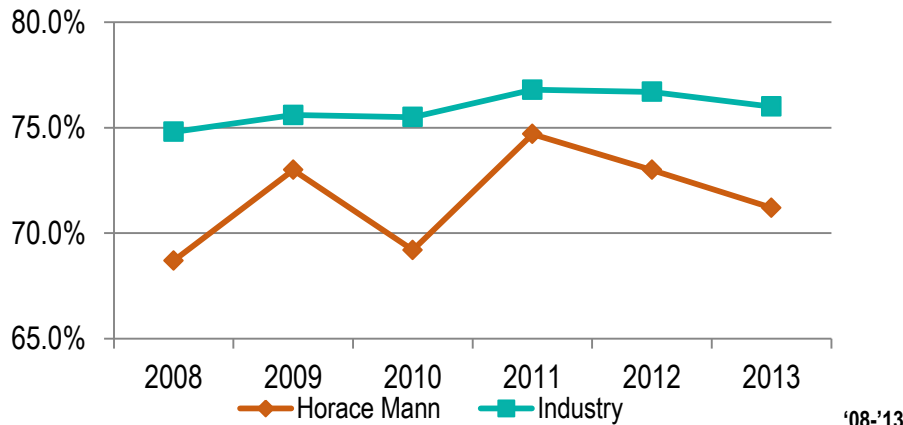
(1) Based on FY 2014 Operating Earnings by Segment, excluding Corporate and Other segment

# 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**



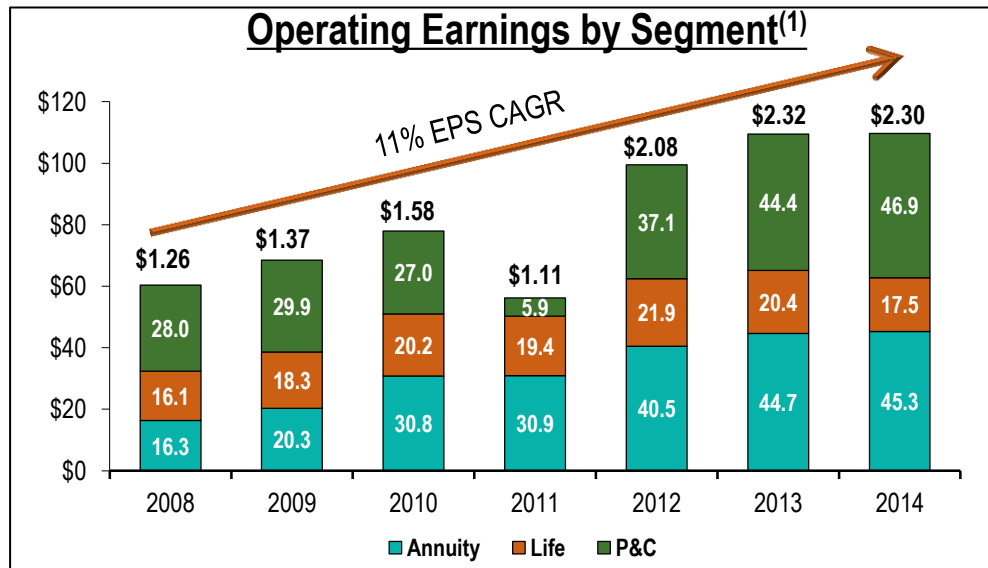
	2008	2009	2010	2011	2012	2013	'08-'13
<b>Horace Mann</b>	68.7%	73.0%	69.2%	74.7%	73.0%	71.2%	71.6%
<b>Industry<sup>(2)</sup></b>	74.8%	75.6%	75.5%	76.8%	76.7%	76.0%	75.9%
<b>HM vs. Industry</b>	-6.1%	-2.6%	-6.3%	-2.1%	-3.7%	-4.8%	-4.3%

- 2014 earnings of \$46.9 million increased 6% over PY, mostly on lower catastrophe losses and 1 point underlying improvement in auto
- 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
- Mid-90s reported combined ratio would generate a 12% ROE at 1.5x underwriting leverage
  - 2015 guidance assumes mid-90s combined ratio with continued top line growth to move us closer to this goal

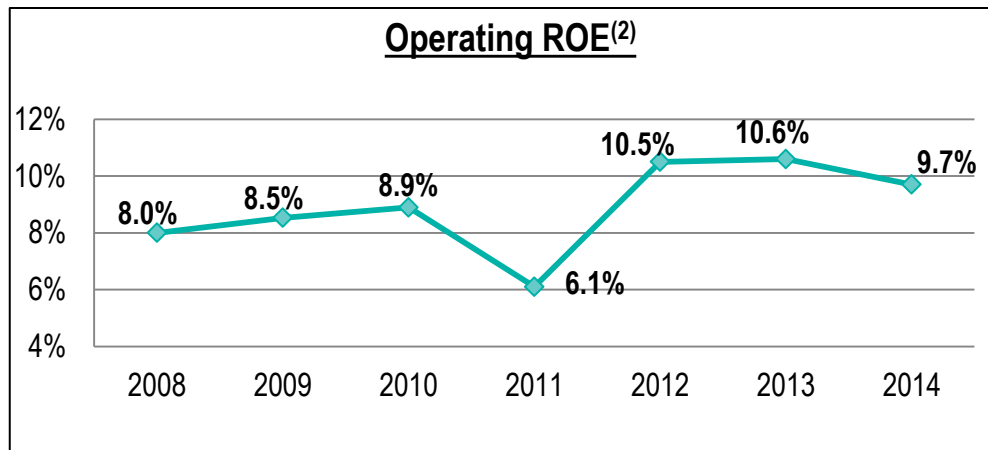
(1) Based on FY 2014 Operating Earnings by Segment, excluding Corporate and Other segment

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

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



- Operating earnings per share<sup>(1)</sup> have grown 11% on a compound average annual basis, led by Annuity and P&C
  - Continued P&C profitability improvement
  - Strong Annuity sales and assets under management growth have generated 18+% earnings growth CAGR
  - Life earnings reflect the maturity of in force block

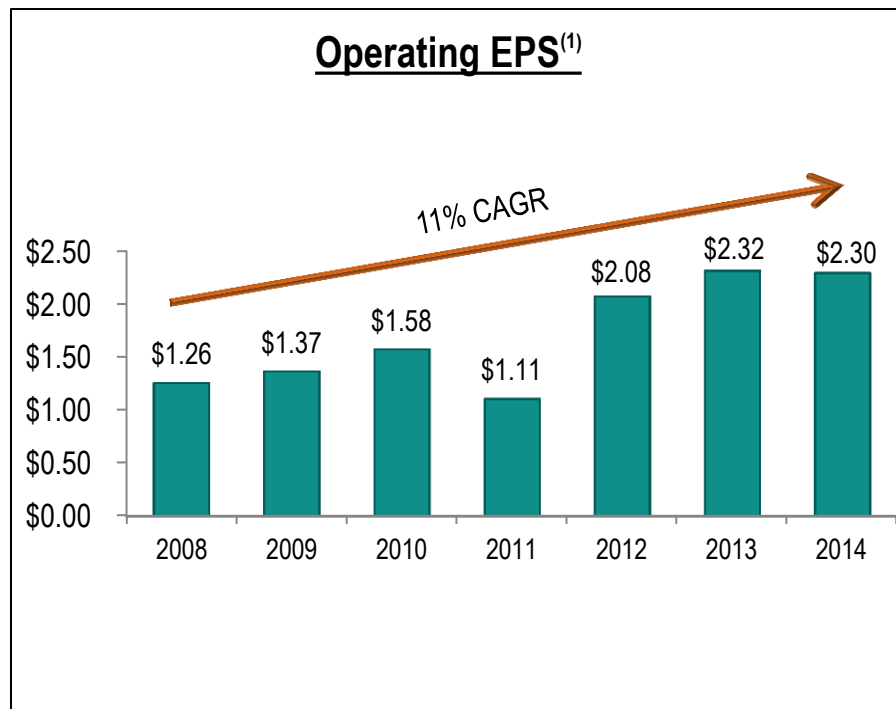


- Investing in all three business segments to accelerate Operating EPS growth and improve ROE over time

(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 earnings across all business segments resulted in continued strong operating performance in 2014

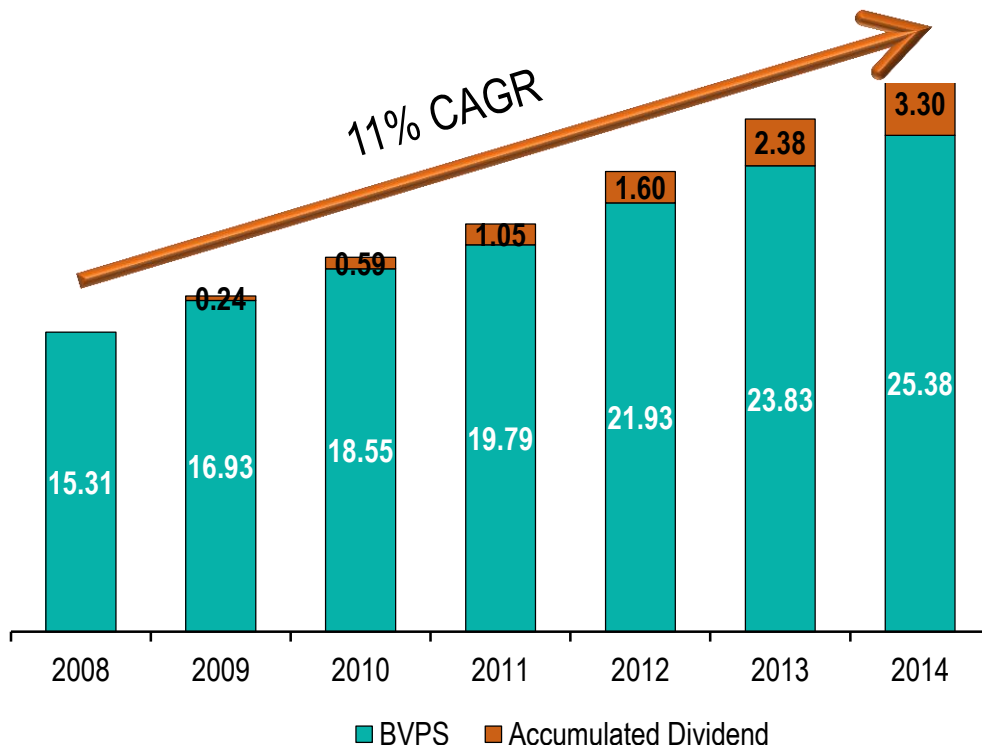


- 2014 Operating Income of \$2.30 per diluted share reflected solid results across all three business segments, and at the high end of our revised guidance range of \$2.20 to \$2.30
  - P&C earnings included 1 point of underlying loss ratio improvement in Auto and better than expected catastrophe losses; continued favorable prior years' development
  - Annuity earnings benefited from favorable net interest spreads and a 6% increase in assets under management
  - More normal levels of Life mortality costs compared to favorable experience in the prior year
- 2015 Operating Earnings guidance of \$2.15 to \$2.35 per share reflects continued growth in normalized operating income
  - Continued improvement in P&C profitability; modest earnings pressure in Annuity on lower net interest spread; normal Life mortality and \$1-\$2 million of infrastructure reinvestments
  - Modest favorable prior years' development
  - 6.5 point Catastrophe load

(1) Net income excluding realized investment gains and losses

# Solid financial results have resulted in top quartile book value growth<sup>(1)</sup> and a compelling dividend yield

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



- \$25.38 book value per share excluding FAS 115 as of December 31, 2014
- Annualized 2014 shareholder dividend of \$0.92
  - Dividend yield of 2.8%<sup>(2)</sup>
  - Reflects ~40% payout ratio
- Opportunistic share buyback program
  - Repurchases of \$27.1 million since December 2011 at an average price of \$18.87 versus VWAP of \$23.57<sup>(3)</sup>
  - \$22.9 million remaining under authorization

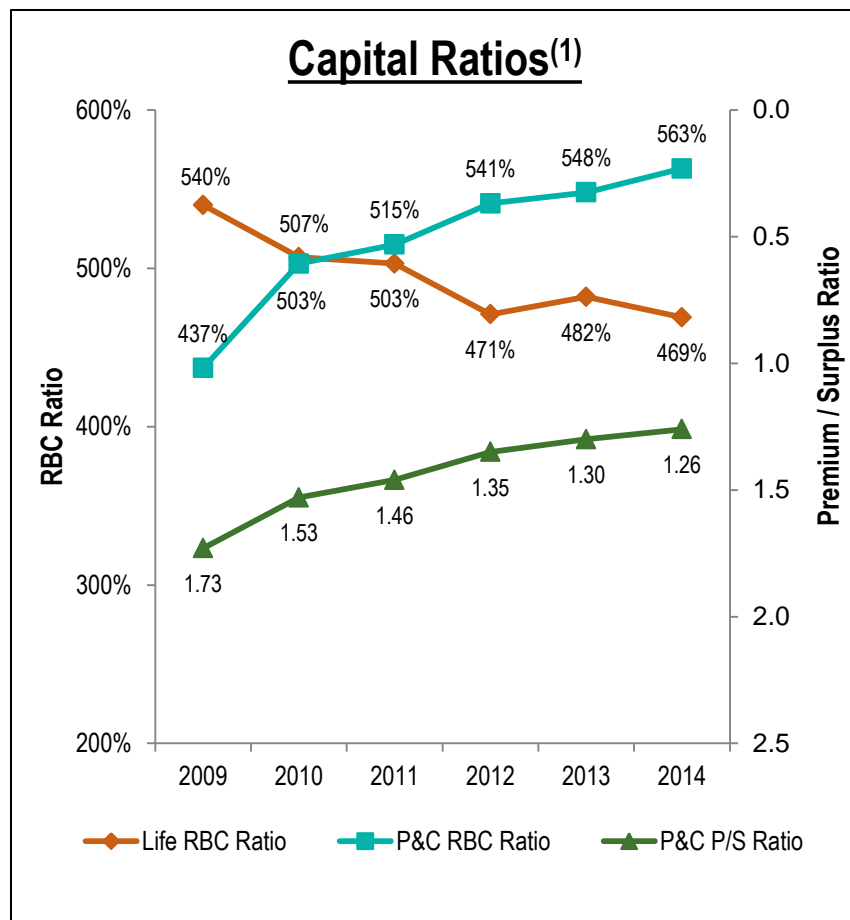
(1) Book value per share excluding unrealized investment gains/losses (ex. FAS 115). 2008-2011 numbers have been restated to include the retrospective application of new accounting guidance for deferred policy acquisition costs. Top quartile ranking in peer group includes Large, Mid and Small cap personal lines and life insurance companies

(2) Based on 12/31/14 stock price of \$33.18

(3) Repurchase activity through 12/31/14



# Capital ratios 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
- 2014 debt-to-capital ratio<sup>(2)</sup> of 18.6%
- Excess capital deployed for organic growth will result in modest ROE expansion

# Focused on our strategy to *Find More, Win More and Keep More Educators*

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## Enhanced product offerings

- More sophisticated P&C pricing segmentation
- Introduction of an IUL product

## Strengthening the distribution model

- Marketing organization realignment
- Continued focus on agent productivity standards
- Complementary direct support through customer contact center

## Modernizing the infrastructure

- Systems implementations
- Focused efforts on enhanced ease of doing business



## Expected Results

- ✓ **More Educator Households**
- ✓ **Sales momentum across all business lines**
- ✓ **Higher operating earnings**
- ✓ **Continued book value per share growth**

# Appendix

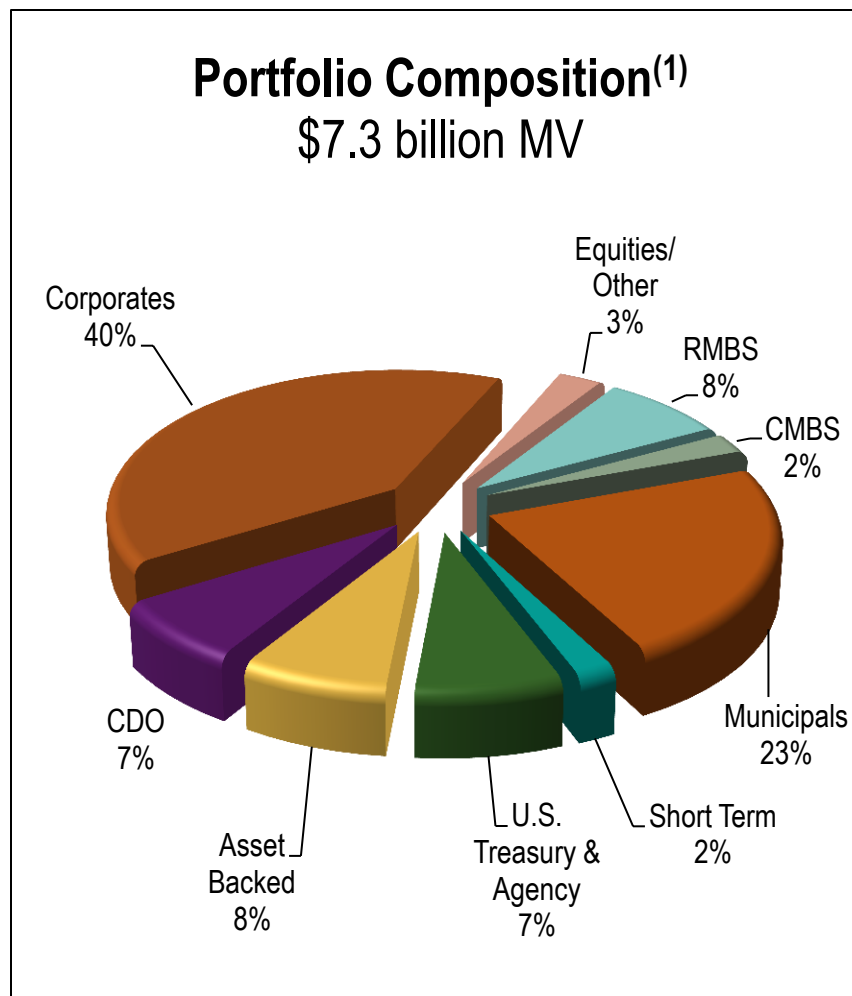
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# Founded by Educators for Educators®

1945	<b>Founded by two teachers in Springfield, IL as the Illinois Education Association Mutual Insurance Company to provide automobile insurance to IEA members</b>
1949 1961	Company began offering a full range of life insurance products to the educational community Introduced 403(b) tax-qualified retirement annuities
1975 1989 1991	Company acquired by INA Corporation Company acquired from CIGNA through a management led LBO Completed initial public offering; stock trades on NYSE under the symbol "HMN"
2000 2006 2009	With less than 50% of new P&C business represented by educators, company refocuses on the educator market Began transitioning employee agency force to new business model Exclusive Agent (EA) contract introduced
2010 2012	Re-introduced State Teacher Retirement Seminars, and began strategic relationship with DonorsChoose.org Achieved double-digit sales increases in all four lines of business <sup>(1)</sup>
<b>Today</b>	<b>Building on a solid foundation to accelerate our growth momentum and increase our penetration in the K-12 educator niche</b> <ul style="list-style-type: none"> <li>– Largest national, multiline insurance company focused on serving the nation's K-12 educator market</li> <li>– Current book ~ 80% educator</li> <li>– Agency force transition largely complete; now focused on productivity improvement initiatives</li> <li>– Annuity and Life product line enhancements and infrastructure improvements</li> <li>– Enhanced P&amp;C pricing segmentation and underwriting and claims initiatives to further improve underwriting results</li> </ul>

(1) Sold by Horace Mann agents

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

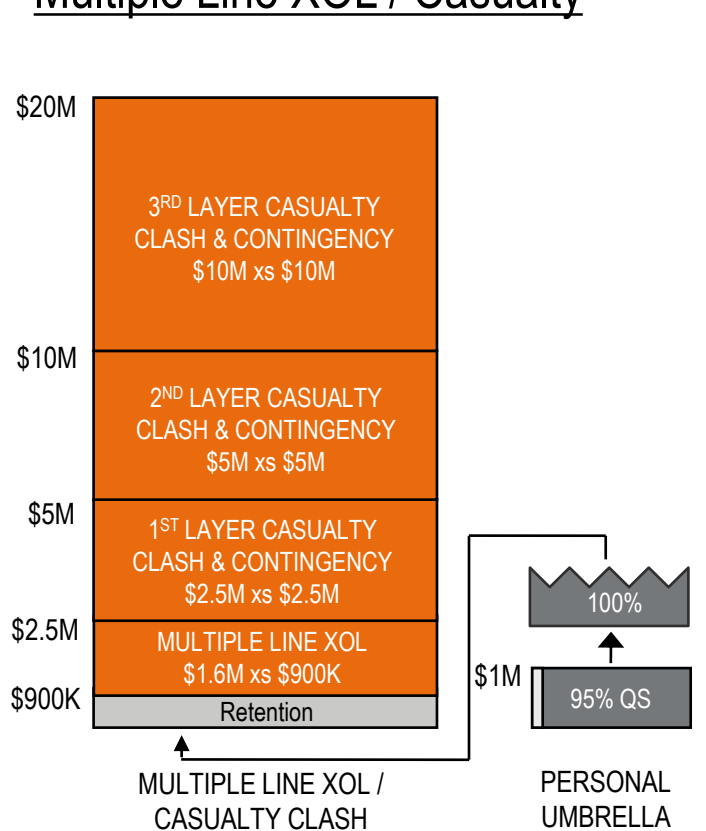


- High quality, well diversified portfolio across fixed income sectors
  - Weighted average quality: A
  - Average duration 5.8
- Focused on risk and asset liability management
  - \$6.3 billion MV portfolio supports long dated Annuity & Life liabilities
  - \$0.9 billion MV portfolio supports P&C
  - \$529 million net unrealized gain; majority in Annuity & Life portfolios
- New purchases focused on maintaining portfolio quality and yield
  - Q4'14 new money rate of 4.47%
  - 2015 reinvestment rate assumption of 3.75%

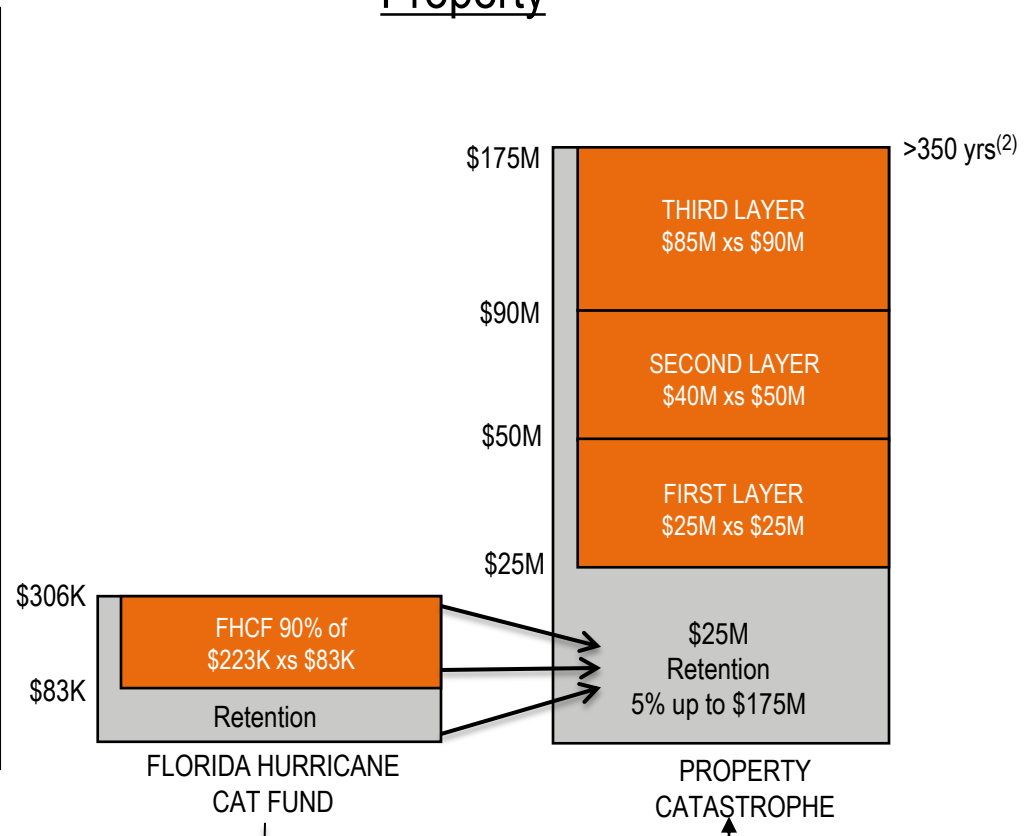
(1) As of December 31, 2014; excludes policy loans

# Current single-event catastrophe reinsurance provides PML coverage of more than 350 years

## Multiple Line XOL / Casualty<sup>(1)</sup>



## Property<sup>(1)</sup>



(1) 2015 Catastrophe Reinsurance Program

(2) Based on the current AIR model (TS v2.0, June 2014 data)

(3) Most current FHCF estimate of contract beginning June 1, 2015 is 90% of \$223,076 xs \$83,449

# Strong and stable P&C reserves further reduce potential earnings volatility

## Appropriate conservatism

- Disciplined reserving practices
- Carried reserves at high end of independent actuarial estimate
- Recent favorable reserve development consistent with independent observations

## Strong claims organization / capabilities

- Centralized claim offices
- Technology / infrastructure
- Implementation of best practices and procedures

Net P&C Reserve Position			
	<u>Independent Actuary</u>		<u>HMN</u>
(\$ Millions)	<u>Low</u>	<u>High</u>	<u>Held</u>
2014	\$227.8	\$274.5	\$267.4
2013	\$218.0	\$266.2	\$261.7
2012	\$217.6	\$265.4	\$260.8

# Highly rated by all rating agencies: educator market focus, earnings diversification and capital strength

## Recent Ratings Upgrades

- In Q1'14, AM Best upgraded our P&C outlook to Positive from Stable
- In Q2'14, Fitch upgraded our ratings to 'A' from 'A-'

## Strong Position within the Educator Community

- “strong business franchise/formidable reputation in K-12 educator market...”
- “continued expertise in writing personal lines products in educator market...”
- “historical growth/recent growth momentum in 403(b) market...established as one of the more significant providers...”

## Stable Operating Results and Enterprise Risk Management

- “(earnings) have benefitted from diversity...P/C and Life operations...”
- “since the Exclusive Agency model began, the company has started to outperform the industry in terms of agent retention”
- “limits its risk taking to areas it understands and has made decisions to avoid risks related to certain distribution segments, products, and investments to maintain a high quality book of business focused on the educational market”

## Strong Capital Adequacy

- “maintains a generally risk-adverse approach to underwriting and the management of its investment portfolio”
- “maintains debt at a conservative level, consolidated capital adequacy that is above the rating category and a conservative investment portfolio with limited exposure to problematic asset classes”

## Current Financial Strength Ratings

<u>Agency</u>	<u>Rating</u> (affirmed/ reviewed)	<u>Outlook</u>
S&P	A (2/28/14)	Stable
Moody's	A3 (Apr. 2012)	Stable
AM Best - Life - P&C	A A- (2/4/15)	Stable Positive
Fitch	A (5/15/14)	Stable



# Consolidated GAAP Income Statement

(\$ in Millions, except EPS and BV)

	2010	2011	2012	2013	2014
<b>Written Prem. &amp; Contract Deposits</b>	\$ 1,052.0	\$ 1,078.4	\$ 1,067.7	\$ 1,094.2	\$ 1,167.7
<b>Earned Prem. &amp; Contract Charges</b>	\$ 672.7	\$ 667.1	\$ 670.5	\$ 690.9	\$ 715.8
<b>Investment Income</b>	272.1	288.3	306.0	313.6	329.8
<b>Other Income</b>	6.2	5.2	7.0	4.5	4.2
<b>Benefits, Claims, &amp; Settlement Exp.</b>	621.6	657.3	611.8	618.2	644.5
<b>Total Other Expenses &amp; Taxes</b>	264.7	257.2	285.4	294.3	308.0
<b>Income Before Realized Gains/Losses</b>	\$ 64.7	\$ 46.1	\$ 86.3	\$ 96.5	\$ 97.3
<b>Operating EPS</b>	\$ 1.58	\$ 1.11	\$ 2.08	\$ 2.32	\$ 2.30
<b>Operating ROE (ex. FAS 115)</b>	9.2%	6.1%	10.5%	10.6%	9.7%
<b>Realized Inv. Gains, After Tax</b>	15.4	24.4	17.6	14.4	6.9
<b>Net Income</b>	\$ 80.1	\$ 70.5	\$ 103.9	\$ 110.9	\$ 104.2
<b>BV / Share (ex. FAS 115)</b>	\$ 18.55	\$ 19.79	\$ 21.93	\$ 23.83	\$ 25.38
<b>BV / Share</b>	\$ 21.36	\$ 26.53	\$ 31.65	\$ 27.14	\$ 32.65

# Consolidated GAAP Balance Sheet

(\$ in Millions)

	2010	2011	2012	2013	2014
<b>Assets</b>					
Investments	\$ 5,073.6	\$ 5,677.5	\$ 6,292.1	\$ 6,539.5	\$ 7,403.5
Cash	5.9	7.5	15.2	18.2	11.7
Separate Account Assets	1,375.7	1,273.8	1,398.3	1,748.0	1,813.6
DAC	222.2	216.5	196.9	245.3	215.1
Goodwill	47.4	47.4	47.4	47.4	47.4
Other Assets	220.9	212.5	217.8	228.3	277.2
<b>Total Assets</b>	\$ 6,945.7	\$ 7,435.2	\$ 8,167.7	\$ 8,826.7	\$ 9,768.5
<b>Liabilities</b>					
<b>Policy Liabilities &amp; Other</b>					
Policyholder Funds	\$ 4,198.0	\$ 4,515.5	\$ 4,839.9	\$ 5,375.5	\$ 5,958.2
Separate Account Liabilities	1,375.7	1,273.8	1,398.3	1,748.0	1,813.6
Long Term Debt	199.7	199.7	199.8	199.9	199.9
Short Term Debt	38.0	38.0	38.0	38.0	38.0
Other Liabilities	287.2	352.8	445.9	366.0	422.3
<b>Total Liabilities</b>	6,098.6	6,379.8	6,921.9	7,727.4	8,432.0
<b>Shareholders' Equity</b>	847.1	1,055.4	1,245.8	1,099.3	1,336.5
<b>Total Liabilities &amp; Equity</b>	\$ 6,945.7	\$ 7,435.2	\$ 8,167.7	\$ 8,826.7	\$ 9,768.5

## Investor Relations Contacts:

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