



**Horace Mann Educators Corporation
2005 Annual Report and 10-K**



Horace Mann[®]
Educated Financial Solutions

Financial Highlights

(Dollars in millions, except per share data)

Year Ended December 31,	2005	2004	2003
Operations			
Insurance premiums written and contract deposits	\$ 972.6	\$ 998.4	\$ 955.5
Net income	77.3	56.3	19.0
Return on equity (1)	13.2%	10.3%	3.5%
Property & casualty combined loss and expense ratio	95.6%	100.5%	112.3%
Experienced agents	600	539	510
Financed agents	255	261	378
Total career agents	855	800	888
Per share			
Net income per share:			
Basic	\$ 1.80	\$ 1.32	\$ 0.44
Diluted	\$ 1.67	\$ 1.25	\$ 0.44
Dividends paid	\$ 0.42	\$ 0.42	\$ 0.42
Book value (2)	\$ 13.51	\$ 13.45	\$ 12.42
Financial position			
Total assets	\$ 5,840.6	\$ 5,371.9	\$ 4,953.2
Short-term debt	–	25.0	25.0
Long-term debt	190.9	144.7	144.7
Total shareholders' equity	580.6	576.2	530.5

(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 \$12.85 at December 31, 2005, \$11.45 at December 31, 2004 and \$10.51 at December 31, 2003.

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

Horace Mann viewed 2005 as an opportunistic year in which we could increase our value to shareholders while continuing to reinforce our commitment to clients through our Value Proposition. Our company is well positioned to be recognized across the nation as *the educator expert* in our industry.

By seizing on the operational momentum of 2004, we delivered additional franchise value to our shareholders. For our educator clients, we delivered a unique mix of products, services, benefits and features that we believe compares with no other company.

In 2005, we achieved full-year earnings per share of \$1.67 – even after absorbing losses from our second worst catastrophe year on record – and a return on equity of 13.2 percent, an improvement of nearly three percentage points over the prior year.

We enjoyed these results thanks to our ability to post strong property and casualty profit margins while maintaining appropriate reserve levels, quality and diversification in our investment portfolio, and a focus on expenses that helped keep operating costs consistent with expectations.

Because of the progress made in recent years to restore profitability, strengthen our financial foundation and improve operations, our core strategy over the short and long terms emphasizes strengthening our distribution power and further distinguishing Horace Mann from our competitors through differentiation.

Auto production, agent growth strengthen our distribution power

Auto insurance has been the primary catalyst of Horace Mann's success since two teachers seeking to provide affordable coverage to their peers founded

our company 60 years ago. And 2005 was no exception, as we reemphasized auto's importance to our agents as the enabler that drives sales productivity and revenue.

Our recently instituted Value-Based Solutions (VBS) selling process reinforces auto's role in both growing our business and taking the first step in developing a lifelong relationship with a client. VBS focuses on value and competitiveness, emphasizing the unique benefits we offer our clients. We also designed VBS to work hand-in-hand with our established *Solutions* software for life and annuity sales support.

With VBS forming the foundation for greater agent success in auto, we're preparing to transition more agents away from home-based, one-person operations and toward a more sophisticated distribution channel that makes greater use of outside offices and licensed support staff.

We took the first step toward this migration by establishing a new agent compensation plan that increases rewards for agents who sell more new auto business and sustain their renewal book of business. The new plan provides agents with a more predictable cash flow from renewals to invest in their operations. Additionally, we geared many of our marketing campaigns and internal promotions to spur increased interest in auto, both with our agents and our target market.

We also introduced our new Educator Segmentation Model (ESM) in the first two states – Virginia and Colorado. ESM provides a more precise approach to pricing auto business through expanded rating factors, including a greater number of preferred rates for educators. Already, ESM has contributed to increased sales and retention where it has been implemented.

Countrywide, these programs and initiatives contributed to increasing levels of both auto new business and retention as the year progressed. After a slow start to 2005, new auto sales units improved steadily and by third quarter began exceeding 2004 results.

We also made strides in bolstering our distribution power as our agency force grew from quarter to quarter and agent retention continued to improve, resulting in a year-end total of 855 career agents, up 7 percent over prior year.

Market differentiators set us apart

As we boost the distribution power of our agency force, our initiatives for enhancing and expanding the most valuable elements of the Horace Mann experience are distinguishing us from the competition.

Ongoing property and casualty enhancements, for example, focus on what we bring to educators:

- Our innovative tri-line discounts provide our clients the best opportunity to save when they consolidate their insurance with Horace Mann.
- The Educator Segmentation Model is used to not only price auto risks appropriately but also price specifically for our target market.
- Our Product Management Organization enlists product experts to take advantage of localized approaches to pricing, underwriting and marketing for developing new business growth opportunities.

At the same time, we are pursuing a multi-tiered strategy to increase our exposure within the educator marketplace by strengthening and further establishing the Horace Mann brand:

- We developed the Lincoln Fellowships in partnership with the Abraham Lincoln Presidential Library and Museum, so educators can share their knowledge and world-class experience with students about one of our nation's greatest presidents.
- We're developing a comprehensive plan to further define and communicate our brand essence that further differentiates Horace Mann with educators.
- Our market research initiatives, which include a virtual educator advisory board, are elevating our position as the educator company while helping us better identify the unique needs of our clients.

Other market differentiators rising from service improvements and enhancements include our expanded call center hours that give educators more convenient access to our service representatives. Additionally, our new mobile claim offices bring adjusters directly to the client, settling claims and issuing checks at the client's school.

Claims service advances mitigate impact of catastrophes

Delivering world-class claims service while achieving operational efficiencies continues to be paramount especially in the face of catastrophes. Despite the enormous challenges presented by hurricanes Katrina, Rita and Wilma, our claims employees continued to excel in handling each claim with care, diligence and empathy for our clients.

From an industry perspective, 2005 was unprecedented in terms of the magnitude of catastrophe damage impacting insurers and their customers. For Horace Mann, we experienced our

second costliest catastrophe year on record. While circumstances have made claims processing a daunting task to say the least, we closed over 95 percent of reported claims from both Katrina and Rita by year-end.

Ongoing improvements in claims processes and cost containment initiatives, as well as service advances resulting from previous years' upgrading of our claims software, technology and practices, helped control loss severities while reducing claim settlement expenses.

Going into 2006, we will capitalize on our claims processing advances to further minimize costs and increase customer satisfaction levels. New initiatives include Claims Desktop, which more efficiently processes claims and delivers an even sharper focus on customer service. In light of recent catastrophic events, we've also strengthened our reinsurance program to provide increases in both single-event and aggregate coverage, and we are continuing with our strategy to further limit our coastal exposure.

Meeting challenges of multiple business lines

Looking beyond catastrophes, our underlying auto and homeowners results continue to benefit from previous years' pricing, underwriting and cost containment initiatives. While these factors contributed to reductions in property and casualty premiums written and policies in force, the proportion of educator policies in force is rising steadily and the quality of both new and in-force business continues to improve.

We anticipate further gains in auto and homeowners production in 2006, particularly from educator business, as our initiatives to improve the agents' ease

of doing business gain traction and our Educator Segmentation Model and Product Management Organization are introduced in more states.

Annuity sales declined compared to the record pace of 2004, which was in line with industry trends. Life sales were also somewhat below expectations.

Annuity sales were down from prior year. The decline was attributed to a number of factors, including fewer single premium and rollover deposits and a challenging interest rate environment that continued to impact the industry as a whole. Despite the downturn in sales, performance in the annuity segment remained strong. Total assets under management and periodic premium sales – the heart and soul of the 403(b) annuity market – continued to show healthy, sequential growth.

We look forward to reinvigorating our life and annuity sales with the introduction of new products early in 2006. Our *Life by Design* permanent and term life policies will be the catalyst for growth in the life segment. Our new fixed interest annuity, *Expanding Horizon*, and variable annuity, *Goal Planning Annuity* (GPA), will provide our agents with new, innovative products to attract a greater audience within the educator market.

Expanding Horizon offers two new fixed annuity options for conservatively minded customers and offers a choice of surrender charge and bonus combinations. The GPA features our new *Life Cycle* investment options, developed in partnership with our funds advisor, Wilshire Associates, to help tailor clients' retirement plans as their life circumstances change.

2006: Realizing our brand potential

In 2006, Horace Mann is poised to increase our distribution power and more fully differentiate ourselves in the marketplace. This, in turn, will help make our Value Proposition more compelling to a greater number of educator customers.

With new products, and with auto production driving cross-selling opportunities, our “Driving All Lines” marketing campaign will vigorously address business growth while we continue to maintain profitable margins and balance sheet strength. Auto production will remain critical to our steady migration toward a more professional and robust agent business model.

We will continue to push auto growth and profitability on several fronts, including:

- The delivery of our Educator Segmentation Model to 12-15 more states by year-end;
- The continuation of process improvements that make it easier for agents to write auto business; and
- The installation of a new property and casualty front-end system to dramatically improve the process of writing new business for our agents and clients.

With the availability of new life and annuity product offerings, we see our agents capitalizing more on the cross-selling opportunities auto creates to drive growth in these two critical lines of business.

Expansion of our market differentiation strategies will be another priority in 2006, whether it's through newer initiatives like our Young Educator Program, designed to deliver our Value Proposition to a new generation of educators through a series of value-added benefits, or our longstanding endorsements such as with the National Education Association (NEA) and its affiliates.

From a fiscal standpoint, we'll continue to make progress on strengthening our internal controls, having successfully remediated two Section 404 material weaknesses that we reported last year.

Our employees are the constant for all these initiatives. Their outstanding everyday performance resonates with our client base and other stakeholders, as everybody at Horace Mann remains committed to delivering a combination of superior products, benefits and services to the educator market.

We see 2006 as a tremendous step forward in enhancing the delivery of our Value Proposition to improve client access, attract more prospects and retain more policyholders. In doing so, we will further build the value of the Horace Mann franchise.



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	
2005			
Fourth Quarter	\$ 20.04	\$ 17.96	\$ 0.105
Third Quarter	20.80	18.90	0.105
Second Quarter	19.00	15.86	0.105
First Quarter	19.20	17.31	0.105
2004			
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

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 24, 2006
9:00 a.m.
President Abraham Lincoln
Hotel and Conference Center
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 in the open market (HMN 6.05)

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
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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.



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