



**Horace Mann Educators Corporation
2003 Annual Report and 10-K**



Horace Mann
Educated Financial Solutions

Financial Highlights

(Dollars in millions, except per share data)

Year Ended December 31,	2003	2002	% Change	2001	% Change
Operations					
Insurance premiums written and contract deposits					
Core business lines (1)	\$ 958.2	\$ 887.6	8.0%	\$ 852.9	4.1%
Total (1)	955.5	899.3	6.2%	875.6	2.7%
Net income	19.0	11.3		25.6	
Return on equity (2)	3.5%	2.4%		5.6%	
Property & casualty GAAP combined loss and expense ratio	112.3%	101.9%		106.8%	
Experienced agents	510	527	-3.2%	553	-4.7%
Financed agents	378	395	-4.3%	314	25.8%
Total agents	888	922	-3.7%	867	6.3%
Per share					
Net income per share:					
Basic	\$ 0.44	\$ 0.28	57.1%	\$ 0.63	-55.6%
Diluted	\$ 0.44	\$ 0.28	57.1%	\$ 0.63	-55.6%
Dividends paid	\$ 0.42	\$ 0.42	–	\$ 0.42	–
Book value (3)	\$ 12.42	\$ 12.39	0.2%	\$ 11.27	9.9%
Financial position					
Total assets	\$ 4,973.0	\$ 4,512.3		\$ 4,489.0	
Short-term debt	25.0	–		53.0	
Long-term debt	144.7	144.7		99.8	
Total shareholders' equity	530.5	528.8		459.2	

(1) Effective December 31, 2001, Horace Mann ceased writing automobile insurance policies in Massachusetts. 2002 insurance premiums written and contract deposits for core lines increased 6.4% and for the total increased 5.8% compared to the respective 2001 amounts adjusted to exclude premiums from Massachusetts automobile policies.

(2) Based on 12-month net income and average quarter-end shareholders' equity.

(3) Before the fair value adjustment for investments, book value per share was \$10.51 at December 31, 2003, \$10.50 at December 31, 2002 and \$10.62 at December 31, 2001.

Forward-looking information

It is important to note that the Company's actual results could differ materially from those projected in forward-looking statements. Additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained from time to time in the Company's SEC filings. Copies of these filings may be obtained by contacting the Company or the SEC.

Letter to Shareholders

2003 continued to be a year of transition at Horace Mann as we focused on delivering our Value Proposition to the educator market.

Our Value Proposition to “provide lifelong financial well-being for educators and their families through personalized service, advice, and a full range of tailored insurance and financial products” remains our compass and underlies our commitment to realize the value of the Horace Mann franchise.

Plans to achieve our 2004 financial and operational objectives are in place and the near-term focus will be on execution, with primary emphasis on improving profit margins in our property and casualty business.

2003: A year of challenges in P&C

In addition to implementing organizational and process changes in key areas of the company, Horace Mann was further challenged in its property and casualty business in 2003 by claims reserving issues and a record level of catastrophe losses.

Significant adverse prior years’ property and casualty claims reserve development became apparent in the latter part of 2002 and during 2003 as a result of the changes that were made in the property and casualty claims organization. In the last half of 2003, we took the appropriate actions to address and resolve the issue. We strengthened prior years’ reserves by \$30 million in the third quarter and another \$12 million in the fourth quarter — primarily to address 2002 and 2001 auto liability claims.

At the end of the third quarter, we hired Deloitte Consulting LLP to conduct a detailed review of the company’s claim handling practices and their integration with our reserving practices. Their claims and actuarial specialists reviewed claim files as well as past and current claims handling processes and procedures, including case reserving practices, in each of our six offices. Deloitte also performed an assessment of the company’s actuarial reserving processes. Their work was completed in January. And, while it identified some selected opportunity areas, the appropriateness of our actions to improve the property and casualty claims operations and practices was reaffirmed.

The company also engaged Deloitte to provide independent actuarial consulting services to evaluate property and casualty claims reserves as of December 31, 2003. Our year-end actuarial analysis and reserve estimates incorporated the findings of their claims and reserving practices review, as well as their actuarial review as of December 31, 2003.

As a result of the insights provided by the Deloitte study and the reserve strengthening actions taken, we enter 2004 with increased confidence that our improving underlying property and casualty results will flow through to our reported earnings.

Advanced Claim Environment leads critical P&C initiatives

While the adverse property and casualty reserve development was an unforeseen challenge, the implementation of ACE, our Advanced Claim Environment, has enabled us to make considerable

progress toward streamlining processes and improving efficiency in our claims operation. We consolidated our 17 claims offices to six regional offices in 2002, which has allowed us to cut overhead costs and reduce our reliance on independent adjusters. We have implemented improved and consistent claim handling processes and procedures, accelerated the claims settlement process and improved customer service.

Critical to our claims restructuring are the technological investments we made to improve the delivery process and drive further efficiencies. The most notable is Claims Workstation®, a comprehensive claims management system that handles the life cycle of claims from notice of loss through settlement. We successfully piloted and launched the program in two of our regional offices in 2003, and our goal is to have it completely deployed in the second quarter of 2004. Claims Workstation® will lead to better consistency of claims handling and settlement throughout our organization.

Property results improve despite catastrophe losses

2003 was the industry's third-costliest year in the past 10 years for catastrophe losses. United States property and casualty insurers paid \$12.8 billion for insured property losses for the California wildfires, Hurricane Isabel and other disasters. For Horace Mann, catastrophe losses were \$33 million, our highest year on record.

On a positive note, continued improvement was realized in the underlying profitability of our homeowners business. Our property loss ratio

excluding catastrophes of 62 percent reflected decreases of more than 11 percentage points compared to 2002 and nearly 30 points compared to 2001 results. Aggressive rate actions, tightened underwriting guidelines, increased educator business and our continuing reinspection program produced the dramatic improvement.

Financial markets significantly improved

There was substantial improvement in the financial markets during the year. We realized a modest level of net investment gains as the credit markets stabilized. The equity markets also rebounded nicely, which had a positive impact on our variable annuity business.

We continued to experience pressure on investment income, including margin compression in our fixed annuity business, due primarily to persistently low reinvestment rates. While crediting rates have been reduced to the minimum contractual guarantees in most instances, this reduction was not enough to offset the investment income decline. However, we do expect investment income to grow at a modest pace in 2004, driven by growth in assets.

New business growth, agent productivity trends positive

After a weak start to the year, we enjoyed a modest sales increase in the second quarter and accelerated growth in the third and fourth quarters to finish the year with a 15 percent increase in new business.

While all core lines recorded healthy increases, annuities generated over three-quarters of the growth. Career agent annuity sales increased modestly, and production from our new independent agent initiative more than tripled compared to 2002.

We broadened our financial services offerings with the introduction of a universal life insurance product issued by Jefferson Pilot Financial as well as mutual funds and 529 college savings plans offered by American Funds. Jefferson Pilot is one of the market leaders in the sale of fixed universal life insurance. American Funds is one of the largest mutual fund families and has been consistently ranked as one of the top mutual fund companies. These partner products enhance our ability to deliver on our Value Proposition.

Our new business growth was accomplished with agents having less than two years' experience comprising a larger portion of the agent force than in 2002. And although the agent count was down at December 31 compared to the prior year-end, the average number of agents over the 12 months was 4 percent higher in 2003. Average agent productivity increased slightly in 2003 following significant gains in both 2001 and 2002.

Target market trends improve

We continue to make steady progress in attracting and retaining our target market clients. Educators comprised 68 percent of the 2003 new auto business, up from 50 percent three years earlier. That increase is being driven by several factors, including competitive pricing in the educator market and compensation that

rewards our agents for serving their target market. We will maintain our focus on increasing the number of new educator customers while selling additional products and services to our existing base of teachers, administrators and support staff.

High Priority Markets, Solutions helping to accelerate opportunities

We have sharpened our focus on High Priority Markets, where we have identified 13 strategic locations to explore and pursue opportunities to deliver significant revenue growth in our core educator market. The potential to outperform benchmarks across the board in these territories — in new business, productivity, educator households, cross selling, persistency, profitability and retention — is significant. Our High Priority Market initiative will create a template for realizing consumer franchise value in other locations in conjunction with our new Solutions sales system.

Solutions is an end-to-end selling system that incorporates sales materials, presentations and scripts, and enables agents to gather relevant customer information and help assess client needs. It will enable our agents to have a consistent sales and customer contact process. Successful implementation of Solutions in 2004 — which agents viewed favorably in a pilot in late 2003 — is expected to further increase new business production in all lines.

A solid commitment to customer service

Our commitment to providing our clients with the customer service they desire remains steadfast and resolute as we continue to enhance service operations.

Our major accomplishments in 2003 included development of a Web-enabled Customer Care Center, a Client Quality Assurance program that evaluates our representatives on incoming call handling, and a successful launch of property and casualty regional call center pilots.

We implemented the initial stages of a client document management system as the first step in creating a paper-free work environment, improved client/agent satisfaction and expanded methods for clients to pay their premium. And, taking another step toward improving customer satisfaction, quality control and operational efficiency, we teamed with DST Output to redesign and deliver our customer communications.

2004 priorities to bolster franchise value

For the team at Horace Mann, 2004 is all about focus, execution and delivery. We are focused on the execution of the critical initiatives that will deliver the greatest impact on bottom line results and shareholder value.

We plan to continue our aggressive rate and underwriting actions to improve property and casualty profit margins. The benefits of our claims

restructuring — and the associated technological advances — are also expected to have a positive impact on the bottom line. We will continue to focus on growing our educator business while increasing the level of service and advice we provide our target market, addressing their needs through a broad portfolio of Horace Mann and partner products.

Transitioning to a stronger Horace Mann

Our investors and other stakeholders can feel secure in knowing that we continue a strict adherence to high standards of corporate governance. We are committed to, and take very seriously, our responsibilities to comply with the provisions of Sarbanes-Oxley.

We are confident that although the transition we are experiencing is clearly not without its challenges, the initiatives being implemented will accelerate delivery of our Value Proposition and move us in the right direction to enable shareholders, clients and employees to realize the full value of Horace Mann's franchise.

Sincerely,



Joseph J. Melone
Chairman of
the Board of Directors



Louis G. Lower II
President &
Chief Executive Officer

Directors

Joseph J. Melone

Chairman of the Board of Directors
Horace Mann Educators Corporation
President & Chief Executive Officer (retired)
The Equitable Companies Inc.

Louis G. Lower II

President & Chief Executive Officer
Horace Mann Educators Corporation

William W. Abbott

Senior Vice President (retired)
Procter & Gamble

Dr. Mary H. Futrell

Dean, Graduate School of
Education and Human Development
The George Washington University

Donald E. Kiernan*

Senior Executive Vice President &
Chief Financial Officer (retired)
SBC Communications Inc.

Jeffrey L. Morby*

Managing Director
Amarna Corporation, LLC

Shaun F. O'Malley*

Chairman Emeritus
Price Waterhouse LLP

Charles A. Parker*

Financial Consultant

* Member of the Audit Committee, each an independent director.

Officers

Louis G. Lower II

President & Chief Executive Officer

Peter H. Heckman

Executive Vice President
Chief Financial Officer

Douglas W. Reynolds

Executive Vice President
Property & Casualty
and Technology

Valerie A. Chrisman

Senior Vice President
Employee & Corporate Services

Bret A. Conklin

Senior Vice President
Controller

Dwayne D. Hallman

Senior Vice President
Finance

William S. Hinkle

Senior Vice President
Property & Casualty

Robert B. Joyner

Senior Vice President
Agency Distribution

Paul D. Andrews

Vice President
Client Services

Richard V. Atkinson

Vice President & Chief Actuary
Property & Casualty

Ann M. Caparrós

General Counsel & Chief
Compliance Officer
Corporate Secretary

Angela S. Christian

Vice President & Treasurer

Deborah F. Kretchmar

Vice President & Audit Director

Robert E. Rich

Vice President & Chief Actuary
Life & Annuity

In November 1991, Horace Mann Educators Corporation completed an initial public offering of its common stock at a price of \$9 per share. The Company's common stock is traded on the New York Stock Exchange under the symbol HMN. The following table sets forth the high and low sales prices and the cash dividends paid per share during the periods indicated.

Fiscal Period	Market Price		Dividend Paid
	High	Low	
2003			
Fourth Quarter	\$ 15.39	\$ 12.81	\$ 0.105
Third Quarter	16.95	14.22	0.105
Second Quarter	16.91	13.06	0.105
First Quarter	16.35	12.43	0.105
2002			
Fourth Quarter	\$ 16.49	\$ 13.61	\$ 0.105
Third Quarter	18.86	14.00	0.105
Second Quarter	24.08	17.45	0.105
First Quarter	23.00	19.35	0.105

Corporate Data

Corporate Office

1 Horace Mann Plaza
Springfield, IL 62715-0001
Telephone: (217) 789-2500
Internet: www.horacemann.com
www.reacheverychild.com

Annual Meeting

May 25, 2004
9:00 a.m.
Renaissance Springfield Hotel
701 East Adams Street
Springfield, IL 62701

Independent Accountants

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601

Common Stock

HMEC Stock is traded on the NYSE (HMN)

Transfer Agent

American Stock Transfer & Trust Company
40 Wall Street
New York, NY 10005

Senior Convertible Notes

HMEC senior convertible notes are traded in the open market (HMN 1.425)

Senior Notes

HMEC senior notes are traded on the NYSE (HMN 6 5/8)

Additional Information

Additional financial data on HMEC and its subsidiaries is included in Form 10-K filed with the Securities and Exchange Commission. Electronic copies of HMEC's SEC filings are available at www.horacemann.com. Printed copies of SEC filings are available upon written request from:

Investor Relations

Horace Mann
Educators Corporation
1 Horace Mann Plaza, C-120
Springfield, IL 62715-0001

The Horace Mann Value Proposition

Provide lifelong financial well-being for educators and their families through personalized service, advice and a full range of tailored insurance and financial products.



Horace Mann
Educated Financial Solutions