

**Horace Mann Educators Corporation
2008 Annual Report and 10-K**



Financial Highlights

(Dollars in millions, except per share data)

Year Ended December 31,	2008	2007	2006
Operations			
Insurance premiums written and contract deposits	\$ 960.1	\$ 974.7	\$ 969.4
Net income	10.9	82.8	98.7
Return on equity (1)	1.9%	12.3%	16.7%
Property & casualty combined loss and expense ratio	100.7%	91.9%	87.6%
Experienced agents	524	569	588
Financed agents	146	221	260
Total Horace Mann agents	670	790	848
Licensed producers	394	253	117
Total points of distribution	1,064	1,043	965
Per share			
Net income per share:			
Basic	\$ 0.27	\$ 1.92	\$ 2.29
Diluted	\$ 0.27	\$ 1.86	\$ 2.19
Dividends paid	\$ 0.3675	\$ 0.42	\$ 0.42
Book value (2)	\$ 11.49	\$ 16.41	\$ 15.25

Financial position

Total assets	\$ 5,507.7	\$ 6,259.3	\$ 6,329.7
Short-term debt	38.0	—	—
Long-term debt	199.5	199.5	232.0
Total shareholders' equity	448.8	693.3	657.1

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

(2) Before the fair value adjustment for investments, book value per share was \$16.15 at December 31, 2008, \$16.47 at December 31, 2007 and \$14.99 at December 31, 2006.

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

Horace Mann demonstrated its resilience in an extremely challenging business environment in 2008. During a “perfect storm” that featured a combination of severe financial market underperformance and volatility, catastrophic weather and recessionary economics, your company demonstrated its financial strength, the quality of its underlying business operations and its growth prospects for the future.

External challenges impact profitability

The meltdown of the financial markets in 2008 adversely affected our earnings, as we realized \$64 million in pretax investment losses for the year, primarily related to securities issued by Lehman Brothers, Fannie Mae, Freddie Mac and AIG. While we felt the impact of these once-blue-chip enterprises, the quality of our investment portfolio remains strong. We remain judiciously risk averse while emphasizing holdings in sectors providing reasonable opportunities in a still-volatile market.

Meanwhile, the year was marked by an unprecedented frequency of violent weather in the first three quarters and two major hurricanes in the third quarter, all resulting in \$74 million of catastrophe costs that stood as the second highest in the company’s history.

In spite of those impacts, our underlying fundamentals remained strong, producing operating earnings* of \$1.29 per share for the year.

While 2008 was clearly a year we were glad to see come to an end, it did demonstrate Horace Mann's ability to absorb the one-two punch of significant catastrophes and a meltdown of the financial markets. Our investment portfolio, capital levels and ratios, and liquidity position remain strong and consistent with our

current ratings. And the underlying profitability of our business continues to be solid, providing a strong foundation to build upon in 2009.

403(b) market transition successful

While our results were affected by external forces beyond our control, one challenge that we addressed head-on — a change in IRS 403(b) regulations — further solidified our position within our niche educator market.

Horace Mann has approved 403(b) annuity payroll reduction capabilities in approximately one third of the 15,500 K-12 school districts in the United States. However, when new IRS rules were first proposed in 2004, some in the financial community speculated that a relatively small company like Horace Mann would not be successful in this transition when faced with competition from much larger rivals. But our nearly 65-year tradition of successfully serving the educator market, the depth of our grass-roots relationships with teachers and school administrators, and our planning and preparation for this change would prove the skeptics wrong. Through a coordinated effort with our agents and field sales management, we distributed 403(b) compliance kits to school administrators to familiarize them with their new responsibilities. Additionally, we responded to more than 200 Requests for Proposals (RFPs) from school districts and developed customizable group annuity products to meet the requirements of many of those RFPs. As an end result, we retained approximately 90 percent of our payroll slots.

Not only did we protect what we had, we added approximately 275 new 403(b) payroll slots. One example is the Hillsborough County School District in Florida, which includes Tampa and its

* Net income before realized investment gains and losses.

suburbs. The eighth largest school district in the United States, Hillsborough encompasses more than 25,000 employees — a substantial opportunity for Horace Mann. And in Iowa, Horace Mann was selected as one of only six 403(b) providers with statewide authority to operate in the K-12 educator market.

Strengthening of distribution gains momentum

Horace Mann further expanded its Agency Business Model (ABM) in 2008. The success of the model can be measured in part by how well our agents embrace the initiative and develop their operations. While the number of Horace Mann agents declined to 670 at the end of 2008, almost three-fourths of our agents now operate in outside offices, and more than 300 utilize licensed producers. With nearly 400 licensed producers on board, we currently have more than 1,050 points of distribution reaching out to clients and prospects.

Of even more significance, the productivity gains of Agency Business School (ABS) graduates continued to outpace that of other agents, particularly in our two lead lines — true new auto sales and flexible annuity sales — demonstrating the power and potential for sustained business growth through ABM.

The Exclusive Agent contract is the next level of the Agency Business Model. In the fourth quarter of 2008, we presented the opportunity to 120 of our ABS agents to convert to Exclusive Agent status and by the first of this year, 71 of those agents had migrated to the new contract. As Exclusive Agents, these entrepreneurs will have the freedom to operate their own businesses and maximize their earnings potential, while remaining exclusive to Horace Mann.

To foster top-line growth, intensify recruiting efforts and support the Exclusive Agent force, we restructured our field sales organization at the end of last year. As part of this restructure, we

hired several managers experienced with exclusive agent models to accelerate the transformation of our distribution system. The new structure is expected to increase the successful migration of current career agents as well as the recruitment and installation of new Exclusive Agents. In addition, changes were made to the role of our field sales leaders, designed to increase their focus and ability to hire and install new agents and develop successful agencies.

P&C comes through for customers when they need it most

Despite \$74 million in catastrophe costs for the year, our Property and Casualty (P&C) operations remained profitable for the full year. More importantly, looking at the pace of the business in 2008, written premium increased and underlying profitability remained solid. Excluding catastrophes, our P&C combined ratio was 87 percent, half a percentage point better than 2007.

To assist our clients through catastrophic events, our P&C claims service continues to elevate Horace Mann in the eyes of our customers at those moments of truth when they need us most. This service helped us earn a “Best Use of the Voice of the Customer” award from the International Quality and Productivity Center for our use of client feedback to drive process and business improvements.

The recent consolidation of our P&C claim offices further strengthens our ability to respond to customers in their times of need. Reducing the number of offices from six to two will allow us to operate more cost effectively with greater severity control. With award-winning service provided by our new offices in Raleigh, N.C. and Dallas, Texas, Horace Mann customers can expect a higher level of service than ever before, while the company will benefit from continued improvements in overall claims expense.

Annuity and life results hold up well

In spite of the impact of the financial markets, the annuity and life segments held their own in 2008. Excluding deferred policy acquisition cost valuations and guaranteed minimum death benefit reserve changes, combined annuity and life pretax earnings were only modestly below strong prior-year results. As previously mentioned, the efforts of our 403(b) “Comply and Compete” task force allowed us to retain approximately 90 percent of our annuity payroll slots. In addition, Horace Mann agents' sales of our core flexible-premium business were comparable to 2007 in spite of the 403(b) transition and difficult economic environment. Furthermore, our agents' sales of new flexible-premium contracts, purchased primarily by new Horace Mann annuity customers, increased more than 8 percent during the year, a very positive result in terms of market penetration. In addition, our annuity book of business continued to demonstrate strong persistency and positive funds flow, indicative of the high quality of our niche market, the relationships our agents have with their customers and the service our home office provides.

Differentiation further defines us in our niche market

Just as distribution was a primary focus in 2008, continuing developments in differentiating Horace Mann were solidifying our market position as well:

- Initiatives like our 403(b) outreach programs helped Horace Mann to further cultivate grass-roots relationships with administrator groups like the American Association of School Administrators.
- Another differentiating program — auto payroll — is also helping us solidify our market position. We now have more than 500 school districts on auto payroll (up about 25 percent from a year earlier) with auto payroll policies in force totaling 24,000

(up more than 45 percent). Policies utilizing this payment method typically have a better retention rate than policies paid through other methods.

- We implemented more facets of our online Service Strategy to meet the needs of our technologically savvy clients. To that end, we initiated quarterly e-mail communications to more than 100,000 customers; programmed our client files to automatically update when customers change contact information online; combined all school payroll processes into one department, streamlining service in school districts where we're authorized for multiple products; and delivered e-signature capabilities for annuity transactions.
- By successfully positioning Horace Mann to become the company of choice for educators through image programs like PASS (in which our agents reward children in their territories who have perfect school attendance by giving them bicycles), our Abraham Lincoln Fellowships and educator scholarships, we are continuing to expand opportunities for our agents to grow their business.

Looking ahead, Horace Mann seeks to build business while maintaining financial strength

Going forward, we are first and foremost committed to maintaining Horace Mann's current high level of financial strength, effectively managing our capital as well as our asset and liability risk exposures to acceptable levels, consistent with our current financial ratings. In support of this commitment, we will strive to maintain attractive operating margins, with the security of our customers and expectations of our shareholders firmly in mind. On that foundation of financial strength, the company will continue to pursue a number of strategic initiatives to grow the business.

First, we will pursue continued incremental revenue growth through the Agency Business Model. Over the course of the year, we plan to increase the number of Exclusive Agents by both aggressively recruiting qualified candidates directly into the Exclusive Agent contract and by offering the Exclusive Agent opportunity to more career agents, particularly those who have excelled as Agency Business School graduates. At the same time, we'll continue to put more agents through ABS training and into outside offices, with additional licensed producers and support staff.

We have developed an Agent Placement Strategy to provide a clear and consistent method of determining high quality sales territories, to more effectively expand our geographic reach. The method uses many different factors, including number of teachers, educator access and other relevant market characteristics. The strategy will help the company rate and prioritize territories across the country, identifying the strongest opportunities for agent success. In addition to identifying new market and agent hiring opportunities, this strategy will help field sales leaders formulate and monitor plans for developing existing territories.

Finally, turning to supporting infrastructure, we will continue to expand our new auto front-end sales and underwriting system. While our progress on this initiative was slowed somewhat in 2008, we plan to roll out the new Web-based system in states that will represent approximately 40 percent of our countrywide auto business in the coming year. And our Service Strategy initiative will be expanded to provide prospects and customers more options to access information about the company and their policies. We will continue to enhance our Web prospecting and self-service capabilities to better meet the needs of our increasingly computer-savvy niche market.

While 2008 presented Horace Mann with adversity in the form of several factors it could not control, the company showed determination in dealing with matters it *could* control. With diligence and a continued commitment to meeting the needs of our clients, we expect Horace Mann and its employees and agents to prosper and emerge as a dominant enterprise in the market we serve, while providing educators with the peace of mind they deserve.



Joseph J. Melone
Chairman of
the Board of Directors



Louis G. Lower II
President &
Chief Executive Officer

Directors

Joseph J. Melone

Chairman of the Board of Directors
Horace Mann Educators Corporation
President & Chief Executive Officer (retired)
The Equitable Companies Inc.

Louis G. Lower II

President & Chief Executive Officer
Horace Mann Educators Corporation

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The George Washington University

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Managing Partner (retired)
PricewaterhouseCoopers LLP

Charles R. Wright

Senior Executive Vice President and
Chief Agency and Marketing Officer (retired)
State Farm Insurance

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

Officers

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Peter H. Heckman

Executive Vice President
Chief Financial Officer

Stephen P. Cardinal

Executive Vice President
Chief Marketing Officer

Thomas C. Wilkinson

Executive Vice President
Property & Casualty

Paul D. Andrews

Senior Vice President
Corporate Services

Dennis E. Bianchi

Senior Vice President
Property & Casualty Claims

Bret A. Conklin

Senior Vice President
Controller

Dwayne D. Hallman

Senior Vice President
Finance

Brent H. Hamann

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Annuity & Life

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Vice President & Chief Actuary
Property & Casualty

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Compliance Officer
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Vice President & Treasurer

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Vice President & Chief Actuary
Annuity & Life

Richard R. Schulenburg

Vice President
National Sales

Wesley H. Siebrass

Vice President
Annuity & Life

In November 1991, Horace Mann Educators Corporation completed an initial public offering of its common stock at a price of \$9 per share. 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	
2008			
Fourth Quarter	\$ 14.00	\$ 4.00	\$ 0.0525
Third Quarter	17.00	11.95	0.1050
Second Quarter	18.64	14.01	0.1050
First Quarter	19.12	16.08	0.1050
2007			
Fourth Quarter	\$ 23.23	\$ 16.08	\$ 0.1050
Third Quarter	22.11	17.61	0.1050
Second Quarter	22.88	20.24	0.1050
First Quarter	22.18	19.21	0.1050

Corporate Data

Corporate Office

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

Annual Meeting

May 28, 2009
9:00 a.m.
President Abraham Lincoln
Hotel & Conference Center
701 East Adams Street
Springfield, IL 62701

Independent Accountants

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601

Common Stock

HMEC Stock is traded on the NYSE (HMN)

Transfer Agent

American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038

Senior Notes

HMEC senior notes are traded in the open market (HMN 6.05 and HMN 6.85)

Additional Information

Additional financial data on HMEC and its subsidiaries is included in Form 10-K filed with the Securities and Exchange Commission. Electronic copies of HMEC's SEC filings are available at horacemann.com. Printed copies of SEC filings are available upon written request from:

Investor Relations

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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.

