MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Horace Mann's senior debt to Baa2, outlook stable

02 Oct 2018

New York, October 02, 2018 -- Moody's Investors Service ("Moody's") has upgraded the senior debt rating of Horace Mann Educators Corporation (NYSE: HMN, "HMEC") to Baa2 from Baa3 and upgraded the insurance financial strength (IFS) ratings of its property-casualty (P&C) subsidiaries and Horace Mann Life Insurance Company (HMLIC) to A2 from A3. The upgrades reflect the group's solid market share in providing insurance products to teachers and school administrators, strong risk-adjusted capitalization, low financial leverage and strong coverage metrics. The outlook for the ratings is stable.

RATINGS RATIONALE

Property-Casualty Insurance:

According to Moody's, the rating upgrade of the P&C operating subsidiaries to A2 from A3 (stable outlook) reflects the group's strong niche position serving the educator community, very good balance sheet strength, a high quality investment portfolio and sound loss reserves, as well as its ability to cross sell or bundle P&C products with life insurance and annuity products. The company demonstrated its initiatives to reduce net-of-reinsurance catastrophe risk by reporting relatively low net losses of $8.8 million from Hurricanes Harvey and Irma and the California wildfires in 2017. In addition, teachers are an attractive customer segment because they often have conservative risk profiles, making them good insurance risks.

Tempering these strengths are the group's significant, albeit reduced, gross exposure to catastrophe losses including frequent weather-related events, slow growth in auto, relatively weak but improving performance in personal auto, and its limited size relative to larger competitors with greater financial and technical resources.

Moody's said that the following factors, taken together, could result in an upgrade of the P&C ratings: 1) overall combined ratio in the mid to high 90s or lower through the cycle; 2) significant, profitable growth in educator auto policy counts, and; 3) 1-in-250 year net aggregate modeled loss less than 15% of P&C policyholders' surplus. Conversely, factors that could lead to a downgrade of the ratings include: 1) sustained combined ratios above 100%; 2) significant decline in auto policy counts, or; 3) a decline in surplus of more than 10% over a 12-month period.

Life Insurance:

Moody's said that HMLIC's rating upgrade to A2 from A3 (stable outlook) is based on its niche position within the K-12 403(b) retirement plan market, good profitability, and its strong capital adequacy, as measured by its NAIC Risk-Based Capital ratio, which ended 2017 at 507% (company action level). The upgrade also reflects HMLIC's good life sales in recent periods, which are likely to continue, and solid fee-based pension sales momentum, which Moody's expect will translate into material incremental sales and earnings over time.

These strengths are mitigated by HMLIC's relatively modest market presence and scale relative to its much larger peers, by the company's shift to highly competitive fee-based 403(b)7 products from wider margined 403(b) fixed annuity products, as it enters larger school districts, and by spread compression in low interest rate environments.

Moody's said that the following factors, taken together, could result in an upgrade of HMLIC's rating: 1) continued, consistent growth in new and total 403(b) deposits, leading to a material increase in market share while maintaining profitability; 2) greater product diversity (outside of tax-sheltered annuities and life insurance), and; 3) profitability, as measured by statutory ROC, consistently above 10%, with continuing earnings stability. The following could lead to a downgrade of HMLIC's rating: 1) weakening of its 403(b) franchise, with a consistent decline in sales and total premiums; 2) declining profitability, with statutory ROCs below 5% on a consistent basis, or; 3) rising asset risk, including further concentration in structured securities (29% of invested assets at YE 2017).

Horace Mann Educators Corporation:

Moody's said that the upgrade of HMEC's senior debt rating to Baa2 from Baa3 (stable outlook) reflects the diversified revenues and earnings from both P&C and Life companies, healthy dividend capacity and good financial flexibility. The company is making ongoing investments in IT infrastructure designed to generate business growth and improve profitability. As of June 30, 2018, HMEC's adjusted debt-to-capital ratio was moderate at approximately 19.6% with interest coverage averaging 9.9x over the past five years. For 2018, the operating subsidiaries are able to pay dividends of $94 million to the holding company without prior regulatory approval, sufficient to cover interest expense by more than 7x. Moody's expects the company will manage its shareholder capital returns prudently so as to not meaningfully de-capitalize its operating subsidiaries.

The stable rating outlook reflects Moody's expectations that the group will maintain strong capital adequacy, moderate financial leverage and high interest coverage. The Baa2 senior debt rating is three notches below the insurance financial strength ratings. Although the P&C and life/annuity businesses provide some degree of income and cash flow diversification for the holding company, the common distribution force used for both businesses and their common customer segment diminishes the diversification benefits.

Moody's said that the following factors could result in an upgrade of HMEC's ratings: 1) an upgrade of the financial strength ratings of the company's lead operating P&C and/or life companies, and; 2) financial leverage consistently below 15% with earnings coverage of interest consistently 8x or greater. Factors that could lead to a downgrade include: 1) a downgrade of the financial strength ratings of the company's lead operating P&C and/or life companies, and; 2) financial leverage in excess of 25% or interest coverage consistently less than 4x.

The following ratings have been upgraded:

Horace Mann Educators Corporation -- senior unsecured debt to Baa2 from Baa3

Horace Mann Insurance Company -- insurance financial strength to A2 from A3

Teachers Insurance Company -- insurance financial strength to A2 from A3

Horace Mann Property & Casualty Insurance Co -- insurance financial strength to A2 from A3

Horace Mann Life Insurance Company -- insurance financial strength to A2 from A3

....Outlook, Changed To Stable From Positive

The principal methodologies used in rating Horace Mann Educators Corporation were Property and Casualty Insurers published in May 2018, and Life Insurers published in May 2018. The principal methodology used in rating Horace Mann Insurance Company, Teachers Insurance Company, and Horace Mann Property & Casualty Insurance Co was Property and Casualty Insurers published in May 2018. The principal rating methodology used in the rating of Horace Mann Life Insurance Company was Life Insurers published in May 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

The below contact information is provided for information purposes only. Please see the ratings tab of the issuer page at www.moodys.com, for each of the ratings covered, Moody's disclosures on the lead rating analyst and the Moody's legal entity that has issued the ratings.

The person who approved Horace Mann Educators Corporation, Horace Mann Insurance Company, Teachers Insurance Company, and Horace Mann Property & Casualty Insurance Co credit ratings is Sarah Hibler, Associate Managing Director, Financial Institutions Group, 1-212-553-0376, 1-212-553-1653.The person who approved Horace Mann Life Insurance Company credit ratings is Scott Robinson, Associate Managing Director, Financial Institutions Group, 1-212-553-0376, 1-212-553-1653.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Jasper Cooper, CFA
Vice President - Senior Analyst
Financial Institutions Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Sarah Hibler
Associate Managing Director
Financial Institutions Group

JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.