



**Horace Mann Educators Corporation**  
**2011 Annual Report and 10-K**



**Horace Mann<sup>®</sup>**  
*Founded by Educators for Educators*

## Financial Highlights

(Dollars in millions, except per share data)

Year Ended December 31,	2011	2010	2009
<b>Operations</b>			
Insurance premiums written and contract deposits	\$ 1,078.4	\$ 1,052.0	\$ 1,003.7
Net income	70.5	80.9	73.5
Return on equity (1)	7.3%	9.6%	12.7%
Property & casualty combined loss and expense ratio	106.7%	100.9%	99.5%
Total Exclusive Agencies and Employee Agents	745	741	716

### Per share

Net income per share:			
Basic	\$ 1.77	\$ 2.05	\$ 1.88
Diluted	\$ 1.70	\$ 1.97	\$ 1.81
Dividends paid	\$ 0.46	\$ 0.35	\$ 0.2375
Book value (2)	\$ 27.33	\$ 22.19	\$ 18.36

### Financial position

Total assets	\$ 7,483.7	\$ 6,996.3	\$ 6,334.2
Short-term debt	38.0	38.0	38.0
Long-term debt	199.7	199.7	199.6
Total shareholders' equity	1,086.9	880.0	719.5

(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 \$20.66 at December 31, 2011, \$19.42 at December 31, 2010 and \$17.79 at December 31, 2009.

### 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

### **Strong financial results despite difficult property and casualty environment**

In 2011, Horace Mann continued to demonstrate the value of our multiline business model. While our property and casualty segment was adversely impacted by a significant level of industry-wide catastrophe losses, our annuity and life segments provided stable results which were consistent with our expectations. In spite of the record level of catastrophe losses, 2011 net income of \$70.5 million was only \$10.4 million less than prior year. Excluding net realized investment gains of \$0.59 per share, operating income was \$1.11 per share, a decrease of \$0.49 compared to the prior year, with more than all of that variance due to the \$86 million of pretax catastrophe losses incurred in 2011 – losses well above historical levels.

Through the wide range of severe weather events that impacted our policyholders during 2011, we are proud of the responsiveness, dedication and empathy that Horace Mann's agents and claims professionals demonstrated during this extended and highly stressful period of time. The human impact, including loss of lives, was devastating and our thoughts and prayers continue to be with the affected families.

In spite of the magnitude of these catastrophe losses, our capital position continued to improve and our leverage ratios and overall financial strength remain very solid. The strength of our franchise and capital position was validated in 2011 by A.M. Best's upgrade of Horace Mann Life Insurance Company's financial

strength rating to "A" from "A-". Also reflective of our strong capital position, in December the Board of Directors announced an 18 percent increase in the quarterly dividend to \$0.13 per share, the highest per share dividend level in the company's history, along with the authorization of a \$50 million share repurchase program. These actions were favorably received by both existing and new shareholders and demonstrate the Board's commitment to manage capital for the benefit of our shareholders and policyholders.

In addition to the year's earnings, our strong investment portfolio continued to reflect increases in net unrealized investment gains in 2011, resulting in a reported book value per share of \$27.33 at year-end, a 23 percent increase compared to a year earlier. Looking back over the prior five years, our conservative risk management philosophy, in both our underlying business and our investment portfolio, has provided our shareholders with a solid 12 percent annualized growth in reported book value per share amid a very volatile time period in both the economy and the insurance industry. Excluding the investment portfolio fair value adjustment, the December 31, 2011 book value per share of \$20.66 increased a total of 38 percent over the last five years.

### **Competitive industry dynamics and limited economic improvement challenge auto and property growth**

In 2011, business growth in the property and casualty industry was muted due to a continuation of lackluster growth in the

U.S. economy. Despite slight increases in sales of autos and homes during the year, sales remained well below pre-financial crisis levels. Horace Mann was not immune to the impacts of the economy as evidenced by our lack of growth in this segment's policy count in 2011. Primarily due to the record level of catastrophe losses, our full year property and casualty segment reported operating income was \$5.8 million, down from \$27.0 million in 2010 and well below our expectations for the year. Of particular note, however, in the second half of 2011 the company had higher levels of both profitability and sales compared to the prior year and produced results that were comparable to our expectations for that period.

With regard to our auto line of business, reversing declines in sales and business retention while also maintaining a balanced profit perspective was a critical priority. To address this challenge, we implemented state-specific pricing, underwriting and marketing initiatives focused on increasing auto new business sales. Through these actions, sales to new auto customers increased over the prior year with levels that exceeded our expectations for the third and fourth quarters. Additionally, the renewal ratio for existing auto policies improved in each month of the fourth quarter compared to the prior year. In terms of profitability, our underlying auto combined ratio was up modestly compared to prior year but within our expectations.

Restoring profitability to acceptable levels in our property line was another top priority for the company in 2011.

Through aggressive pricing, underwriting and claims programs, coupled with the completion of our Florida property non-renewal program which significantly reduced our exposure to sinkhole claims and further reduced our catastrophe exposure, we achieved an underlying property combined ratio\* of 70 percent in the second half of the year. From a top-line growth perspective, the property line experienced a 5 percent increase in full year premium, adjusting for the impact of our Florida non-renewal program.

To further strengthen our customer and agent service capabilities, we continued to make improvements to our property and casualty infrastructure throughout the year. The rollout of our auto front-end rating and underwriting system was largely completed in 2011. The few remaining states were implemented in the first quarter of 2012. We also developed and implemented an electronic funds transfer capability to give our property customers an additional premium payment option. And, in early 2012, we launched our first mobile Web application – Horace Mann Mobile – through the Apple App Store. This free application allows customers to manage and view their auto policy and claim information, as well as contact an agent.

### **Continued growth, momentum in Annuity and Life**

The annuity segment continued to experience strong growth momentum in 2011 with record sales, up 21 percent compared to 2010 and up 82 percent since the depths of the financial crisis in 2008.

\*Combined ratio excluding catastrophe costs and prior years' reserve development.

This strong sales momentum is indicative of educators continuing to turn to Horace Mann and an agent they trust. Similarly, a 12 percent increase in new annuity scheduled deposit business reflects educators recognizing the need to save more for their retirement amid discussions surrounding state pension funding issues. Both of these favorable trends led to a continuation of positive net fund flows and growth in annuity Assets Under Management (AUM), which increased 5 percent in 2011. In 2012, we expect growth in AUM to offset the slight decline in fixed annuity interest spreads anticipated in the current low interest rate environment.

Turning to the life segment, initiatives implemented in 2010 to improve the competitiveness of our core Life by Design products contributed to an increase in sales of Horace Mann products. Looking ahead to 2012, we are placing a stronger focus on selling Horace Mann life products with a strategic objective of increasing our underwritten, mortality-based business over the long-term.

Combined annuity and life segments net income exceeded \$50 million in 2011. Excluding the evaluation of deferred policy acquisition costs, the segments' total earnings increased 6 percent over prior year and continued to perform in line with expectations.

### **Transforming agency force, strengthening brand**

Our transition from an employee-based to an Exclusive Agent (EA) distribution model is essentially complete. Through this effort,

we have increased our agency force for the third year in a row and ended 2011 with a combined total of 745 Exclusive Agencies and Employee Agents, compared to 741 in 2010 and 716 in 2009. We expect 90 percent of our agency force to be working in the Agency Business Model (ABM) / EA distribution model within the next 2-3 years.

In support of our ABM strategy, we invested extensively in agent training in 2011 through the expansion of programs dedicated to State Teacher Retirement System (STRS) workshops and enhanced financial services training through The American College. Agents responded favorably to the additional training and conducted nearly 5,000 STRS workshops in 2011, with over 78,000 educators participating, a ten-fold increase in workshops conducted compared to prior year. At the same time, we enhanced our Section 125 flexible benefits plan administration capabilities to further strengthen relationships with our school district customers.

To increase Horace Mann's and our agents' brand awareness in school districts, in 2011 we launched a strategic partnership with DonorsChoose.org, a nonprofit organization that connects teachers to "citizen philanthropists" who want to provide financial support to individual classroom projects. Bolstered by our agents serving as advocates for the organization, approximately 30,000 classroom projects were funded through DonorsChoose.org in schools served by Horace Mann agents, raising over

\$14 million and benefitting 2.5 million students during the first year of our partnership.

In addition to our relationship with DonorsChoose.org, we leveraged a newly-formed strategic alliance with the Association of School Business Officials International (ASBO) to help enhance our brand awareness with ASBO's 6,000 school business management professionals.

### **Looking ahead to 2012**

We believe the strategies we have in place, combined with our solid financial footing, will enable us to build on our strengths and deliver increased profitability in 2012, in spite of ongoing market challenges. While we cannot control where severe weather hits in 2012, we will continue to assess and implement various catastrophe risk management programs, such as the recently completed Florida property non-renewal program, to further mitigate the potential earnings volatility in our property and casualty business.

In our property and casualty segment, we will strive to sustain the underlying property combined ratio and ensure profitable growth in our auto line with a renewed focus on customer retention. We also plan to effectively manage annuity segment profitability in the current low interest rate environment, which we expect to have only a minimal impact on 2012 fixed annuity spreads.

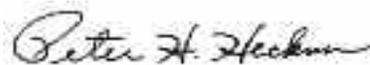
In addition, we plan to continue investing in infrastructure initiatives focused on further improvements in ease of doing

business for our educator customers and agents. For instance, we intend to make enhancements to our school district database, property and casualty billing and collection process, auto quoting and EFT processes, electronic application process, and digital access and transaction capabilities. For our agents, we expect a continuation of broad-based agent training and cross-functional initiatives focused on market access and on maintaining and increasing our financial services sales momentum.

In 2012 and beyond, we anticipate that a combination of top-line growth, improved margins and our fundamentally conservative investment management approach will reward our customers, shareholders, agents and employees, as Horace Mann further strengthens its position as the premier multiline insurance and financial service provider for the K-12 educator market.



**Gabriel L. Shaheen**  
Chairman of  
the Board of Directors



**Peter H. Heckman**  
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

### **Peter H. Heckman**

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

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

Managing Partner (retired)  
PricewaterhouseCoopers LLP

### **Robert Stricker\***

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

### **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**

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

### **Thomas C. Wilkinson**

Executive Vice President  
Property & Casualty

### **Paul D. Andrews**

Senior Vice President  
Human Resources and  
Administrative Operations

### **Bret A. Conklin**

Senior Vice President  
Controller

### **Ann M. Caparrós**

General Counsel & Chief  
Compliance Officer  
Corporate Secretary

### **Angela S. Christian**

Vice President & Treasurer

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>Fiscal Period</b>	<b>Market Price</b>		<b>Dividend Paid</b>
	<b>High</b>	<b>Low</b>	
<b>2011</b>			
Fourth Quarter	\$ 14.31	\$ 10.51	\$ 0.13
Third Quarter	16.11	10.70	0.11
Second Quarter	18.22	14.46	0.11
First Quarter	18.43	15.95	0.11
<b>2010</b>			
Fourth Quarter	\$ 19.50	\$ 16.07	\$ 0.11
Third Quarter	18.17	14.62	0.08
Second Quarter	17.98	13.57	0.08
First Quarter	15.34	11.16	0.08

## Corporate Data

### Corporate Office

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

### Annual Meeting

May 23, 2012  
9:00 a.m.  
Abraham Lincoln Presidential Library  
112 North Sixth 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

Horace Mann  
Educators Corporation  
1 Horace Mann Plaza, C-120  
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.***