



 **Horace Mann**
Founded by Educators for Educators

Horace Mann Educators Corporation 2013 Annual Report and 10-K

Financial Highlights

(Dollars in millions, except per share data)

Year Ended December 31,	2013	2012	2011
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Operations

Insurance premiums written and contract deposits (A)	\$ 1,094.2	\$ 1,067.7	\$ 1,078.4
Net income	110.9	103.9	70.5
Operating income (A)	96.5	86.3	46.1
Return on equity (B)	9.6%	9.0%	7.5%
Property & casualty combined loss and expense ratio	96.3%	98.3%	106.6%

Per share

Net income-diluted	\$ 2.66	\$ 2.51	\$ 1.70
Operating income (A)-diluted	\$ 2.32	\$ 2.08	\$ 1.11
Dividends paid	\$ 0.78	\$ 0.55	\$ 0.46
Book value	\$ 27.14	\$ 31.65	\$ 26.53
Book value excluding the fair value adjustment for investments (A)	\$ 23.83	\$ 21.93	\$ 19.79

Financial position

Total assets	\$ 8,826.7	\$ 8,167.7	\$ 7,435.2
Short-term debt	38.0	38.0	38.0
Long-term debt	199.9	199.8	199.7
Total shareholders' equity	1,099.3	1,245.8	1,055.4

(A) For a definition of this non-GAAP measure, see the Company's SEC filings.

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

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

2013 results illustrate strength of Horace Mann business model

Horace Mann continued its consistent track record of creating value for shareholders in 2013. The realized potential and profitability of the business model delivered sustainable growth in book value per share, as well as returning capital to shareholders through regular dividend increases and an opportunistic share repurchase program.

With 2013 operating income of \$2.32 per share setting a record for the company, Horace Mann outperformed across all business lines. Book value per share excluding unrealized investment gains grew by 9 percent, ending the year at \$23.83, and continuing the trend of strong book value growth. The company's strong, sustainable operating cash flows and solid capital position allow us to pay a compelling dividend to investors, and we were pleased to increase this even further. In March 2013, we increased our quarterly dividend by 22 percent to 78 cents per share on an annualized basis. We believe this attractive dividend is an important differentiator to shareholders.

During 2013, the company repurchased almost 175,000 shares of Horace Mann stock at an average price of \$22.38 per share. To date, over 1.2 million shares have been repurchased under the current \$50 million authorization, and during 2014 we plan to continue to be opportunistic in our execution.

Continued focus on shareholder value creation, along with rising equity markets, resulted in strong returns for shareholders in 2013. Horace Mann's stock price closed the year at \$31.54 per share, with a total shareholder return of 63 percent.

Auto and property profitability improves; higher levels of new business

Property and casualty segment results in 2013 reflected an emphasis on improving profitability in both the auto and homeowner business lines. Net income in property and casualty was \$44.4 million, 20 percent higher than prior year. Written premiums in property and casualty grew by 4 percent, while the full-year combined ratio improved by 2 points. These positive trends in profitability were driven by a combination of actions, including underwriting initiatives, improvements in claims operations and rate increases, all of which resulted in margin expansion.

Auto new business sales increased 5 percent. Policy retention remained steady at 85 percent, with continued emphasis on growing the number of auto payroll deduction programs. More than 50 percent of Horace Mann auto policyholders are using electronic billing and automatic payment plan options, which aids retention and improves efficiency. All of these factors helped mitigate a decrease in auto policies in force, and given the various initiatives in place, we are optimistic about future growth.

Property profitability continued to improve despite volatile weather patterns, as catastrophe losses were modestly lower than prior year. The underlying combined ratio improved almost 3 points and ended the year at 73 points, reflecting rate actions and exposure reduction programs that will continue into 2014. Property sales increased 7 percent in 2013. Given the company's strong historic cross-sale percentages, property growth should continue as we attract more auto business.

Consistent with Horace Mann's historical reserving practices, prior year property and casualty reserves continued to develop favorably. Reserves remained at the high end of an independent actuarial range, consistent with prior year.

Strong results in Annuity and Life segments

Despite a challenging interest rate environment, the annuity and life segments performed very well in 2013.

Annuity assets under management surpassed \$5 billion due to strong Horace Mann agent sales results and higher equity market performance. Net interest margins were resilient, reflecting reinvestment rates that exceeded our expectations and solid performance in the company's conservative investment portfolio. These investment results, combined with the growth in assets under management more than offset the impact of spread compression during the year. Annuity net income was \$44.7 million – an increase of 10 percent over prior year.

Consistently strong annuity sales performance is a clear indicator that we are offering the right combination of products and distribution to meet the needs of educator customers. Horace Mann agents are skilled at developing valued relationships with their school districts and their customer base through a variety of educator recognition and support programs, including state teacher retirement seminars.

On the product side, the new Retirement Protector 403(b) annuity was developed to provide a compelling value proposition to larger school districts. Retirement Protector compares favorably with larger competitors on cost while providing the personalized agent interaction that is the cornerstone of the Horace Mann experience.

Life segment net income of \$20.4 million was down 7 percent due to mortality levels that, while still favorable, were higher than the very favorable mortality experience in 2012. Re-energizing the focus on life insurance with a more robust training program for the agency force, utilization of the new electronic application process, re-pricing of life products and improvements in the life underwriting processes all contributed to life sales growth of more than 30 percent in 2013.

Key strategies for growth reaffirmed

With new leadership and enhanced talent, we plan to focus on three levers to drive performance:

- enhancing our **product** offerings;
- strengthening our **distribution**; and
- solidifying our **infrastructure**.

Uniquely positioned within the K-12 educator market, we believe Horace Mann is the only company capable of fully providing the right mix of products and services to protect the short-term risks and secure the long-term financial futures of educators and their families.

In terms of **product** enhancements, Horace Mann strives to meet most, if not all, of the product needs of the educator market. With the proper mix of Horace Mann manufactured insurance and financial products and third-party vended options, the company wants to put agents in the position to fulfill the product needs of educator customers as they move through their lifecycle. Retention numbers clearly show that when agents reach educators and build that relationship, Horace Mann tends to keep those educators.

The heart of the Horace Mann **distribution** strategy continues to be the exclusive agency model and the market access agents can establish in the schools they serve. Horace Mann customers enjoy the convenience of doing business with agents who they can get to know and trust. As such, the company brand recognition and market penetration is strongest in areas with a solid agency presence. Horace Mann enjoys an industry-leading cross-sale ratio of 20 percent, as well as property and casualty retention and life and annuity persistency rates above the national averages in large part due to the strength of the agent-educator relationship.

From an **infrastructure** perspective, in order to become a larger and more dominant provider in the K-12 educator market, we need to ensure Horace Mann has the right talent, systems and processes to effectively and efficiently meet the needs of educator customers. Achieving this goal is critical to meeting the expectations of the educator market and positioning the company to support the way those educators want to buy insurance and financial services products.

As evidence of the ongoing commitment to be an ethical and principled company, Horace Mann was recognized in March 2013 by *Forbes Magazine* as one of “America’s 100 Most Trustworthy Companies.” In addition, Horace Mann’s partnership with DonorsChoose.org earned a Halo Award for Best Education Campaign recognizing the assistance the company and its agents provide teachers with classroom funding needs. The Halo Awards are North America’s highest honor in the field of cause marketing. Horace Mann is proud of both of those honors.

Looking ahead to 2014

In 2014, the focus is on further leveraging our market strengths and agency force to drive even greater levels of growth and profitability. In essence, Horace Mann strives to serve our niche better than any other company through the right products, the right distribution channels and a highly effective infrastructure that provides top-tier customer service at all points of contact.

On the **product** side, we intend to continue expanding our product offerings and exploring additional relationships with third-party vendors, so agents can directly address the needs of educator customers. In early 2014, for instance, we introduced a new Horace Mann-manufactured fixed indexed annuity product, addressing a need in the Horace Mann annuity product suite and providing customers with a compelling opportunity for a potentially higher crediting rate compared to a traditional fixed annuity.

Many of Horace Mann’s property and casualty initiatives for 2014 are dedicated to improving our pricing segmentation and ensuring appropriate rates are in place. A number of territories and strategic customer segments have been identified to focus marketing efforts to grow the business. In addition, the company plans to take further rate and underwriting actions to improve profitability where necessary. And the claims organization will continue to build on the successes of 2013 initiatives to assure a top-tier customer experience at that ever important moment of truth.

In terms of **distribution**, the company plans to strengthen the exclusive agency force through enhanced field training and institutional support, along with equipping agents with the skills they need to confidently sell an entire suite of products. Agents will also have access to a number of programs, including financial literacy seminars focused on younger educators and an expanded social media marketing presence, in support of the goal to find educators earlier in the lifecycle and keep them longer. And finally, we will continue to identify best practices among our top producers and share those practices across the entire agency force to integrate into their own businesses.

Regarding **infrastructure**, we have started the process of implementing a new policy administration system for our life and annuity operations, which allows more nimble product design while significantly reducing processing and cycle times. In addition, improving customer experience remains critical as the company strives to provide consistency of that experience across all product lines and through all points of contact. We have also successfully attracted talent from larger, industry-leading organizations to Horace Mann in key leadership positions across the company.

We see the Horace Mann business model as being unique and scalable, with significant growth potential. In 2014, we anticipate further improvements in underlying property and casualty profitability and look for continued growth in our annuity and life business. And, we firmly believe we have the right multi-year process in place to achieve these goals.

With this long-term business strategy in place, Horace Mann will continue to operate in a fiscally conservative and responsible manner with an eye toward creating greater shareholder value. The company remains focused on growing book value per share while paying a compelling dividend to investors. In March 2014, we increased the quarterly dividend once again for the sixth consecutive year. This 18 percent increase resulted in an annual dividend of 92 cents per share. We are confident we are on the right path to rewarding our shareholders and customers alike by achieving our goal of positioning Horace Mann as the dominant insurance and financial services provider focusing on the educator market.



Marita Zuraitis
President & Chief Executive Officer

Directors

Gabriel L. Shaheen

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

Marita Zuraitis

President & Chief Executive Officer
Horace Mann Educators Corporation

Dr. Mary H. Futrell

Co-Director, Center for Curriculum,
Standards and Technology
Professor, Department of Education Leadership
The George Washington University

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The Hartford Financial Services Group, Inc.

Ronald J. Helow

Managing Director
New Course Advisors

Beverley J. McClure*

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United Services Automobile Association (USAA)

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.

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Dwayne D. Hallman

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Chief Financial Officer

Stephen P. Cardinal

Executive Vice President
Property & Casualty

Matthew P. Sharpe

Executive Vice President
Annuity & Life

Paul D. Andrews

Senior Vice President
Human Resources &
Administrative Services

William J. Caldwell

Senior Vice President
Property & Casualty

Bret A. Conklin

Senior Vice President
Controller

Ann M. Caparrós

General Counsel & Chief
Compliance Officer
Corporate Secretary

Angela S. Christian

Vice President & Treasurer

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	
2013			
Fourth Quarter	\$ 31.81	\$ 27.25	\$ 0.195
Third Quarter	29.00	24.20	0.195
Second Quarter	25.59	20.70	0.195
First Quarter	22.22	19.95	0.195
2012			
Fourth Quarter	\$ 19.99	\$ 17.44	\$ 0.160
Third Quarter	18.88	16.90	0.130
Second Quarter	18.36	16.16	0.130
First Quarter	18.23	13.80	0.130

Corporate Data

Corporate Office

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

Annual Meeting

May 21, 2014
9:00 a.m.
Abraham Lincoln Presidential Library
112 North Sixth Street
Springfield, IL 62701

Independent Accountants

KPMG LLP
200 East Randolph Street
Chicago, IL 60601

Common Stock

HMEC Stock is traded on the NYSE (HMN)

Transfer Agent

American Stock Transfer & Trust Company, LLC
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
Springfield, IL 62715-0001

We believe:

Educators are taking care of our children's future, and we need to take care of their future.

Peace of mind should be available to every educator.

In respect – we treat others as we would like to be treated.

We can help advise and educate the educators.

We are here to help educators through a lifetime of changing needs.

We are uniquely qualified to do all this because we were *Founded by Educators for Educators*®.

