

Horace Mann Educators Corporation 2015 Annual Report and 10-K



Financial Highlights

(Dollars in millions, except per share data)

Year Ended December 31,	2015	2014	2013
Operations			
Insurance premiums written and contract deposits (A)	\$ 1,256.5	\$ 1,167.7	\$ 1,094.2
Net income	93.5	104.2	110.9
Operating income (A)	84.9	97.3	96.5
Return on equity (B)	7.1%	8.4%	9.6%
Property & casualty combined loss and expense ratio	97.0%	96.1%	96.3%
Per share			
Net income-diluted	\$ 2.20	\$ 2.47	\$ 2.66
Operating income (A)-diluted	\$ 2.00	\$ 2.30	\$ 2.32
Dividends paid	\$ 1.00	\$ 0.92	\$ 0.78
Book value	\$ 31.18	\$ 32.65	\$ 27.14
Book value excluding the fair value adjustment for investments (A)	\$ 26.86	\$ 25.38	\$ 23.83
Financial position			
Total assets	\$ 10,059.3	\$ 9,768.5	\$ 8,826.7
Short-term debt	—	38.0	38.0
Long-term debt	249.3	199.9	199.9
Total shareholders' equity	1,264.7	1,336.5	1,099.3

(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

Strategy continues to take hold in 2015

Horace Mann proudly celebrated 70 years of serving the nation's educators in 2015. *Founded by Educators for Educators®*, we remain focused on our core market, K-12 educators, and continue to build upon our strong, stable foundation of fiscal conservatism. This niche market focus positions us to gain unique insights into the needs and preferences of the educator market better than competitors, while also allowing us to be laser focused on providing financial services and insurance solutions tailored to meet the evolving needs of our nation's educators.

During 2015, we continued to build upon our success as the leading financial services and insurance company for educators. We do this through our PDI strategy – building additional **product** offerings, advancing our **distribution** system and modernizing our **infrastructure**. While we devoted significant time and effort to those strategic PDI enhancements, we also successfully delivered another year of solid financial performance and attracted more educator households to our compelling value proposition.

It's through our PDI strategy that we are establishing the foundation for continued profitable growth. Through effective pricing, underwriting and marketing approaches, we are successfully attracting profitable educator business – in all three business segments. We are successfully executing our strategy to offer tailored products to meet educator needs while providing various distribution options to allow educators to access us according to their preferences. In addition, we remain diligent in our efforts to enhance and modernize our infrastructure to provide the customer experience our educators expect and deserve.

This unique value proposition and niche market focus continue to produce strong financial returns. 2015 operating income of \$2.00 per diluted share resulted in nearly 6% growth in book value per share excluding net unrealized gains on investments, ending the year at \$26.86 per share. We remain committed to focusing on the profitable growth necessary to produce sustainable growth in book value per share.

From a capital management perspective, we continue to return capital to investors via an attractive dividend and opportunistic share repurchases. In 2015, we increased our dividend by 9% to an annualized dividend of \$1.00 per share, marking the seventh consecutive year of increased shareholder dividends for Horace Mann investors. In addition, we repurchased \$22 million of shares in 2015. In total, we returned \$64.5 million to shareholders in 2015.

During 2015, we successfully refinanced our senior debt. As a result of favorable market conditions and the strength of our business model, we secured an attractive, long-term interest rate that reduces our overall interest expense. In addition, the Board approved an additional \$50 million share repurchase authorization during 2015, and we will continue to opportunistically execute share repurchases.

Improving P&C sales momentum and solid underlying P&C profitability

The property and casualty segment produced a combined ratio of 97.0%, approximately 1 point higher than the prior year. As a result, net income for the property and casualty segment declined \$6.9 million to \$40.0 million, compared to the prior year. This decline

reflected modestly higher catastrophe losses, as well as a lower level of favorable prior years' reserve development. This was somewhat offset by a nearly 1 point improvement in the underlying combined ratio, which was 91.7%, for the year.

During 2015, we, like most of the industry, experienced an increase in auto loss severities, mainly related to higher repair costs, which increased the auto combined ratio 3.2 points to 102.4%. We responded to these trends rapidly, through increased pricing, loss containment actions and underwriting improvements. We expect to see the benefits of these actions emerge in 2016.

Results for the property line were particularly strong in 2015 with a 4.0 point improvement in the combined ratio and a 6.2 point improvement in the underlying combined ratio. This improvement reflected earned rate increases and reinsurance cost savings, as well as underwriting actions to improve the profitability of our book.

We continue to advance pricing, underwriting and growth initiatives to improve profitability, with a goal of achieving a mid-90s combined ratio. Importantly, from a reserve perspective, we remain conservative, at the high end of an independent actuarial range.

Total property and casualty written premium increased 4% to \$606 million, reflecting rate increases and accelerating auto sales momentum. During 2015, we continued to roll out enhanced product and pricing segmentation to more geographies. These enhancements, combined with targeted marketing efforts, resulted in strong auto policy sales growth. Auto sales increased 7% and contributed to an increase in the number of auto policies in force for the first time since 2007. This growth was fueled by preferred educator business – a trend that continues into 2016.

Our ability to provide comprehensive insurance solutions to our customers contributes to retentions above industry averages. Our policy retention for auto and property ended the year at 85% and 88%, respectively. There are also significant retentive benefits to adding a life or annuity product to a P&C customer's portfolio, and our auto retention ratio increases to approximately 95% when a customer purchases our full suite of products.

Strong Annuity sales growth in a challenging interest rate environment

Annuity results for 2015 were solid, and net income decreased \$1.9 million to \$43.4 million, which reflected a \$2.2 million increase in negative pretax unlocking compared to 2014. Assets under management increased 5% to \$6 billion. Sales increased 9%, and total cash value persistency remained very strong at approximately 95%.

We continue to see strong interest in our Fixed Indexed Annuity (FIA) product, as well as robust customer demand for traditional fixed and variable annuity offerings. In addition, we are making progress in our efforts to build institutional sales capabilities and enhance our 403(b) retirement product offerings.

During 2015, the net interest spread declined to 184 basis points as anticipated in light of the challenging interest rate environment. Although the spread declined, it remains favorable as a result of our ongoing solid investment portfolio performance, proactive crediting rate management and disciplined new business pricing.

Successful Indexed Universal Life launch

Net income in the life segment declined \$2.5 million, to \$15.0 million in 2015, primarily due to an increase in mortality costs.

During 2015, we improved the competitiveness of our life product suite. We re-priced our product offerings, refined our underwriting

and introduced electronic applications. These changes improved both the customer and agent experience. In addition, these process enhancements improved our underwriting speed and efficiency, which position us to support further profitable growth.

In October, we launched our new Horace Mann Indexed Universal Life (IUL) policy and completed agent training on the product in the fourth quarter. The IUL product provides simple death benefit protection, combined with the potential of long-term contract value accumulation. And the product is designed to offer premium and face amount flexibility throughout the stages of an educator's life. This is our first Universal Life offering, and it replaced a third-party product.

With the successful rollout of the IUL product, our suite of Horace Mann manufactured life insurance products now meets the needs of the majority of our educator market. We expect this new product, as well as the enhancements to our existing product suite, to accelerate life sales growth in 2016.

Advancing products, distribution and infrastructure

Our actions to enhance our PDI: Products, Distribution and Infrastructure, support our vision to be the preferred insurance and financial services provider to the nation's educators.

Our *product* offerings are essentially established. During 2015, we continued to enhance the segmentation of our P&C product offerings, improving our competitive position within the educator market, while also ensuring appropriate pricing for continued profitable growth. From a life and annuity standpoint, the product introductions of FIA and IUL resulted in a comprehensive solution that meets the needs of a majority of educators. We complement our manufactured

offerings with a robust general agency platform to ensure educators have access to a wide array of products necessary to meet all of their individualized insurance needs. This combination of manufactured products and strong third-party solutions result in a comprehensive solution to meet an educator's needs. This allows Horace Mann to help educators protect what they have today – and prepare for a successful tomorrow.

Our exclusive agents are at the core of our *distribution* model, and we remain committed to improving our agent support to assure their success and a consistent customer experience. We have found that educators want expert advice at the point of sale at some point in their lifetime, and they will choose the advice of a trusted advisor. We also want educators to access Horace Mann how they choose, and as a result, to complement the traditional agent channel, we expanded our complimentary direct offerings in 2015.

In addition to serving as an alternate contact channel, this initiative allows us to sell in territories that are currently unrepresented by Horace Mann local agents. Early results are encouraging, and we plan to expand this capability further in 2016.

Finally, we continue investing in our technology systems, processes and overall talent to advance our *infrastructure* and improve the customer experience. The initial phase of our efforts to improve our life and annuity administration system is largely complete. We made advancements to improve existing systems as we prepare for the identification and launch of the multi-year effort to replace our existing P&C systems. By modernizing our infrastructure, we will be better positioned to support profitable growth and quickly respond to the growing and evolving needs and expectations of the educator market.

We continue to attract top industry talent to Horace Mann. Many have connections to the educator market and find our value proposition and opportunity for growth to be compelling. As we strengthen the level of skill in the organization, we are better positioned to bring unique solutions to our customers and further accelerate our pace of growth.

Aligning to acquire more educator households in 2016

With our PDI enhancements in full flight, we continue the focus to attract, cross-sell and retain more educator customers. We call it our “*Find more, Win more, Keep more*” strategy.

We are targeting opportunities to reach more educators, help them identify and achieve their financial goals, and strengthen our relationship with them – with the goal to gain them as Horace Mann customers for life. Focusing on key issues facing educators – from the burden of student loan debt to a lack of retirement readiness – we offer potential solutions to the obstacles that are keeping educators from achieving their financial goals.

Utilizing ongoing and segmented campaigns complemented with digital advertising and on-campus educational seminars, we are poised to enhance our brand and entrench Horace Mann as the leader in helping educators and all school employees protect what they have today and prepare for their financial futures.

With our multi-year business strategy firmly established, Horace Mann will continue its fiscally conservative and responsible stewardship, always focused on maintaining a strong financial position and creating long-term shareholder value. We remain committed to growing book value per share, paying a compelling dividend, and opportunistically repurchasing shares. In March 2016, the Board of Directors authorized an additional 6% dividend increase, which now brings our annualized dividend to \$1.06 per share.

We are confident we are progressing in our vision to become the preferred insurance and financial services provider to the nation’s educators and are on the right path to capitalize on our momentum to profitably grow and continue to create shareholder value.



Marita Zuraitis
President & Chief Executive Officer

Directors

Gabriel L. Shaheen*

President and Chief Executive Officer (retired)
Lincoln National Life Insurance Company

Marita Zuraitis

President & Chief Executive Officer
Horace Mann Educators Corporation

Daniel A. Domenech

Executive Director
American Association of School Administrators

Dr. Mary H. Futrell

Professor, Department of Education Leadership
The George Washington University

Stephen J. Hasenmiller

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

Ronald J. Helow**

Managing Director
New Course Advisors

Beverley J. McClure**

Senior Vice President, Enterprise Operations (retired)
United Services Automobile Association (USAA)

Robert Stricker**

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

Steven O. Swyers**

Managing Partner (retired)
PricewaterhouseCoopers LLP

* Chairman of the Board of Directors

** Member of the Audit Committee, each an independent director.

Officers

Marita Zuraitis

President & Chief Executive Officer

Dwayne D. Hallman

Executive Vice President
Chief Financial Officer

William J. Caldwell

Executive Vice President
Property & Casualty

Matthew P. Sharpe

Executive Vice President
Annuity & Life

Bret A. Conklin

Senior Vice President
Controller

Sandra L. Figurski

Senior Vice President
Chief Information Officer

John P. McCarthy

Senior Vice President
Chief Human Resources Officer

Allan C. Robinson III

Senior Vice President
Property & Casualty Claims

Kelly J. Stacy

Senior Vice President
Field Operations & Distribution

Ann M. Caparrós

Chief Compliance Officer
Corporate Secretary

Angela S. Christian

Vice President & Treasurer

Donald M. Carley

General Counsel

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	
2015			
Fourth Quarter	\$36.73	\$32.28	\$0.25
Third Quarter	38.01	30.78	0.25
Second Quarter	37.27	33.71	0.25
First Quarter	34.46	30.18	0.25
2014			
Fourth Quarter	\$33.74	\$28.11	\$0.23
Third Quarter	31.79	28.34	0.23
Second Quarter	31.73	27.70	0.23
First Quarter	31.87	27.42	0.23

Corporate Data

Corporate Office

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

Annual Meeting

May 25, 2016
9:00 a.m.
Horace Mann Lincoln Auditorium
1 Horace Mann Plaza
Springfield, IL 62715-0001

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
6201 15th Avenue
Brooklyn, NY 11219

Senior Notes

HMEC senior notes are traded in the open market (HMN 4.50)

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

Horace Mann – the father of American public education
Horace Mann believed every child should receive a basic education,
and as a result worked hard to create a ladder of opportunity for
millions of children. **We are proud to share his name.**



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 **Horace Mann**[®]