



**Horace Mann Educators Corporation  
2004 Annual Report and 10-K**



**Horace Mann**  
Educated Financial Solutions

## Financial Highlights

(Dollars in millions, except per share data)

Year Ended December 31,	2004	2003	2002
<b>Operations</b>			
Insurance premiums written and contract deposits	\$ 998.4	\$ 955.5	\$ 899.3
Net income	56.3	19.0	11.3
Return on equity (1)	10.3%	3.5%	2.4%
Property & casualty GAAP combined loss and expense ratio	100.5%	112.3%	101.9%
Experienced agents	539	510	527
Financed agents	261	378	395
Total agents	800	888	922
<b>Per share</b>			
Net income per share:			
Basic	\$ 1.32	\$ 0.44	\$ 0.28
Diluted	\$ 1.25	\$ 0.44	\$ 0.28
Dividends paid	\$ 0.42	\$ 0.42	\$ 0.42
Book value (2)	\$ 13.45	\$ 12.42	\$ 12.39
<b>Financial position</b>			
Total assets	\$ 5,371.9	\$ 4,953.2	\$ 4,453.6
Short-term debt	25.0	25.0	–
Long-term debt	144.7	144.7	144.7
Total shareholders' equity	576.2	530.5	528.8

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

(2) Before the fair value adjustment for investments, book value per share was \$ 11.45 at December 31, 2004, \$10.51 at December 31, 2003 and \$10.50 at December 31, 2002.

## 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

For Horace Mann, 2004 was a year of focus, execution and delivery. Throughout the year, we focused on the execution of critical initiatives that would deliver the greatest impact on bottom-line results and shareholder value. We continued to focus our marketing efforts on the educator community while taking aggressive rate and underwriting actions and strengthening our claim processes to improve property and casualty profit margins.

Everything we've worked on in the past few years came together in 2004 to yield tangible, favorable financial results. We saw continued improvement in underlying property and casualty margins, including a significant reduction in loss adjustment expense and better severity control. We experienced agent productivity and sales increases in three of our four lines of business. And we improved our bottom line through greater fee income from the sale of partner life products, asset growth in annuities and company-wide cost-containment initiatives.

### Creating greater value

In spite of an unprecedented level of catastrophe losses last year, our capital ratios and operating results improved. The quality and strength of our investment portfolio was evidenced by having no impairments in our fixed income portfolio during the year.

Improved operating results were evident throughout our lines of business. In property and casualty, we continued to improve our underlying results through aggressive rate and underwriting

actions. And with confidence in our reserve position, we are optimistic we can continue the progress made in 2004.

Despite a record amount of claim payouts driven by hurricane losses, we improved our property and casualty profit margins and continued a positive turnaround in both our auto and property combined ratios. Including catastrophe costs, the combined ratio of 100.5 percent reflected a 12 percentage point improvement compared to 2003. Excluding the effects of catastrophes, we posted a combined ratio of 87.1 percent for the year. This represents an improvement of 20 points for auto and 15 points for property versus 2003. These ratios include loss adjustment expenses, which we were able to reduce in 2004 while improving severity control.

In addition, we continued our strong annuity sales with a record-setting year in new business. And to address the impact of spread compression, we reduced credited interest rates on our new business and lowered most of our existing business to the minimum guaranteed rate. In 2005, Horace Mann is implementing indexed interest rates that, combined with growth in assets and contract fees, should reduce the impact of spread compression.

Bolstered by productive relationships with partner companies, our life sales increased as we broadened the menu of products and services available to our core market. In addition to sales growth, our life segment also contributed to the company's improved bottom line.

As our consistently strong underlying financial results played out in 2004, rating agencies took notice. Both Moody's and Standard & Poor's raised Horace Mann's ratings outlook from negative to stable. The company's improved operating results and financial strength were further verified by the positive absolute and relative performance of Horace Mann's stock price, including comparisons to S&P indices.

## Delivering on our Value Proposition

While Horace Mann's improved financial results represented increased value to shareholders, we took many steps in increasing value to our clients as well. In 2004, we continued to work to broaden our product and service offerings to educators.

We took a large step in fulfilling our Value Proposition with the introduction of our *Solutions* software as a tool for our agents. The software and the analytical process that accompanies it are designed to provide current and prospective clients a comprehensive look at their financial situation and provide agents with a consistent and objective needs-based selling approach. We released the software to our top-level producers early in the year and to all new hires beginning in November 2004. *Solutions* should provide more opportunities to meet a broader spectrum of clients' needs, thus establishing more multiline households and further improving overall client retention.

Building on partnerships with reputable companies like Jefferson-Pilot, Ameritas and American Funds, Horace Mann gave its clients new choices in

life insurance products and retirement planning tools. And our relationships with property and casualty carriers Progressive and Foremost allowed Horace Mann agents to address a broader range of risks and insurance needs for educator families.

Late in 2004, we introduced a paperless payment system that allows customers to use the phone or Internet to make on-demand property and casualty premium payments from a savings or checking account or a debit or credit card. Subsequently, we introduced a paperless payment option for new business in select states, with expansion of the service scheduled for early 2005.

Perhaps most importantly, the completion of enhancements to our property and casualty claims handling allowed us to provide improved service to clients when they needed it most. The Claims Workstation®, its rollout completed in mid-2004, marked a new way of handling claims at Horace Mann, and the organization and consistency it afforded led to improved efficiency in claim processing and settlement.

## Catastrophes mean delivering on our promise

This efficiency was strenuously tested in the wake of the four hurricanes striking the Southeast over a six-week period in the late summer of 2004. We were able to handle an unprecedented volume of claims, and our representatives' professionalism and empathy left devastated homeowners ready to rebuild. We are proud of our claims team for their execution in closing over 99 percent of our hurricane claims within four months of the storms.

While Hurricanes Charley, Frances, Ivan and Jeanne provided us with repeated opportunities to fulfill our mission to our clients, they also had a significant impact on our financial results. Though we experienced \$64 million in net claims attributable to the four hurricanes, our financial strength allowed us to weather the storm to deliver on our Value Proposition to more than 10,000 Horace Mann customers who were left in the wake of the hurricanes.

## Challenges lead to opportunities for further improvement

The aggressive pricing and underwriting actions we implemented to restore property and casualty profitability also resulted in reduced levels of auto sales and policies in force. Recognizing the importance of auto insurance to our customers and our company, we have developed a series of both short- and medium-term initiatives to build this book of business by adding new customers and improving policy retention.

In 2004, Horace Mann experienced a reduction in our agency force. This was balanced by measures we took to attract quality candidates and improve agent retention, including re-sequencing of agent training to better prepare new agents; equipping new agents with *Solutions* sales software; and training on the needs-based selling philosophy. Our agent count stabilized in the second half of the year, and the number of experienced agents — those with more than two years selling experience — grew by 6 percent for 2004. Agent retention and productivity improved substantially, and we feel these factors will stimulate agency force growth in 2005.

Over the past 18 months, we have devoted significant resources to assessing and strengthening our internal controls in the context of Sarbanes-Oxley Section 404. As a result of this assessment, management determined that we had two material weaknesses in internal control over financial reporting related to federal income tax liabilities and the reporting of cash. While related adjustments recorded in the 2004 financial statements were immaterial, we have initiated remediation plans to address deficiencies in policies and procedures in these two areas during 2005. And, we will continue to improve and further strengthen our quality controls in all key areas of the company.

## Looking forward: building on our momentum

In 2005, Horace Mann is in a position to not only increase its value to shareholders but also continue to reinforce our commitment to our clients — thus delivering on our Value Proposition.

First, we're working to profitably grow our auto business. Our action plan includes the following measures.

- We are engaging in significant targeting and promotion of auto sales to promote both growth and retention while maintaining acceptable profit margins.
- We are implementing a new agent compensation system that contains rewards for agents who not only sell auto business, but also retain it.

- We are introducing the Educator Segmentation Model (ESM) — a “surgical” approach to pricing designed to adequately price business by expanding our rating factors so that premiums more precisely match risks.
- Our property and casualty product management organizational structure will align product experts with regions of the country to provide a more localized approach to pricing, underwriting and marketing.

While profitable auto growth is our highest priority, we are committed to maintaining the momentum we built in 2004 in our other lines of business.

We have also identified agency force growth as a key priority in 2005. While retaining quality selection measures, we are intensifying our recruiting efforts and refocusing our print and electronic recruiting materials to attract quality candidates. Additionally, we will work to give our agency managers more tools to recruit on a local level. And, we will work to establish the expertise of our agents in their communities through the use of agent-guided financial workshops and educational support activities such as educator recognition and the promotion of teaching fellowships.

Finally, we will assert ourselves in our market by further defining and maximizing the many valuable elements of our franchise, including our attractive niche market, reputable brand image, multiline agency force, school payroll slots and well-diversified product portfolio.

Our 2004 results demonstrate the benefits of the heightened operational excellence Horace Mann has achieved and continues to refine. A great deal of credit goes to our front-line agent and claims professionals dedicated to fulfilling our Value Proposition for our customers as well as our home office staff supporting the efforts of their colleagues.

We see 2005 as a year of tremendous opportunity for Horace Mann. It is a year in which we can not only build on our operational momentum, but also build the value of our franchise for our employees, customers and shareholders.

Sincerely,



**Joseph J. Melone**  
Chairman of  
the Board of Directors



**Louis G. Lower II**  
President &  
Chief Executive  
Officer

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	
<b>2004</b>			
Fourth Quarter	\$ 19.30	\$ 16.01	\$ 0.105
Third Quarter	17.59	15.83	0.105
Second Quarter	17.48	14.92	0.105
First Quarter	16.10	13.94	0.105
<b>2003</b>			
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

## Corporate Data

### Corporate Office

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

### Annual Meeting

May 26, 2005  
 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  
 59 Maiden Lane  
 New York, NY 10038

### 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](http://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