

# Third Quarter 2015 Investor Presentation

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October 29, 2015

# Safe Harbor Statement and Non-GAAP Financial Measures

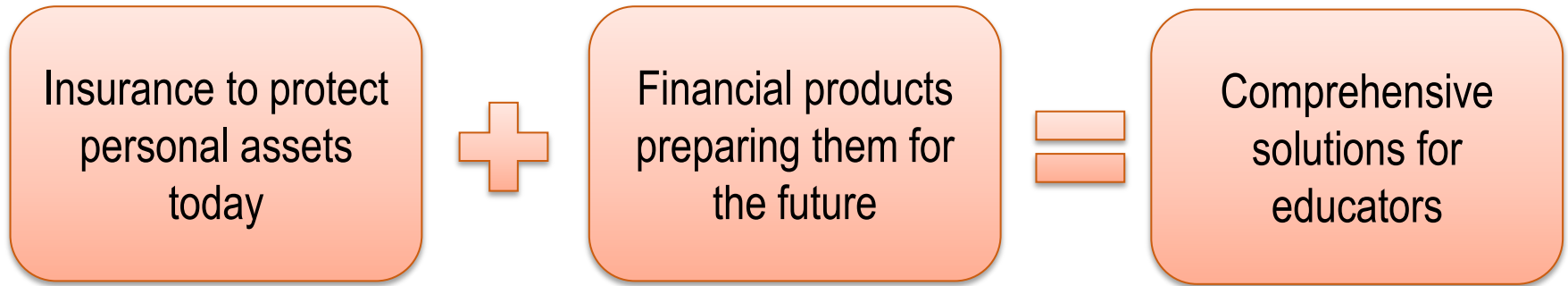
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Certain statements made in this presentation should be considered forward-looking as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements give expectations or forecasts of future events. These statements are related to our intentions, beliefs, projections, estimations or forecasts of future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results to be materially different from those expressed or implied by the forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe” and other words and terms of similar meaning in connection with a discussion of future operating or financial performance. We caution investors that these forward-looking statements are not guarantees of future performance, and actual results may differ materially. Investors should consider the important risks and uncertainties that may cause such differences, including those risks discussed in our most recent Form 10-K and Form 10-Q filed with the Securities and Exchange Commission. Our forward-looking statements speak only as of the date of this presentation or as of the date they were made, and we undertake no obligation to update those statements.

The historical and forward-looking financial information contained in this presentation includes financial measures which are based on methodologies other than Generally Accepted Accounting Principles (“GAAP”) such as operating income, operating earnings per share, pre-tax reporting segment income excluding DAC/VIF unlocking and book value per share excluding some components of accumulated other comprehensive income. A reconciliation of non-GAAP measures to the closest GAAP measures is available in our earnings release.

# Horace Mann helps educators identify their financial goals and develop plans to achieve them

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- We understand educator life stages and offer solutions at every point
- We work in schools to provide valuable services and support for educators
- We provide tailored **products** with special rates and benefits for educators
- We have trusted, knowledgeable **distribution** aligned with school districts and associations
- We build **infrastructure** focused on ease of doing business

***We are Founded by Educators for Educators®***

# Why this niche market?

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Educators have an attractive risk profile



## How they live:

Conservative and loyal

- Buy higher insurance limits
- Tend to bundle auto and home insurance
- Loyalty results in strong retention



## Where they work:

Close to home

- Generally live close to school with very short commutes
- Off-hour commutes without heavy traffic
- Tend to be off work in bad weather



## How they save:

Financially responsible

- Focused on achieving financial goals
- Desire for guidance and education
- Open to reallocating household savings to retirement needs

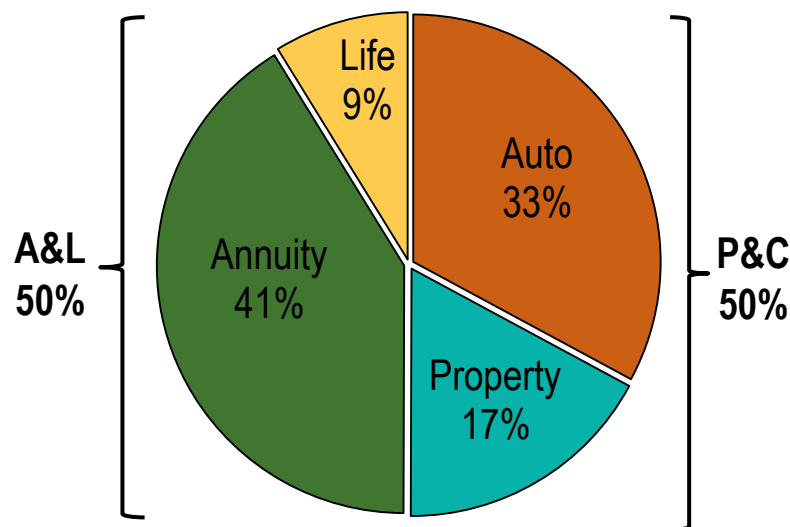
# We offer a mix of innovative, customer-focused retirement planning and insurance products tailored to educator needs

**Good for shareholders**

- Counter-cyclical
- Multiline focus provides earnings diversity
- Conservative financial and risk management
- Proven track record of earnings growth



2014 Premium & Contract Deposits  
(\$1,168mm)



**Good for educators**

- Innovative product solutions targeted to unique niche
- Ability to provide total household solutions
- Access to trusted, knowledgeable advisors



## Results in industry-leading cross-line penetration

- HMN 19% vs. industry 11%
- Leads to improved retention numbers
- 63% buy P&C products
- 56% buy A&L products

Our vision: To be the company educators choose to help protect what they have today and prepare for a successful tomorrow

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**Our strategy: Holistic solutions-based orientation at every life stage**

<b>Product</b>	<b>Distribution</b>	<b>Infrastructure</b>
Designed to meet educators' needs and cover their risks	Trusted, knowledgeable and tailored to educator needs and preferences	Modern, efficient, scalable and easy to do business with

**Supported by a strong capital base, conservative risk management and a compelling value proposition**

# Our strategy: Holistic solutions-based orientation at every life stage

Solving for educator issues solidifies our position as a trusted advisor

New educator

Established educator

Preparing to retire

Retirement

Issues:

- Managing student loan debt
- Don't understand finances
- Out-of-pocket classroom spend

Solutions:

- Student loan guidance
- Financial literacy education
- Classroom funding assistance
- Redirect savings to retirement plan

Issues:

- Protecting assets
- Protecting dependents
- Out-of-pocket classroom spend

Solutions:

- Life insurance education
- Classroom funding assistance
- Redirect savings to retirement plan

Issues:

- Worried about ensuring smooth retirement
- Unsure of pension plans

Solutions:

- Retirement education
- Retirement modeling
- Adjust risk profile

Issues:

- How to manage retirement income
- Need to plan wealth transfer

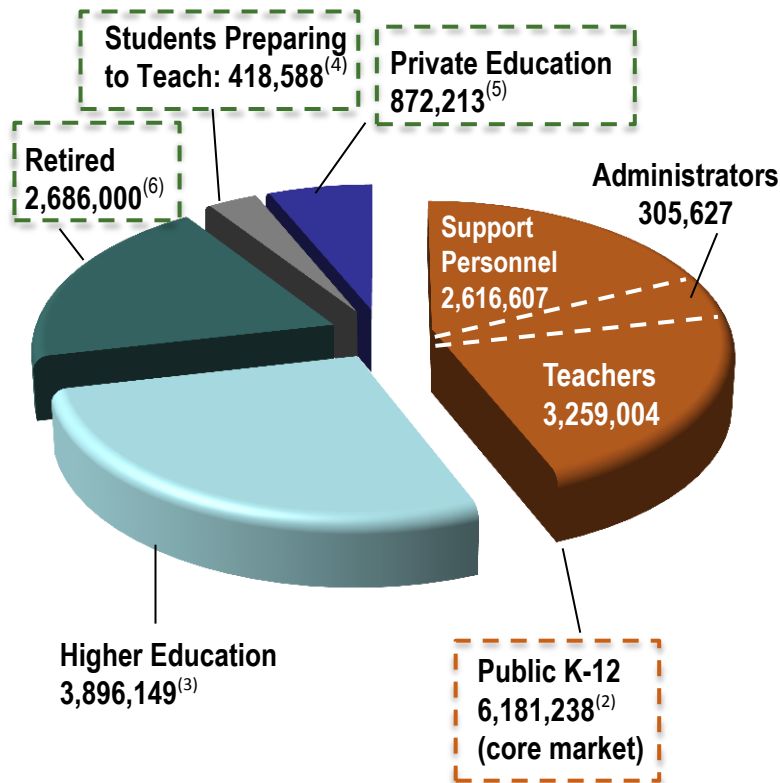
Solutions:

- Post-retirement investment strategies
- Estate planning

Regular assessment of insurance protection and cost

Ongoing discussion on financial goals throughout educator life stages

# Sizable opportunity with new and existing educators



- The Public K-12 education market includes more than 6.1 million individuals
- Projected to grow by 15% between 2010 to 2021<sup>(1)</sup>
- Current customer base of ~360,000 educator households
- Opportunities exist to attract new customers and deepen cross-sell efforts
  - Industry leading cross-line penetration (11% for the industry/ 19% for Horace Mann)
- Sizable demographic shift as Baby Boomers retire and Millennials enter the workforce
  - Strong retention and persistency ratios with Baby Boomers
  - Additional opportunity for growth with Millennials

(1) U.S. Dept. of Education, National Center for Education Statistics, Projections of Education Statistics to 2021, January 2013

(2) U.S. Dept. of Education, National Center for Education Statistics, Digest of Education Statistics, October 2014

(3) U.S. Dept. of Education, National Center for Education Statistics, Digest of Education Statistics, February 2015

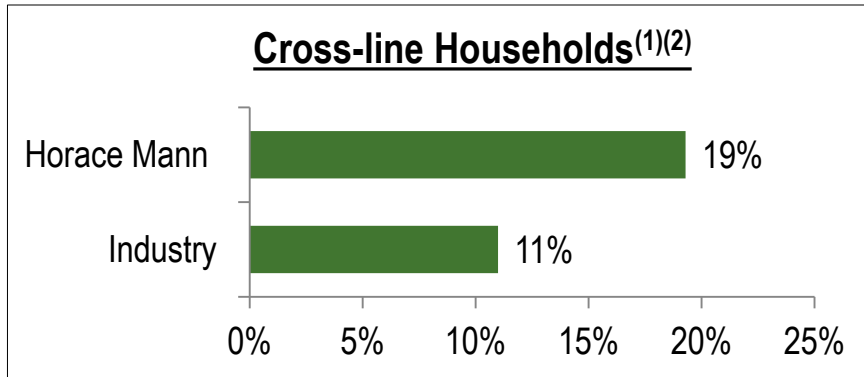
(4) U.S. Dept. of Education, National Center for Education Statistics, Higher Education General Information Survey, August 2014 (Estimated, current year Education major Bachelors Degrees awarded times 4)

(5) U.S. Dept. of Education, National Center for Education Statistics, Private School Universe Survey, July 2013 (Total private employment estimated based on public teacher/staff ratio)

(6) Analysis of 2013 State Teacher and Public Employee Retirement Plans (Conservative estimate of Public K-12 retirees receiving benefits)

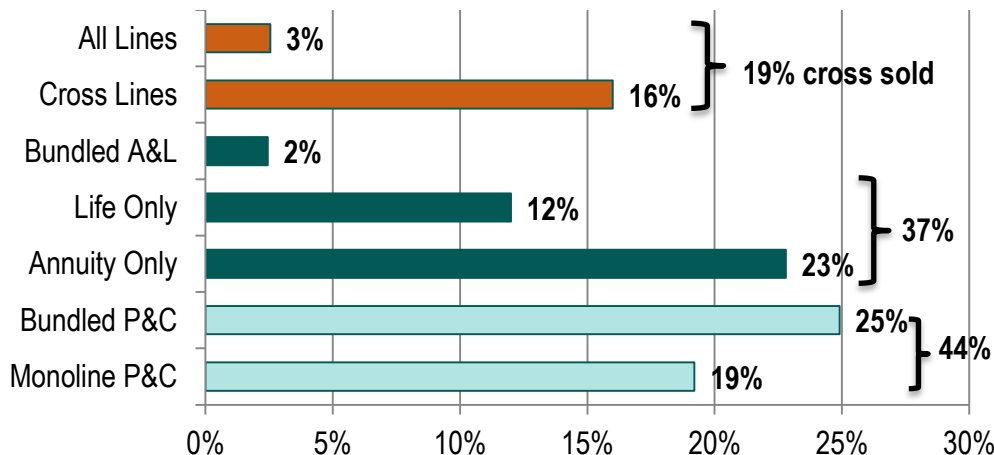


# In addition to finding more educator households, we are focused on expanding our cross-line penetration



- Cross-line penetration significantly exceeds industry
  - Majority of P&C policyholders purchase both auto and homeowner products

## **Educator Household Distribution by Product<sup>(1)</sup>**



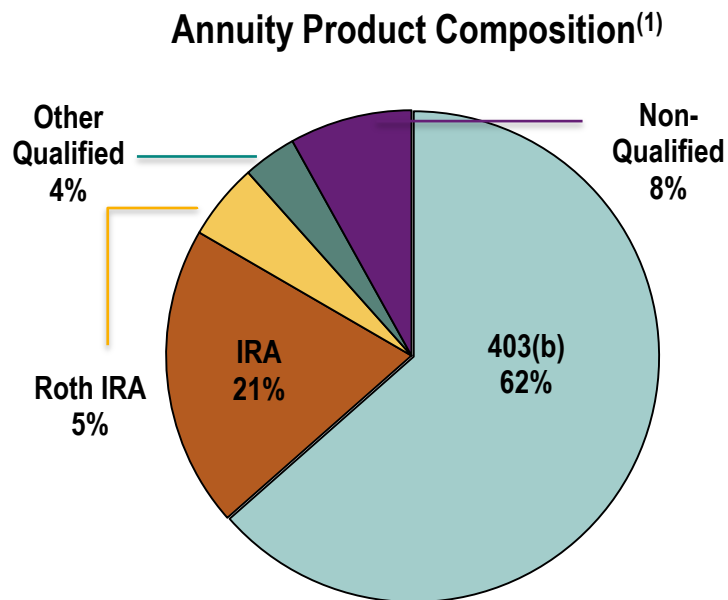
- Significant additional cross sell opportunities within our existing customer base of ~360,000 educator households
  - 44% of educator households are only buying P&C products
  - 37% of educator households are only buying Annuity / Life products
- Targeted marketing efforts underway to drive more cross-line sales

(1) HMN data: ~360,000 educator households as of September 30, 2015; Cross-line households defined as Auto and/or Property plus Annuity, Life and/or Group  
 (2) Industry data per LIMRA, 2011 multiline exclusive agent average

# Segment strategy and results

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# Annuity segment – Helping educators meet their financial goals with tailored solutions



## Opportunity

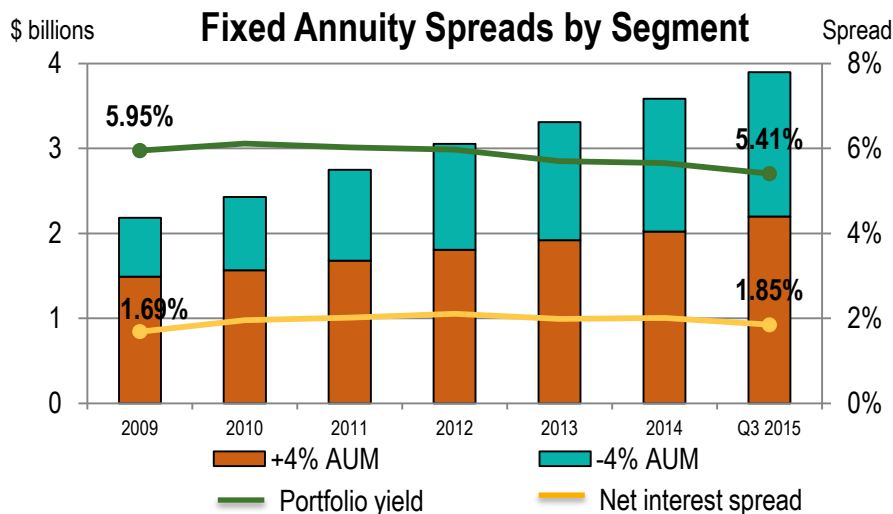
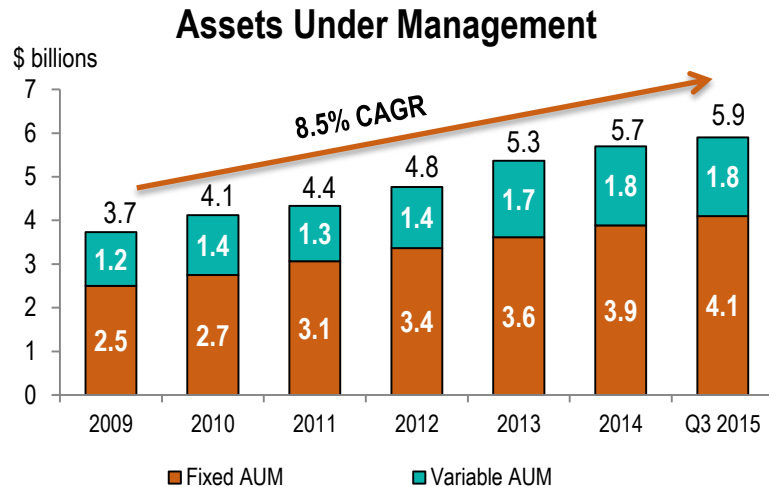
- Educators face complicated retirement system offerings
  - Differing state teacher retirement systems (STRS)
  - Pension uncertainty
  - Tax-deferred options
- Educators want guidance to plan for the future
  - Student loan forgiveness seminars
  - Financial literacy workshops
  - STRS workshops
  - Classroom funding assistance
  - Encourage redirecting savings to retirement planning
  - Options for school payroll deductions

## Product

- 92% of Annuity assets under management are tax-qualified accounts with a retirement orientation
  - Consistent strong persistency ~94%
  - 403(b) and 457(b) are viable products in current regulatory environment
  - Launched Fixed Indexed Annuity in Q1 2014

(1) Based on Assets Under Management as of September 30, 2015

# Annuity segment – Assets under management and sales continue to grow

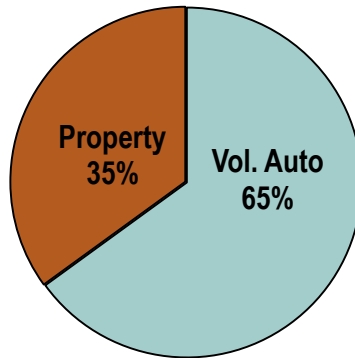


## Results

- Sales momentum for Annuity products remains strong
  - 9% increase in sales over Q3 YTD 2014, supported by Fixed Indexed Annuity product
- Assets under management growing at steady pace
  - Two-thirds of underlying assets are Fixed Annuities
  - One-third are Variable Annuities with no living benefits
- Disciplined crediting rate actions and prudent investment management have resulted in favorable net interest spreads
  - New business spreads continue to exceed target
  - As rates rise, we expect spread compression to diminish, lifting overall returns
- Business is priced to generate a low double-digit ROE at targeted spreads of 200 to 250 bps

# P&C segment – Preferred book of educator risk with strong retention ratios

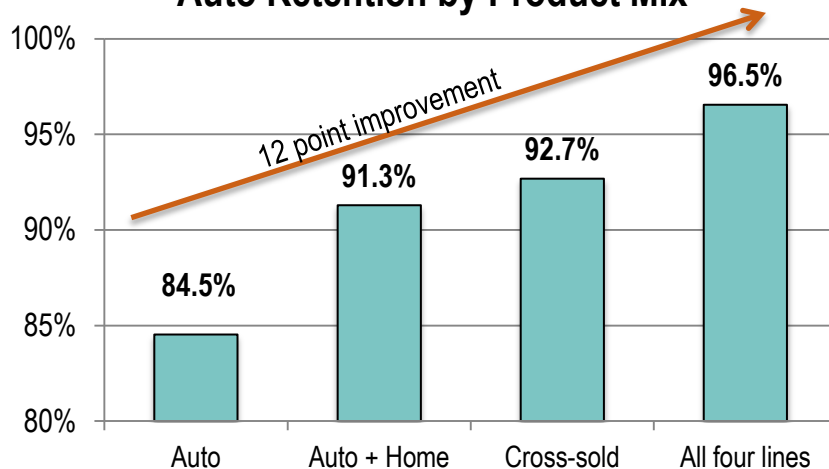
**P&C Net Written Premium (\$584 MM)<sup>(1)</sup>**



## Opportunity

- Preferred risk profile
  - Conservative by nature
  - Short/off-hour commutes
  - Financially responsible
- 37% of our existing customers have their P&C coverage outside Horace Mann

**Auto Retention by Product Mix<sup>(2)</sup>**



## Product

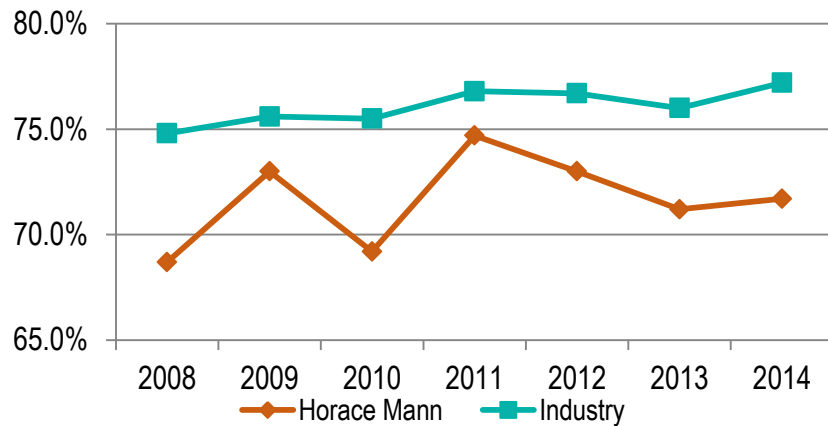
- Majority of P&C business is bundled Auto and Property
- Retention exceeds industry averages and improves with cross-sell efforts
  - 85% Auto
  - 88% Property

(1) Based on FY14

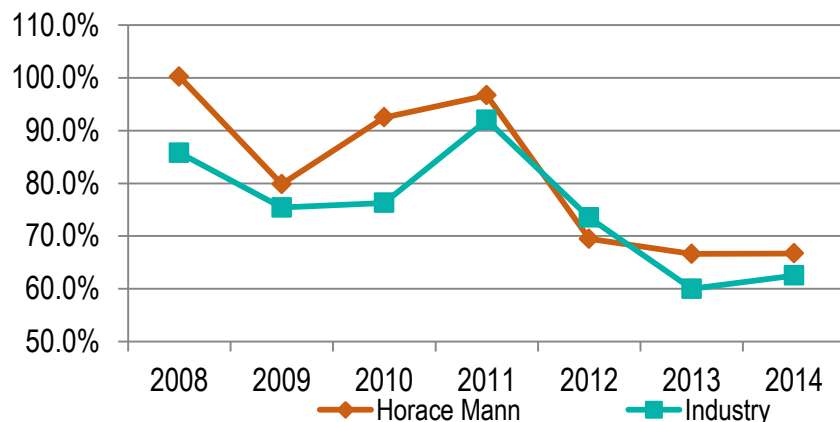
(2) HMN data: ~360,000 educator households as of September 30, 2015; Cross-sold households defined as Auto and Property plus Annuity and/or Life

# P&C segment – Improving combined ratios consistently better than industry averages

### Auto Loss Ratio vs Industry<sup>(1)</sup>



### Homeowners Loss Ratio vs Industry<sup>(1)</sup>



## Results

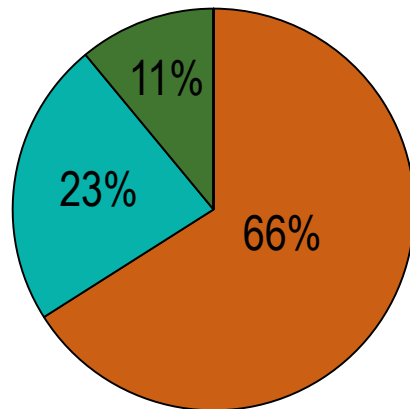
- Strategic pricing and underwriting actions resulting in margin improvement
  - Mid-single-digit rate increases to remain ahead of loss-cost trends
  - Completed defensive action to eliminate FL homeowners exposure, reducing volatility
- Auto loss ratio averaging nearly 5 points better than the industry (2008-14)
  - Emerging physical damage severity trends
- Property loss ratio improvement tracking better than the industry
- Mid-90s reported combined ratio would generate a 12% ROE at 1.5x underwriting leverage

(1) A.M. Best industry composite based on statutory incurred losses

# Life segment – Sizable opportunity in our middle-market educator niche

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## Individual insurance in force<sup>(1)</sup>



- Traditional Term
- Experience Life
- Traditional Whole Life

## Opportunity

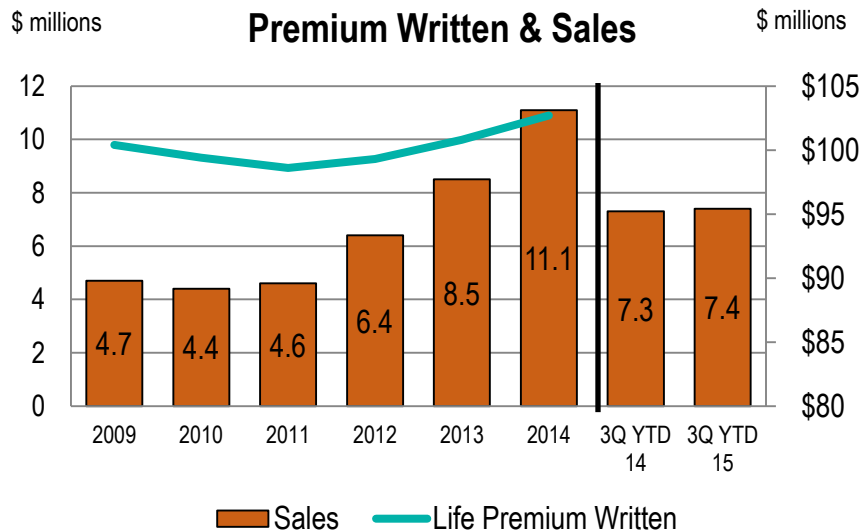
- Approximately 80% of HM customers do not have HM Life product
- Dedicated field support team to help agents educate customers about options and costs

## Products

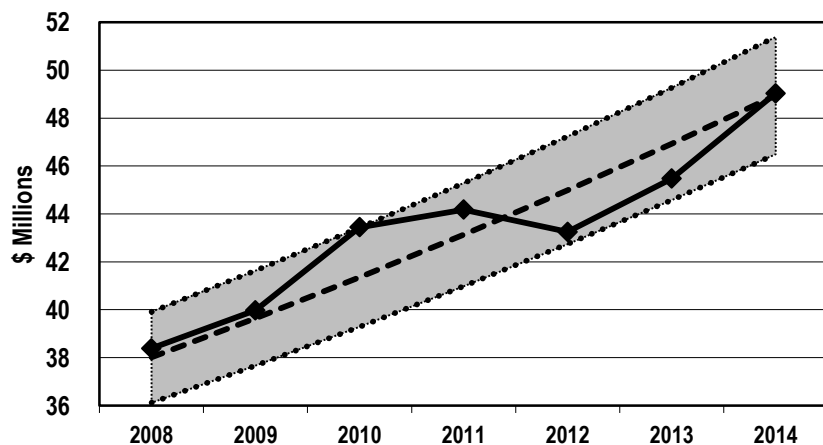
- Basic coverages appropriate for educator income levels
  - Term insurance
  - Traditional whole life
  - Single-premium whole life
  - New indexed universal life product will offer additional solutions with flexibility of premium and coverage amounts
- Mature in-force book of whole and term life products
  - About 200,000 policies
  - Average face amount of ~ \$95,000; ~ 96% retention ratio for individual life

(1) Face amount in force as of September 30, 2015

# Life segment – Profitable inforce block with renewed growth



**Life Statutory Incurred Claims**  
(including regression curve & +/- 5% corridor)



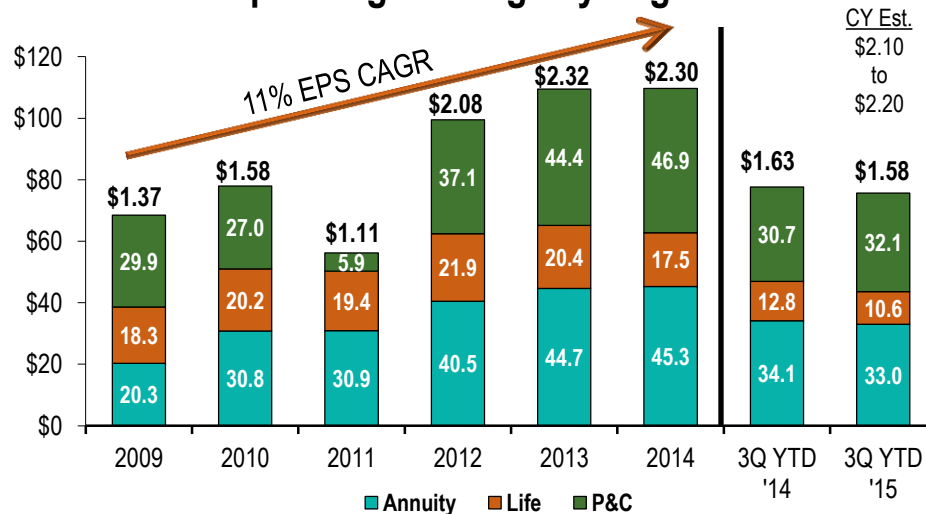
## Results

- Strategic focus to grow this segment of profitable business at a double-digit pace
- Q3 YTD 2015 ex-DAC life earnings of \$10.5 million, down \$2.3 million from Q3 YTD 2014
  - Driven by higher mortality losses that remain within actuarial projections
- October 2015 launch of new Indexed Universal Life product expected to drive 2016 sales
- Business is priced to generate a low double-digit ROE



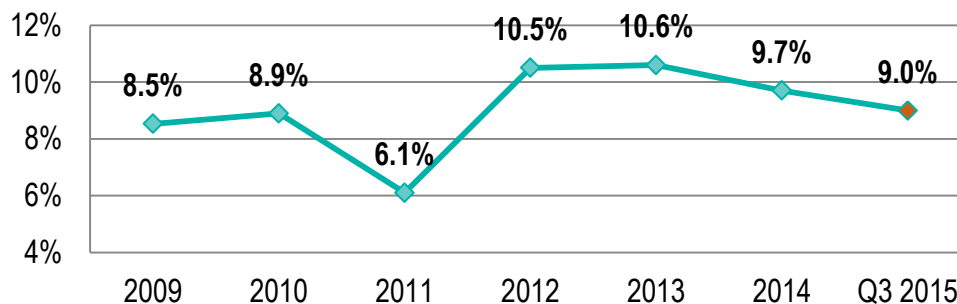
# Multiline business model has generated steady, growing operating earnings

Operating Earnings by Segment<sup>(1)</sup>



- Operating earnings per share<sup>(1)</sup> have grown 11% on a compound average annual basis, led by Annuity and P&C
  - Strong Annuity sales, assets under management growth, and proactive spread management have generated 17+% earnings growth CAGR
  - Continued P&C profitability improvement
  - Life earnings reflect the maturity of in force block

Operating ROE<sup>(2)</sup>

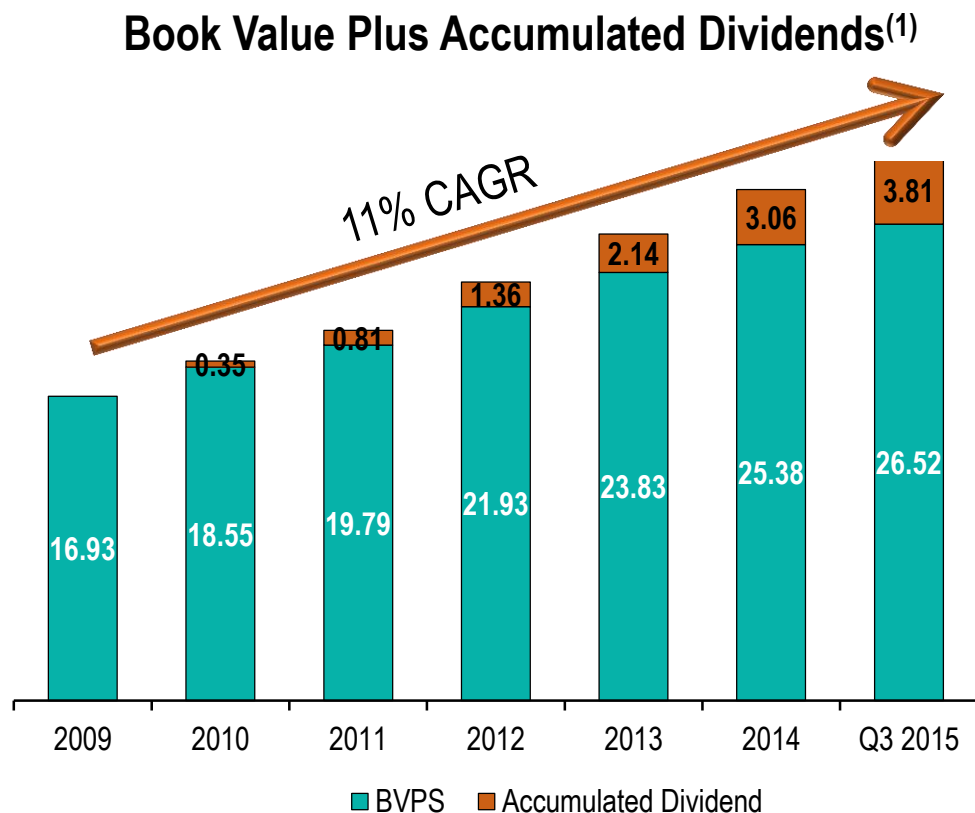


- Investing in all three business segments to accelerate Operating EPS growth and improve ROE over time
- For 2015, expect operating income of \$2.10-\$2.20 per share
  - 1-to-2-point improvement in P&C profitability – led by property; ~7-point catastrophe load
  - Modest earnings pressure in Annuity on lower net interest spread
  - Life segment earnings of \$13-\$15 million to reflect higher 1H 2015 mortality

(1) Operating earnings reflects net income excluding realized investment gains and losses

(2) Operating ROE excluding unrealized gains and losses; 2010 and prior are before the retroactive application of new accounting guidance for deferred policy acquisition costs

# Solid financial results have resulted in top quartile book value growth<sup>(1)</sup> and a compelling dividend yield



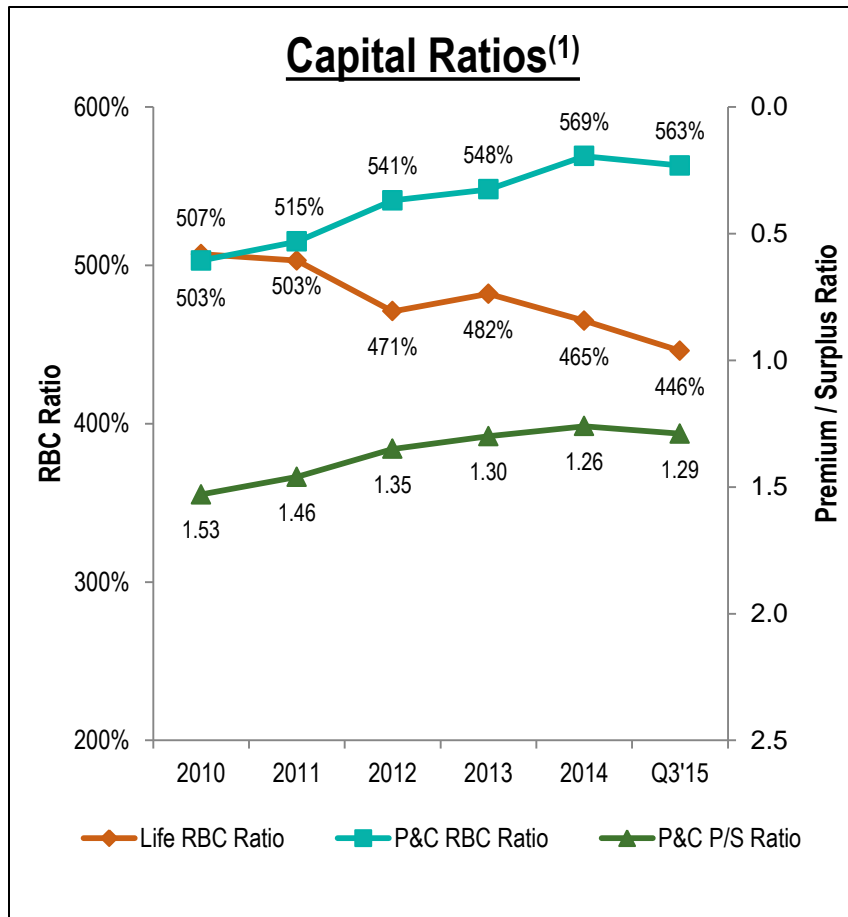
- \$26.52 book value per share excluding FAS 115 as of Q3 2015, up 6% from a year ago
- Annualized 2015 shareholder dividend of \$1.00
  - Dividend yield of 3.0%<sup>(2)</sup>
  - Reflects ~45% payout ratio
- Opportunistic share buyback program
  - Repurchases of \$42.8 million since December 2011 at an average price of \$22.40 versus VWAP of \$25.57<sup>(3)</sup>
  - \$7.2 million remaining under 2011 authorization
  - An additional \$50 million share repurchase authorized in 2015.

(1) Book value per share excluding unrealized investment gains/losses (ex. FAS 115). 2009-2011 numbers have been restated to include the retrospective application of new accounting guidance for deferred policy acquisition costs. Top quartile ranking in peer group includes Large, Mid and Small cap personal lines and life insurance companies

(2) Based on 9/30/15 stock price of \$33.22

(3) Repurchase activity through 9/30/15

# Capital ratios reflect more than adequate capital to grow our businesses

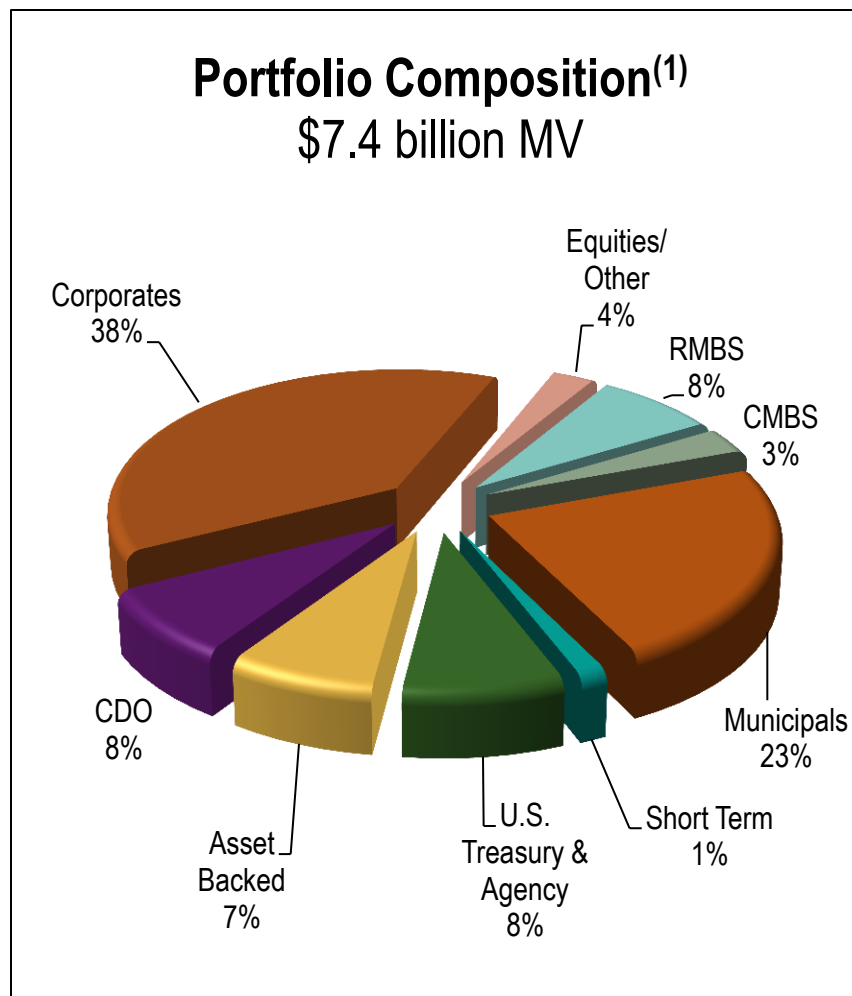


(1) 2015 RBC results are estimates

(2) Excluding unrealized gains/losses on investments

- Consistent earnings and conservative bias have resulted in strong capital ratios
  - P&C loss reserves held at top end of independent actuarial range
  - Annuity and Life product design
  - Investment portfolio construction / historical loss experience
- Q3 2015 debt-to-capital ratio<sup>(2)</sup> of 18.0%
- Excess capital deployed for organic growth will result in modest ROE expansion

# Conservative and well diversified investment portfolio that is designed to support our product offerings



- High quality, well diversified portfolio across fixed income sectors
  - Weighted average quality: A
  - Average duration 5.8
- Focused on risk and asset liability management
  - \$6.4 billion MV portfolio supports long dated Annuity & Life liabilities
  - \$0.9 billion MV portfolio supports P&C
  - \$403 million net unrealized gain; majority in Annuity & Life portfolios
- New purchases focused on maintaining portfolio quality and yield
  - 2015 reinvestment rate assumption of 3.75% included in EPS guidance
  - Q3'15 new money rate of 4.31%
  - YTD new money rate of 4.14%

(1) As of September 30, 2015; excludes policy loans

# Tools in place to accelerate efforts to profitably grow

## Product

Robust/Complete Product Suite

- More sophisticated P&C pricing segmentation
- Introduction of Indexed Universal Life

## Distribution

Strengthening the model

- Dedicated focus on exclusive agency model
- Continued focus on agent productivity standards
- Complementary direct support through customer contact center

## Infrastructure

Modernizing the infrastructure

- Systems implementations
- Focused efforts on enhanced ease of doing business and customer experience



- More educator households
  - Sales momentum across all business lines
- Improve our already industry-leading cross-sell ratio
- Continued strong earnings growth and book value

# Appendix

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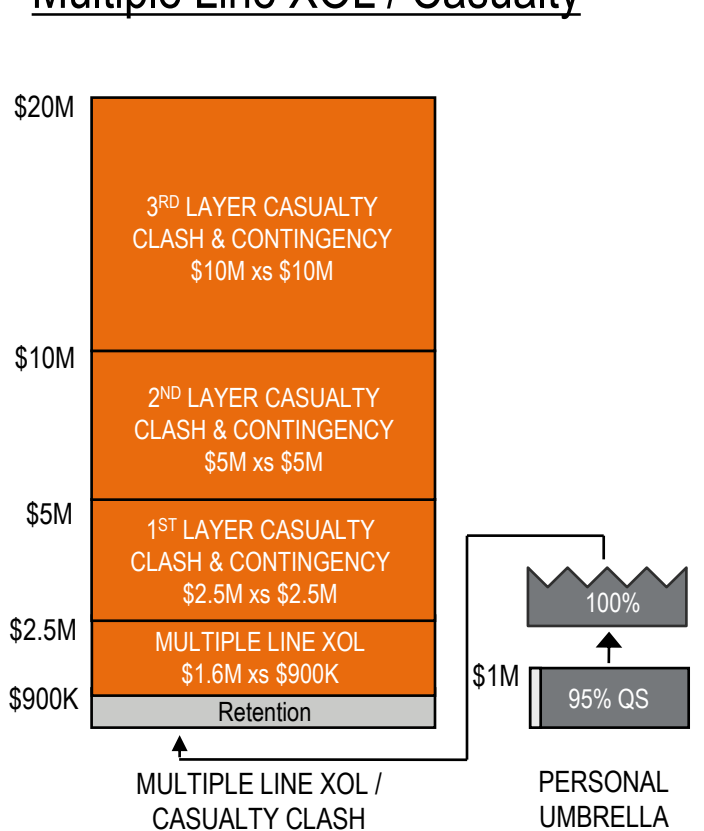
# Founded by Educators for Educators®

1945	<b>Founded by two teachers in Springfield, IL as the Illinois Education Association Mutual Insurance Company to provide automobile insurance to IEA members</b>
1949 1961	Company began offering a full range of life insurance products to the educational community Introduced 403(b) tax-qualified retirement annuities
1975 1989 1991	Company acquired by INA Corporation Company acquired from CIGNA through a management led LBO Completed initial public offering; stock trades on NYSE under the symbol "HMN"
2000 2006 2009	With less than 50% of new P&C business represented by educators, company refocuses on the educator market Began transitioning employee agency force to new business model Exclusive Agent (EA) contract introduced
2010 2012	Re-introduced State Teacher Retirement Seminars, and began strategic relationship with DonorsChoose.org Achieved double-digit sales increases in all four lines of business <sup>(1)</sup>
<b>Today</b>	<b>Building on a solid foundation to accelerate our growth momentum and increase our penetration in the K-12 educator niche</b> <ul style="list-style-type: none"> <li>– Largest national, multiline insurance company focused on serving the nation's K-12 educator market</li> <li>– Current book ~ 80% educator</li> <li>– Agency force transition largely complete; now focused on productivity improvement initiatives</li> <li>– Annuity and Life product line enhancements and infrastructure improvements</li> <li>– Enhanced P&amp;C pricing segmentation and underwriting and claims initiatives to further improve underwriting results</li> </ul>

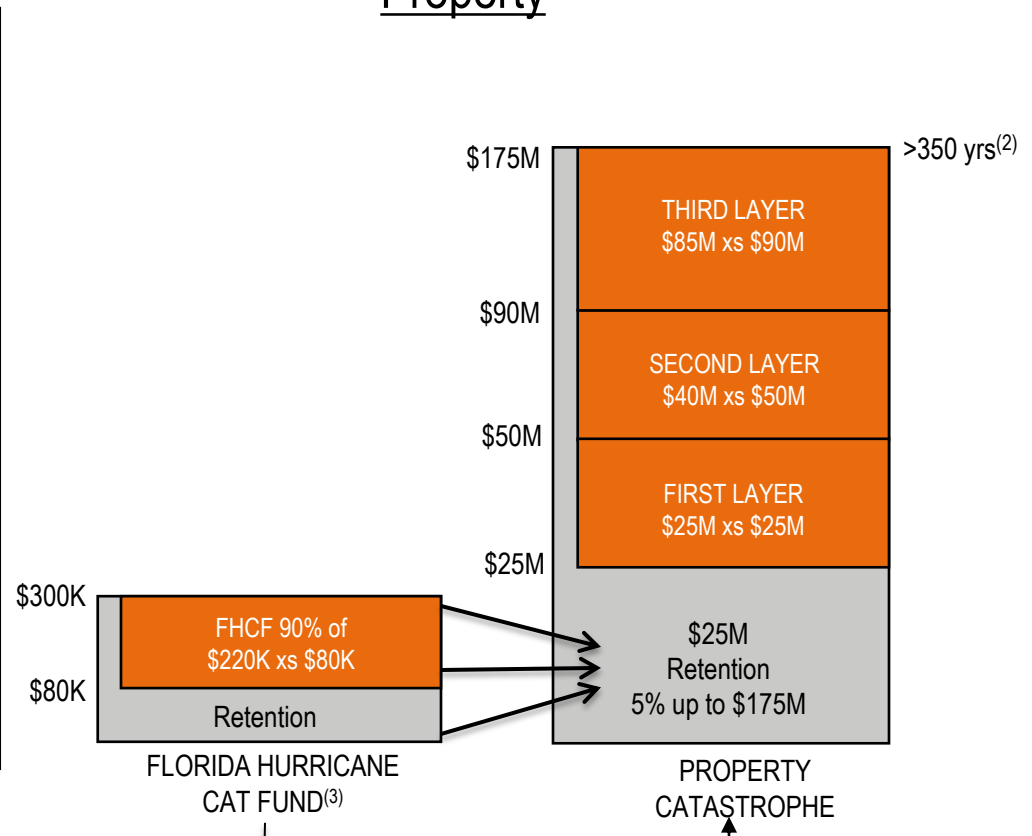
(1) Sold by Horace Mann agents

# Current single-event catastrophe reinsurance provides PML coverage of more than 350 years

## Multiple Line XOL / Casualty<sup>(1)</sup>



## Property<sup>(1)</sup>



(1) 2015 Catastrophe Reinsurance Program

(2) Based on the current AIR model (TS v3.0, June 2015 data)

(3) Most current FHCF estimate of contract beginning June 1, 2015 is 90% of \$220,560 xs \$80,487



# Strong and stable P&C reserves further reduce potential earnings volatility

## Appropriate conservatism

- Disciplined reserving practices
- Carried reserves at high end of independent actuarial estimate
- Recent favorable reserve development consistent with independent observations

## Strong claims organization / capabilities

- Centralized claim offices
- Technology / infrastructure
- Implementation of best practices and procedures

Net P&C Reserve Position			
	<u>Independent Actuary</u>		<u>HMN</u>
(\$ Millions)	<u>Low</u>	<u>High</u>	<u>Held</u>
2014	\$227.8	\$274.5	\$267.4
2013	\$218.0	\$266.2	\$261.7
2012	\$217.6	\$265.4	\$260.8

# Highly rated by all rating agencies: educator market focus, earnings diversification and capital strength

## Recent Ratings Upgrades

- In Q2'15, Moody's upgraded our Life outlook to Positive from Stable
- In Q1'14, AM Best upgraded our P&C outlook to Positive from Stable
- In Q2'14, Fitch upgraded our ratings to 'A' from 'A-'

## Strong Position within the Educator Community

- “strong business franchise/formidable reputation in K-12 educator market...”
- “continued expertise in writing personal lines products in educator market...”
- “historical growth/recent growth momentum in 403(b) market...established as one of the more significant providers...”

## Stable Operating Results and Enterprise Risk Management

- “(earnings) have benefitted from diversity...P/C and Life operations...”
- “limits its risk taking to areas it understands and has made decisions to avoid risks related to certain distribution segments, products, and investments to maintain a high quality book of business focused on the educational market”

## Strong Capital Adequacy

- “maintains a generally risk-adverse approach to underwriting and the management of its investment portfolio”
- “maintains debt at a conservative level, consolidated capital adequacy that is above the rating category and a conservative investment portfolio with limited exposure to problematic asset classes”

## Current Financial Strength Ratings

<u>Agency</u>	<u>Rating</u> (affirmed/ reviewed)	<u>Outlook</u>
S&P	A (2/18/15)	Stable
Moody's - Life - P&C	A3 A3 (6/15/15)	Positive Stable
AM Best - Life - P&C	A A- (2/5/15)	Stable Positive
Fitch	A (8/5/15)	Stable

# Consolidated GAAP Income Statement

(\$ in Millions, except EPS and BV)

	2011	2012	2013	2014	Q3 YTD'15
<b>Written Prem. &amp; Contract Deposits</b>	\$ 1,078.4	\$ 1,067.7	\$ 1,094.2	\$ 1,167.7	\$ 951.3
<b>Earned Prem. &amp; Contract Charges</b>	\$ 667.1	\$ 670.5	\$ 690.9	\$ 715.8	\$ 544.9
<b>Investment Income</b>	288.3	306.0	313.6	329.8	248.3
<b>Other Income</b>	5.2	7.0	4.5	4.2	2.3
<b>Benefits, Claims, &amp; Settlement Exp.</b>	657.3	611.8	618.2	644.5	504.2
<b>Total Other Expenses &amp; Taxes</b>	257.2	285.4	294.3	308.0	224.4
<b>Income Before Realized Gains/Losses</b>	\$ 46.1	\$ 86.3	\$ 96.5	\$ 97.3	\$ 66.9
<b>Operating EPS</b>	\$ 1.11	\$ 2.08	\$ 2.32	\$ 2.30	\$ 1.58
<b>Operating ROE (ex. FAS 115)</b>	6.1%	10.5%	10.6%	9.7%	9.0%
<b>Realized Inv. Gains, After Tax</b>	24.4	17.6	14.4	6.9	5.5
<b>Net Income</b>	\$ 70.5	\$ 103.9	\$ 110.9	\$ 104.2	\$ 72.4
<b>BV / Share (ex. FAS 115)</b>	\$ 19.79	\$ 21.93	\$ 23.83	\$ 25.38	\$ 26.52
<b>BV / Share</b>	\$ 26.53	\$ 31.65	\$ 27.14	\$ 32.65	\$ 32.09

# Consolidated GAAP Balance Sheet

(\$ in Millions)

	2011	2012	2013	2014	Q3 YTD'15
<b>Assets</b>					
Investments	\$ 5,677.5	\$ 6,292.1	\$ 6,539.5	\$ 7,403.5	\$ 7,541.2
Cash	7.5	15.2	18.2	11.7	49.9
Separate Account Assets	1,273.8	1,398.3	1,748.0	1,813.6	1,742.0
DAC	216.5	196.9	245.3	215.1	237.4
Goodwill	47.4	47.4	47.4	47.4	47.4
Other Assets	212.5	217.8	228.3	277.2	285.6
<b>Total Assets</b>	\$ 7,435.2	\$ 8,167.7	\$ 8,826.7	\$ 9,768.5	\$ 9,903.5
<b>Liabilities</b>					
<b>Policy Liabilities &amp; Other</b>					
Policyholder Funds	\$ 4,515.5	\$ 4,839.9	\$ 5,375.5	\$ 5,958.2	\$ 6,236.3
Separate Account Liabilities	1,273.8	1,398.3	1,748.0	1,813.6	1,742.0
Long Term Debt	199.7	199.8	199.9	199.9	125.0
Short Term Debt	38.0	38.0	38.0	38.0	113.0
Other Liabilities	352.8	445.9	366.0	422.3	380.0
<b>Total Liabilities</b>	6,379.8	6,921.9	7,727.4	8,432.0	8,596.3
<b>Shareholders' Equity</b>	1,055.4	1,245.8	1,099.3	1,336.5	1,307.2
<b>Total Liabilities &amp; Equity</b>	\$ 7,435.2	\$ 8,167.7	\$ 8,826.7	\$ 9,768.5	\$ 9,903.5

# Horace Mann Educators Corporation

**National Insurer offering Auto, Property and traditional Annuity and Life products to a niche market of educators through a largely captive agency distribution model**

Exchange ticker symbol	NYSE:HMN
Share Price	\$33.22 <sup>(1)</sup>
Shares Outstanding	40.7 million <sup>(2)</sup>
Market Capitalization	\$1.4 billion <sup>(1)</sup>
Annualized Dividend Per Share	\$1.00 <sup>(1)</sup>
Dividend Yield Per Share	3.0% <sup>(1)</sup>
Average Daily Volume	140K shares (52-week average daily volume as of 9/30/2015)
Book Value Per Share	\$26.52 <sup>(1)(3)</sup>
Analyst Coverage	Dowling & Partners: Julie Ferguson Janney Capital: Robert Glasspiegel Keefe, Bruyette & Woods: Meyer Shields Macquarie: Sean Dargan
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(1) As of 9/30/2015

(2) 42.3 million weighted average diluted shares for Q3 2015

(3) Excluding unrealized gains/losses on investments