



**Horace Mann Educators Corporation  
2009 Annual Report and 10-K**

## Financial Highlights

(Dollars in millions, except per share data)

Year Ended December 31,	2009	2008	2007
<b>Operations</b>			
Insurance premiums written and contract deposits	\$ 1,003.7	\$ 960.1	\$ 974.7
Net income	73.5	10.9	82.8
Return on equity (1)	12.7%	1.9%	12.3%
Property & casualty combined loss and expense ratio	99.5%	100.7%	91.9%
Dedicated agents	715	670	790
<b>Per share</b>			
Net income per share:			
Basic	\$ 1.88	\$ 0.27	\$ 1.92
Diluted	\$ 1.81	\$ 0.27	\$ 1.86
Dividends paid	\$ 0.2375	\$ 0.3675	\$ 0.42
Book value (2)	\$ 18.36	\$ 11.49	\$ 16.41

## Financial position

Total assets	\$ 6,343.1	\$ 5,507.7	\$ 6,259.3
Short-term debt	38.0	38.0	—
Long-term debt	199.6	199.5	199.5
Total shareholders' equity	719.5	448.8	693.3

(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 \$17.79 at December 31, 2009, \$16.15 at December 31, 2008 and \$16.47 at December 31, 2007.

## 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

In 2009, Horace Mann continued to demonstrate its resilience and core strengths, as we emerged from the financial markets crisis of 2008-09 with our financial strength solidly intact, posted strong net income growth and maintained the momentum of our key strategic growth initiatives. The strength of our balance sheet and quality of our underlying business operations continue to be bolstered by our conservative investment portfolio, strong capitalization and the stability of our niche market — America’s educators.

### **Unique position in educator marketplace remains a core strength**

Our market position as the largest national multiline insurance company focused on meeting the insurance and retirement needs of educators, combined with Horace Mann’s financial and risk management conservatism, mitigated the impact of external challenges presented by the financial stress test of the past year and a half and allowed us to come through relatively unscathed.

Your company’s growth opportunity begins with the very nature of the target market we serve and its favorable characteristics identified by our research and, more importantly, our extensive experience. First, educators historically represent higher quality insurance risks. Second, educator business tends to have a higher rate of retention when compared to non-educator business. And, third, our niche market also responds positively to the value-added benefits and support we provide the educator community, ultimately leading to higher levels of customer satisfaction.

In addition, we believe our fundamentally conservative investment and risk management philosophy leads to a level of financial security that appeals to many educators. This philosophy allowed us to emerge from 2009 retaining a solid financial foundation as evidenced by a healthy balance sheet, including a high-quality investment portfolio and a strong property and casualty reserve position. Our conservative risk management

approach, financial flexibility and disciplined expense control also continue to bolster Horace Mann’s financial foundation and strength.

Those underlying fundamentals contributed to operating earnings\* of \$1.39 per share for the year, in line with our expectations. We also maintained solid capital ratios and achieved a year-end 2009 book value per share of \$18.36, which increased 60 percent compared to the prior year-end and represented the highest level recorded since the company’s stock split in 1997. This growth in book value and our total shareholder return for the year were both in the top quartile of our peer group of companies.

### **Annuity, life results stand out in 2009**

We continued to reap rewards in 2009 from our successful “Comply and Compete” strategy to grow our customer base on the heels of IRS regulations that redefined how providers serve the 403(b) annuity market. With an extremely successful transition behind us, we’ve shifted our efforts toward maximizing opportunities to capture greater market share in our approved payroll slots, which represent approximately one-third of the 15,400 K-12 school districts in the U.S. Our new group annuity product offers the flexibility school administrators desire, allowing us to more effectively compete for new slots.

Our market position as an established, recognized 403(b) plan provider, combined with our ability to provide personalized service at the school level, contributed to significant annuity sales growth in 2009. Single premium sales increased 34 percent over the prior year, benefiting from rollovers and retirement opportunities in our core educator market. Flexible premium sales softened in the second half of the year yet still increased 22 percent on a full-year basis. Independent agents made significant contributions to both single and flexible premium sales in 2009, representing approximately

\*Net income before realized investment gains and losses.

one-fourth of our new annuity business for the year. Our proven ability to thrive in the new environment produced a 12 percent increase in annuity premiums and deposits received compared to 2008, exceeding our expectations.

While annuity new business growth was clearly one of the highlights of 2009, the quality of our annuity book of business continued to be evidenced by strong persistency, steady growth in account values, positive funds flow, improved margins and increased spreads. These drivers, as well as the positive impact of the financial markets on valuations of deferred policy acquisition costs and guaranteed minimum death benefit reserves, produced pretax income for the annuity segment that increased over 50 percent compared to the prior year.

Turning to the life segment, new initiatives to improve the competitiveness of our core Life by Design products, including the introduction of discounts specifically for educators and our enhanced life insurance sales support tools, delivered strong sales increases for these proprietary products in the second half of the year. And, we are looking to sustain this growth trend by introducing a new series of life products later this year.

In 2009, the life segment also made a notable contribution to our income growth. Largely reflecting an increase in investment income, pretax earnings for the life segment were 13 percent greater than the prior year.

### **Property and casualty results encouraging in challenging environment**

Horace Mann achieved favorable overall results in our property and casualty (P&C) business despite several external factors impacting the industry as a whole. The slow pace of our nation's economic recovery, rising unemployment rates and lower levels of consumer confidence all contributed to sluggish auto and home sales across the country.

Property and casualty pretax income and top-line premium growth both increased modestly in 2009, although new business sales and total policies in

force decreased slightly for both auto and property insurance, as certain segments of the P&C market became increasingly competitive and requests for premium rate increases were restricted or slow to be approved in some states.

The auto combined ratio continued to compare favorably to the industry and met our expectations. By contrast, property profitability was impacted by higher than expected non-catastrophe weather-related losses. Plans to restore property profitability are being implemented, including continued policy in force reduction in hurricane-prone areas, such as Florida, to further limit our catastrophe exposure.

The quality of our overall P&C book of business continued to improve, as we emphasized retention and growth in educator business. Our number of educator policies in force grew sequentially in both lines from quarter to quarter, while key measures such as percent of educator business, preferred underwriting tiers and cross-sold business all trended better than the prior year.

Infrastructure improvements continued in 2009. We successfully expanded our new auto front-end underwriting and rating system into 12 additional states in 2009, which now represents more than 30 percent of our countrywide auto business. In claims, we further leveraged our Advanced Claim Environment, generally outperforming the industry in both severity control and loss adjustment expenses.

### **Strengthened distribution system transforming our sales culture**

New business results achieved in 2009 evidence the emerging potential of Horace Mann's strengthened distribution platform. Our Agency Business Model (ABM) and Exclusive Agent opportunity are transforming our culture throughout the company. More and more entrepreneurial agents are utilizing the skills developed through ABM to embrace ownership of their own business operations as Exclusive Agents. At the same time, a growing number of quality businesspeople from outside the organization have signed Exclusive Agent

agreements, attracted by the potential that exists for growth and profitability in a local, independently owned Horace Mann agency.

Our distribution system grew steadily throughout the year, with the number of agents increasing sequentially from quarter-to-quarter, benefiting from more new appointments than expected and fewer terminations than in the prior year. The overall agent count reached 715 at year-end, an increase of 7 percent over prior year, including about 465 exclusive and employee agents who are fully operating in our preferred business model with licensed producer support. In total, our agents utilize 571 licensed producers, which further expands our distribution capacity.

The Exclusive Agent (EA) agreement, which was launched on January 1, has been very well received in our marketplace. By year-end, the number of EAs totaled 249, comprised of 130 former employee agents who chose to convert to the new agreement and 119 new agent appointments. To further encourage migration of employee agents to the EA program while retaining our top-producers, we've strengthened the EA agreement to make it an even more attractive business opportunity and improved our agent compensation programs for both groups. Meanwhile, we're continuing to elevate our recruiting efforts to identify additional, quality EA candidates for direct appointment into the program.

To more fully leverage the strengths of our distribution model, we continued to refine our field management organization, bringing more professionals on board who are experienced in developing highly effective exclusive agent distribution platforms. We also reduced the administrative responsibilities of our field managers to enable them to work more directly with agents, while streamlining our marketing operations support structure.

### **Service, differentiation strengthen our market position**

Enhancing our brand development and service strategies continues to be a key area of focus to

provide our agents greater opportunities to retain and expand relationships with current educator customers while attracting new ones. In 2009, we entered into the early phases of a comprehensive Web strategy that further enhances our service capabilities while improving brand awareness in our niche market. Elements of this strategy implemented in the past year include:

- providing customers online access to auto ID cards and coverage declaration pages, the online upgrade most requested by agents and customers alike;
- expanding our online auto quote capabilities, making it quicker for customers and easier for agents to provide a quote;
- adding auto payroll administration to our school administrator Web site that also allows for online service for annuity and life payroll slots; and
- utilizing venues like Google for targeted placement of online ads and refined search engine results to increase traffic to our Web site.

Our targeted national advertising campaign continues to make inroads toward expanding market access and building name recognition. Nearly 120,000 clients — about 20 percent of our customer households — now consent to receive our quarterly electronic newsletters, a 13 percent increase from the previous year. Additionally, our placement of print advertisements in educator- and association-focused publications and Web sites reinforces the positioning of Horace Mann as the educator's advisor.

Other market differentiation tactics include the expansion of our auto payroll program — proven to have a greater retention rate than our other payment methods — which is available in 44 states and provides a discount of up to 10 percent in a majority of those states to policyholders who take advantage of its convenience. We've also broadened the additional coverage our Educator Advantage® Endorsement provides at no extra cost to educator auto customers and are in the process of implementing these additional benefits on a state-by-

state basis. With our auto product as the centerpiece, agents are also more capably promoting our tri-line discounts as a way for customers to further reduce their overall cost by having any combination of three product lines with Horace Mann, including an annuity or a life policy. All of those efforts contributed to further increases in customer retention and multiline households, which totaled 48 percent of our educator households at the end of 2009.

Agents also continue to take advantage of the ongoing success of our local and national image programs to make further gains in market access and brand recognition. Our increasingly popular PASS program builds local publicity by rewarding students with new bikes or iPods for perfect attendance or other personal achievements, while national programs like the Abraham Lincoln Fellowships and NEA Foundation Awards for Teaching Excellence help cement Horace Mann's leadership in supporting the education profession.

### **Looking ahead to 2010**

Despite the headwinds of the economy, our overarching strategic plan for accelerating business growth through the transformation of our distribution platform and market differentiation tactics remains on course. At the same time, we are steadfastly committed to improving profitability and maintaining our proven, sound risk and capital management disciplines, while maintaining solid financial ratings.

Our plan for improving P&C profitability centers on a variety of underwriting and pricing strategies to achieve our targeted combined ratio of 93-95 percent over a 2-3 year horizon through reinspection, re-underwriting and rate actions where experience indicates. At the same time, we anticipate further annuity and life profitability improvements, led by continued growth in investment income.

While margin growth is a key consideration, our focus remains on the goal of providing a distinct customer experience to our educator client base with added value unmatched by any other provider.

Acknowledging today's economy, we are renewing our emphasis on agents helping our customers control their costs by recommending appropriate coverage based on their needs; taking advantage of multiline, tri-line and all other discounts available to them; and utilizing automatic payment plans such as payroll deduction and electronic funds transfer.

At the same time, we will further differentiate Horace Mann as the educators' insurance provider of choice. The second phase of our Web strategy will add greater support to and complement our agents while also elevating a brand experience consistent with growing customer expectations. The power of payroll deduction will continue to be leveraged by increasing the number of auto payroll slots, capitalizing on growth opportunities from our current life and annuity slots, and introducing property payroll in 2010. We also expect to fully implement our enhanced Educator Advantage® package of auto benefits by year-end and introduce a similar Educator Advantage® package of benefits for educator property customers. In addition, we will begin rolling out a new property insurance contract, with improved coverage tailored to meet educators' needs.

By effectively implementing all elements of our strategic plan, we believe we will consistently exceed the expectations of our customers in the educator market through a compelling Value Proposition that addresses a lifetime of changing needs. We expect resulting top-line growth and improved margins, combined with our conservative risk management discipline, to reward our shareholders, customers, agents and employees in 2010 and beyond.



**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.

### **Gabriel L. Shaheen\***

Vice-Chairman of the Board of Directors  
Horace Mann Educators Corporation  
President and Chief Executive Officer (retired)  
Lincoln National Life Insurance Company

### **Louis G. Lower II**

President & Chief Executive Officer  
Horace Mann Educators Corporation

### **Dr. Mary H. Futrell**

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

### **Stephen J. Hasenmiller\***

Senior Vice President (retired)  
The Hartford Financial Services Group, Inc.

### **Ronald J. Helow\***

Chief Technology Officer (retired)  
NxtStar Ventures, LLC

### **Charles A. Parker**

Executive Vice President (retired)  
The Continental Corporation

### **Roger J. Steinbecker\***

Managing Partner (retired)  
PricewaterhouseCoopers LLP

### **Robert Stricker\***

Senior Vice President and Principal (retired)  
Shenkman Capital Management, Inc.

### **Charles R. Wright**

Senior Executive Vice President and  
Chief Agency and Marketing Officer (retired)  
State Farm Insurance

\* 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

### **Stephen P. Cardinal**

Executive Vice President  
Chief Marketing Officer

### **Thomas C. Wilkinson**

Executive Vice President  
Property & Casualty

### **Paul D. Andrews**

Senior Vice President  
Corporate Services

### **Dennis E. Bianchi**

Senior Vice President  
Property & Casualty Claims

### **Bret A. Conklin**

Senior Vice President  
Controller

### **Dwayne D. Hallman**

Senior Vice President  
Finance

### **Brent H. Hamann**

Senior Vice President  
Annuity & Life

### **Ann M. Caparrós**

General Counsel & Chief  
Compliance Officer  
Corporate Secretary

### **Angela S. Christian**

Vice President & Treasurer

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>2009</b>			
Fourth Quarter	\$ 14.81	\$ 11.51	\$ 0.0800
Third Quarter	14.76	9.53	0.0525
Second Quarter	10.70	7.76	0.0525
First Quarter	11.33	6.09	0.0525
<b>2008</b>			
Fourth Quarter	\$ 14.00	\$ 4.00	\$ 0.0525
Third Quarter	17.00	11.95	0.1050
Second Quarter	18.64	14.01	0.1050
First Quarter	19.12	16.08	0.1050

## Corporate Data

### Corporate Office

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

### Annual Meeting

May 27, 2010  
9:00 a.m.  
President Abraham Lincoln  
Hotel & 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 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 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.

***We are proud to share his name.***