



**Horace Mann Educators Corporation  
2002 Annual Report and 10-K**



**Horace Mann**  
Educated Financial Solutions



## Letter to Shareholders

Horace Mann accomplished a great deal during 2002 while dealing with significant challenges in the financial markets, and we believe that we are well positioned to continue our performance improvement in 2003.

We unveiled our new corporate logo a year ago as part of our comprehensive strategy to distinguish and brand Horace Mann as the top insurance and financial services provider for the educational community. The logo symbolizes a commitment to our strategic compass, the Horace Mann Value Proposition, 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.”

Along with many other insurance companies, Horace Mann was adversely impacted by investment losses in 2002. We revised the issuer and sector concentration limits on our investments to increase the conservatism of our investment guidelines. We also took steps to reduce our debt and improve our capital and leverage ratios, both at the holding company and for our insurance subsidiaries. By the end of the fourth quarter, those actions returned our capital and leverage ratios — and the overall strength of our balance sheet — to historical levels, consistent with our operating targets and the expectations of the rating agencies.

Addressing this challenge didn't deter us from pursuing our vision and aspirations with focus and energy. Rather, it strengthened our resolve and commitment to powerfully deliver our Value Proposition to the educator market.

### Several accomplishments highlight an impressive year

Horace Mann's accomplishments in 2002 demonstrate that we are on the right course for profitable growth of our business. The company recorded its most significant annual increase in number of agents in eight years and, reflecting continued improvement in average agent productivity, our agents produced record levels of new business.

One of the key drivers for top-line growth is the continued improvement in the quality of our agents, due in part to an improved agent training program which emphasizes needs-based selling. In addition, our agency force is now supported with enhanced marketing materials and Internet-based communication processes.

In 2001, we began expanding our reach to educators beyond our traditional geographic areas with our High Priority Markets initiative. Last year, we pursued opportunities in several high

potential markets, including Sacramento, California; Denver, Colorado; and Nashville, Tennessee. And in 2003, we plan to focus on Tucson, Arizona; Lincoln, Nebraska; and the Atlanta and Cincinnati areas, among others.

Complementing our career agents is the emergence of independent agent distribution at Horace Mann. We realized success using independent agents and broker/dealers to deliver annuity products to educators previously not reached through our career agents, most notably in the Chicago public schools. We exceeded last year's goal of 100 independent agents and broker/dealers to finish 2002 with 167 independent agents and 23 broker/dealers who will help expand our annuity penetration in school systems across the country.

Horace Mann agents and independent agent distributors combined to produce record annuity new business sales, surpassing 2001 by 12 percent.

Our property and casualty business dramatically improved in 2002. We wrote more educator business, more cross-sold business and higher quality business.

New auto business continued on a solid growth track, increasing 13 percent compared to 2001. Helping fuel new auto business — and future business retention — was a notable increase in the number of clients choosing the electronic funds transfer payment method.

In a dramatic turnaround, our homeowners combined ratio improved by 15 points compared to a year ago. Aggressive rate actions resulted in a 14 percent increase in average written premium per policy. At the same time, deductible increases, coverage limitations and tightened underwriting guidelines contributed to a 20 percent reduction in claim frequency. And our property reinspection program resulted in more accurate replacement cost coverage limits and tighter controls on loss exposure.

## **Property and casualty claims operations restructured**

During 2002, we restructured our property and casualty claims operations, consolidating 17 claims office locations to six regional offices. The new organization allows us to improve our claims handling cycle time, reduces reliance on independent adjusters, and should allow us to improve customer service while reducing our average claims settlement cost.

To complement the restructuring, we've developed a comprehensive claims management system that handles the life cycle of a claim from first notice of loss through settlement. We expect it to be fully operational by mid-year.

## **Committing to world-class customer service**

Throughout 2002, concerted efforts were made for continued improvement in client and agent satisfaction. Our administrative and call center operations achieved significant enhancements in cycle time, service levels and quality assurance. A culture that fosters and supports a world-class customer service attitude is being embedded in all areas with a focus on our clients and their needs.

Part of our commitment to world-class customer service was the introduction of Benefits Direct, which enabled the company to deliver proceeds from many of our life insurance policies to beneficiaries far more rapidly than before.

Additionally, we expanded service through the Internet. Clients can now make certain policy changes, report claims, contact their agents and access their retirement account information online. To support these changes, we're continuing to make major improvements to our technology networks and strengthening our security systems.

New technology and enhanced employee education will continue to advance our knowledge, speed and accuracy in serving our clients. When our new document management system is implemented in 2003, we expect significant improvement in service and application processing time. Not only will it reduce manual procedures and the amount of paper in the company, it will

also track each step in the workflow. And the anticipated redesign of our new business and renewal statements will provide our clients with improved policy and billing information.

## **Horace Mann's financial strength secured**

In addition to increasing the conservatism of our investment guidelines and improving our capital and leverage ratios, we successfully refinanced a substantial portion of Horace Mann's debt in 2002. This improved our capital structure and allowed the company to take advantage of lower interest rates.

Our investors and other stakeholders can be secure in knowing that Horace Mann Educators Corporation continues to take its corporate governance and Sarbanes-Oxley Act compliance responsibilities seriously. We have dedicated the necessary resources, and will continue to do so, to assure compliance with the Act. We remain committed to high principles of ethical behavior; our employees demonstrate it and our customers experience it.

## 2003: accelerating growth; driving operational excellence

As we look to 2003 and beyond, we'll continue to shape Horace Mann into the foremost insurance and financial services provider for educators.

Our main thrust for 2003 will be to accelerate the delivery of our Value Proposition to our clients. We've developed a three-pronged approach to accomplish that objective. The first is the creation of regional market teams. These cross-functional teams will enable Horace Mann to establish marketing priorities and goals based on local opportunities.

Our second driver is to position Horace Mann as the educator expert in the insurance industry. We will continue to build on our knowledge and delivery of messages, products and services that educators desire. By utilizing this knowledge, we intend to be "the educator company" and meet the vision of our Value Proposition.

Our third commitment to accelerate the delivery of our Value Proposition is to drive operational excellence across all of our business functions. Horace Mann will continue to implement business processes and technology to reduce both cycle times and unit costs. Through continual improvement in the effectiveness and efficiency of our operations, we will strive to attain the highest level of satisfaction from our clients.

Our accomplishments in 2002 have created a more market-focused Horace Mann that is attracting new customers and retaining more of our best clients. We've improved operations and created significant momentum in our business. As we accelerate delivery of our Value Proposition to our clients, we will create an environment where our employees can realize their full potential while we deliver strong financial returns to our shareholders.

Sincerely,



Joseph J. Melone  
Chairman of  
the Board of Directors



Louis G. Lower II  
President &  
Chief Executive Officer

## Directors

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### **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

### **William W. Abbott**

Senior Vice President (retired)  
Procter & Gamble

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

Dean, Graduate School of  
Education and Human Development  
The George Washington University

### **Donald E. Kiernan**

Senior Executive Vice President &  
Chief Financial Officer (retired)  
SBC Communications Inc.

### **Jeffrey L. Morby**

Managing Director  
Amarna Corporation, LLC

### **Shaun F. O'Malley**

Chairman Emeritus  
Price Waterhouse LLP

### **Charles A. Parker**

Financial Consultant

### **William J. Schoen**

Chairman of the Board  
Health Management Associates, Inc.

## Officers

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### **Louis G. Lower II**

President & Chief Executive Officer

### **Peter H. Heckman**

Executive Vice President  
Chief Financial Officer

### **Daniel M. Jensen**

Executive Vice President  
Chief Marketing Officer

### **Douglas W. Reynolds**

Executive Vice President  
Property & Casualty

### **George J. Zock**

Executive Vice President  
Service & Technology Operations  
and Financial Services

### **Valerie A. Chrisman**

Senior Vice President  
Employee and Corporate Services

### **Bret A. Conklin**

Senior Vice President  
Controller

### **Dwayne D. Hallman**

Senior Vice President  
Finance

### **William S. Hinkle**

Senior Vice President  
Property & Casualty

### **Robert B. Joyner**

Senior Vice President  
Agency Distribution

### **Paul D. Andrews**

Vice President  
Client Services

### **Richard V. Atkinson**

Vice President & Chief Actuary  
Property & Casualty

### **Ann M. Caparrós**

General Counsel & Chief  
Compliance Officer  
Corporate Secretary

### **Angela S. Christian**

Vice President & Treasurer

### **Kathleen A. McNulty**

Vice President  
Chief Information Officer

### **Robert E. Rich**

Vice President & Chief Actuary  
Life & Annuity

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.

<b>Market Price</b>			
<b>Fiscal Period</b>	<b>High</b>	<b>Low</b>	<b>Dividend Paid</b>
<b>2002</b>			
Fourth Quarter	\$ 16.49	\$ 13.61	\$ 0.105
Third Quarter	18.86	14.00	0.105
Second Quarter	24.08	17.45	0.105
First Quarter	23.00	19.35	0.105
<b>2001</b>			
Fourth Quarter	\$ 22.40	\$ 16.25	\$ 0.105
Third Quarter	22.05	15.72	0.105
Second Quarter	21.75	14.80	0.105
First Quarter	21.375	15.25	0.105

## Corporate Data

### Corporate Office

1 Horace Mann Plaza  
Springfield, IL 62715-0001  
Telephone: (217) 789-2500  
Internet: [www.horacemann.com](http://www.horacemann.com)  
[www.reacheverychild.com](http://www.reacheverychild.com)

### Annual Meeting

May 29, 2003  
9:00 a.m.  
Hilton Springfield  
700 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  
40 Wall Street  
New York, NY 10005

### Convertible Notes

HMEC Convertible Notes are traded in the open market (HMN 1.425)

### Senior Notes

HMEC senior notes are traded on the NYSE (HMN 6 5/8)

### 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 [www.horacemann.com](http://www.horacemann.com). The Statistical Supplement and hard copies of SEC filings are available upon written request from:

### Investor Relations

Horace Mann  
Educators Corporation  
1 Horace Mann Plaza, C-120  
Springfield, IL 62715-0001

## **The Horace Mann Value Proposition**

Provide lifelong financial well-being for educators and their families through personalized service, advice and a full range of tailored insurance and financial products.



**Horace Mann**

Educated Financial Solutions