PARTICIPANTS

Corporate Participants

Ryan E. Greenier – Vice President-Investor Relations, Horace Mann Educators Corp.
Marita Zuraitis – President, Chief Executive Officer & Director, Horace Mann Educators Corp.
Dwayne D. Hallman – Chief Financial Officer & Executive Vice President, Horace Mann Educators Corp.
Matthew P. Sharpe – Executive Vice President-Annuity & Life Division, Horace Mann Educators Corp.
William J. Caldwell – Executive Vice President-Property & Casualty, Horace Mann Educators Corp.

Other Participants

Robert Ray Glasspiegel – Analyst, Janney Montgomery Scott LLC
Sean Dargan – Analyst, Macquarie Capital (USA), Inc.
Meyer Shields – Analyst, Keefe, Bruyette & Woods, Inc.
Christine A. Worley – Analyst, JMP Securities LLC
James Earl Inglis – Analyst, Philo Smith Capital Corp.

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Horace Mann Fourth Quarter 2015 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Ryan Greenier, Vice President of Investor Relations. Thank you, sir. You may begin.

Ryan E. Greenier, Vice President-Investor Relations

Thank you, Donna, and good morning, everyone. Welcome to Horace Mann's discussion of our fourth quarter and full-year 2015 results. Yesterday, we issued our earnings release and investor financial supplement. Copies are available on the Investor page of our website.

Our speakers today are Marita Zuraitis, President and Chief Executive Officer; and Dwayne Hallman, Executive Vice President and Chief Financial Officer. Bill Caldwell, Executive Vice President of Property and Casualty, and Matt Sharpe, Executive Vice President of Annuity and Life, are also available for the question-and-answer session that follows our prepared comments.

Before turning it over to Marita, I want to note that our presentation today includes forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The company cautions investors that any forward-looking statements include risks and uncertainties and are not guarantees of future performance. These forward-looking statements are based on management's current expectations and we assume no obligation to update them.

Actual results may differ materially due to a variety of factors, which are described in our press release and SEC filings. In our prepared remarks, we may use some non-GAAP financial measures. Reconciliations of these measures to the most comparable GAAP measures are available in the supplemental sections of our press release.

And now, I'll turn the call over to Marita Zuraitis.

Marita Zuraitis, President, Chief Executive Officer & Director

Thanks Ryan. Good morning, everyone, and welcome to our call. After yesterday's market close, Horace Mann reported fourth quarter operating income of $0.43 per share. We are closing a solid year highlighted by strategic advancements, product portfolio enhancements, pricing and underwriting refinement, service improvements and sales growth. And that sales growth is driven primarily by improvements in our agent productivity. These successes will serve as the foundation for profitable growth this year and well into the future.

Looking specifically at the quarter, the overall results reflected a number of challenging macro trends. Equity market volatility, elevated catastrophes, challenging alternative investment returns and a continuation of the elevated severity trend in auto impacted results, as well as expenses related to our successful debt refinancing. In addition, fourth quarter auto results also reflected roughly six points of seasonality in auto losses, which improved modestly compared to our historical experience. Underlying property margins were a bright spot in the quarter, helping offset some of the deterioration in auto.

On a reported basis, the fourth quarter P&C combined ratio was 98.6%, which included catastrophe losses that were almost four points higher than the prior year. Top line results in P&C remained strong, with an 11% increase in auto sales and continued solid retention. Annuity results were also strong and sales increased 7%. We continue to successfully mitigate the earnings impact of spread compression, but the challenging equity markets have impacted variable annuity fee income.

For the quarter, life mortality was higher than our expectations. On a full-year basis, operating earnings were $2 per share, which resulted in book value growth of 6% excluding the impact of net unrealized gains on investments. Looking across the business lines, the full-year P&C combined ratio of 97% was 0.9 points higher than the prior year, as higher catastrophe losses and modestly lower prior year reserve releases impacted results.

On an underlying basis, the combined ratio improved nearly a point to 91.7%, as strong property results offset deterioration in auto. The underwriting pricing and claim initiatives we implemented in 2015 to improve property profitability drove a 6.2 point improvement in the underlying property combined ratio. This helped offset the 1.7 point increase in the underlying auto combined ratio, as physical damage severity trends pressured results in the latter half of the year.

Looking at top line metrics, P&C growth was strong. Written premiums grew by 4% and auto sales increased 7%, with much of the sales momentum emerging in the second half of the year. Most importantly, the majority of new business was in targeted growth states, where we implemented enhanced pricing segmentation, supported the field force with focused marketing campaigns and ramped up efforts to cross-sell to existing annuity and life customers.

We're encouraged by the emerging auto offense. 2015 marked the first annual increase in auto PIF count since 2007, and we are focused on maximizing opportunities in states with good profitability to accelerate PIF growth. Annuity results for the full-year were strong. Assets under management grew by 5% and ended the year at nearly $6 billion. Deposits received increased by 14% and sales were up 9% to $370 million.

Both single premium and reoccurring sales grew by similar percentage, which is encouraging as reoccurring deposits are typically ongoing 403(b) payroll contributions. The increase in reoccurring deposits is a good indication that our household acquisition efforts are successful, as many new educators are introduced to Horace Mann through 403(b) savings plans. And given our sales model, these new customers will then typically meet with their Horace Mann agent to design a holistic goal-based financial plan that incorporates P&C and life insurance protection.

Looking ahead to 2016, we continue to be laser focused on improving auto profitability, while also accelerating our growth momentum. We increased our rate actions in response to the auto loss severity trends we began to see mid last year and increased auto rates by 4% for the full-year. Currently, our 2016 rate plan is roughly 6%, and almost 40% of that rate plan is effective in the first quarter. Given that nearly 90% of our auto book is six-month policies, we would expect to see margin expansion occur during 2016.

We will continue to monitor rate indications and competitive conditions further adjusting rates as needed to improve auto margins. In addition to rate actions, we continue to refine our pricing segmentation. These efforts have generated two types of improvement, better rates for the most preferred educator risks, as well as tighter underwriting and increased pricing to improve profitability in more challenging states and customer segments.

When we analyze sales and retention numbers, it is clear this strategy is working. The share of more preferred educator risks in profitable states is growing and we are focused on specific levers to improve profitability. This combination of tight defense, along with improving offense for the best educator risks should result in improved auto profitability as well as accelerated growth in 2016.

Turning to property, in 2016, we are targeting a mid single-digit rate plan. This combined with continued defensive underwriting actions and lower reinsurance costs should result in continued margin expansion. Like auto, we have a comprehensive state-by-state strategy for property and plan to introduce additional preferred educator pricing in profitable geographies in 2016. We expect this combined with targeted marketing efforts will result in increased new business production, which should mitigate modest retention impacts from continued property defensive actions.

While our P&C book isn't immune to macro trends, the majority of our policies are bundled auto and property. The high percentage of account business, combined with a loyal niche of customers, has resulted in very strong retention ratios, and we have a keen understanding of the price elasticity of our customers. As a result, we are confident that we can successfully push rate without having a significant impact on retention. We are closely monitoring loss trends and will continue to take action and expect P&C margins to improve in the second half of 2016.

Turning to the life segment, we remain focused on aggressively growing our life business. We launched our new Indexed Universal Life product in late October and expect it to be a strong contributor to sales growth in 2016. Early agent reaction has been very positive. With sales process training and product education completed in the fourth quarter, we are seeing growing sales momentum and expect incremental sales growth, as agents shift from third-party sales to the new Horace Mann product.

In addition, we have a number of marketing campaigns scheduled for 2016, matching specific life product solutions to tailored demographics. With the new Indexed Universal Life product in place, we now have a comprehensive Horace Mann manufactured product solution for the needs of a typical educator.

We complement our products with a robust general agency platform to ensure educators have access to products they need to meet their insurance needs. This solidifies our unique role as an educator's trusted advisor. We can protect what they have today, while helping them prepare for a successful tomorrow. We know that the core of a Horace Mann experience is a knowledgeable trusted advisor. We are keenly focused on improving the agent experience.

We know that agents who help educators design a holistic goal-based financial plan that includes appropriate insurance risk protection are more successful. They have higher retention and cross-sell rates, attract more customers and have a deeper relationship with the educators and school districts in their territories. As a result, in 2016, we will continue to increase agent training, raise minimum production standards and provide more corporate marketing support to help agents successfully attract more educator households.

In addition to improving the agent experience, we continue to focus on improving the customer experience in 2016. We want to be accessible to all educators on their terms and in all of our territories, even locations where we may not currently have an agent. For example, we know certain customers may want to begin their relationship through a direct channel. We know from experience that their financial needs become more complex, they tend to seek the personal advice of a trusted advisor.

But many customers, especially millennials, want to begin the process on their own. To better reach these customers, we established a sales channel through our customer contact center as a complement to our traditional agency channel, and we're encouraged by the early signs of success and plan to expand the inside sales team in 2016.

We continue to reinvest in our business, modernize our technology and improve our customer experience. Life and annuity infrastructure improvements continue in 2016 and we are making progress assessing the modernization needs of our P&C administration claim and billing system. These critical investments will result in a responsive customer-centric infrastructure that will allow us to respond to larger volumes of business that supports our profitable growth.

From a people perspective, I'm pleased to announce another talented addition to our senior management team. Don Carley recently joined Horace Mann as General Counsel, as our existing General Counsel, Ann Caparrós, has announced her intent to retire after 22 years of excellent service. Don joins us from State Farm, where he served as Associate General Counsel, and brings over 25 years of private practice and corporate experience.

Before I turn the call over to Dwayne, I'd like to touch on capital management. During 2015, we returned nearly $65 million to shareholders. At our March 2015 Board Meeting, we increased our dividend by 9% to $1, which is our seventh consecutive increase. In addition, we continue to repurchase shares. At our September Board Meeting, the Board authorized an additional $50 million in share repurchases.

Since the inception of our repurchase program in 2011, we have repurchased over 2 million shares, returning nearly $50 million of capital to shareholders. We believe a strong track record of book value growth, a compelling dividend and an opportunistic buyback program are the right combination to generate sustained long-term shareholder value. I'm confident in our ability to profitably grow and attract more educator households to this unique value proposition.

We made significant progress laying the groundwork for growth. During 2015, we completed the build-out of Horace Mann manufactured products and expanded the offering of our general agency platform. From a distribution perspective, our agents delivered solid improvements in profitability and productivity.

And from an infrastructure perspective, we are reinvesting in our business to ensure we have the right technology and systems to improve both the agent and customer experience, but also to ensure we have a solid foundation to support our profitable growth initiatives. And while it's early, we are clearly seeing signs of success. Auto sales and PIF are increasing, annuity sales remain strong and we expect double-digit life sales growth with the introduction of the new Indexed Universal Life product. And importantly, we expect auto profitability to improve in the second half of 2016.

And with that, I'll turn the call over to Dwayne.

Dwayne D. Hallman, Chief Financial Officer & Executive Vice President

Thanks Marita, and good morning, everyone. Fourth quarter operating income was $0.43 per diluted share, $0.25 lower than the prior year. $0.07 of the difference was related to the debt refinancing and negative DAC unlocking. Catastrophe losses were $0.08 higher than the prior year. We saw a lower level of favorable prior year reserve development, which was worth $0.04. The remaining difference was primarily related to higher auto loss severities and lower alternative investment income.

P&C after-tax income of $7.9 million was $8.3 million lower than the prior year quarter. This included $7.6 million pre-tax or five points of catastrophe losses, which was $5.6 million higher than the prior year. The relatively warm weather in the fourth quarter resulted in a higher than normal level of wind and thunderstorm activity across Texas, the Midwest and the Southeast.

The auto results for the quarter were impacted by continued elevated level of physical damage severities, along with an expected increase in frequency. It typically occurs every fourth quarter. We analyzed this quarter's increase in frequency and noted claim patterns were very similar to our experience in previous years.

Given the uncertainty around elevated severity trends, we basically held prior year reserves in auto versus the $2.7 million of favorable reserve development in the prior year. In property, we released $2.4 million pre-tax of prior year reserves largely related to the 2013 and prior accident years. Historically, our reserving practices tend to be conservative and our reaction to emerging auto trends is no different. Our independent actuaries conducted their annual reserves study and the results indicated that our level of carried reserves in comparison to their range was at the high-end, a result that was consistent with prior years.

P&C written premiums increased 4% to $151 million in the quarter, largely on rate actions and growth in policies in force. Written premium for auto was up 5% and property increased 2%. Retention remained relatively stable at nearly 85% in auto and over 88% in property. P&C net investment income for the quarter was impacted by negative returns within the alternative investment portfolio, and as a result, it was about $2 million lower than more typical quarterly results.

In both annuity and life segments, operating income excluding DAC unlocking was generally in line with the prior year quarter. On a full-year basis, consolidated operating earnings were $2 per share, $0.30 lower than the prior year. Similar to the fourth quarter, higher catastrophe losses, lower favorable prior year reserve development, a larger amount of negative DAC unlocking and debt refinancing costs, as well as elevated life mortality drove the difference compared to the prior year.

In addition to these items, the higher auto physical damage loss severities over the past three quarters impacted full-year results. As Marita mentioned, we acted aggressively with rate and other underwriting initiatives to get ahead of the increasing loss trend and expect to see profitability improvements in 2016, as the rate increases are reflected in earned premium.

Full-year P&C operating income was $40 million, a $7 million decline compared to the prior year. The combined ratio of 97 points was 0.9 points worse than the prior year, reflecting a higher level of catastrophe activity and lower prior year reserve development. The underlying combined ratio was nearly a point better than the prior year, as the 6.2 point improvement in property more than offset the 1.7 point increase in auto.

Reported annuity operating income of $43.4 million for the year included $2.2 million after-tax or $0.05 of negative DAC unlocking, largely related to equity market performance that was lower than our annual return assumption. Excluding the impact of DAC unlocking and looking at the earnings power of our annuity business, income was largely in line with the previous year at $45.6 million. Assets under management and sales continue to grow at a good pace and persistency levels remained strong at approximately 95%.

The net interest spread continues to compress, in line with expectations and ended the year at 184 basis points. We expect the net interest spread to continue to decline in 2016 given our interest rate outlook. Some of the spread compression is mitigated as we layer on new business at attractive spread levels, but overall we expect continued spread compression in 2016.

In the Life segment, full year operating earnings of $15 million declined $2.5 million, primarily as a result of mortality costs that were higher than expectations. We continue to carefully monitor claims activity and are seeing no indicators of any adverse changes in underwriting quality. Consolidated net investment income was $333 million for the year, modestly higher than the prior year. The increase reflected higher asset balances in the Annuity segment, however the portfolio yield declined 26 basis points over the course of the year to 5.06%.

Despite the challenging interest rate environment, we exceeded our targeted new money yield of 3.75% with an average new re-investment rate of just over 4%. We continue to be successful in sourcing opportunity to put money to work at attractive risk adjusted returns without going down in credit quality or extending duration.

In fact, during 2015, we shortened durations slightly and are now essentially duration neutral. We did see some pressure on limited partnership and alternative investments in the second half of the year. We have about a $130 million invested in this asset class, which comprises less than 2% of our investment portfolio.

Valuations continue to be impacted by equity market volatility and widening fixed income spreads. On an annual basis, we generally expect this asset class to generate a 6% return, and the annual return for 2015 was materially below our targets.

Looking ahead to 2016, should we continue to experience equity market volatility and widening credit spreads, particularly in the high yield space, we may see continued pressure on limited partnership returns. We have approximately $190 million in energy related holdings in our core fixed income portfolio. This includes $15 million of below investment grade holdings.

As I mentioned on our second quarter earnings call, we stress tested our energy related holdings in early 2015 assuming a decline in oil prices to the $25 barrel level and we took action, reducing exposures by 30% throughout the year.

We continue to be proactive in looking forward. We are aware of several weaker energy companies taking preemptive action by hiring financial advisors to explore restructuring options as well as drawing down credit facilities to provide operational flexibility. This could be a sign of further deterioration in this space. Consequently, we and our asset managers, continue to evaluate the portfolio, including our structured holdings to identify at risk assets to limit further downside risk. We remain confident in the quality of our entire investment portfolio and are well positioned to take advantage of potential buying opportunities in the marketplace.

Turning to the balance sheet, we successfully refinanced our senior debt in December, issuing $250 million of 10 year senior debt at 4.5%. We were very pleased with the execution of the deal, which was substantially oversubscribed. During 2015, we generated about $85 million of statutory operating income, while our RBC ratios aren't final, we estimate P&C is around 550% with a premium to surplus ratio of about 1.3. The life company RBC is around 450%. We have a healthy cushion of excess capital which will fund organic growth, while also funding dividends and share repurchases.

We continue to be opportunistic in deploying excess capital through share repurchases, especially in times of market volatility. In the fourth quarter, we repurchased nearly 200,000 shares at about $1 below VWAP. At the end of the year, we had $51 million remaining on our existing share repurchase authorizations. We will continue to be disciplined in our approach and take advantage of market dislocations to repurchase shares.

Looking ahead to 2016, our guidance for the full year operating income is between $2.15 and $2.35 per share; the midpoint, which represents 12% earnings growth over 2015. Our guidance estimate assumes a return to higher profitability in auto, modestly lower annuity earnings that reflect continued spread compression, and life earnings that reflect mortality in line with actuarial expectations.

In addition, we've included $4 million to $5 million after tax of additional expenses for technology and systems modernization, as well as enhanced training and education for our agents. These strategic investments impact the P&C expense ratio as well as operating expenses in annuity and life segments.

And if you recall, in the first quarter of 2015, we benefited from the $3 million after tax reduction in incentive compensation accruals, which had about a third of a point benefit to the full year P&C expense ratio. As a result when you combine the two, you will see a modest increase in operating expenses in annuity and life, as well as nearly 1 point increase in the P&C expense ratio in 2016. We've included these costs in our guidance assumptions for the business segments, which I'll cover shortly.

As I mentioned earlier, interest rates continue to be a headwind and our guidance includes a 4% reinvestment rate assumption. This is lower than our 2015 portfolio, the 5.06%. And as a result, we expect the average portfolio yield to decline about 10 basis points over the course of 2016. We estimate that every 25 basis point change in the reinvestment rate impacts earnings by about $0.02 per diluted share on an annual basis.

Turning to our outlook for the business segments, we expect property and casualty written premiums to grow between 4% and 6%, which reflects rate increases and continued growth in auto sales. We expect retention to be relatively stable in auto and down modestly in property, as a result of the continued defensive actions. We expect the underlying auto loss ratio to improve by 1 point to 1.5 points, largely the result of profitability actions that take hold throughout the year. We will be squarely focused on severity trends and we'll take additional rate actions as necessary to drive margin improvement.

While we continue to benefit from rate, underwriting actions and reinsurance cost savings and properties, we expect underlying loss ratio improvement to be more modest compared to the significant improvement in 2015. And as a result, we are projecting about 0.5 point improvement in 2016. We are assuming a 6 point catastrophe load and a more modest amount of favorable reserve development compared to 2015.

We expect the P&C expense ratio to be approximately 27.5 points, which would be equivalent to the expense ratio back in 2014 for the full year. In total, we expect the reported combined ratio to be 1 point to 1.5 points better than the 97% we reported in 2015, largely due to underlying auto improvement. This will move us closer to our goal of a mid-90%s combined ratio.

In our annuity segment, we expect ex-DAC operating earnings to be between $40 million and $45 million. While we have been successful in proactively managing crediting rates, the prolonged low rate environment is a clear headwind as we enter 2016. Given our assumptions on interest rates, we expect spreads will breakdown to the low 170s through 2016. This assumption reflects the positive spread contribution of new business and we expect continued modest sales growth in annuities.

Our life earnings assumptions reflect mortality consistent with our actuarial models, as well as continued net investment income pressure given our reinvestment rate assumptions. As a result, we expect life segment earnings to be in the range of $12 million to $14 million, which includes an additional $1 million of expenses compared to 2015 related to our modernization efforts. Overall, our operating income guidance of $2.15 to $2.35 per share reflects auto severity trends, low interest rates and additional expenses as we modernize our technology and infrastructure.

While the macro-environment clearly presented some challenges in the latter half of 2015, we remain well positioned to continue to capitalize on our unique value proposition within the educator market. We have the right products in place along with an ongoing focus on boosting agent productivity and improving the customer experience. Sales momentum is strong, our agents are energized, and we expect 2016 to be a year of profitable growth.

I'll now turn the call over to Ryan to start the Q&A.

Ryan E. Greenier, Vice President-Investor Relations

Thanks, Dwayne. Donna, please open up the lines to begin the Q&A portion of the call.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will be conducting a question-and-answer session [Operator Instructions]. Our first question is coming from Robert Glasspiegel of Janney Montgomery Scott. Please proceed with your question.

<Q – Bob Glasspiegel – Janney Montgomery Scott LLC>: Good morning Horace Mann.

<A – Marita Zuraitis – Horace Mann Educators Corp.>: Good morning, Bob.

<Q – Bob Glasspiegel – Janney Montgomery Scott LLC>: Question on how much capital you have at the parent?

<A – Dwayne Hallman – Horace Mann Educators Corp.>: Hi, Bob, this is Dwayne. Good morning I'll talk about the capital levels across the board and I know you tend to be interested in excess capital from time-to-time. So, our estimate now is about $72 million of excess capital above our targets and that's about, [ph] think about (30:52) $25 million in life, about $43 million or so in P&C and then we have about – between $3 million and $5 million of cash up at the holding company. We don't – as you know we don't do extracurricular activities at the holding company and we tend to bring the dividends and some capital up to the holding company on an as-needed basis with a bit of a cushion.

<Q – Bob Glasspiegel – Janney Montgomery Scott LLC>: You said $23 million? You faded away at the parent. I couldn't hear that.

<A – Dwayne Hallman – Horace Mann Educators Corp.>: Between $3 million and $5 million of cash up at the holding company. As you know, we tend to keep things down in the subsidiaries and bring funds up. We did, as we noted, buy some shares back in the fourth quarter...

<Q – Bob Glasspiegel – Janney Montgomery Scott LLC>: Great.

<A – Dwayne Hallman – Horace Mann Educators Corp.>: ...which used some of that cash that was up at the holding company.

<Q – Bob Glasspiegel – Janney Montgomery Scott LLC>: And at the current sort of growth rate, what sort of ratio of GAAP – of statutory to GAAP earnings do you run at in 2016?

<A – Dwayne Hallman – Horace Mann Educators Corp.>: It's relatively consistent between GAAP and stat just given the maturity of our life business. So, to give you an idea of the stat income for 2015, it was about $87 million or so. So, slightly less than the GAAP number just as we begin to grow the life business, which has statutory penalty to it and obviously continued growth in annuity but not far off.

<Q – Bob Glasspiegel – Janney Montgomery Scott LLC>: You review the dividend in your March Board meeting, is that when you consider increases?

<A – Dwayne Hallman – Horace Mann Educators Corp.>: That's correct, Bob.

<Q – Bob Glasspiegel – Janney Montgomery Scott LLC>: Okay. On the DAC, you said there was a charge because of equities. Fourth quarter was up, the year was flat. A bit surprised that it hit in the fourth quarter. Was that true-up for the year that you were behind on or your equities just underperformed in Q4?

<A – Matt Sharpe – Horace Mann Educators Corp.>: Bob, it's Matt, how are you today?

<Q – Bob Glasspiegel – Janney Montgomery Scott LLC>: Good, Matt.

<A – Matt Sharpe – Horace Mann Educators Corp.>: When you look at the annuity DAC, the full year DAC impact was predominantly market performance. So the total fund performance for the full year was nearly zero.

<Q – Bob Glasspiegel – Janney Montgomery Scott LLC>: Right.

<A – Matt Sharpe – Horace Mann Educators Corp.>: In our DAC model, we use 3% per quarter and to the extent the actual returns are above or below that 3%, for the quarter we have DAC unlocking. So, 1% variation from the assumption results and about $200,000 to $300,000 in pre-tax DAC impact, so in this case the full year impact was approximately 12%, because we had near zero performance and the model was 12% for the full year. In the fourth quarter we also have updated assumptions, which also made their way into the performance.

<Q – Bob Glasspiegel – Janney Montgomery Scott LLC>: Yeah, I guess I understood the year. I just didn't understand the fourth quarter where the market was up more than 3%. But maybe your review of the overall assumptions clearly were set up for a charge in Q1 if we close the market today. Was that based – did you have that in your analysis? I mean, did you – was your guidance based on 12/31 equity valuations or February, today? I guess that's a Dwayne question.

<A – Dwayne Hallman – Horace Mann Educators Corp.>: Yes, our guidance back on our third quarter call was obviously looking forward with some expectation of equity performance, but with the combination of equity performance and the assumption changes, we were slightly off but not materially.

<Q – Bob Glasspiegel – Janney Montgomery Scott LLC>: So I guess, my question is your 2016 guidance, sorry. What was the starting point for equities?

<A – Dwayne Hallman – Horace Mann Educators Corp.>: Yeah, the 2016 guidance assumes we generally hit our embedded DAC assumptions. So, we haven't projected out the negative performance for the full year for [indiscernible] (34:44).

<Q – Bob Glasspiegel – Janney Montgomery Scott LLC>: I didn't mean negative performance for the full year. I meant negative performance till now. I'll hit this with Ryan, I guess if there's noise between my question and the answer.

<A – Dwayne Hallman – Horace Mann Educators Corp.>: No, I understand. We didn't go in and at this point adjust guidance for activity that's occurred up through today year-to-date. We do look at over 12 months period with some assumption that there would be recovery in the market over the full year. But if there's not then obviously what we've experienced so far this year would have an impact.

<Q – Bob Glasspiegel – Janney Montgomery Scott LLC>: Got you. Thanks so much.

<A – Dwayne Hallman – Horace Mann Educators Corp.>: Thanks, Bob.

<A – Marita Zuraitis – Horace Mann Educators Corp.>: Thanks, Bob.

Operator: Thank you. Our next question is coming from Sean Dargan of Macquarie. Please proceed with your question.

<Q – Sean Dargan – Macquarie Capital (USA), Inc.>: Thank you. I want to follow up on Bob's first question. With your shares trading below GAAP book value here, what limitations do you have, or what's the statutory formula to get that $25 million of excess life capital and $40 million of P&C capital up to the hold co?

<A – Dwayne Hallman – Horace Mann Educators Corp.>: This is Dwayne. From a dividend standpoint, we can move up, I think, it's about $90 million of dividends up to the holding company either out of the P&C or the life companies without any pre-approval from the state. So we don't have any barriers there. But one of the advantages we have in our capital structure is our companies aren't stacked, so the holding company owns the life company and also holds direct ownership into the individual P&C company, so very, very flexible structure to bring funds up.

<Q – Sean Dargan – Macquarie Capital (USA), Inc.>: Okay. And as you think of how the market's valuing your stock here, and it's going to take some – a little time to re-price auto. How – traditionally, I don't think you've been too aggressive on share repurchase, but is this the kind of environment where it makes sense perhaps to step up share repurchase? And do you have to wait until the next board meeting to get another authorization?

<A – Dwayne Hallman – Horace Mann Educators Corp.>: Well the board meeting last – near the end of last year we had an additional authorization of $50 million. As we ended the year we have about $51 million under authorization. So as we started to use that program, obviously we'd go back to the board and ask for another authorization.

As far as the current environment, I think based on just what you saw in the fourth quarter, certainly would view it as an opportunistic time. We do have 10b5-1 plans in place. We do that during blackout periods. This year was no different. And we continued to – we'll do them every quarter. But given that we're still operating under that 10b5-1 plan, I wouldn't go into anymore details with that. As we get to the 10-K filing period you'll see more evidence of that plan.

<A – Marita Zuraitis – Horace Mann Educators Corp.>: And Sean, it's Marita. You started your question indicating that it may take some time to re-price auto, I heard that at the beginning of your question. I just want to remind us if we go back several quarters, you'll see us talking about the increase in severity trends in our auto line and the rate actions and the underwriting actions that we put in place to mitigate that, as well as the rate that we've already filed and got approved for impact in 2016. A lot of that rate, to cover that severity trend that I think we saw early is already in the pipeline and already baked. So, I don't think that there is a long time on the re-pricing of auto the way you phrased it.

And also reminding us that we have a homogeneous set of customers here in the teacher segment, their patterns are predictable. We've been in this business for 70 years. We understand the business well and how these – and how our auto book performs. So I feel like we saw it, we're on it and a good part of that re-pricing has already occurred if you will.

<Q – Sean Dargan – Macquarie Capital (USA), Inc.>: Okay, thanks. And then just turning to the alternative investment portfolio, can you remind us on how long of a lag there is in reporting? So in other words, just trying to size what the headwind will be in first quarter results?

<A – Dwayne Hallman – Horace Mann Educators Corp.>: We report in the current quarter as the results are incurred. So for instance, in the third quarter that reflected third quarter activity. In the fourth quarter, it reflects fourth quarter activity. So we're pretty close to the managers and get our results and get them booked. So we don't run on a quarter lag as you may see in other places.

<Q – Sean Dargan – Macquarie Capital (USA), Inc.>: Okay, thank you.

Operator: Thank you. Our next question is coming from Meyer Shields of KBW. Please proceed with your questions.

<Q – Meyer Shields – Keefe, Bruyette & Woods, Inc.>: Okay. Thanks, good morning. On the auto reserve [ph] issue, (39:57) is there any way of sort of splitting up the reserve actions on prior-year physical damage versus liability reserves?

<A – Bill Caldwell – Horace Mann Educators Corp.>: Meyer, could you report the first part of your question, you didn't come through clearly, sorry.

<Q – Meyer Shields – Keefe, Bruyette & Woods, Inc.>: Yeah, I'm sorry, I get that a lot. I was wondering whether you could provide a breakdown of reserve development within auto, but broken up between liability and physical damage?

<A – Dwayne Hallman – Horace Mann Educators Corp.>: In the fourth quarter, we didn't really have any auto favorable reserve releases and there wasn't a swing between those two coverages either, we just remained at a conservative position.

<Q – Meyer Shields – Keefe, Bruyette & Woods, Inc.>: Okay. That's what I wanted to understand.

<A – Dwayne Hallman – Horace Mann Educators Corp.>: Okay.

<Q – Meyer Shields – Keefe, Bruyette & Woods, Inc.>: Is there any way of ball-parking the impact of premium trend as a way of absorbing some of the physical damage severity? In other words, besides the actual filed rate increases, just the fact that there are more expensive cars driving the higher loss cost should also I think have an impact on premium?

<A – Bill Caldwell – Horace Mann Educators Corp.>: I can speak to the total rate plan, which obviously will mostly be driven towards liability, property damage, and also physical damage. So when we look at the overall rate plan for 6% that's designed to exceed what we expect loss trends to be, that will parlay into premium trends. So we feel confident that those levels will exceed the loss trends that we expect on physical damage. When I break down what's occurring with physical damage, it's not only those newer cars with more technology that's expensive to repair. It's also the phenomenon of older cars being on the road. The average vehicle on the road is 12 years. They tend to total easily just because the damage to the value ratio is very high. So when we think about that whole process you're looking at cycle time, rental days, storage, salvage, the scrap metal market. There is a lot of pieces in there outside of rates that will be attacking to mitigate some of the physical damage severities.

<A – Marita Zuraitis – Horace Mann Educators Corp.>: Yeah, Bill is absolutely right. I'd add to that that when you look at our premium per policy quarter-over-quarter for some time, that average premium per policy is increasing quarter-over-quarter. I think that's a good stat to watch. You combine that with breaking down the segmentation of the business and seeing even though the premium per policy is going up, we're seeing more educators and being in that preferred educator bucket, then you also combine that with the mix shift in geography and seeing more of the premium coming from our more profitable geographies and I feel good with where all those arrows are going in the book.

<Q – Meyer Shields – Keefe, Bruyette & Woods, Inc.>: Okay. Fantastic.

<A – Marita Zuraitis – Horace Mann Educators Corp.>: Thanks.

Operator: Thank you. Our next question is coming from Christine Worley of JMP Securities. Please proceed with your question.

<Q – Christine Worley – JMP Securities LLC>: Good morning. Most of my questions have been asked and answered. But just a few clean-up, sort of looking at the PIF growth that we're seeing in auto, am I correct in thinking that this would be stronger growth in sort of the more preferred segmentation, more than offsetting any underwriting actions that you're taking on the less preferred, or where you're seeing the severity issues?

<A – Bill Caldwell – Horace Mann Educators Corp.>: Christine that's exactly right. So Marita talked about our improved segmentation, that really targets a more preferred rate for a better educator. Last year roughly we introduced that segmentation in about half our markets. So we still have a lot of headroom to introduce the advanced segmentation in more markets and expect the growth patterns to be similar to 2015.

<A – Marita Zuraitis – Horace Mann Educators Corp.>: Yeah. And I think you're thinking about the math right, and it's exciting to see auto PIF growth for the first time since 2007. That just means that you're thinking about your defensive actions and your offensive actions appropriately. I mean we've said this from the beginning that auto is a game of inches, it's a game of analytics, it's a game of segmentation. And if you think about the average policy premium, the preferred educator segmentation, the geographic mix that I just spoke about, you can look at these dials and levers. And at the end of the day, if you're doing it and increasing your PIF count, all those arrows feel pretty good.

<Q – Christine Worley – JMP Securities LLC>: Okay, thanks. And then just sort of one clarification for myself. I know that in your auto book you have some fourth-quarter seasonality that tends to tick up, and I understand that that's sort of where you're geographically concentrated. You tend to get a little bit more weather in the fourth quarter. I would think that that would impact the first quarter as well. I guess, what's the dynamic that makes that more of a fourth quarter event that we don't see to some degree in the first quarter as well?

<A – Bill Caldwell – Horace Mann Educators Corp.>: Hi, Christine, that's a good question. So when we unpack it, it's really driven by the frequency in the fourth quarter and we categorize that as winter weather. And I wouldn't necessarily go down the path of snow and blizzard. It's more about the heavy rains. For example, North Carolina tends to see higher frequency in the fourth quarter. And in the first quarter when you tend to see more snow and icy roads, there is actually that pull back in exposures that people don't drive on the roads. So I think especially in this fourth quarter where we saw a lot of geographies with just heavy rains. I'm [ph] not really expect (45:37) frequency versus the first quarter where it tends to – when people are out of work or schools closed there tends to be less opportunity for accidents.

<Q – Christine Worley – JMP Securities LLC>: Okay, thanks.

<A – Marita Zuraitis – Horace Mann Educators Corp.>: And remember that with flooding for the most part, those significant floods like Bill mentioned in the Carolinas is excluded from the majority of our homeowners' policies. But if they've got comprehensive coverage on auto that flooding is included in an auto policy. So, flood can – in a given quarter water can affect the auto line.

<Q – Christine Worley – JMP Securities LLC>: Okay, great. Thank you for the answers.

Operator: Thank you. Our next question is coming from James Inglis of Philo Smith. Please proceed with your question. Sir, your line is live, please make sure your phone is not muted at this time.

<Q – Jamie Inglis – Philo Smith Capital Corp.>: I'm sorry, I was muted. Good morning, folks.

<A – Bill Caldwell – Horace Mann Educators Corp.>: Good morning, James.

<A – Marita Zuraitis – Horace Mann Educators Corp.>: Good morning.

<Q – Jamie Inglis – Philo Smith Capital Corp.>: [ph] Dwayne, (46:37) I guess, you're the guy to ask the question. Could you speak to the reinsurance program in place in the property and casualty segment? And to what extent you may have garnered any gains in the recent years and going forward by changing your program, if you have and if so, how?

<A – Dwayne Hallman – Horace Mann Educators Corp.>: Sure, Jamie. We continue to benefit from the decreased pricing in the reinsurance market and it's just not from an exposure based analysis. The rate online on a risk adjusted basis continues to decline. One of the advantages we had with our program is we were already buying at a significant level of well above 1-in-200, about 1-in-250 several years ago. And as prices started declining, we didn't have the need to go buy additional cover with the savings. So as we've managed our book and eliminated our Florida exposure, which over the last three years have been about 10,000 PIF, we've actually increased our 1-in-X event, maintaining our current structure to about 1-in-330, so an extremely strong program. So as we continue to reap benefits and savings from the reinsurance program, we're able to put that back into our property line both in capturing some of that savings but also building to obviously be able to market a more competitive product to our educators.

<Q – Jamie Inglis – Philo Smith Capital Corp.>: Right. Okay. On a separate topic, you had spoken about the investment in the operations, modernizing infrastructure, et cetera. I'm trying to get a sense of what is the drag on that and what is the timing? And I guess finally, to what extent is the investment ongoing? I mean, I'm sure you'd love for it to go away, but we all know that's never going to happen. So I wonder if you could speak on it?

<A – Marita Zuraitis – Horace Mann Educators Corp.>: Yeah, I'll let Dwayne follow-up if he has any specifics, but first of all I wouldn't consider it a drag. As Dwayne mentioned in his script we're talking about expense ratio levels that I think are quite good and quite competitive that we had in 2014. So, we are investing in our business at an appropriate rate. I think we've done it thoughtfully and spread that investment out over several quarters. And it's all around our strategy to improve as we've said both the agency experience as well as the customer experience and make sure that the profitable growth that we're already seeing and will continue to see come through that we've got an infrastructure that can more than handle the growth that we expect to see come through. So, I think it's a very competitive expense ratio and it's at the level that we've been talking about for some time with the investments that we started making in 2014 and we'll continue to make as we move forward.

<Q – Jamie Inglis – Philo Smith Capital Corp.>: But what I'm getting a sense, is do you expect that the levels of investment to continue as it is, or do you think that it will taper off here somewhere?

<A – Dwayne Hallman – Horace Mann Educators Corp.>: Jamie I think the way you need to think about is we're always investing in the business.

<Q – Jamie Inglis – Philo Smith Capital Corp.>: Sure.

<A – Dwayne Hallman – Horace Mann Educators Corp.>: We're extremely disciplined when it comes to expenses and we make room to be able to put some extra funds towards those investments. So, as I mentioned about $4 million to $5 million. 2015 had a slight decrease in our expense ratio and that's why we're referencing 2014. So, as we're starting to show growth in the P&C, it obviously provides opportunity to make those investments. But also several years ago, we made some pretty large investments in technology in our P&C operations. We're nearing the end of some of that depreciation cycle. So, as that falls off and we begin to lay our own new technology and other innovative investments, there you won't see a big increase in the expense ratio. So, as we said, we will invest. Now I think I would probably be fearful if I begin to tell you that our expense ratio was gliding down by 1 point or 1.5 point because we stopped making investments. I think I'd be more frightful of that experience than the direction we're going.

<A – Marita Zuraitis – Horace Mann Educators Corp.>: Yeah, and you can point at some of the investments we've already made that we can clearly point to growth coming from those investments. We mentioned in the script...

<Q – Jamie Inglis – Philo Smith Capital Corp.>: Right.

<A – Marita Zuraitis – Horace Mann Educators Corp.>: ...the investments we put into a complementary channel in our customer contact center, so that educators could contact us directly and begin their experience directly with the company, because eventually they're going to need the advice of a trusted advisor at the point of sale and our EA model is there to support it. But you have to build the technology, you have to have the people, you have to have the processes and the systems, so that people can reach out to you directly. And we're seeing the benefit of that investment. As we see more and more ways to attract and increase educator households, we're going to continue to innovate and do that and we're committed to doing it with a competitive expense ratio that I think we've had for some time. So Dwayne hit the nail on the head. This is about finding ways to attract educator households and investing in the technology and infrastructure necessary to do exactly that.

<Q – Jamie Inglis – Philo Smith Capital Corp.>: Okay, great. Thanks.

<A – Dwayne Hallman – Horace Mann Educators Corp.>: Thanks, Jamie.

Operator: Thank you. [Operator Instructions] Our next question is coming from Robert Glasspiegel of Janney Montgomery Scott. Please proceed with your follow-up question.

<Q – Bob Glasspiegel – Janney Montgomery Scott LLC>: Marita, you're probably surprised I didn't go at this one the first time around. What inning are we here in the agency culling process? I applaud the efforts you've been achieving at improving agent productivity, which you continue to hit me back in the head as your primary game plan versus growing your distribution channels. But are we 70%, 80% through culling? And when do you think we can begin to grow?

<A – Marita Zuraitis – Horace Mann Educators Corp.>: Well in a game that never ends, it's hard to call the inning, Bob. You see in the numbers we are increasing our EA count, so we are finding ways to recruit and train new agents to this model. You obviously see the ongoing decrease in the employee count, which was planned. But with that in mind you know that our focus has been on giving the good agents that we have the tools necessary to improve their productivity and that's working extremely well for us. The name of the game is really increasing the amount of territories we have covered with a good trusted advisor at the point of sale. And every time we increase our training, every time we build a new product, every time we give our good agents something to sell and the tools necessary to improve their access and improve the reach into the educator household, they come through with productivity around either that product or that approach that we've taken.

And we have lot of examples of a goal-based understanding of our educator segment. And when we build a solution around that, our agents take it, they run with it and they increase their educator count. So, this really has been a thoughtful approach to think about how do we establish minimum standards for those agents, assess them against those minimum standards, take a modular approach and train them for those pieces that they might not be as strong at. And then once you reverse engineer success and you know what it looks like, it's easier to recruit and train against that vision of what a really good successful agent looks like. So, I think this is playing out exactly the way we planned and I feel good about the enthusiasm and the momentum with the agents we have and I feel really good about understanding how to recruit and train agents in the future against that model, so we can increase the covered territories that we have across the country. And I'm glad you asked the question, Bob.

<Q – Bob Glasspiegel – Janney Montgomery Scott LLC>: Well, thank you for the thoughtful answer. I just got my sort of annual solicitation from you to become an agent. So I know you're casting your nets widely.

<A – Marita Zuraitis – Horace Mann Educators Corp.>: Bob, we'd love to have you when you're ready to hang up what you're doing, we'd love to have you. You'd make a good [ph] agent for us. (55:53)

<Q – Bob Glasspiegel – Janney Montgomery Scott LLC>: I don't think – I'm tough to manage, Marita.

<A – Marita Zuraitis – Horace Mann Educators Corp.>: That's okay, I can handle it.

<Q – Bob Glasspiegel – Janney Montgomery Scott LLC>: Thank you.

<A – Marita Zuraitis – Horace Mann Educators Corp.>: Thanks, Bob.

Operator: Thank you. Our next question is coming from Meyer Shields of KBW. Please proceed with your follow-up question.

<Q – Meyer Shields – Keefe, Bruyette & Woods, Inc.>: Thanks. I'm just trying to work my way through the auto loss ratio progress over the course of 2016. Obviously in the back half of the year, you should have much higher rate and presumably less of a step-up increase in severity compared to the year-over-year we saw in 2015. But in the first half of the year, should we be thinking about largely flat loss ratio year-over-year? Or should there still be that sort of severity impact that doesn't have the full offsetting impact of rate increases?

<A – Dwayne Hallman – Horace Mann Educators Corp.>: Let me just unpack kind of what we're seeing from the frequency and severity perspective. So, 2015 I would characterize for us and it varies a little bit by coverage and geography but I would characterize that as flat versus prior year. So, in 2016 we expect an increase, I wouldn't call it an overall increase but an increase to normalized levels but definitely an increase over prior year. When I look back at severity, much higher, I'll call it higher single digit trends in severity, we expect those also to go to normalized levels. So, more in the 3% to 4% range.

So you combine those two with the 6% rate, a lot of that rate is front-ended and on six months policies. So, as Marita said, we're not talking about rates that we intend to file, this rate is effective, it's been approved, it's been through the process, it's programmed, it's tested, it's ready to roll. So from that perspective I'm pretty confident in the trends that our rate will outpace the loss trends we expect to see going forward. But pretty early in the year, in the first half of the year.

<Q – Meyer Shields – Keefe, Bruyette & Woods, Inc.>: Okay. Perfect. Thanks so much.

Operator: Thank you. At this time I'd like to turn the floor back over to management for any additional or closing comments.

Ryan E. Greenier, Vice President-Investor Relations

Thanks, Donna, and thanks to everyone that joined us this morning on the fourth quarter and full year earnings call. If there are additional follow-up questions, don't hesitate to reach out to the IR team. Thanks.

Operator: Ladies and gentlemen, thank you for your participation. This concludes today's teleconference. You may disconnect your lines at this time and have a wonderful day.