



Horace Mann<sup>®</sup>

*Founded by Educators for Educators*

March 31, 2013

# Safe Harbor Statement and Non-GAAP Financial Measures

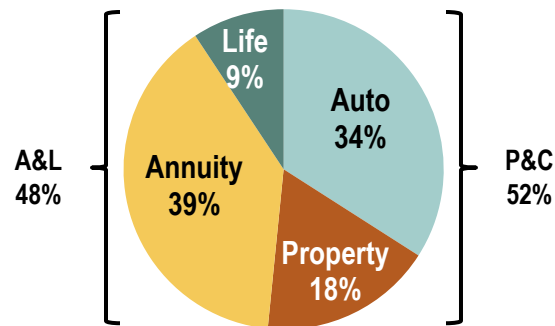
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Certain statements made in this presentation should be considered forward-looking as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements give expectations or forecasts of future events. These statements are related to our intentions, beliefs, projections, estimations or forecasts of future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results to be materially different from those expressed or implied by the forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe” and other words and terms of similar meaning in connection with a discussion of future operating or financial performance. We caution investors that these forward-looking statements are not guarantees of future performance, and actual results may differ materially. Investors should consider the important risks and uncertainties that may cause such differences, including those risks discussed in our Annual Report on Form 10-K for the year ended December 31, 2012 and other filings such as the most recent Form 10-Q and Form 8-K we make with the Securities and Exchange Commission. We assume no obligation to update this presentation, which is as of March 31, 2013.

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

# Horace Mann is the largest multiline insurance company focused on the nation's K-12 educators

**2012 Premium & Contract Deposits**  
(\$1,068mm)



**12/31/12 Statutory Surplus**

- National insurer that offers auto, home and basic Life and Annuity products through a captive agency distribution
  - True multiline company, with balanced premiums and surplus
  - 19% cross line penetration significantly higher than industry average of 11%
- K-12 educators are an attractive market
  - Superior, conservative risk profile
  - Underserved middle-market niche
- Conservative balance sheet and risk management discipline
  - P&C reserves at high end of actuarial range
  - Investment portfolio weathered financial crisis with modest impairments
  - Consistent track record of strong book value and dividend growth



(1) Includes \$21.6mm of Asset Valuation Reserve

# Founded by Educators for Educators®

1945	Founded by two teachers in Springfield, IL as the Illinois Education Association Mutual Insurance Company to provide automobile insurance to IEA members
1949 1961	Company began offering a full range of life insurance products to the educational community Introduced 403(b) tax-qualified retirement annuities
1975 1989 1991	Company acquired by INA Corporation Company acquired from CIGNA through a management led LBO Completed initial public offering; stock trades on NYSE under the symbol "HMN"
2000 2003	With less than 50% of new P&C business represented by educators, company refocuses on the educator market Completed "modernization" of P&C claims, pricing and underwriting processes
2006 2009	Began transitioning employee agency force to new business model Exclusive Agent (EA) contract introduced
2010 2012	Re-introduced State Teacher Retirement Seminars, and began strategic relationship with DonorsChoose.org Achieved double-digit sales increases in all four lines of business <sup>(1)</sup> , and 4 <sup>th</sup> consecutive year of record Annuity sales
Today	<b>Largest national, multiline insurance company focused on the nation's K-12 educator market</b> – Current book ~ 80% educator – Agency force transition largely complete – Improving technology and other initiatives to enhance customer experience

(1) Sold by Horace Mann agents

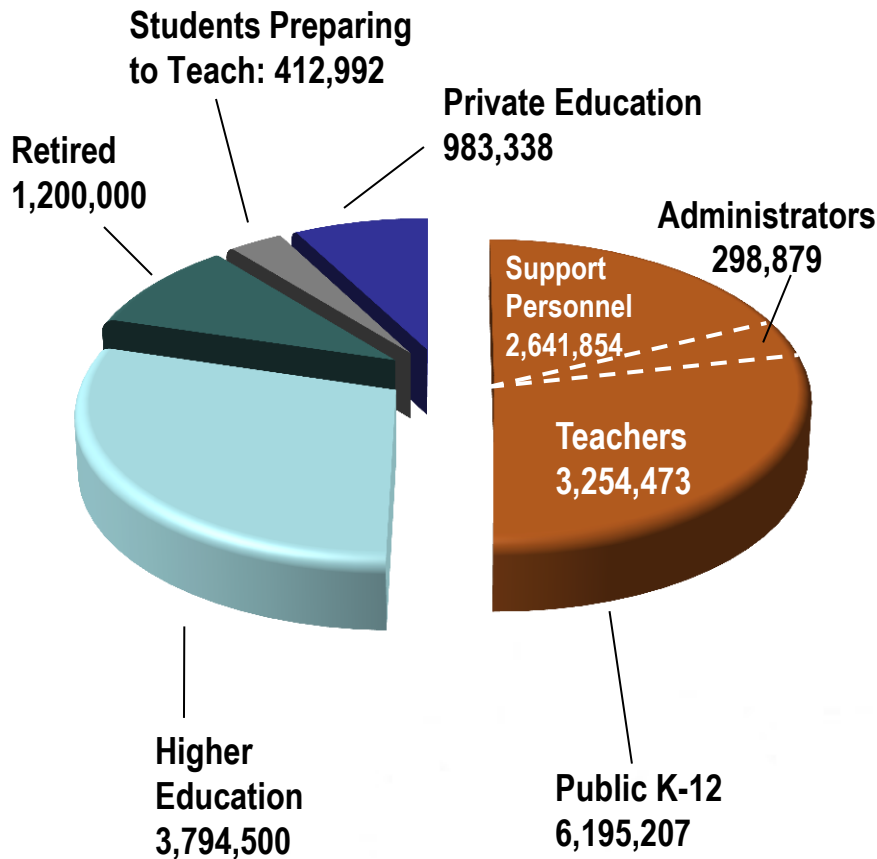
# Our differentiated product offering and customer experience are tailored to the K-12 educator market

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- Personalized service and a full range of insurance and financial products
- Strategic relationships supplement local agent presence to create strong brand name recognition in K-12 markets
  - Endorsements / relationships with administrator and teacher organizations (ASBO, NAESP, NASSP, AASA, NEA)
  - Strategic partnership with DonorsChoose.org
  - Sponsorship of national teacher and local student recognition programs
- Payroll slots and local relationships represent key points of school and customer access for our agents
  - Active payroll slots in over 1/3 of the 12,200 school districts in our market<sup>(1)</sup>
  - Strong payroll slot and customer retention
- Tailored worksite marketing
  - Conducted nearly 8,000 State Teacher Retirement Seminars in 2012 to educate educators on how to achieve their retirement goals, reaching over 100,000 educators
  - Launched Financial Success Workshops in 2012, designed to improve financial literacy among young educators
  - Section 125 plans provide additional access to all teachers in a particular district

(1) Excludes DC, HI, KY, MS, NJ and NY

# The Public K-12 segment is large and growing; we have significant opportunity to increase penetration



## Est. HMN Market Penetration<sup>(1)</sup>

Administrators	17.7%
Teachers	11.7%
<b>Total Administrators and Teachers</b>	<b>12.2%</b>
Support Personnel	1.5%
<b>Total Public K-12</b>	<b>7.6%</b>

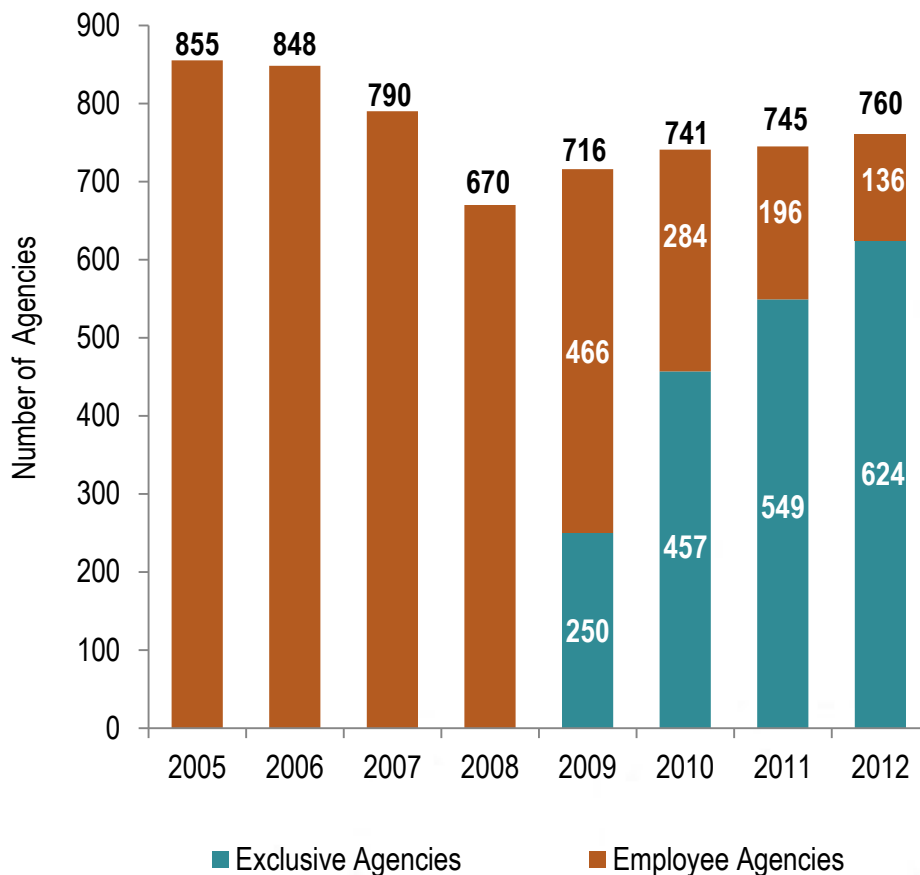
Public K-12 Teachers and Administrators are projected to grow by almost 14% by 2020<sup>(2)</sup>

Source: 2012 NCES Digest of Education Statistics

(1) Excludes DC, HI, KY, MS, NJ and NY; data as of March 2013

(2) Department of Labor 2012 Occupational Outlook Handbook

# Our captive agency channel is dedicated to serving the educator market

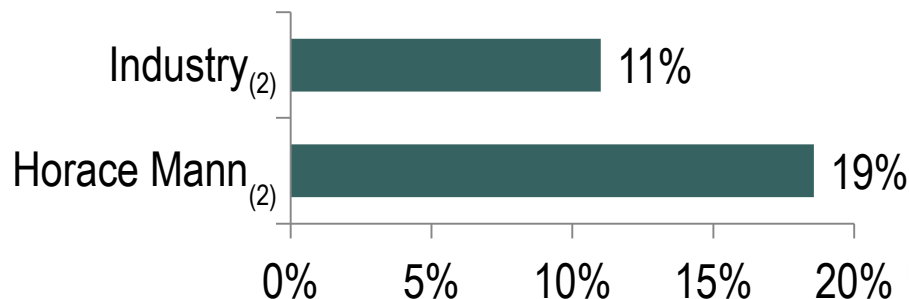


- We began migrating our agency force to an Exclusive Agent model in 2009
  - Transformation is largely complete
- Agent productivity and retention continue to improve
  - Double-digit sales increases in all lines in 2012<sup>(1)</sup>; Record Annuity sales
  - Agent retention exceeds LIMRA multiline averages for 1<sup>st</sup> to 4<sup>th</sup> year agents
- Expect modest agent growth in 2013 and beyond
  - Focused on increasing the productivity of existing agents, as well as the placement of new exclusive agencies in high impact territories

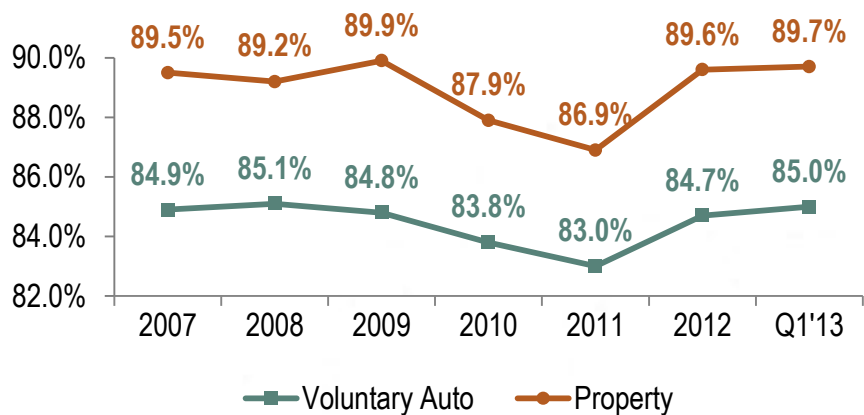
(1) Sold by Horace Mann agents

# Our agents are viewed as trusted advisors; as a result, multiline and crossline penetration exceed industry averages, with room to grow

## Crossline<sup>(1)</sup> Households



## Annual Retention



- The majority of our P&C policyholders also own an additional Horace Mann product
  - 74% of auto policies are multiline
  - 81% of property policies are multiline
- Our crossline penetration significantly exceeds industry averages
  - ~23% of P&C policyholders also have a life or annuity product
  - Offer tri-line discounts to customers to drive crossline sales and aid retention
  - Agent commissions almost evenly split
- Targeted marketing programs to drive higher retention and crossline sales
  - Beginning in 2013, offering annual policy review to all policyholders
  - Focused on adding additional payroll auto-deduct capability

(1) Households with auto and/or property plus annuity, life and/or group

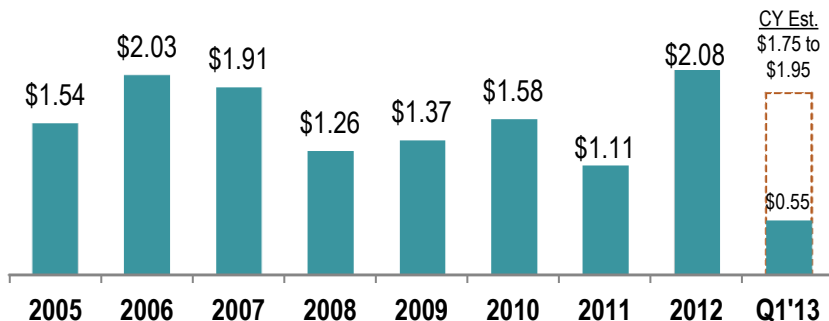
(2) HMN data: March 2013; Industry data per LIMRA, 2011 multiline exclusive agent average



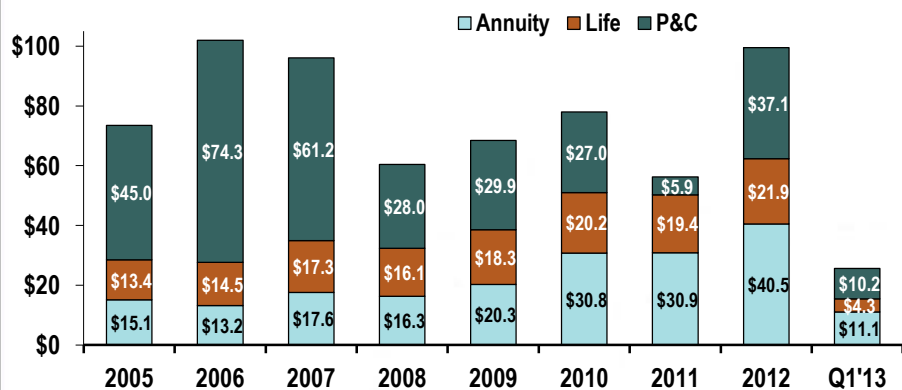


# Our business model has generated profitability during a variety of economic cycles...

## Operating<sup>(1)</sup> EPS



## Net Income by Reporting Segment<sup>(1)(2)</sup> (\$mm)

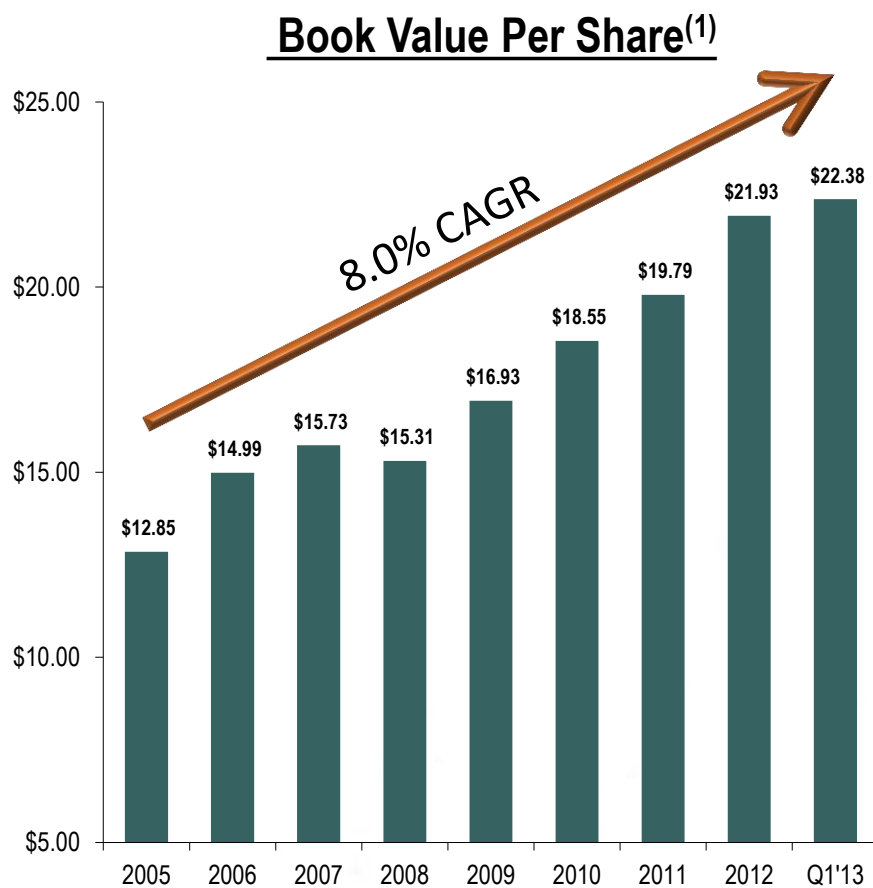


- Q1'13 Operating Earnings of \$0.55 per diluted share include:
  - Solid operating performance in line with expectations
  - \$0.03 positive combined DAC unlocking in Annuity & Life
  - Return to more normal levels of Life mortality
  - Pretax CAT losses comparable to Q1'12
- 2013 Operating Earnings guidance of \$1.75 to \$1.95 per share, which reflects:
  - ~ 7 points of catastrophe losses
  - Modest prior year reserve development
  - Return-to-normal mortality and DAC unlocking
  - Persistent low rate environment that results in declining annuity spreads

(1) Net income per diluted share, excluding realized investment gains and losses. 2005-2007 numbers have NOT been restated to include the retrospective application of new accounting guidance for deferred policy acquisition costs.

(2) Excludes Corporate and Other segment

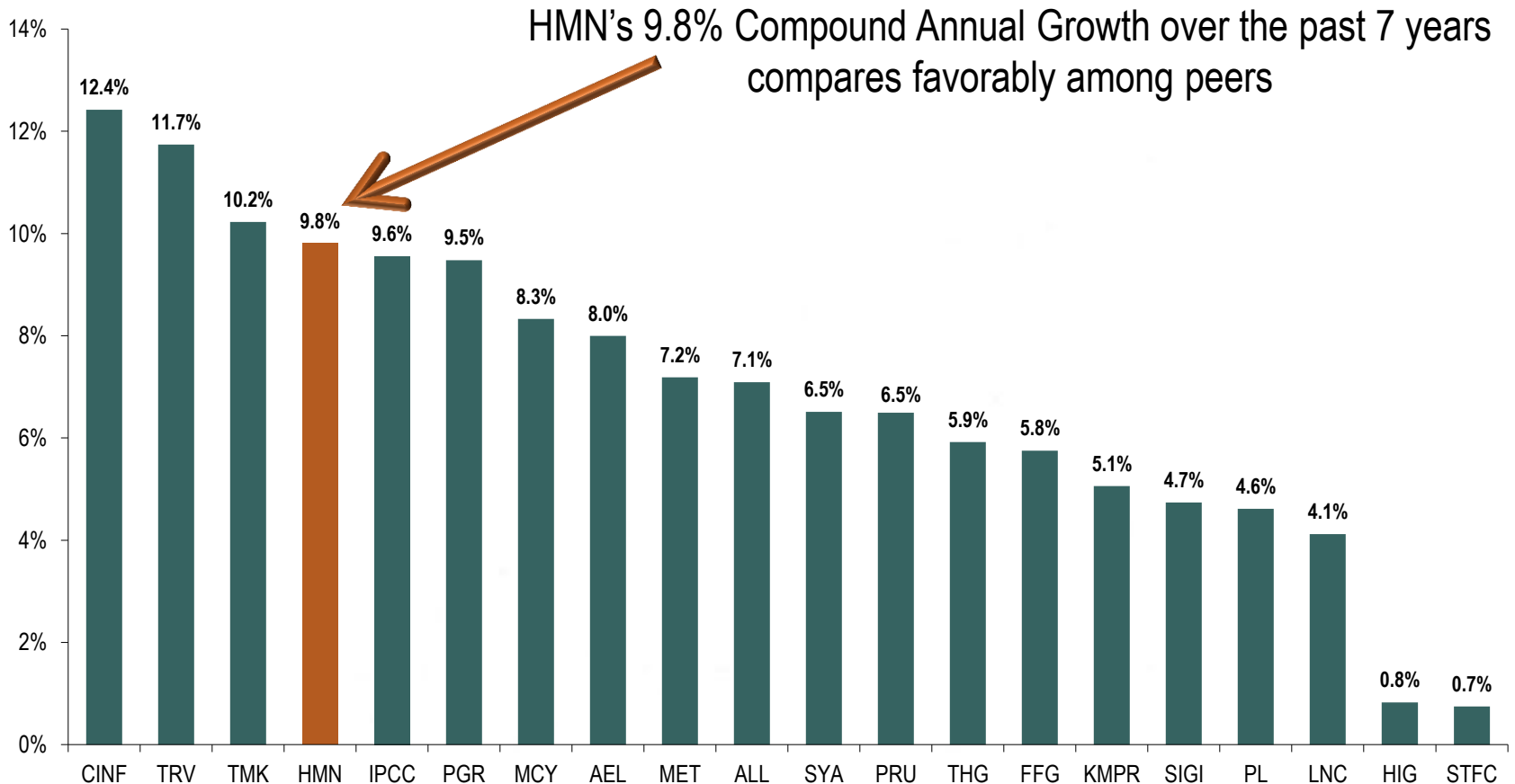
## ...which has resulted in sustained book value growth, along with an attractive dividend and buyback program



- \$22.38 book value per share excluding FAS 115 as of March 31, 2013
  - 10% growth rate over Q1'12
  - 8.0% compound annual growth rate since 2005
- FY 2013 annualized shareholder dividend of \$0.78
  - Up 42% vs. PY; 112% increase since 2008
  - Dividend yield of 3.7%
- Active, opportunistic share repurchase program
  - \$20mm Q4'11–Q1'13
  - \$30mm remaining authorization

(1) Excluding FAS 115. Prior periods, with the exception of 2005-2006, have been restated to include the retrospective application of new accounting guidance for deferred policy acquisition costs.

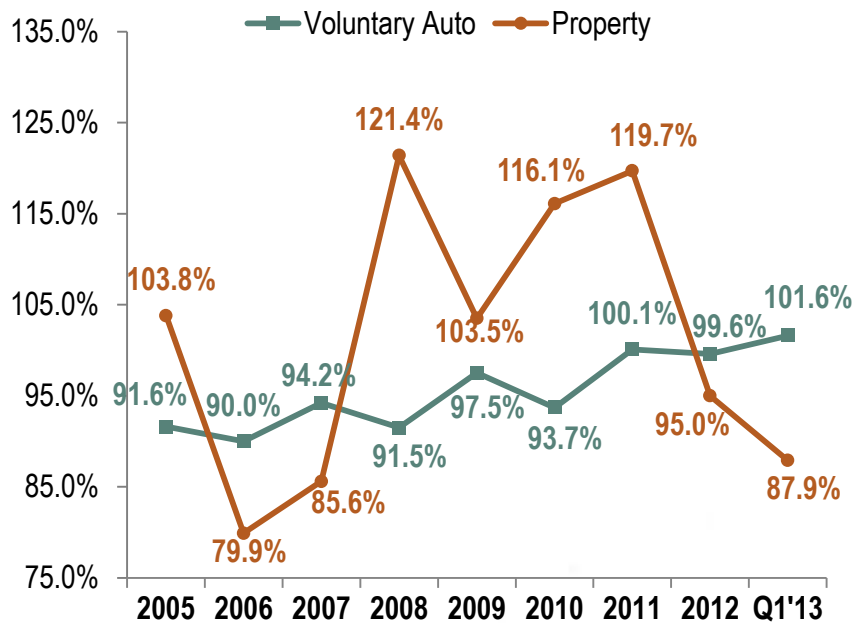
# Growth in BVPS (ex. FAS 115) Plus Accumulated Dividends<sup>(1)</sup>



(1) Assumes starting point of 12/31/05 Book Value Per Share (ex. FAS 115) through 12/31/12  
Source: SNL Financial

# With improving underlying trends and lower 2012 catastrophe activity, the P&C business continues to generate positive earnings growth

## Reported Combined Ratio



### Catastrophe Costs

\$Mil Pretax	\$69.2	\$19.8	\$23.6	\$73.9	\$33.1	\$49.2	\$86.0	\$43.3	\$5.7
% of C/R	12.3%	3.6%	4.4%	13.7%	6.1%	8.8%	15.7%	8.0%	4.2%

### Premium Written

\$Mil	\$547	\$540	\$535	\$546	\$554	\$557	\$546	\$551	\$132
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## Auto

- Reversing negative growth trends
  - Strong new business production and improving retention
  - Lower salvage and subrogation recoveries in Q1'13 vs. prior year quarter contributed to increased underlying combined ratio
- Committed to profitable growth
  - Target combined ratio in high 90s
  - 2013 planned rate increase in mid-single digits

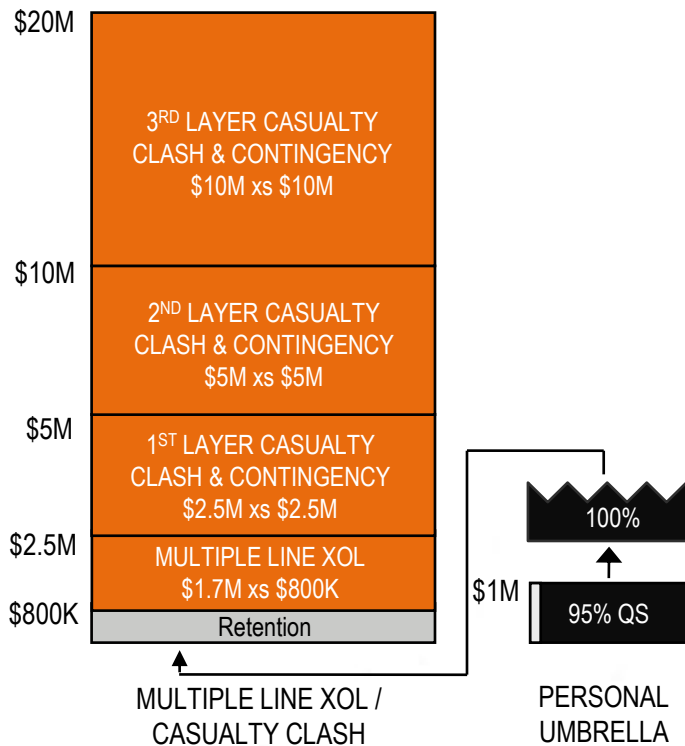
## Property

- Focused on maintaining favorable underlying profit margins
  - Q1'13 underlying combined ratio of 76.5%, comparable to the prior year quarter
  - Targeting a combined ratio in low 90s
  - Focused on underwriting actions, claims initiatives
  - 2013 planned rate increase in double digits

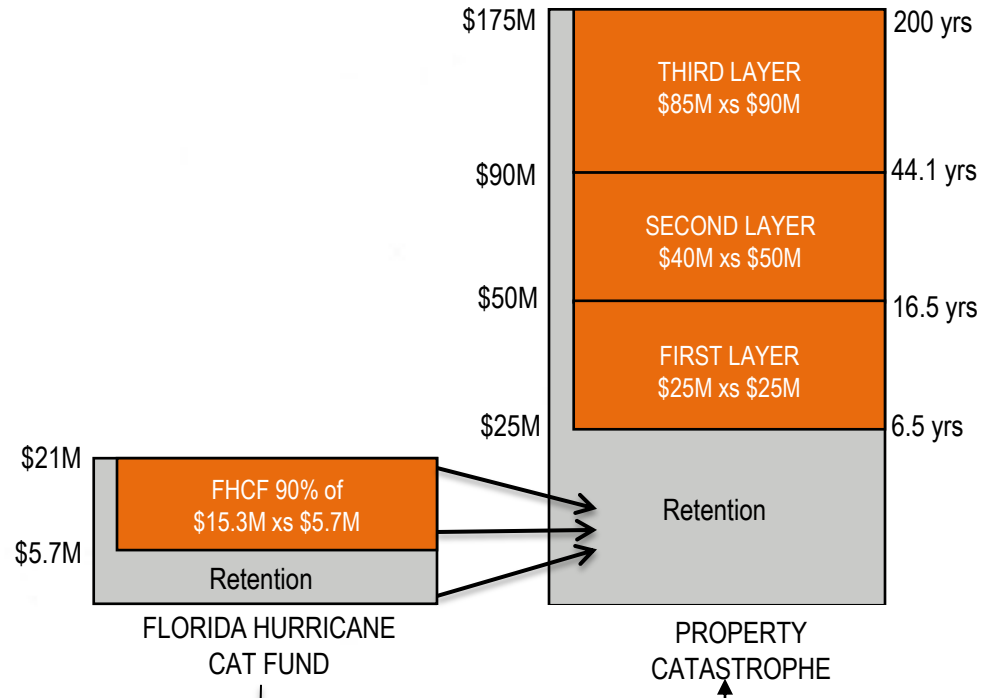


# Current single-event catastrophe reinsurance coverage of \$175 million has more than doubled since 2005

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



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



(1) As of 01/01/13

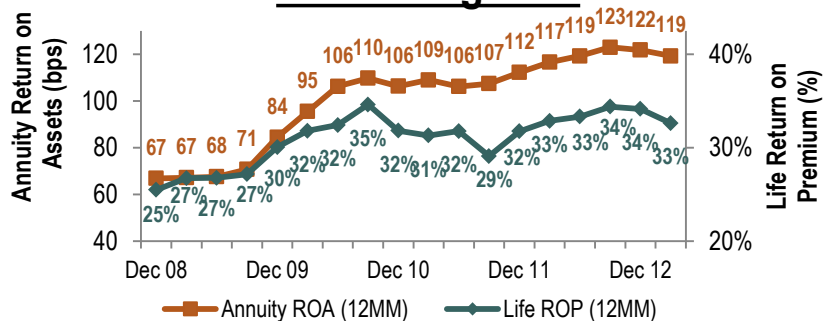
# Strong and stable P&C reserves further reduce potential earnings volatility

- **Appropriate conservatism**
  - Disciplined reserving practices
  - Carried reserves at high end of actuarial range (98% in 2012)
  - Recent reserve releases consistent with independent observations
  
- **Strong claims organization / capabilities**
  - Centralized claim offices
  - Technology / infrastructure
  - Implementation of best practices and procedures

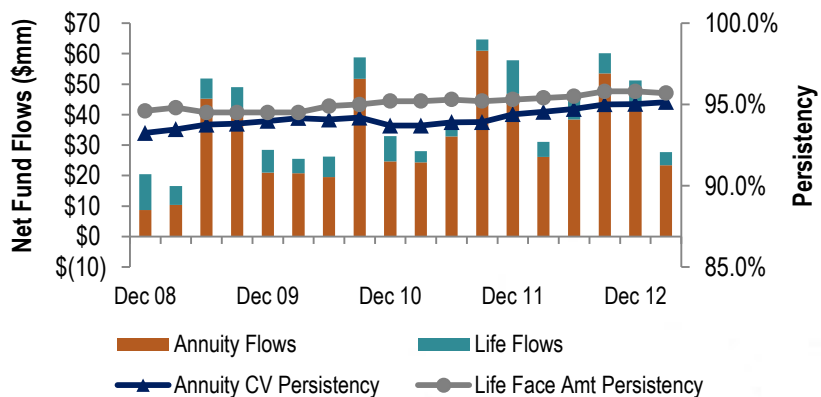
Net P&C Reserve Position			
	<u>Independent Actuary</u>		<u>HMN</u>
(\$ Mills)	<u>Low</u>	<u>High</u>	<u>Held</u>
2012	\$217.6	\$265.4	\$260.8
2011	\$224.9	\$276.6	\$269.6
2010	\$237.2	\$296.3	\$289.4

# Robust Annuity & Life segment profit margins, positive fund flows and strong persistency

## Profit Margins (1)



## Fund Flows and Persistency



### Annuity Contract Deposits & Life Premium Written (\$Mil)

	2008	2009	2010	2011	2012	Q1'13
Annuity	\$312	\$350	\$396	\$434	\$418	\$90
Life	\$102	\$100	\$99	\$99	\$99	\$23

(1) Pretax GAAP Operating Income excluding DAC/VIF unlocking and change in GMDDB reserve. 2008-2011 numbers have been restated to include the retrospective application of new accounting guidance for deferred policy acquisition costs

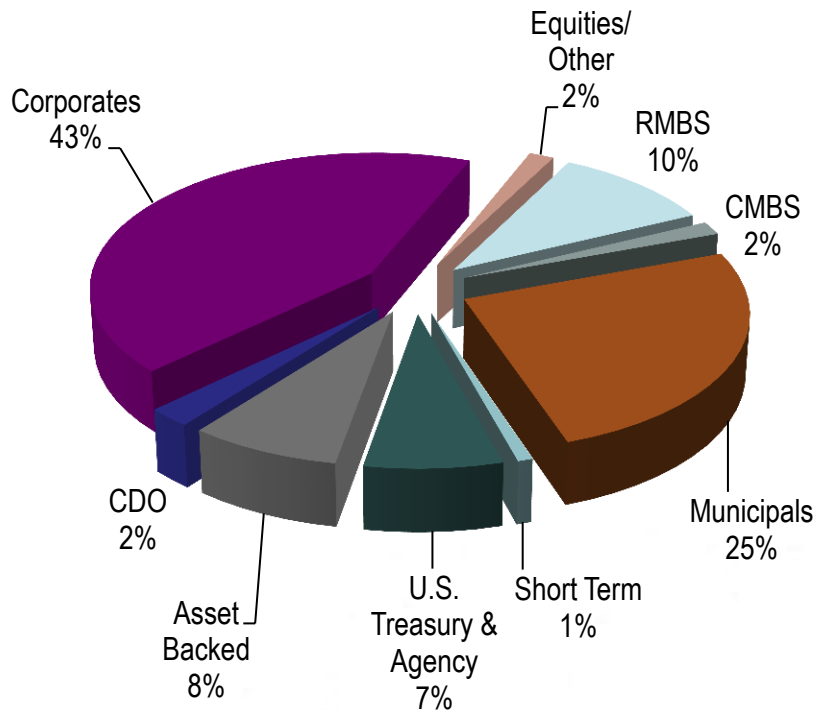
- Strong operating income growth continues in 2013
  - AUM up 10% from Q1'12, which more than offsets modest spread compression
  - Q1'13 YTD Fixed annuity spread declined 10 bps to 201
  - Annuity earned interest margin up 5% vs. Q4'12
- Strong sales momentum is driving fund flows
  - HMN Annuity sales remain strong
    - 21<sup>st</sup> consecutive quarter of positive fund flows
  - HMN life sales increased 28% vs. Q1'12
    - Seventh consecutive quarterly increase (Y/Y)
    - Strategic objective to grow HMN manufactured products
- Both lines exhibiting high persistency
  - For Annuity AUM, 92% is tax qualified and 67% is 403(b)



# Conservative and well diversified investment portfolio that supports our product offerings

## Portfolio Composition<sup>(1)</sup>

\$6.3 billion MV



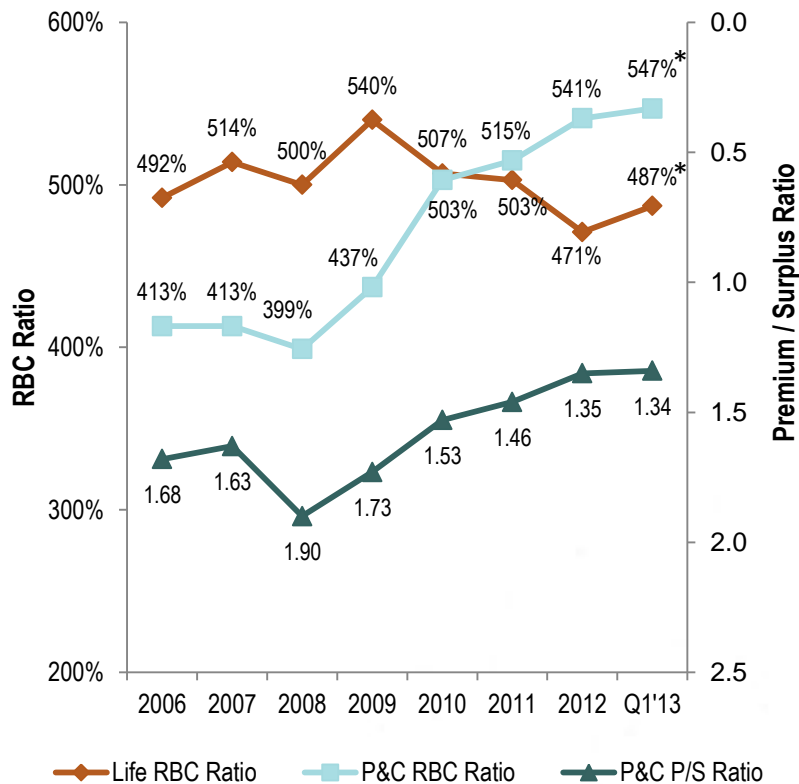
- **Focused on risk and asset-liability management**
  - \$639mm net unrealized gain
  - \$0 other-than-temporary impairments in 2012 and Q1'13
- **Diversified portfolio across fixed income sectors**
  - Weighted average quality: A
  - Average duration 6.2
- **Corporates**
  - Diversified industry exposure
  - 91% investment grade
- **Municipals**
  - 98% investment grade, average quality A+
  - 77% revenue bonds tied to essential services, 20% state & local general obligations, 3% pre-refunded
- **RMBS**
  - 98% Agency Pass-through
- **ABS**
  - Weighted average quality: A-
  - Diversified collateral types

(1) As of March 31, 2013; excludes policy loans



# Consistent earnings and a conservative investment portfolio have generated strong capital ratios

## Capital Ratios



- Capitalization more than adequate for future growth needs and in excess of targets
- Q1'13 debt-to-capital ratio<sup>(1)</sup> for the Holding Company of 21.1%
  - \$200mm senior debt due in 2015 and 2016
  - \$38mm outstanding on a \$150mm credit facility
  - GAAP interest coverage of 11.6x
- Projected YE 2013 Operating Earnings dividend payout ratio of 42%
  - Annualized dividend of \$0.78, a 3.7% dividend yield<sup>(2)</sup>
- Maximum dividend capacity of insurance companies of ~\$85mm in 2013
  - \$10mm in Q1'13 dividends; all from P&C subs
  - \$50mm in 2012 dividends; \$35mm from Life subs; \$15mm from P&C

(1) Excluding unrealized gains/losses on investments

(2) Annualized dividend based on Q1'13 quarterly dividend; yield based on 3/28/13 stock price of \$20.85

\* Estimated



# Rating agencies have consistently noted HMN's strengths – educator market focus, earnings diversification and capital strength; in 2011, A.M. Best upgraded the Life company to an 'A' rating

## Strong Position within the Educator Community

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

## Stable Operating Results and Enterprise Risk Management

- “(earnings) have benefitted from diversity...P/C and Life operations...”
- “since the Exclusive Agency model began, the company has started to outperform the industry in terms of agent retention”
- “limits its risk taking to areas it understands and has made decisions to avoid risks related to certain distribution segments, products, and investments to maintain a high quality book of business focused on the educational market”

## Strong Capital Adequacy

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

## Current Financial Strength Ratings

<u>Agency</u>	<u>Rating</u> (affirmed/ reviewed)	<u>Outlook</u>
S&P	A (2/21/13)	Stable
Moody's	A3 (4/24/12)	Stable
AM Best - Life - P&C	A A- (3/29/13)	Stable Stable
Fitch	A- (9/11/12)	Stable



# Successfully executing against our 2013 Key Priorities which support our strategic objective to be the preferred insurance and financial services provider to the nation's K-12 educators

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Maintain high level of P&C new business sales and increase retention ratios

- Continued growth in new business production
- Both auto and property retention continue to improve



Improve auto and property profit margins to reach mid-90s P&C combined ratio goal

- P&C combined ratio of 97.2% on solid property results, offset by modest deterioration in the auto combined ratio
- 2013 rate plan on track



Continue to grow retirement annuity business while maintaining spreads on new sales

- Annuity sales by HMN agents continue to grow, following 4 consecutive years of record sales
- Spread on new business remains in excess of pricing targets



Continue aggressively growing life business by targeting double-digit sales growth of HMN life products

- 7 consecutive quarterly increases; up 28% in Q1'13
- Face amount persistency remains high at 95.7%

# Why invest in Horace Mann?

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- National multiline insurer that is focused on an attractive, under served middle market customer niche
- Captive agency force with strong ties to the K-12 market
- Significant growth opportunity in existing K-12 niche market segment
- Multiline and crossline penetration significantly higher than industry
- Experienced management team
- Conservative Life and Annuity offerings, investment portfolio and P&C reserving practices
- Top quartile book value and accumulated dividend CAGR since 2005 when compared to other Life and P&C peers
- Competitive dividend yield combined with opportunistic share repurchases



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***Appendix***

# Consolidated GAAP Income Statement

(\$ in Millions, except EPS)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Q1'13</u>
Written Prem. & Contract Deposits	\$ 1,003.7	\$ 1,052.0	\$ 1,078.4	\$ 1,067.7	\$ 245.1
Earned Prem. & Contract Charges	659.6	672.7	667.1	670.5	169.2
Investment Income	246.8	272.1	288.3	306.0	77.4
Other Income	4.7	6.2	5.2	7.0	1.1
Benefits, Claims, & Settlement Exp.	598.1	621.6	657.3	611.8	154.1
Total Other Expenses & Taxes	<u>257.8</u>	<u>264.7</u>	<u>257.2</u>	<u>285.4</u>	<u>71.0</u>
Income Before Realized Gains/Losses	\$ 55.2	\$ 64.7	\$ 46.1	\$ 86.3	\$ 22.6
<b>Operating EPS</b>	\$ 1.37	\$ 1.58	\$ 1.11	\$ 2.08	\$ 0.55
<b>Operating ROE (excl. FAS 115)</b>	8.8%	9.2%	6.1%	10.5%	9.8%
Realized Inv. Gains, After Tax	<u>17.2</u>	<u>15.4</u>	<u>24.4</u>	<u>17.6</u>	<u>4.4</u>
Net Income	<u><u>\$ 72.4</u></u>	<u><u>\$ 80.1</u></u>	<u><u>\$ 70.5</u></u>	<u><u>\$ 103.9</u></u>	<u><u>\$ 27.0</u></u>

# Consolidated GAAP Balance Sheet

(\$ in Millions)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Q1'13</u>
<b>Assets</b>					
Investments	\$ 4,574.6	\$ 5,073.6	\$ 5,677.5	\$ 6,292.1	\$ 6,426.1
Separate Account Assets	1,226.4	1,375.7	1,273.8	1,398.3	1,508.3
<b>DAC</b>	228.0	222.2	216.5	196.9	199.0
Goodwill	47.4	47.4	47.4	47.4	47.4
<b>Other Assets</b>	209.7	226.8	220.0	233.0	276.6
<b>Total Assets</b>	<u>\$ 6,286.1</u>	<u>\$ 6,945.7</u>	<u>\$ 7,435.2</u>	<u>\$ 8,167.7</u>	<u>\$ 8,457.4</u>
<b>Liabilities</b>					
<b>Policy Liabilities &amp; Other</b>					
Policyholder Funds	\$ 3,927.1	\$ 4,198.0	\$ 4,515.5	\$ 4,839.9	\$ 4,902.7
Separate Account Liabilities	1,226.4	1,375.7	1,273.8	1,398.3	1,508.3
<b>Long Term Debt</b>	199.6	199.7	199.7	199.8	199.8
<b>Short Term Debt</b>	38.0	38.0	38.0	38.0	38.0
<b>Other Liabilities</b>	206.7	287.2	352.8	445.9	546.9
<b>Total Liabilities</b>	5,597.8	6,098.6	6,379.8	6,921.9	7,195.7
<b>Shareholders' Equity</b>	688.3	847.1	1,055.4	1,245.8	1,261.7
<b>Total Liabilities &amp; Equity</b>	<u>\$ 6,286.1</u>	<u>\$ 6,945.7</u>	<u>\$ 7,435.2</u>	<u>\$ 8,167.7</u>	<u>\$ 8,457.4</u>



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