



**Horace Mann Educators Corporation
2006 Annual Report and 10-K**

Financial Highlights

(Dollars in millions, except per share data)

Year Ended December 31,	2006	2005	2004
Operations			
Insurance premiums written and contract deposits	\$ 969.4	\$ 972.6	\$ 998.4
Net income	98.7	77.3	56.3
Return on equity (1)	16.7%	13.2%	10.3%
Property & casualty combined loss and expense ratio	87.6%	95.6%	100.5%
Experienced agents	588	600	539
Financed agents	260	255	261
Total career agents	848	855	800
Per share			
Net income per share:			
Basic	\$ 2.29	\$ 1.80	\$ 1.32
Diluted	\$ 2.19	\$ 1.67	\$ 1.25
Dividends paid	\$ 0.42	\$ 0.42	\$ 0.42
Book value (2)	\$ 15.25	\$ 13.51	\$ 13.45

Financial position

Total assets	\$ 6,329.7	\$ 5,840.6	\$ 5,371.9
Short-term debt	—	—	25.0
Long-term debt	232.0	190.9	144.7
Total shareholders' equity	657.1	580.6	576.2

(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 \$14.99 at December 31, 2006, \$12.85 at December 31, 2005 and \$11.45 at December 31, 2004.

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.

The Horace Mann Value Proposition

At Horace Mann, we strive 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.

Letter to Shareholders

Following a period in which Horace Mann successfully restored profitability, strengthened its financial foundation and improved its operational performance, we expanded our focus to concentrate on business growth. These efforts led Horace Mann to a strong showing in 2006, highlighted by:

- the highest earnings per share in the company's history;
- strong profit margins;
- solid book value growth;
- an attractive return on equity; and
- emerging growth in policies in force.

These results were aided by increased distribution power and enhanced differentiation within our target market.

Distribution – enhancing our agency operations

The centerpiece of our strategy to boost distribution power is our new Agency Business Model (ABM). The launch of ABM in the third quarter introduced a formalized, repeatable and proven process to increase the points of distribution within each agent's office, improve agent productivity and enhance local market penetration.

Agents are introduced to the program through the development of a personalized, comprehensive business plan. Their training includes best practices for power prospecting, hiring and training office staff, and running a business based on successful agency financial models with proven track records of success elsewhere in the industry.

Horace Mann's distribution strength was further increased by the expansion of our auto payroll deduction program. By the end of the fourth quarter, 10 percent of auto new business utilized payroll deduction. The expansion of this initiative is helping increase the number of educator auto policies while improving retention and business quality.

In addition to our emphasis on auto payroll, we moved to protect the power of our annuity payroll slot access by developing a response plan to anticipated changes in IRS 403(b) regulations. While the new regulations continue to be delayed, we developed product and service enhancements to ensure compatibility with the expected new regulations that will allow us to aggressively compete in this evolving marketplace. This response demonstrates to school administrators our ongoing and steadfast commitment to meeting their employees' financial security needs. Meanwhile, we also focused on expanding penetration of existing payroll slots and securing additional slots in association with our auto payroll initiative.

Differentiation further defines Horace Mann in our niche market

Horace Mann took several steps in 2006 to further stand out from the competition. Our auto Educator Segmentation Model (ESM) continued to gain traction in the marketplace, with 16 states implemented by year-end. This proprietary tool for pricing auto insurance gives the company a competitive advantage within our target market.

ESM has directly contributed to growth in both new auto sales and retention. New auto units in our ESM states increased substantially, while our overall retention rate of educator households improved as well.

A second differentiator – our new Educator Advantage® Endorsement – provides every educator auto policyholder many special features. These benefits – like a lower deductible for vandalism on school grounds and liability coverage for transportation of students – are designed specifically to distinguish Horace Mann from its competitors.

In addition, we successfully expanded our Young Educator Program to more effectively meet the insurance needs of new teachers, helping the company to grow in the 22- to 29-year-old educator segment. To achieve this targeted growth, we developed materials and programs to effectively introduce Horace Mann to this group.

Finally, our marketing and public relations programs, such as Partners In Education and our Horace Mann-Abraham Lincoln Fellowships, showcase the value-added commitment we have to educators beyond insurance and retirement planning.

Financial results show continued strength

After a period of successfully addressing profitability, operational stability and financial strength, we have been focusing on growth without sacrificing business quality or profitability. As already mentioned, Horace Mann achieved record earnings per share, solid book value growth, a significant increase in return on equity and emerging policyholder growth in 2006. In addition, Horace Mann undertook advantageous capital transactions during the year, including a successful debt offering and the expansion of our bank credit facility. Our high-quality, conservative investment portfolio, rated A+ overall with no material credit concerns, generated a 7-percent growth in net investment income. And 2006 also saw continued favorable development of prior years' P&C reserves.

Property & Casualty led the way in terms of profitable business growth, with auto serving as the cornerstone, helping drive sales and retention in other business lines. The result was:

- attractive profit margins in both auto and property;
- accelerating growth over prior year for auto new business units; and
- continued sequential growth in educator auto policies in force (PIF) throughout 2006, with year-over-year auto PIF growth achieved in the fourth quarter.

Continued advances in our P&C claims operations helped maintain strong profit margins while increasing customer satisfaction. Our mobile claims units brought service directly to schools – and to the clients who

needed our help most. Meanwhile, Horace Mann's new CAT Central Unit enhanced efficiency and expertise by providing a central location to handle claims resulting from catastrophic events.

While Horace Mann and the industry benefited in 2006 from a relatively quiet hurricane season, we did encounter a significant level of non-hurricane catastrophe occurrences during the year. That said, we continued to reap the benefits of our Advanced Claim Environment, including improvement in both loss adjustment expenses and severity control.

We strengthened our catastrophe reinsurance coverage to reduce potential earnings volatility and further insulate our capital position. While this resulted in a higher reinsurance cost, which adversely impacted premium growth, the expanded program provided a high level of protection for the company's equity and overall financial strength. And further enhancements were made recently to Horace Mann's 2007 CAT reinsurance program.

Finally, we continued to manage our coastal exposure while promoting non-coastal business and seeking to accommodate educator clients in areas that are outside coastal restrictions. Specifically, we reduced our agent force in Louisiana and Florida and increased prices and deductibles, along with instituting tougher underwriting standards, in hurricane-prone areas.

Life insurance and annuities complete the picture of fostering lifelong client relationships. Our life and annuity results in 2006 helped us meet our customers' needs and fulfill our Value Proposition.

First, our agents and customers responded well to the new Life by Design suite of term and whole life products with a 26-percent increase in full-year sales of Horace Mann-manufactured products. Introducing these new products allowed us to meet customers' needs while shifting away from older products and reducing administrative costs.

Second, our new variable Goal Planning Annuity with new investment options (including lifecycle funds) and our Expanding Horizon fixed annuity contract helped Horace Mann remain competitive in an increasingly demanding retirement savings marketplace. While annuity sales growth was not as robust as we experienced with life sales, our new products bolstered annuity new-deposit volume and contributed to a moderation of spread compression in this line of business.

Horace Mann will deliver and distinguish itself in 2007

With continued focus on profitable growth, we plan to build on our 2006 momentum and deliver positive results again in 2007.

We will continue to strengthen our distribution power through several avenues.

- We will broaden implementation of the Agency Business Model with approximately one fourth of our agents – primarily top producers – completing the Agency Business School by year-end.
- We will begin rolling out our new P&C administration system. Modernization of auto and property operations will change the way agents interact with clients, allowing them to handle business on a once-and-done basis, thereby increasing efficiency and productivity.

- We will significantly increase the number of states using ESM auto pricing and states operating under P&C's product management model.
- We will strengthen agent-recruitment efforts – particularly in our High Priority Markets – to further drive meaningful, targeted new-business growth.
- And, we will focus on broadening our school access by aggressively reaching out to school administrators through the marketing of auto payroll deduction programs and the delivery of new products that address anticipated regulatory changes in the 403(b) annuity market.

In addition, we will further emphasize differentiation in our niche market by:

- renewing our emphasis on workshops and retirement seminars to fulfill our mission to educate educators;
- broadening Horace Mann's name recognition and brand awareness;
- expanding Educator Advantage® to include homeowner insurance benefits; and
- enhancing our service to position Horace Mann as the company of choice for educators through heightened Internet interactivity, even more accessible claims service and more efficient processing capabilities.

Finally, we will strive for continued financial growth by:

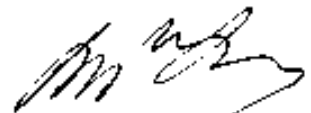
- continuing to focus on quality business growth with strong margins;
- maintaining our financial strength and effectively managing capital to provide security for our customers while satisfying regulatory and rating requirements; and
- supporting shareholder return objectives.

Horace Mann has made a commitment to its shareholders to grow profitably. In that pursuit, we will not sacrifice the financial gains and stability we've worked so hard to secure. Nevertheless, we will work aggressively across all areas of the company to dominate our market and create shareholder value – all through the hard work of our superior agency force, our committed claims employees and our dedicated home office support staff.

In 2007, Horace Mann will work to elevate its position as the education community's company of choice. We will strive to exceed educators' expectations by delivering the insurance and financial services they want and need in a manner that further distinguishes us from the competition.



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.

Market Price

Fiscal Period	High	Low	Dividend Paid
2006			
Fourth Quarter	\$ 21.01	\$ 17.75	\$ 0.105
Third Quarter	19.70	16.36	0.105
Second Quarter	18.70	16.05	0.105
First Quarter	20.28	18.05	0.105
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

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 23, 2007
9:00 a.m.
Crowne Plaza Hotel
3000 South Dirksen Parkway
Springfield, IL 62703

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 and HMN 6.85)

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

Horace Mann – the father of American public education.

Horace Mann believed every child should receive a basic education, and as a result worked hard to create a ladder of opportunity for millions of children. At the center of his common school approach was good citizenship, democratic participation and societal well-being. ***We are proud to share his name.***