

# Horace Mann Educators Corporation 2014 Annual Report and 10-K



## Financial Highlights

(Dollars in millions, except per share data)

Year Ended December 31, **2014** 2013 2012

### Operations

Insurance premiums written and contract deposits (A)	\$ <b>1,167.7</b>	\$ 1,094.2	\$ 1,067.7
Net income	<b>104.2</b>	110.9	103.9
Operating income (A)	<b>97.3</b>	96.5	86.3
Return on equity (B)	<b>8.4%</b>	9.6%	9.0%
Property & casualty combined loss and expense ratio	<b>96.1%</b>	96.3%	98.3%

### Per share

Net income-diluted	\$ <b>2.47</b>	\$ 2.66	\$ 2.51
Operating income (A)-diluted	\$ <b>2.30</b>	\$ 2.32	\$ 2.08
Dividends paid	\$ <b>0.92</b>	\$ 0.78	\$ 0.55
Book value	\$ <b>32.65</b>	\$ 27.14	\$ 31.65
Book value excluding the fair value adjustment for investments (A)	\$ <b>25.38</b>	\$ 23.83	\$ 21.93

### Financial position

Total assets	\$ <b>9,768.5</b>	\$ 8,826.7	\$ 8,167.7
Short-term debt	<b>38.0</b>	38.0	38.0
Long-term debt	<b>199.9</b>	199.9	199.8
Total shareholders' equity	<b>1,336.5</b>	1,099.3	1,245.8

(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

### 2014 a noteworthy year for Horace Mann

Horace Mann delivered another year of strong performance in 2014, producing double-digit sales growth and near-record operating earnings per share, which resulted in solid shareholder returns. The unique value proposition of protecting educators' short-term risks and helping to secure their financial futures continues to resonate with the educator market and investors.

2014 operating income of \$2.30 per diluted share — the company's second-highest annual earnings — resulted in nearly 7 percent growth in book value per share excluding net unrealized gains on investments, ending the year at \$25.38 per share.

Horace Mann's demonstrated ability to outperform in the educator marketplace resulted in top-quartile returns to shareholders, considering growth in book value per share and the strong level of dividends paid to investors. The attractive dividend continues to be an important differentiator for Horace Mann, and in March 2014, the Board of Directors approved an 18 percent dividend increase, resulting in an annual dividend of 92 cents per share. This was the sixth straight year of increased shareholder dividends for Horace Mann investors. When you combine the annual dividend with stock price appreciation over the course of 2014, total shareholder return was 9.5 percent.

In addition to strong book value and dividend growth, last year the company continued to repurchase shares of stock and plans to continue opportunistic execution of our capital management strategy.

### P&C results show profitable growth

2014 was a year of transition in our property & casualty segment. The track record of solid, profitable results continued, and new product, pricing and underwriting initiatives began to take hold. Particularly encouraging were the accelerating sales results in the second half of 2014, which showed promise for sustained profitable growth.

Written premium increased 2 percent, driven by increases in average written premium per policy and reductions in catastrophe reinsurance costs. Net income increased \$2.5 million over 2013, to a total of \$46.9 million. The P&C combined ratio of 96.1 percent improved 0.2 percent in 2014, reflecting earned rate increases in excess of loss cost trends, as well as the benefit of exposure management actions to reduce weather-related loss volatility.

Auto sales increased 6 percent for the year. That sales activity was buoyed by selected state new product and pricing initiatives, which provide improved risk segmentation and more attractive new business pricing for preferred-risk educators. Auto policy retention remains strong at 85 percent. Although the number of auto policies in force was slightly below year-end 2013, we are confident our sales momentum will result in increased in-force growth.

In property, Horace Mann, like much of the industry, experienced a higher level of non-catastrophe losses, which more than offset the modest decline in catastrophe activity. As volatile weather continues to be a challenge in the property line, refining pricing, underwriting and risk appetite will

be necessary to ensure continued profitable results. Property policy retention remained high at 88 percent.

### **Impressive results in Annuity and Life**

For both the annuity and life segments, results for 2014 encompassed robust sales and growth in assets under management. Annuity net income increased \$0.6 million to \$45.3 million.

Annuity sales increased more than 20 percent, led by the new fixed indexed annuity (FIA) product which comprised nearly a third of annuity sales. The new product was favorably received by both customers and agents. Almost two-thirds of our agents sold at least one FIA policy, a significant increase from the small number that sold third-party vended products previously offered.

Despite the challenging interest rate environment, the company maintained favorable new business pricing spreads, as well as a strong net interest margin, which increased 10 percent over 2013. The net interest spread of 201 basis points for the fixed annuity business reflected continued solid investment portfolio performance and proactive crediting rate management.

Annuity deposits increased 14 percent over 2013, primarily due to an increase in the amount of single premium deposits. Total annuity assets under management of \$5.7 billion increased 6 percent, and total cash value persistency held steady at about 94 percent.

In 2014, life mortality returned to more normal levels compared to the prior year. This was the primary contributor to the \$2.9 million decline in net income in the life segment compared to 2013. Through increased agent training, updated underwriting and pricing, and a simplified, electronic application process, the company delivered a 31 percent increase in

life insurance sales in 2014, the third year of double-digit sales growth. This growth was the result of a multi-year effort to emphasize the Horace Mann manufactured life insurance product line, and as a result, individual life policies in force increased for the first time since 1998.

### **Advancing products, distribution and infrastructure (PDI)**

The Horace Mann vision is clear: To be the preferred insurance and financial services provider to the nation's educators. The company is beginning to execute on our long-term "PDI" strategy to provide educators with the products they need, the distribution options they want and a modern, efficient infrastructure to support the business.

We are enhancing our product suite by adding new Horace Mann **products** and offering additional third-party products to ensure we meet educators' needs. Our new FIA product is designed to fit in between a traditional fixed annuity and a variable annuity. The FIA offers the opportunity to earn a higher credited rate based on the performance of a selected equity market index and also offers principal protection. This balance of risk protection with the opportunity for a higher return than a traditional fixed annuity product has resonated well in the conservative educator market and equips agents with an additional Horace Mann product that meets the retirement planning needs of the market. First-year sales of the Horace Mann product far exceeded the sales levels of the third-party products previously offered, as pent-up demand for our product drove strong sales.

In P&C, we introduced a more sophisticated product and pricing structure that offers more refined risk segmentation. This has resulted in improved new business rates for preferred

educator segments. Implementing this new structure on a state-by-state basis is showing encouraging preliminary results. Establishing the Horace Mann General Agency to work with third-party vendors further positions Horace Mann as an educator's trusted advisor. Offering coverage on higher-value homes, small commercial businesses, higher risk properties and classic cars provides solutions to more customers' coverage needs.

We continue to strengthen our **distribution** model to complement the exclusive agent force. In late 2014, a new in-house sales team began to supplement the Horace Mann agency force. The team has clearly filled an untapped need, and expansion is planned for 2015. In tandem, exclusive agents will receive enhanced training to achieve higher productivity and service standards.

To support local agents vying for business with larger school districts, an institutional sales focus is bringing increased credibility to the local agent presence, which results in the expansion of Horace Mann's reach in the market.

We continue to invest in the company's **infrastructure** by upgrading systems and processes. We completed the first implementation phase of a new life and annuity administration system to improve speed of delivery and overall functionality. When the system is fully implemented, new products can be developed and brought to market quicker and with cost efficiency. The upgrade to a new customer service technology platform modernizes the customer experience and gives customers more interaction options, including an online chat function. The due diligence phase for assessment of a new administration system for the property and casualty business is underway.

In support of these and other growth initiatives, we continue to recruit and attract experienced and proven industry professionals to lead strategic efforts.

### **'Find more, win more, keep more' in 2015 and beyond**

With the right strategy gaining traction, our perseverance and hard work laid the groundwork in 2014 for some exciting developments in 2015.

Year-end momentum provides a foundation for sales growth in all lines of business in 2015. Striving to increase auto policies in force for the first time since 2007, building on annuity momentum, and introducing our indexed universal life product will highlight the year. Continuing the rollout of the more sophisticated P&C product and pricing structure to more states should lead to increased sales and improve the P&C loss ratio toward our mid-90s target.

Operating expenses will increase modestly to fund strategic infrastructure investments to bring service capabilities more in line with the top players in the industry. While the low-yield interest environment will continue to be a challenge, layering on new annuity business and proactively managing investment portfolio and crediting rates should mitigate spread compression.

Strategically, we plan to focus more resources on our "find more, win more, keep more" strategy to increase the number of educator households.

Expanding use of third-party data and analytics will identify profitable growth opportunities. With the amount of consumer data available, tapping in to "Big Data"



supports targeted marketing efforts based on educator household characteristics. This is the initial step in a multi-year strategy to identify the most efficient ways to access preferred segments of the educator market. Then, the “find more” activity can effectively convert those households to first-time customers.

Some of the best potential customers, though, are the ones we already have. Every additional product placed in an educator household bolsters already strong retention and persistency levels. “Winning more” share of a household wallet means “keeping more” customers. With that in mind, targeted campaigns designed to sell more products to current educator households are the cornerstone of the “keep more” strategy. At the corporate level, integrated campaigns, featuring direct and digital marketing elements, will make sure customers are aware of all product lines and the potential cost savings associated with adding those lines. Then, at the local level, knowledgeable agents conduct annual policy reviews and State Teachers’ Retirement System workshops to identify ways Horace Mann can help protect educators’ short-term risks and secure their long-term financial futures.

### **Looking ahead to 2015**

The Horace Mann business model continues to have significant growth potential. But we know we face challenges ranging from the low interest rate environment to an increasingly competitive P&C marketplace, as well as exciting and new emerging trends in our industry. We believe we are well positioned to meet the challenges and prosper in an ever-changing environment.

Improvements in product and pricing efforts for auto and continued strong annuity sales should drive new educator household growth. Renewed commitment to Horace Mann life sales and other cross-sell efforts further solidify the household relationship and drive retention.

With the structure of our multi-year business strategy firmly established and in flight, Horace Mann will continue its fiscally conservative and responsible stewardship, always focused on creating greater shareholder value. Total shareholder return was 9.5 percent in 2014, consistent with our long track record of delivering sustained shareholder return, and we remain focused on growing book value per share and paying a compelling dividend to investors. In March 2015, for the seventh consecutive year, Horace Mann increased its quarterly dividend.

We are confident we are making great strides toward our vision of being 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 our company and reward our shareholders.



**Marita Zuraitis**  
President & Chief Executive Officer

## Directors

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### **Gabriel L. Shaheen**

Chairman of the Board of Directors  
Horace Mann Educators Corporation  
President and Chief Executive Officer (retired)  
Lincoln National Life Insurance Company

### **Marita Zuraitis**

President & Chief Executive Officer  
Horace Mann Educators Corporation

### **Dr. Mary H. Futrell**

Co-Director, Center for Curriculum,  
Standards and Technology  
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)

### **Roger J. Steinbecker\***

Managing Partner (retired)  
PricewaterhouseCoopers LLP

### **Robert Stricker**

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

### **Steven O. Swyers\***

Managing Partner (retired)  
PricewaterhouseCoopers LLP

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

## Officers

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### **Marita Zuraitis**

President & Chief Executive Officer

### **Dwayne D. Hallman**

Executive Vice President  
Chief Financial Officer

### **Stephen P. Cardinal**

Executive Vice President  
Chief Marketing Officer

### **Matthew P. Sharpe**

Executive Vice President  
Annuity & Life

### **William J. Caldwell**

Senior Vice President  
Property & Casualty

### **Bret A. Conklin**

Senior Vice President  
Controller

### **Sandra L. Figurski**

Senior Vice President  
Chief Information Officer

### **John McCarthy**

Senior Vice President  
Chief Human Resources Officer

### **Ann M. Caparrós**

General Counsel & Chief  
Compliance Officer  
Corporate Secretary

### **Angela S. Christian**

Vice President & Treasurer

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	
<b>2014</b>			
Fourth Quarter	\$33.74	\$28.11	\$0.230
Third Quarter	31.79	28.34	0.230
Second Quarter	31.73	27.70	0.230
First Quarter	31.87	27.42	0.230
<b>2013</b>			
Fourth Quarter	\$31.81	\$27.25	\$0.195
Third Quarter	29.00	24.20	0.195
Second Quarter	25.59	20.70	0.195
First Quarter	22.22	19.95	0.195

## Corporate Data

### Corporate Office

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

### Annual Meeting

May 20, 2015  
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  
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

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.**

HA-C00374 (Mar. 15)