HORACE MANN EDUCATORS CORP /DE/
Form 10-K
March 02, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

[x] ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2014**

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______

Commission file number 1-10890

HORACE MANN EDUCATORS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	37-0911756
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1 Horace Mann Plaza, Springfield, Illinois 62715-0001

(Address of principal executive offices, including Zip Code)

Registrant's Telephone Number, Including Area Code: 217-789-2500

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.001 per share	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes _X_ No ___

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ___ No _X_

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes _X_ No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark the registrant's filer status, as such terms are defined in Rule 12b-2 of the Exchange Act.

Large accelerated filer _X_ Accelerated filer ___ Non-accelerated filer ___ Smaller reporting company ___

Indicate by check mark whether the registrant is a shell company, as defined in Rule 12b-2 of the Act. Yes ___ No _X_

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant based on the closing price of the registrant's Common Stock on the New York Stock Exchange and the shares outstanding on June 30, 2014, was $1,277.7 million.

As of February 15, 2015, 41,085,950 shares of the registrant's Common Stock, par value $0.001 per share, were outstanding, net of 23,331,930 shares of treasury stock.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's Proxy Statement for the 2015 Annual Meeting of Shareholders are incorporated by reference into Part III Items 10, 11, 12, 13 and 14 of Form 10-K as specified in those Items and will be filed with the Securities and Exchange Commission within 120 days after December 31, 2014.

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HORACE MANN EDUCATORS CORPORATION

FORM 10-K

YEAR ENDED DECEMBER 31, 2014

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PART I

ITEM 1. Business

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 in "Item 1A. Risk Factors" and in "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Forward-looking Information".

Overview and Available Information

Horace Mann Educators Corporation ("HMEC"; and together with its subsidiaries, the "Company" or "Horace Mann") is an insurance holding company incorporated in Delaware. Through its subsidiaries, HMEC markets and underwrites personal lines of property and casualty (primarily personal lines automobile and homeowners) insurance, retirement annuities (primarily tax-qualified products) and life insurance in the United States of America ("U.S."). HMEC's principal insurance subsidiaries are Horace Mann Life Insurance Company ("HMLIC"), Horace Mann Insurance Company ("HMIC"), Horace Mann Property & Casualty Insurance Company ("HMPCIC") and Teachers Insurance Company ("TIC"), each of which is an Illinois corporation, and Horace Mann Lloyds ("HM Lloyds"), an insurance company domiciled in Texas.

Founded by Educators for Educators®, the Company markets its products primarily to K-12 teachers, administrators and other employees of public schools and their families. The Company's nearly one million customers typically have moderate annual incomes, with many belonging to two-income households. Their financial planning tends to focus on retirement, security, savings and primary insurance needs. Management believes that Horace Mann is the largest national multiline insurance company focused on the nation's educators as its primary market.

Horace Mann markets and services its products primarily through a dedicated sales force of full-time agents supported by the Company's Customer Contact Center. These agents sell Horace Mann's products and limited additional third-party vendor products. Some of these agents are former educators or individuals with close ties to the educational community who utilize their contacts within, and knowledge of, the target market. This dedicated agent sales force is supplemented by an independent agent distribution channel for the Company's annuity products.

The Company's insurance premiums written and contract deposits for the year ended December 31, 2014 were $1.2 billion and net income was $104.2 million. The Company's total assets were $9.8 billion at December 31, 2014. The Company's investment portfolio had an aggregate fair value of $7.4 billion at December 31, 2014 and consisted principally of investment grade, publicly traded fixed maturity securities.

The Company conducts and manages its business through four segments. The three operating segments, representing the major lines of insurance business, are: property and casualty insurance, annuity products, and life insurance. The Company does not allocate the impact of corporate-level transactions to the insurance segments, consistent with the basis for management’s evaluation of the results of those segments, but classifies those items in the fourth segment, corporate and other. The property and casualty, annuity, and life segments accounted for 50%, 41% and 9%, respectively, of the Company's insurance premiums written and contract deposits for the year ended December 31, 2014.

The Company is one of the largest participants in the K-12 portion of the 403(b) tax-qualified annuity market, measured by 403(b) net written premium on a statutory accounting basis. The Company's 403(b) tax-qualified annuities are voluntarily purchased by individuals employed by public school systems or other tax-exempt organizations through the employee benefit plans of those entities. The Company has 403(b) payroll deduction capabilities utilized by approximately one-third of the 13,600 public school districts in the U.S.

The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, and all amendments to those reports are available free of charge through the Investors section of the Company's Internet website, www.horacemann.com, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission (“SEC”). The EDGAR filings of such reports are also available at the SEC's website, www.sec.gov.

Also available in the Investors section of the Company’s website are its corporate governance principles, code of conduct and code of ethics as well as the charters of the Board’s Audit Committee, Compensation Committee, Executive Committee, Investment and Finance Committee, and Nominating and Governance Committee.

On June 20, 2014, the Chief Executive Officer (“CEO”) of HMEC timely submitted the Annual Section 12(a) CEO Certification to the New York Stock Exchange (“NYSE”) without any qualifications. The Company filed with the SEC, as exhibits to the Annual Report on Form 10-K for the year ended December 31, 2013, the CEO and Chief Financial Officer (“CFO”) certifications required under Section 302 of the Sarbanes-Oxley Act.

History

The Company's business was founded in Springfield, Illinois in 1945 by two school teachers to sell automobile insurance to other teachers within the State of Illinois. The Company expanded its business to other states and broadened its product line to include life insurance in 1949, 403(b) tax-qualified retirement annuities in 1961 and homeowners insurance in 1965. In November 1991, HMEC completed an initial public offering of its common stock (the “IPO”). The common stock is traded on the New York Stock Exchange under the symbol “HMN”.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following consolidated statement of operations and balance sheet data have been derived from the consolidated financial statements of the Company, which have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The consolidated financial statements of the Company for each of the years in the five-year period ended December 31, 2014 have been audited by KPMG LLP, an independent registered public accounting firm. The following selected historical consolidated financial data should be read in conjunction with the consolidated financial statements of HMEC and its subsidiaries and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in millions, except per share data)				
Statement of Operations Data:					
Insurance premiums and contract charges earned	$715.8	$690.9	$670.5	$667.1	$672.7
Net investment income	329.8	313.6	306.0	288.3	272.1
Realized investment gains	10.9	22.2	27.3	37.7	23.8
Total revenues	1,060.7	1,031.2	1,010.8	998.3	974.8
Interest expense	14.2	14.2	14.2	14.0	14.0
Income before income taxes	146.1	154.1	149.2	94.9	110.2
Net income	104.2	110.9	103.9	70.5	80.1
Ratio of earnings to fixed charges (1)	1.8 x	1.8 x	1.8 x	1.6 x	1.7 x
Per Share Data (2):					
Net income per share					
Basic	$2.50	$2.75	$2.63	$1.77	$2.04
Diluted	$2.47	$2.66	$2.51	$1.70	$1.95
Shares of Common Stock (in millions)					
Weighted average - basic	41.6	40.4	39.5	39.9	39.3
Weighted average - diluted	42.2	41.6	41.4	41.4	41.0
Ending outstanding	40.9	40.5	39.4	39.8	39.7
Cash dividends per share	$0.92	$0.78	$0.55	$0.46	$0.35
Book value per share	$32.65	$27.14	$31.65	$26.53	$21.36
Balance Sheet Data, at Year End:					
Total investments	$7,403.5	$6,539.5	$6,292.1	$5,677.5	$5,073.6
Total assets	9,768.5	8,826.7	8,167.7	7,435.2	6,945.7
Total policy liabilities	5,351.5	5,029.2	4,736.7	4,401.0	4,068.7
Short-term debt	38.0	38.0	38.0	38.0	38.0
Long-term debt	199.9	199.9	199.8	199.7	199.7
Total shareholders' equity	1,336.5	1,099.3	1,245.8	1,055.4	847.1
Segment Information (3):					
Insurance premiums written and contract deposits					

Property and casualty	$584.4	$570.4	$550.8	$545.9	$557.1
Annuity	480.6	423.0	417.6	433.9	395.5
Life	102.7	100.8	99.3	98.6	99.4
Total	1,167.7	1,094.2	1,067.7	1,078.4	1,052.0
Net income (loss)					
Property and casualty	$46.9	$44.4	$37.1	$5.9	$27.0
Annuity	45.3	44.7	40.5	30.9	30.8
Life	17.5	20.4	21.9	19.4	20.2
Corporate and other (4)	(5.5)	1.4	4.4	14.3	2.1
Total	104.2	110.9	103.9	70.5	80.1

(1) For the purpose of determining the ratio of earnings to fixed charges, “earnings” consist of income before income taxes and fixed charges, and “fixed charges” consist of interest expense (including amortization of debt issuance cost) and interest credited to policyholders on interest-sensitive contracts.

(2) Basic earnings per share is computed based on the weighted average number of shares outstanding plus the weighted average number of fully vested restricted stock units and common stock units payable as shares of HMEC common stock. Diluted earnings per share is computed based on the weighted average number of shares and common stock equivalents outstanding, to the extent dilutive. The Company's common stock equivalents relate to outstanding common stock options, common stock units (related to deferred compensation for Directors and employees) and restricted stock units.

(3) Information regarding assets by segment at December 31, 2014, 2013 and 2012 is contained in “Notes to Consolidated Financial Statements -- Note 13 -- Segment Information” listed on page F-1 of this report.

(4) The corporate and other segment primarily includes interest expense on debt, the impact of realized investment gains and losses, and certain public company expenses.

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Corporate Strategy and Marketing

The Horace Mann Value Proposition

The Horace Mann Value Proposition articulates the Company's overarching strategy and business purpose: Provide lifelong financial well-being for educators and their families through personalized service, advice, and a full range of tailored insurance and financial products.

Target Market

Management believes that Horace Mann is the largest national multiline insurance company focused on the nation's educators as its primary market. The Company's target market consists primarily of K-12 teachers, administrators and other employees of public schools and their families located throughout the U.S. The U.S. Department of Education estimates that there are approximately 6.2 million teachers, school administrators and education support personnel in public schools in the U.S.; approximately 3.1 million of these individuals are elementary and secondary teachers.

Dedicated Agency Force

A cornerstone of Horace Mann's marketing strategy is its dedicated sales force of agents, supported by the Company's Customer Contact Center. As of December 31, 2014, the Company had a combined total of 755 Exclusive Agencies and Employee Agents. Approximately 78% of the appointed agents are licensed by the Financial Industry Regulatory Authority, Inc. ("FINRA") to sell variable annuities and variable universal life policies. Some individuals in the agency force were previously teachers, other members of the education profession or persons with close ties to the educational community. The Company's dedicated agents are under contract to market only the Company's products and limited additional third-party vendor products. Collectively, the Company's principal insurance subsidiaries are licensed to write business in 49 states and the District of Columbia.

Over 90% of the Company's dedicated agency force operates in its Agency Business Model ("ABM"), consisting of Exclusive Agencies as well as Employee Agents in outside offices with licensed producers -- which was designed to remove capacity constraints and increase productivity. The Company's Exclusive Agent ("EA") agreement is designed to place agents in the position to become business owners and invest their own capital to grow their agencies. Exclusive Agents are non-employee, independent contractors. EAs may sign multiple EA agreements with the Company and manage more than one Exclusive Agency. Management expects that all future new agent appointments will be under the EA agreement. On an ongoing basis, the Company provides follow-up training and support to agents regarding the

Company's products, as well as to further embed repeatable processes and fully maximize the potential of ABM.

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Broadening Distribution Options

To complement and extend the reach of the Company’s agency force and to more fully utilize its approved payroll slots in school systems across the country, the Company utilizes a network of independent agents to distribute the Company's 403(b) tax-qualified annuity products. In addition to serving educators in areas where the Company does not have dedicated agents, the independent agents complement the annuity capabilities of the Company's agency force in under-penetrated areas. At December 31, 2014, there were approximately 500 independent agents approved to market the Company’s annuity products throughout the U.S. During 2014, collected contract deposits from this distribution channel were approximately $45 million. Combined with business from the Company’s dedicated agency force, total annuity collected contract deposits were $481 million for the year ended December 31, 2014.

Geographic Composition of Business

The Company's business is geographically diversified. For the year ended December 31, 2014, based on direct premiums and contract deposits for all product lines, the top five states and their portion of total direct insurance premiums and contract deposits were California, 7.8%; North Carolina, 6.7%; Texas, 6.6%; Minnesota, 5.9%; and Florida, 5.7%.

HMEC's property and casualty subsidiaries are licensed to write business in 48 states and the District of Columbia. The following table sets forth the Company's top ten property and casualty states based on total direct premiums.

Property and Casualty Segment Top Ten States

(Dollars in millions)

State	Property and Casualty Segment 2014 Direct Premiums (1)	Percent of Total
California	$63.6	10.7 %
North Carolina	44.4	7.4
Texas	40.5	6.8

Minnesota	37.9	6.4
Florida	36.2	6.1
South Carolina	32.7	5.5
Louisiana	30.4	5.1
Pennsylvania	21.5	3.6
Georgia	21.1	3.5
Michigan	16.2	2.7
Total of top ten states	344.5	57.8
All other areas	252.0	42.2
Total direct premiums	$596.5	100.0 %

(1) Defined as earned premiums before reinsurance as determined under statutory accounting principles.

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HMEC's principal life insurance subsidiary is licensed to write business in 48 states and the District of Columbia. The following table sets forth the Company's top ten combined life and annuity states based on total direct premiums and contract deposits.

Combined Life and Annuity Segments Top Ten States

(Dollars in millions)

State	2014 Direct Premiums and Contract Deposits (1)	Percent of Total
Pennsylvania	$ 39.4	6.7 %
Texas	37.4	6.4
Illinois	35.6	6.1
North Carolina	35.0	6.0
Minnesota	31.5	5.4
Florida	31.1	5.3
South Carolina	29.4	5.0
Virginia	28.8	4.9
California	28.1	4.8
Indiana	24.4	4.1
Total of top ten states	320.7	54.7
All other areas	265.7	45.3
Total direct premiums	$ 586.4	100.0 %

(1) Defined as collected premiums before reinsurance as determined under statutory accounting principles.

National, State and Local Education Associations

The Company has established relationships with a number of educator groups throughout the U.S. These groups include the National Education Association ("NEA"), The NEA Foundation, the Association of School Business Officials International ("ASBO") and various school administrator and principal associations such as the American Association of School Administrators ("AASA"), the National Association of Elementary School Principals ("NAESP") and the National Association of Secondary School Principals ("NASSP"). The Company does not pay these groups any consideration in exchange for endorsement of the Company or its products. Depending on the organization, the Company does pay for certain special functions and advertising.

In recent years, the Company has developed relationships and programs to align its agents with school districts in a business to business relationship. In addition to a working relationship, in 2011 Horace Mann formed a strategic alliance with ASBO, as well as its state and regional affiliates. The Company holds an annual meeting with selected ASBO members to gain feedback on a variety of school district programs.

The Company has had its longest relationship with the NEA, the nation's largest confederation of state and local teachers' associations, and many of the state and local education associations affiliated with the NEA. The NEA has approximately 3.2 million members. A number of state and local associations affiliated with the NEA endorse various insurance products and services of the Company and its competitors. The Company does not pay the NEA or any affiliated associations any consideration in exchange for endorsement of Company products. The Company does pay for marketing agreements, certain special functions and advertising.

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Support of Educator Programs

The Company’s agents conduct state-specific State Teacher Retirement System Workshops in addition to Financial Success Workshops designed to help educators gain or increase their financial literacy. In addition, the Company offers services and products to school districts that help meet the needs of educators including payroll deduction options for individual insurance products, group life insurance and Section 125 programs. To help districts determine what programs meet their needs, the Company has developed an Employer Benefit Review Service and conducts workshops for school business officials.

Along with differentiating, value-added product features, the Company has a number of programs that demonstrate its commitment to the educator profession, while also further distinguishing Horace Mann from competitors within the K-12 educator market. Examples of these programs include: the NEA Foundation’s Horace Mann Awards for Teaching Excellence honoring 5 national finalists; Horace Mann is a national sponsor of DonorsChoose.org, an online, not-for-profit organization that connects corporate and individual donors to teachers with classroom projects in need of funding; and, beginning in 2014, Horace Mann sponsors ASBO’s Certified Administrator of School Finance and Operations® (“SFO®”) certification program.

Property and Casualty Segment

The property and casualty segment represented 50% of the Company's consolidated insurance premiums written and contract deposits in 2014.

The primary property and casualty product offered by the Company is private passenger automobile insurance, which in 2014 represented 33% of the Company’s total insurance premiums written and contract deposits and 65% of property and casualty net written premiums. As of December 31, 2014, the Company had approximately 481,000 voluntary automobile policies in force. The Company's automobile business is primarily preferred risk, defined as a household whose drivers have had no recent accidents and no more than one recent moving violation.

In 2014, homeowners insurance represented 17% of the Company’s total insurance premiums written and contract deposits and 34% of property and casualty net written premiums. As of December 31, 2014, the Company had approximately 229,000 homeowners policies in force. The Company insures primarily residential homes.

The Company has programs in a majority of states to provide higher-risk automobile and homeowners coverages, with third-party vendors underwriting and bearing the risk of such insurance and the Company receiving commissions on

the sales. Similarly, the Company has increased its offering of third-party vendor products in many areas to include coverage for small business owners and classic/collector automobile owners to meet those aspects of an educator’s needs.

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Selected Historical Financial Information For Property and Casualty Segment

The following table sets forth certain financial information with respect to the property and casualty segment for the periods indicated.

Property and Casualty Segment

Selected Historical Financial Information

(Dollars in millions)

	Year Ended December 31,		
	2014	**2013**	**2012**
Financial Data:			
Insurance premiums written	$584.4	$570.4	$550.8
Insurance premiums earned	581.8	561.9	546.3
Net investment income	36.8	36.2	36.8
Income before income taxes	60.8	57.2	47.9
Net income	46.9	44.4	37.1
Catastrophe costs, pretax (1)	37.5	40.2	43.3
Operating Statistics:			
Loss and loss adjustment expense ratio	68.7 %	68.6 %	71.3 %
Expense ratio	27.4 %	27.7 %	27.0 %
Combined loss and expense ratio	96.1 %	96.3 %	98.3 %
Effect of catastrophe costs on the combined ratio (1)	6.5 %	7.2 %	8.0 %
Automobile and Homeowners (Voluntary):			
Insurance premiums written			
Automobile	$380.5	$371.7	$360.3
Homeowners	199.8	195.0	186.9
Total	580.3	566.7	547.2
Insurance premiums earned			
Automobile	378.0	367.5	357.1
Homeowners	199.7	190.8	185.5
Total	577.7	558.3	542.6
Policies in force (in thousands)			
Automobile	481	482	487
Homeowners	229	235	237
Total	710	717	724

(1) These measures are used by the Company's management to evaluate performance against historical results and establish targets on a consolidated basis. These measures are components of net income but are considered non-GAAP financial measures under applicable SEC rules because they are not displayed as separate line items in the Consolidated Statements of Operations and there is inclusion or exclusion of certain items not ordinarily included or excluded in a GAAP financial measure. In the opinion of the Company's management, a discussion of these measures is meaningful to provide investors with an understanding of the significant factors that comprise the Company's periodic results of operations.

- Catastrophe costs - The sum of catastrophe losses and property and casualty catastrophe reinsurance reinstatement premiums.
- Catastrophe losses - In categorizing property and casualty claims as being from a catastrophe, the Company utilizes the designations of the Property Claim Services, a subsidiary of Insurance Services Office, Inc. (“ISO”), and additionally beginning in 2007, includes losses from all such events that meet the definition of covered loss in the Company’s primary catastrophe excess of loss reinsurance contract, and reports loss and loss adjustment expense amounts net of reinsurance recoverables. A catastrophe is a severe loss resulting from natural and man-made events within a particular territory, including risks such as hurricane, fire, earthquake, windstorm, explosion, terrorism and other similar events, that causes $25 million or more in insured property and casualty losses for the industry and affects a significant number of property and casualty insurers and policyholders. Each catastrophe has unique characteristics. Catastrophes are not predictable as to timing or amount of loss in advance. Their effects are not included in earnings or claim and claim adjustment expense reserves prior to occurrence. In the opinion of the Company's management, a discussion of the impact of catastrophes is meaningful for investors to understand the variability in periodic earnings.

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Catastrophe Costs

The level of catastrophe costs can fluctuate significantly from year to year. Catastrophe costs before federal income tax benefits for the Company for the last ten years are shown in the following table.

Catastrophe Costs

(Dollars in millions)

	The Company (1)
Year Ended December 31,	
2014	$ 37.5
2013	40.2
2012	43.3
2011	86.0
2010	49.2
2009	33.1
2008	73.9
2007	23.6
2006	19.8
2005	69.2

(1) Net of reinsurance and before federal income tax benefits. Includes allocated loss adjustment expenses and reinsurance reinstatement premiums; excludes unallocated loss adjustment expenses. The Company's individually significant catastrophe losses net of reinsurance were as follows:

2014 - Wind/hail event in May was $8.5 million; other weather events throughout the year were each less than $3.0 million.

2013 - Wind/hail/tornado events in May, June and August were $10.1 million, $4.0 million and $7.9 million, respectively; winter storm events in February and April were $3.7 million and $3.4 million, respectively.

2012 - Wind/hail/tornado events in March, April, May and June were $6.6 million, $6.6 million, $5.8 million and $11.9 million, respectively; June tropical storm and wildfire events, $1.4 million combined; $4.0 million, Hurricane Isaac; $2.8 million, Hurricane/Superstorm Sandy.

2011 - Wind/hail/tornado events in April, May and June were $28.0 million, $17.6 million and $8.5 million, respectively; $8.0 million, Hurricane Irene.

2010 - Wind/hail/tornado events in March, May, June, July and October were $4.8 million, $8.3 million, $12.1 million, $5.5 million and $7.7 million, respectively.

2009 - $9.3 million, July wind/hail/tornadoes; $6.3 million, June wind/hail/tornadoes.

- 2008 - $16.5 million, Hurricane Gustav; $15.5 million, Hurricane Ike; $9.8 million, May wind/hail/tornadoes; $7.0 million, June wind/hail/tornadoes; $3.0 million, December winter storm.
- 2007 - $4.7 million, August wind/hail/tornadoes; $4.5 million, October California wildfires; $3.5 million, June wind/hail/tornadoes.
- 2006 - $5.0 million, August wind/hail/tornadoes; $3.9 million, April wind/hail/tornadoes.
- 2005 - $23.7 million, Hurricane Katrina; $15.0 million, Hurricane Wilma; $10.8 million, Hurricane Rita; $6.5 million, September Minnesota tornadoes; $5.0 million, Hurricane Dennis.

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Fluctuations from year to year in the level of catastrophe losses impact a property and casualty insurance company's loss and loss adjustment expenses incurred and paid. For comparison purposes, the following table provides amounts for the Company excluding catastrophe losses.

Impact of Catastrophe Losses

(Dollars in millions)

	Year Ended December 31,		
	2014	**2013**	**2012**
Claims and claim expenses incurred (1)	$ 399.5	$ 385.6	$ 389.4
Amount attributable to catastrophes (2)	37.5	40.2	43.3
Excluding catastrophes (1)	$ 362.0	$ 345.4	$ 346.1
Claims and claim expense payments	$ 393.8	$ 384.7	$ 398.2
Amount attributable to catastrophes (2)	38.2	38.0	47.9
Excluding catastrophes	$ 355.6	$ 346.7	$ 350.3

(1) Includes the impact of development of prior years' reserves as quantified in "Property and Casualty Reserves".
(2) Net of reinsurance and before federal income tax benefits. Includes allocated loss adjustment expenses; excludes unallocated loss adjustment expenses.

Property and Casualty Reserves

Property and casualty unpaid claims and claim expenses ("loss reserves") represent management's estimate of ultimate unpaid costs of losses and settlement expenses for claims that have been reported and claims that have been incurred but not yet reported. The Company calculates and records a single best estimate of the reserve as of each balance sheet date in conformity with generally accepted actuarial standards. For additional information regarding the process used to estimate property and casualty reserves and the risk factors involved, as well as a summary reconciliation of the beginning and ending property and casualty insurance claims and claim expense reserves and reserve development recorded in each of the three years ended December 31, 2014, see "Notes to Consolidated Financial Statements -- Note 4 -- Property and Casualty Unpaid Claims and Claim Expenses", "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Critical Accounting Policies -- Liabilities for Property and Casualty Claims and Claim Expenses" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations for the Three Years Ended December 31, 2014 -- Benefits, Claims and Settlement Expenses".

All of the Company's reserves for property and casualty unpaid claims and claim expenses are carried at the full value of estimated liabilities and are not discounted for interest expected to be earned on reserves. Due to the nature of the Company's personal lines business, the Company has no exposure to losses related to claims for toxic waste cleanup, other environmental remediation or asbestos-related illnesses other than claims under homeowners insurance policies for environmentally related items such as mold.

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The claim reserve development table below illustrates the change over time in the net reserves established for property and casualty insurance claims and claim expenses at the end of various calendar years. The first section shows the reserves as originally reported at the end of the stated year. The second section, reading down, shows the cumulative amounts of claims for which settlements have been made in cash as of the end of successive years with respect to that reserve liability. The third section, reading down, shows retroactive reestimates of the original recorded reserve as of the end of each successive year, which is the result of the Company learning additional facts that pertain to the unsettled claims. The fourth section compares the latest reestimated reserve to the reserve originally established, and indicates whether or not the original reserve was adequate or inadequate to cover the estimated costs of unsettled claims. The table also presents the gross reestimated liability as of the end of the latest reestimation period, with separate disclosure of the related reestimated reinsurance recoverable. The claim reserve development table is cumulative and, therefore, ending balances should not be added since the amount at the end of each calendar year includes activity for both the current and prior years.

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In evaluating the information in the table below, it should be noted that each amount includes the effects of all changes in amounts for prior periods. For example, if a claim was first reserved in 2004 at $100 thousand and then determined in 2013 to be $150 thousand, the $50 thousand deficiency (actual claim minus original estimate) would be included in the cumulative deficiency in each of the years 2004 - 2012 shown below. This table presents development data by calendar year and does not relate the data to the year in which the accident actually occurred. Conditions and trends that have affected the development of these reserves in the past will not necessarily recur in the future. It may not be appropriate to use this cumulative history in the projection of future performance.

Property and Casualty

Claims and Claim Expense Reserve Development

(Dollars in millions)

	December 31,									
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Gross reserves for property and casualty claims and claim expenses	$335.0	$342.7	$317.8	$306.2	$297.8	$301.0	$301.6	$281.1	$274.5	$275.8
Deduct: Reinsurance recoverables	25.7	31.6	22.4	15.9	14.8	15.8	12.2	11.5	13.7	14.1
Net Reserves for property and casualty claims and claim expenses (1)	309.3	311.1	295.4	290.3	283.0	285.2	289.4	269.6	260.8	261.7
Paid cumulative as of:										
One year later	143.9	138.3	129.8	134.1	139.4	132.8	147.5	126.9	118.9	120.2
Two years later	202.5	196.5	184.1	184.2	187.3	186.5	196.8	169.2	160.3	
Three years later	236.6	225.0	209.5	208.0	213.0	210.4	217.1	187.8		
Four years later	252.7	239.1	223.5	220.0	225.2	220.5	225.9			
Five years later	259.7	248.2	231.0	226.5	228.8	225.3				
Six years later	263.3	253.0	235.5	229.2	230.5					
Seven years later	266.7	255.9	237.1	230.3						
Eight years later	268.4	256.9	237.1							
Nine years later	268.5	256.5								
Ten years later	267.9									
Net Reserves reestimated as of (1):										
End of year	309.3	311.1	295.4	290.3	283.0	285.2	289.4	269.6	260.8	261.7
One year later	296.2	291.8	275.4	272.2	271.3	264.7	279.1	252.4	242.8	244.7
Two years later	282.7	279.7	262.1	263.0	255.7	258.6	269.9	233.5	224.1	
Three years later	278.2	270.2	255.3	254.0	254.5	255.6	251.6	220.3		

Four years later	272.8	256.3	241.6	239.0	245.3	240.1	244.9			
Five years later	268.4	257.3	242.9	239.8	239.9	235.8				
Six years later	268.3	259.6	243.0	237.1	236.3					
Seven years later	269.8	259.7	241.4	234.3						
Eight years later	269.4	258.8	239.4							
Nine years later	268.4	257.2								
Ten years later	268.5									
Net Reserve redundancy (deficiency) – initial net reserves in excess of (less than) reestimated reserves:										
Amount (2)	$40.8	$53.9	$56.0	$56.0	$46.7	$49.4	$44.5	$49.3	$36.7	$17.0
Percent	13.2 %	17.3 %	19.0 %	19.3 %	16.5 %	17.3 %	15.4 %	18.3 %	14.1 %	6.5 %
Gross reestimated liability - latest	$356.7	$360.8	$310.9	$297.6	$301.4	$300.3	$303.1	$266.6	$270.1	$289.2
Deduct:										
Reestimated reinsurance recoverables - latest	88.2	103.6	71.5	63.3	65.1	64.5	58.2	46.3	46.0	44.5
Net Reserves reestimated - latest (1)	$268.5	$257.2	$239.4	$234.3	$236.3	$235.8	$244.9	$220.3	$224.1	$244.7
Gross cumulative excess (deficiency)	$(21.7)	$(18.1)	$6.9	$8.6	$(3.6)	$0.7	$(1.5)	$14.5	$4.4	$(13.4)

(1) Reserves net of anticipated reinsurance recoverables ("Net Reserves"). Net Reserves is a measure used by the Company's management to evaluate the overall adequacy of the property and casualty loss reserves and management believes it provides an alternative view of the Company's anticipated liabilities after reflecting expected recoveries from its reinsurers. This is considered a non-GAAP financial measure under applicable SEC rules because it is not displayed as a separate item in the Consolidated Balance Sheets. For balance sheet reporting, GAAP does not permit the Company to offset expected reinsurance recoveries against liabilities, yet management believes it is useful to investors to take these expected recoveries into account. These adjustments only affect the classification of these items in the Consolidated Balance Sheets and the Consolidated Statements of Cash Flows and there is no impact on the Company's benefits, claims and settlement expenses incurred as reported in the Consolidated Statements of Operations.

(2) For discussion of the reserve development, see "Notes to Consolidated Financial Statements -- Note 4 -- Property and Casualty Unpaid Claims and Claim Expenses" listed on page F-1 of this report.

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Property and Casualty Reinsurance

All reinsurance is obtained through contracts which generally are entered into for each calendar year. Although reinsurance does not legally discharge the Company from primary liability for the full amount of its policies, it does allow for recovery from assuming reinsurers to the extent of the reinsurance ceded. Past due reinsurance recoverables as of December 31, 2014 were not material.

The Company maintains catastrophe excess of loss reinsurance coverage. For 2014, the Company’s catastrophe excess of loss coverage consisted of one contract in addition to the Florida Hurricane Catastrophe Fund (“FHCF”). The catastrophe excess of loss contract provided 95% coverage for catastrophe losses above a retention of $25.0 million per occurrence up to $175.0 million per occurrence. This contract consisted of three layers, each of which provided for one mandatory reinstatement. The layers were $25.0 million excess of $25.0 million, $40.0 million excess of $50.0 million and $85.0 million excess of $90.0 million. In addition, the Company’s predominant insurance subsidiary for property and casualty business written in Florida reinsured 90% of hurricane losses in that state above an estimated retention of $4.1 million up to $15.1 million, based on the FHCF’s financial resources. The FHCF contract is a one-year contract, effective June 1, 2014.

For 2015, the Company’s catastrophe excess of loss coverage consists of one contract in addition to the FHCF, and the contract has the same provisions as described in the previous paragraph for 2014. The FHCF limits described in the previous paragraph continue up to June 1, 2015, at which time a new annual contract may begin.

The Company has not joined the California Earthquake Authority (“CEA”). The Company's exposure to losses from earthquakes is managed through its underwriting standards, its earthquake policy coverage limits and deductible levels, and the geographic distribution of its business, as well as its reinsurance program. After reviewing the exposure to earthquake losses from the Company’s own policies and from what it would be with participation in the CEA, including estimated start-up and ongoing costs related to CEA participation, management believes it is in the Company's best economic interest to offer earthquake coverage directly to its homeowners policyholders.

For liability coverages, in 2014 the Company reinsured each loss above a retention of $0.9 million up to $2.5 million on a per occurrence basis and $20.0 million in a clash event. (A clash cover is a reinsurance casualty excess contract requiring two or more casualty coverages or policies issued by the Company to be involved in the same loss occurrence for coverage to apply.) For property coverages, in 2014 the Company reinsured each loss above a retention of $0.9 million up to $2.5 million on a per risk basis, including catastrophe losses. Also, the Company could submit to the reinsurers three per risk losses from the same occurrence for a total of $4.8 million of property recovery in any one event. Effective January 1, 2015, for liability coverages the retention remains $0.9 million with coverage up to $2.5 million on a per occurrence basis and $20.0 million in a clash event. Retention for property coverages also remains $0.9 million, with no change to the maximum limits, including the ability to submit to the reinsurers three per risk losses from the same occurrence.

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The following table identifies the Company's most significant reinsurers under the catastrophe first event excess of loss reinsurance program, their percentage participation in this program and their ratings by A.M. Best Company ("A.M. Best") and Standard & Poor's Corporation ("S&P" or "Standard & Poor's") as of January 1, 2015. No other single reinsurer's percentage participation in 2015 or 2014 exceeds 5%.

Property Catastrophe First Event Excess of Loss

Reinsurance Participants In Excess of 5% in Either 2015 or 2014

A.M. Best Rating	**S&P Rating**	**Reinsurer**	**Parent**	**Participation 2015**	**Participation 2014**
A	A+	Lloyd's of London Syndicates		27 %	25 %
A+	AA-	Swiss Re Underwriters Agency, Inc	Swiss Re Ltd	10 %	10 %
NR	AA-	R+V Versicherung AG	DZ BANK AG	7 %	7 %
A	A+	SCOR Global P&C SE	SCOR SE	7 %	7 %
A++	AA-	Tokio Millennium Re AG	Tokio Marine Holdings, Inc.	5 %	5 %

NR - Not rated.

For both 2015 and 2014, property catastrophe reinsurers representing 93% of the Company's total reinsured catastrophe coverage were rated "A- (Excellent)" or above by A.M. Best with the remaining 7% of coverage provided by a reinsurer rated "AA-" by S&P but not formally followed by A.M. Best.

Annuity Segment

Educators in the Company's target market continue to benefit from the provisions of Section 403(b) of the Internal Revenue Code (the "Code") which began in 1961. This section of the Code allows public school employees and employees of other tax-exempt organizations, such as not-for-profit private schools, to utilize pretax income to make periodic contributions to a qualified retirement plan. (Also see "Regulation -- Regulation at Federal Level".) The Company entered the educators retirement annuity market in 1961 and is one of the largest participants in the K-12 portion of the 403(b) tax-qualified annuity market, measured by 403(b) net written premium on a statutory accounting basis. The Company has 403(b) payroll deduction capabilities utilized by approximately one-third of the 13,600 public school districts in the U.S. Approximately 47% of the Company's new annuity contract deposits in 2014 were for

403(b) tax-qualified annuities; approximately 63% of accumulated annuity value on deposit is 403(b) tax-qualified. In 2014, annuities represented 41% of the Company’s consolidated insurance premiums written and contract deposits.

The Company markets both fixed and variable annuity contracts, primarily on a tax-qualified basis. Fixed only annuities provide a guarantee of principal and a guaranteed minimum rate of return. These contracts are backed by the Company’s general account investments. The Company bears the investment risk associated with the investments and may change the declared interest rate on these contracts subject to contract guarantees. In 2014, the Company began offering fixed indexed annuity (“FIA”) products with interest crediting strategies linked to the Standard & Poor’s 500 Index and the Dow Jones Industrial Average. These products are fixed annuities with a guaranteed minimum interest rate, as described above, plus a contingent return based on equity market performance. The Company purchases call options on the applicable indices as an investment to provide the income needed to fund the annual index credits on the indexed products.

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Variable annuities combine a fixed account option with equity- and bond-linked sub-account options. In general, the contractholders bear the investment risk related to the variable annuity sub-accounts and may change their allocation between the guaranteed interest rate fixed account and the wide range of variable investment options at any time. By utilizing tools that provide assistance in determining needs and making asset allocation decisions, contractholders are able to choose the investment mix that matches their personal risk tolerance and retirement goals. The Company's sub-account options also include both lifecycle funds and asset allocation funds. These all-purpose funds have assets allocated among multiple investment classes within each fund based on a specific targeted retirement date or risk tolerance.

Variable annuity contracts with a guaranteed minimum death benefit ("GMDB") provide an additional benefit if the contractholder dies and the contract value is less than a contractually defined amount. The Company has a relatively low exposure to GMDB risk because approximately 31% of contract values have no guarantee; approximately 63% have only a return of premium guarantee; and only approximately 6% have a guarantee of premium roll-up at an annual rate of 3% or 5%.

As of December 31, 2014, the Company had 92 variable sub-account options including funds managed by some of the best-known names in the mutual fund industry, such as AllianceBernstein, American Century, American Funds, Ariel, BlackRock, Calvert, Davis, Delaware, Dreyfus, Fidelity, Franklin Templeton, Goldman Sachs, Ibbotson, JPMorgan, Lazard, Lord Abbett, Neuberger Berman, Putnam, Rainier, Royce, T. Rowe Price, Vanguard, Wells Fargo and Wilshire, offering the Company's customers multiple investment options to address their personal investment objectives and risk tolerance. These funds have been selected with the assistance of Wilshire Associates, the Company's funds advisor, which provides oversight and input to fund manager additions and replacements. Total accumulated fixed and variable annuity cash value on deposit at December 31, 2014 was $5.7 billion.

Among the Company's annuity products, the Goal Planning Annuity offers educators a variable annuity with the Company's wide array of sub-account investment choices. It includes an optional first year premium bonus and two optional riders that enhance the death benefit feature of the product. Another product, Expanding Horizon, is a fixed interest rate annuity contract for investors who do not want investment risk exposure. This product offers educators a competitive rate of interest on their retirement dollars and a choice of bonuses to optimize their benefits at retirement. As noted above, in February 2014, the Company introduced its Destination Fixed Indexed Annuity product -- a product designed to have potentially greater credited interest rates over the long term than traditional fixed rate annuities, because the credited interest rate will be linked to changes in an index, either the S&P 500 or the Dow Jones Industrial Average.

In addition to individual annuities, the Company offers group variable and fixed annuity products that allow flexibility in customizing 403(b) annuity programs to meet the needs of school districts.

To assist agents in delivering the Horace Mann Value Proposition, the Company has entered into third-party vendor agreements with American Funds Distributors, Inc. and Fidelity Distributors Corporation to market their retail mutual funds. In addition to retail mutual funds accounts, the Company's agents can offer a 529 college savings program and Coverdell Education Savings Accounts utilizing these funds. The Company also markets 403(b)(7) tax-deferred mutual fund investment programs and a minimal amount of fixed indexed annuities through additional third-party vendor agreements. Third-party vendors underwrite these accounts or contracts and the Company receives commissions on the sales of these products.

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Selected Historical Financial Information For Annuity Segment

The following table sets forth certain information with respect to the Company's annuity products for the periods indicated.

Annuity Segment

Selected Historical Financial Information

(Dollars in millions, unless otherwise indicated)

	Year Ended December 31,		
	2014	**2013**	**2012**
Financial Data:			
Contract deposits			
Variable	$140.6	$131.7	$113.2
Fixed	340.0	291.3	304.4
Total	480.6	423.0	417.6
Contract charges earned	25.6	22.6	21.8
Net investment income	222.1	208.4	200.8
Net interest margin (without realized investment gains and losses)	89.6	81.4	79.4
Income before income taxes	66.7	63.2	59.6
Net income	45.3	44.7	40.5
Operating Statistics:			
Fixed			
Accumulated value	$3,885.1	$3,617.2	$3,364.2
Accumulated value persistency	94.5 %	95.2 %	95.4 %
Variable			
Accumulated value	$1,813.6	$1,748.0	$1,398.3
Accumulated value persistency	94.0 %	94.0 %	94.3 %
Number of contracts in force	202,572	194,523	188,918
Average accumulated value (in dollars)	$28,132	$27,582	$25,210
Average annual deposit by contractholders (in dollars)	$2,352	$2,253	$2,331
Annuity contracts terminated due to surrender, death, maturity or other			
Number of contracts	7,246	7,050	7,227
Amount	$340.9	$294.4	$254.8
Fixed accumulated value grouped by applicable surrender charge			
0%	$2,000.7	$1,708.1	$1,437.7
Greater than 0% but less than 5%	190.9	211.5	220.1

5% and greater but less than 10%	1,528.9	1,531.0	1,541.4
10% and greater	45.7	46.7	46.7
Supplementary contracts with life contingencies not subject to discretionary withdrawal	118.9	119.9	118.3
Total	$3,885.1	$3,617.2	$3,364.2

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Life Segment

The Company entered the individual life insurance business in 1949. The Company offers traditional term and whole life insurance products and, from time to time, revises products and product features or develops new products. For instance, Life by Design is a portfolio of Horace Mann manufactured and branded life insurance products which specifically addresses the financial planning needs of educators. The Life by Design portfolio, introduced in 2006, features individual and joint whole life, and individual and joint term products, including 10-, 20- and 30-year level term policies. The Life by Design policies have premiums that are guaranteed for the duration of the contract and offer lower minimum face amounts. In 2009, the Company introduced a new discount for educator customers to improve the competitiveness of its life product portfolio. During 2010, the Company added a combination product called Life Select that mixes a base of either traditional whole life, 20-pay life or life paid-up at age 65 with a variety of term riders to allow for more flexibility in tailoring the coverage to the customers' varying life insurance needs. New products and features introduced in 2011 were single premium whole life and term to age 65 products as well as a preferred plus underwriting category and a $500 thousand rate band enhancement for term products. And, in February 2013, the Company introduced Cash Value Term – a term policy that builds cash value while providing the income protection of traditional level term life insurance. Along with expanded product offerings, new marketing support tools also have been introduced to aid the agency force. After December 31, 2006, the Company no longer issues new policies for its "Experience Life" product, a flexible, adjustable-premium life insurance contract that includes availability of an interest-bearing account.

The Company's traditional term, whole life and group life business in force consists of approximately 144,000 policies, representing approximately $12.1 billion of life insurance in force, with annual insurance premiums and contract deposits of approximately $54.2 million as of December 31, 2014. In addition, the Company also had in force approximately 57,000 Experience Life policies, representing approximately $3.7 billion of life insurance in force, with annual insurance premiums and contract deposits of approximately $45.3 million.

In 2014, the life segment represented 9% of the Company's consolidated insurance premiums written and contract deposits.

During 2014, the average face amount of ordinary life insurance policies issued by the Company was approximately $165,000 and the average face amount of all ordinary life insurance policies in force at December 31, 2014 was approximately $92,000.

The maximum individual life insurance risk retained by the Company is $300,000 on any individual life, while either $100,000 or $125,000 is retained on each group life policy depending on the type of coverage. The excess of the amounts retained are reinsured with life reinsurers that are rated "A - (Excellent)" or above by A.M. Best. The Company also maintains a life catastrophe reinsurance program. In 2014, the Company reinsured 100% of the catastrophe risk in excess of $1 million up to $35 million per occurrence, with one reinstatement. For 2015, the Company's catastrophe

risk coverage is unchanged. The Company's life catastrophe risk reinsurance program covers acts of terrorism and includes nuclear, biological and chemical explosions but excludes other acts of war.

The Company has programs to offer variable universal life, fixed indexed universal life and fixed interest rate universal life insurance with two third-party vendors underwriting such insurance. Under these programs, the third-party vendors underwrite and bear the risk of these insurance policies and the Company receives a commission on the sale of that business.

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Selected Historical Financial Information For Life Segment

The following table sets forth certain information with respect to the Company's life insurance products for the periods indicated.

Life Segment

Selected Historical Financial Information

(Dollars in millions, unless otherwise indicated)

	Year Ended December 31,		
	2014	**2013**	**2012**
Financial Data:			
Insurance premiums and contract deposits	$102.7	$100.8	$99.3
Insurance premiums and contract charges earned	108.4	106.4	102.4
Net investment income	71.8	69.9	69.4
Income before income taxes	26.9	31.3	34.2
Net income	17.5	20.4	21.9
Operating Statistics:			
Life insurance in force			
Ordinary life	$14,871	$14,147	$13,661
Group life	930	957	971
Total	$15,801	$15,104	$14,632
Number of policies in force			
Ordinary life	161,759	160,362	160,585
Group life	39,108	39,799	40,976
Total	200,867	200,161	201,561
Average face amount in force (in dollars)			
Ordinary life	$91,933	$88,219	$85,070
Group life	23,780	24,046	23,697
Total	78,664	75,459	72,593
Lapse ratio (ordinary life insurance in force)	4.0 %	4.4 %	4.2 %
Ordinary life insurance terminated due to death, surrender, lapse or other			
Face amount of insurance surrendered or lapsed	$565.2	$606.7	$540.4
Number of policies	4,093	4,549	4,441
Amount of death claims opened	$50.0	$48.5	$42.9
Number of death claims opened	1,507	1,622	1,695

Competition

The Company operates in a highly competitive environment. The insurance industry consists of a large number of insurance companies, some of which have substantially greater financial resources, widespread advertising campaigns, more diversified product lines, greater economies of scale and/or lower-cost marketing approaches compared to the Company. In the Company's target market, management believes that the principal competitive factors in the sale of property and casualty insurance products are price, overall service, name recognition and worksite sales and service. Management believes that the principal competitive factors in the sale of the Company's annuity products and life insurance are worksite sales and service, product features, perceived stability of the insurer, price, overall service and name recognition.

The Company competes in its target market with a number of national providers of personal automobile, homeowners and life insurance such as State Farm, Allstate, Farmers, Liberty Mutual and Nationwide as well as several regional companies. The Company also competes for automobile business with other companies such as GEICO, Progressive and USAA, many of which feature direct marketing distribution.

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Among the major national providers of annuities to educators, the Company’s competitors for annuity business include The Variable Annuity Life Insurance Company (“VALIC”), a subsidiary of American International Group (“AIG”); AXA; Voya Financial, Inc. (formerly, ING U.S. Financial Services); Life Insurance Company of the Southwest, a subsidiary of National Life Insurance Company; MetLife; Security Benefit; and Teachers Insurance and Annuity Association – College Retirement Equities Fund (“TIAA-CREF”). Select mutual fund families and financial planners also compete in this marketplace.

The market for tax-deferred annuity products in the Company’s target market has been impacted by the revised Internal Revenue Service (“IRS”) Section 403(b) regulations, which made the 403(b) market more comparable to the 401(k) market than it was in the past. While this change has and may continue to reduce the number of competitors in this market, it has made the 403(b) market more attractive to some of the larger companies experienced in 401(k) plans, including both insurance and mutual fund companies, that had not previously been active competitors in this business.

Investments

The Company's investments are selected to balance the objectives of protecting principal, minimizing exposure to interest rate risk and providing a high current yield. These objectives are implemented through a portfolio that emphasizes investment grade, publicly traded fixed income securities, which are selected to match the anticipated duration of the Company’s liabilities. When impairment of the value of an investment is considered other-than-temporary, the decrease in value is recorded and a new cost basis is established. At December 31, 2014, fixed income securities represented 93.1% of the Company’s total investment portfolio, at fair value. Of the fixed income investment portfolio, 96.3% was investment grade and 95.4% was publicly traded. At December 31, 2014, the average quality and average option-adjusted duration of the total fixed income portfolio were A and 5.8 years, respectively. At December 31, 2014, investments in non-investment grade fixed income securities represented 3.3% of the total investment portfolio, at fair value. There are no significant investments in mortgage whole loans, real estate or non-U.S. dollar-denominated foreign securities.

The Company has separate investment strategies and guidelines for its property and casualty, annuity and life assets, which recognize different characteristics of the associated insurance liabilities, as well as different tax and regulatory environments. The Company manages interest rate exposure for its portfolios through asset/liability management techniques which attempt to coordinate the duration of the assets with the duration of the insurance policy liabilities. Duration of assets and liabilities will generally differ only because of opportunities to significantly increase yields or because policy values are not interest-sensitive, as is the case in the property and casualty segment.

The investments of each insurance subsidiary must comply with the insurance laws of such insurance subsidiary's domiciliary state. These laws prescribe the type and amount of investments that may be purchased and held by insurance companies. In general, these laws permit investments, within specified limits and subject to certain qualifications, in federal, state and municipal obligations, corporate bonds, mortgage-backed bonds, other

asset-backed bonds, preferred stocks, common stocks, real estate mortgages, real estate, and alternative investments.

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The following table sets forth the carrying values and amortized cost of the Company's investment portfolio.

Investment Portfolio

December 31, 2014

(Dollars in millions)

	Percentage of Total Carrying Value		Carrying Value Total	Annuity and Life	Property and Casualty	Amortized Cost or Cost
Publicly Traded Fixed Maturity Securities, Equity Securities and Short-term Investments:						
U.S. Government and agency obligations, all investment grade (1):						
Mortgage-backed securities	7.2	%	$535.7	$521.9	$ 13.8	$ 484.6
Other, including U.S. Treasury securities	7.3		538.2	526.4	11.8	512.6
Investment grade corporate and public utility bonds	31.9		2,363.1	2,265.7	97.4	2,152.7
Non-investment grade corporate and public utility bonds (2)	2.7		197.8	128.2	69.6	195.8
Investment grade municipal bonds	22.1		1,626.6	1,012.7	613.9	1,442.7
Non-investment grade municipal bonds (2)	0.1		7.6	2.8	4.8	7.6
Investment grade other mortgage-backed securities (3)	16.1		1,193.3	1,179.2	14.1	1,173.7
Non-investment grade other mortgage-backed securities (2)(3)	0.5		39.0	38.8	0.2	35.9
Foreign government bonds, all investment grade	0.8		59.5	58.1	1.4	52.5
Redeemable preferred stock, all investment grade	0.2		13.8	13.8	-	11.6
Equity securities:						
Investment grade non-redeemable preferred stocks	0.3		20.6	15.8	4.8	21.2
Non-investment grade non-redeemable preferred stocks (2)	-		1.5	-	1.5	1.5
Common stocks	0.9		68.4	3.8	64.6	57.2
Closed-end fund	0.3		20.1	20.1	-	20.0
Short-term investments (4)	1.9		142.1	94.9	47.2	142.1
Total publicly traded securities	92.3		6,827.3	5,882.2	945.1	6,311.7

Other Invested Assets:						
Investment grade private placements	4.2		310.2	310.2	-	297.1
Non-investment grade private placements (2)	0.1		8.3	8.3	-	8.4
Mortgage loans (5)	-		*	*	-	*
Policy loans	1.9		145.4	145.4	-	145.4
Other	1.5		112.3	76.0	36.3	112.3
Total other invested assets	7.7		576.2	539.9	36.3	563.2
Total investments (6)	100.0	%	$7,403.5	$6,422.1	$ 981.4	$ 6,874.9

* Less than $0.1 million.

(1) Includes $339.3 million fair value of investments guaranteed by the full faith and credit of the U.S. Government and $734.6 million fair value of federally sponsored agency securities which are not backed by the full faith and credit of the U.S. Government.

(2) A non-investment grade rating is assigned to a security when it is acquired or when it is downgraded from investment grade, primarily on the basis of the Standard & Poor's Corporation (“Standard & Poor’s” or “S&P”) rating for such security, or if there is no S&P rating, the Moody's Investors Service, Inc. (“Moody's”) rating for such security, or if there is no S&P or Moody's rating, the National Association of Insurance Commissioners’ (the “NAIC”) rating for such security. The rating agencies monitor securities, and their issuers, regularly and make changes to the ratings as necessary. The Company incorporates rating changes on a monthly basis.

(3) Includes commercial mortgage-backed securities, asset-backed securities, other mortgage-backed securities and collateralized debt obligations. See also “Management’s Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations for the Three Years Ended December 31, 2014 -- Net Realized Investment Gains and Losses” listed on page F-1 of this report.

(4) Short-term investments mature within one year of being acquired and are carried at cost, which approximates fair value. Short-term investments represent $142.1 million in money market funds rated AAA.

(5) Mortgage loans are carried at amortized cost or unpaid principal balance.

(6) Approximately 7% of the Company's investment portfolio, having a carrying value of $544.1 million as of December 31, 2014, consisted of securities with some form of credit support, such as insurance. Of the securities with credit support as of December 31, 2014, municipal bonds represented $302.2 million carrying value.

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Fixed Maturity Securities and Equity Securities

At December 31, 2014, approximately 27% of the Company's fixed maturity securities portfolio was expected to mature within the next 5 years. Mortgage-backed securities, including mortgage-backed securities of U.S. Governmental agencies, represented approximately 24% of the total investment portfolio at December 31, 2014. These securities typically have average lives shorter than their stated maturities due to unscheduled prepayments on the underlying mortgages. Mortgages are prepaid for a variety of reasons, including sales of existing homes, interest rate changes over time that encourage homeowners to refinance their mortgages and defaults by homeowners on mortgages that are then paid by guarantors.

For financial reporting purposes, the Company has classified the entire fixed maturity portfolio as “available for sale”. Fixed maturities to be held for indefinite periods of time and not intended to be held to maturity are classified as available for sale and carried at fair value. The net adjustment for unrealized gains and losses on securities available for sale is recorded as a separate component of accumulated other comprehensive income within shareholders' equity, net of applicable deferred tax asset or liability and the related impact on deferred policy acquisition costs associated with interest-sensitive life and annuity contracts. Fixed maturities held for indefinite periods of time include securities that management intends to use as part of its asset/liability management strategy and that may be sold in response to changes in interest rates, resultant prepayment risk and other related factors, other than securities that are in an unrealized loss position for which management has the stated intent to hold until recovery.

Cash Flow

Information regarding HMEC’s sources and uses of cash, including payment of principal and interest with respect to HMEC's indebtedness, and payment by HMEC of dividends to its shareholders, is contained in “Notes to Consolidated Financial Statements -- Note 8 -- Statutory Information and Restrictions” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Financial Resources -- Cash Flow” and “-- Capital Resources” listed on page F-1 of this report.

The ability of the insurance subsidiaries to pay cash dividends to HMEC is subject to state insurance department regulations which generally permit dividends to be paid for any 12 month period in amounts equal to the greater of (i) net income for the preceding calendar year or (ii) 10% of surplus, determined in conformity with statutory accounting principles, as of the preceding December 31st. Any dividend in excess of these levels requires the prior approval of the Director or Commissioner of the state insurance department of the state in which the dividend paying insurance subsidiary is domiciled. The aggregate amount of dividends that may be paid in 2015 from all of HMEC's insurance subsidiaries without prior regulatory approval is approximately $90 million.

Notwithstanding the foregoing, if insurance regulators otherwise determine that payment of a dividend or any other payment to an affiliate would be detrimental to an insurance subsidiary's policyholders or creditors, because of the financial condition of the insurance subsidiary or otherwise, the regulators may block dividends or other payments to affiliates that would otherwise be permitted without prior approval.

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Regulation

General Regulation at State Level

As an insurance holding company, HMEC is subject to extensive regulation by the states in which its insurance subsidiaries are domiciled or transact business. Some regulations, such as those addressing unclaimed property, generally apply to all corporations. In addition, the laws of the various states establish regulatory agencies with broad administrative powers, which relate to a wide variety of matters, including granting and revoking licenses to transact business, regulating trade practices and rate setting, licensing agents, requiring statutory financial statements, monitoring insurer solvency and reserve adequacy, and prescribing the type and amount of investments permitted. On an ongoing basis, various state legislators and insurance regulators examine the nature and scope of state insurance regulation.

In addition to state monitoring and regulation, the NAIC has adopted risk-based capital guidelines to evaluate the adequacy of statutory capital and surplus in relation to an insurance company's risks. Based on current guidelines, the risk-based capital statutory requirements are not expected to have a negative regulatory impact on HMEC’s insurance subsidiaries. At December 31, 2014 and 2013, statutory capital and surplus of each of the Company’s insurance subsidiaries was above required levels. The NAIC is also introducing the U.S. Own Risk and Solvency Assessment (“ORSA”) which will require insurance companies to submit their own assessment of their current and future risks formulated through an internal risk self-assessment process; this will be applicable to the Company beginning in 2015.

Assessments Against Insurers and Mandatory Insurance Facilities

Under insurance insolvency or guaranty laws in most states in which the Company operates, insurers doing business therein can be assessed for policyholder losses related to insolvencies of other insurance companies, and many assessments paid by the Company pursuant to these laws may be used as credits for a portion of the Company's premium taxes in certain states. Also, the Company is required to participate in various mandatory insurance facilities in proportion to the amount of the Company's direct writings in the applicable state. For the three years ended December 31, 2014, the impact of the above industry items were not material to the Company’s results of operations.

Regulation at Federal Level

Although the federal government generally does not directly regulate the insurance industry, federal initiatives often impact the insurance business. Current and proposed federal measures which may significantly affect insurance and

annuity business include employee benefits regulation, standards applied to employer sponsored retirement plans, standards applied to certain financial advisors, controls on the costs of medical care, medical entitlement programs such as Medicare, structure of retirement plans and accounts, changes to the insurance industry anti-trust exemption, and minimum solvency requirements. Other federal regulation such as the Patient Protection and Affordable Care Act, Fair Credit Reporting Act, Gramm-Leach-Bliley Act and USA PATRIOT Act, including its anti-money laundering regulations, also impact the Company’s business.

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The variable annuities underwritten by HMLIC are regulated by the SEC. Horace Mann Investors, Inc., the broker-dealer subsidiary of HMEC, also is regulated by the SEC, FINRA, the Municipal Securities Rule-making Board (“MSRB”) and various state securities regulators.

Federal income taxation of the build-up of cash value within a life insurance policy or an annuity contract could have a materially adverse impact on the Company's ability to market and sell such products. Various legislation to this effect has been proposed in the past, but has not been enacted. Although no such legislative proposals are known to exist at this time, such proposals may be made again in the future. Changes in other federal and state laws and regulations could also affect the relative tax and other advantages of the Company's annuity and life products to customers.

Financial Regulation Legislation

The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) created the Federal Insurance Office (“FIO”) within the U.S. Department of the Treasury. The FIO studies the current insurance regulatory system and is charged with monitoring and providing specific reports on various aspects of the insurance industry. However, the FIO does not have general supervisory or regulatory authority over the business of insurance. Dodd-Frank creates new opportunities for federal monitoring and limited intervention in the regulation of the insurance industry, and the FIO’s reports and recommendations may create new pressures for broader federal regulatory authority over the insurance industry longer term. In December 2013, the FIO released a report recommending ways to modernize and improve the system of insurance regulation in the U.S. While the report did not recommend full federal regulation of insurance, it did suggest an expanded federal role in some circumstances. As various aspects of Dodd-Frank continue to be addressed, management will closely monitor these future developments for impact on the Company, insurers of similar size and the insurance industry as a whole.

Employees

At December 31, 2014, the Company had approximately 1,310 non-agent employees and 73 full-time employee agents. (This does not include 625 Exclusive Agent independent contractors that were part of the Company’s total dedicated agency force at December 31, 2014.) The Company has no collective bargaining agreement with any employees.

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ITEM 1A. Risk Factors

The following are certain risk factors that could affect the Company's business, financial results and results of operations. In addition, refer to the risk factors disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Forward-looking Information", listed on page F-1 of this report for certain important factors that may cause our financial condition and results of operations to differ materially from current expectations. The risks that the Company has highlighted in these two sections of this report are not the only ones that the Company faces. In this discussion, the Company is also referred to as "our", "we" and "us".

The Company's business involves various risks and uncertainties which are based on the lines of business the Company writes as well as more global risks associated with the general business and insurance industry environments.

Volatile financial markets and adverse economic environments can impact financial market risk as well as our financial condition and results of operations.

Financial markets in the U.S. and elsewhere can experience extreme volatility and disruption for uncertain periods of time. As an example, in 2008 and 2009, stresses affecting the global banking system led to economic volatility which exerted significant downward pressure on prices of equity securities and many other investment asset classes and resulted in substantially increased market volatility, severely constrained credit and capital markets, particularly for financial institutions, and an overall loss of investor confidence. Many states and local governments are also impacted by adverse economic conditions which could have an impact on both the Company's niche market and its investment portfolio. Like other financial institutions which face significant financial market risk in their operations, the Company was adversely affected by these conditions and could be adversely impacted by similar circumstances in the future. The Company's ability to access the capital markets to refinance outstanding indebtedness or raise capital could be impaired during significant financial market disruptions.

As discussed further in subsequent risk factors, in addition to the effects of financial markets volatility, a prolonged economic recession may have other adverse impacts on our financial condition and results of operations.

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If our investment strategy is not successful, we could suffer unexpected losses.

The success of our investment strategy is crucial to the success of our business. Specifically, our fixed income portfolio is subject to a number of risks including:

- *interest rate risk*, which is the risk that interest rates will decline and funds reinvested will earn less than expected;
- *market value risk*, which is the risk that our invested assets will decrease in value due to a change in the yields realized on our assets and prevailing market yields for similar assets, an unfavorable change in the liquidity of the investment or an unfavorable change in the financial prospects or a downgrade in the credit rating of the issuer of the investment;
- *credit risk*, which is the risk that the value of certain investments becomes impaired due to deterioration in the financial condition of one or more issuers of those instruments or the deterioration in performance or credit quality of the underlying collateral of certain structured securities and, ultimately, the risk of permanent loss in the event of default by an issuer or underlying credit;
- *market fundamentals risk*, which is the risk that there are changes in the market that can have an unfavorable impact on securities valuation such as availability of credit in the capital markets, re-pricing of credit risk, reduced market liquidity due to broker-dealers' unwillingness to hold inventory, and increased market volatility;
- *concentration risk*, which is the risk that the portfolio may be too heavily concentrated in the securities of one or more issuers, sectors or industries, which could result in a significant decrease in the value of the portfolio in the event of deterioration in the financial condition of those issuers or the market value of their securities;
- *liquidity risk*, which is the risk that liabilities are surrendered or mature sooner than anticipated requiring us to sell assets at an undesirable time to provide for policyholder surrenders, withdrawals or claims; and
- *regulatory risk*, which is the risk that regulatory bodies or governments, in the U.S. or in other countries, may make substantial investments or take significant ownership positions in, or ultimately nationalize, financial institutions or other issuers of securities held in the Company's investment portfolio, which could adversely impact the seniority or contractual terms of the securities. Regulatory risk could also come from changes in tax laws or bankruptcy laws that would adversely impact the valuation and/or after tax yields of certain invested assets.

In addition to significant steps taken to attempt to mitigate these risks through our investment guidelines, policies and procedures, we also attempt to mitigate these risks through product pricing, product features and the establishment of policy reserves, but we cannot provide assurance that assets will be properly matched to meet anticipated liabilities or that our investments will provide sufficient returns to enable us to satisfy our guaranteed fixed benefit obligations.

The Company's investment strategy and guidelines have resulted in an investment portfolio which is comprised primarily of investment grade, fixed income securities. Inclusion of alternative investments, even those consistent with the Company's overall conservative investment guidelines, could result in some volatility in our financial condition and results of operations.

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From time to time, the Company could enter into foreign currency, interest rate, credit derivative and other hedging transactions in an effort to manage risks, including risks that may be attributable to any new products offered by the Company. For instance, in 2014 the Company began utilizing call options to manage interest crediting risk related to its newly introduced fixed indexed annuity product. (See “Notes to Consolidated Financial Statements -- Note 1 -- Summary of Significant Accounting Policies -- Policy Liabilities for Fixed Indexed Annuities” listed on page F-1 of this report.) We cannot provide assurance that we will successfully structure derivatives and hedges so as to effectively manage risks. If our calculations are incorrect, or if we do not properly structure our derivatives or hedges, we may have unexpected losses and our assets may not be adequate to meet our needed reserves, which could adversely affect our financial condition and results of operations.

Although the Company’s defined benefit pension plan was frozen in 2002, declining financial markets could also cause, and in the past have caused, the value of the investments in this pension plan to decrease, resulting in additional pension expense, a reduction in other comprehensive income and an increase in required contributions to the defined benefit pension plan, which could have an adverse effect on our financial condition and results of operations.

The determination of the fair value of our fixed income and equity securities includes methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to investment valuations that may materially impact our financial condition and results of operations.

The determination of fair values is made at a specific point in time, based on available market information and judgments about financial instruments, including estimates of the timing and amounts of expected future cash flows and the credit standing of the issuer or counterparty. The use of different methodologies and assumptions may have a material effect on the estimated fair value amounts. During periods of market disruption, including periods of rapidly widening credit spreads or illiquidity, it may be difficult to value certain of our securities if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were in active markets with significant observable data that become illiquid due to the financial environment. In such cases, fair value determination may require more subjectivity and management judgment and those fair values may differ materially from the value at which the investments ultimately could be sold. Further, rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of securities and the period-to-period changes in value could vary significantly. The difference between fair value and amortized cost or cost, net of applicable deferred income tax asset or liability and the related impact on deferred policy acquisition costs associated with investment (annuity) and interest-sensitive life contracts, is reflected as a component of accumulated other comprehensive income within shareholders' equity. Decreases in the fair value of our investments could have a material adverse effect on our financial condition and results of operations.

A sustained period of low interest rates or interest rate fluctuations could negatively affect the income we derive from the difference between the interest rates we earn on our investments and the interest we pay under our fixed annuity and interest-sensitive life contracts.

Significant changes in interest rates expose us to the risk of not earning income or experiencing losses based on the differences between the interest rates earned on our investments and the credited interest rates paid on our outstanding fixed annuity and interest-sensitive life contracts. Significant changes in interest rates may affect:

- the ability to maintain appropriate interest rate spreads over the fixed rates guaranteed in our annuity and life products;
- the book yield of our investment portfolio; and
- the unrealized gains and losses in our investment portfolio and the related after tax effect on our shareholders' equity and total capital.

Both rising and declining interest rates can negatively affect the income we derive from our annuity and life products' interest rate spreads. During periods of falling interest rates or a sustained period of low interest rates, our investment earnings will be lower because new investments in fixed maturity securities likely will bear lower interest rates. We may not be able to fully offset the decline in investment earnings with lower crediting rates on our annuity contracts, particularly in a multi-year period of low interest rates. As of the time of this Annual Report on Form 10-K, new money rates remain at historically low levels. A press release issued by the Federal Open Market Committee on January 28, 2015 indicated that the Federal Reserve Board maintained its pledge to be patient on raising interest rates and acknowledged global risks, saying that it will take into account readings on international developments as it decides how long to keep rates low. If interest rates remain low over an extended period of time, it could pressure our net investment income by having to invest insurance cash flows and reinvest the cash flows from the investment portfolio in lower yielding securities.

During periods of rising interest rates, there may be competitive pressure to increase the crediting rates on our annuity contracts. We may not, however, immediately have the ability to acquire investments with interest rates sufficient to offset an increase in crediting rates under our annuity contracts. Although we develop and maintain asset/liability management programs and procedures designed to reduce the volatility of our income when interest rates are rising or falling, changes in interest rates can affect our interest rate spreads.

Changes in interest rates may also affect our business in other ways. For example, a rapidly changing interest rate environment may result in less competitive crediting rates on certain of our fixed-rate products which could make those products less attractive, leading to lower sales and/or increases in the level of life insurance and annuity product surrenders and withdrawals. New business volume also could be negatively impacted by product or agent compensation changes which we might make to mitigate the income effect of spread compression. Interest rate fluctuations that impact future profits may also impact the amortization of deferred policy acquisition costs.

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As another example of potential interest rate impacts, our annuity and life operations participate in the cash flow testing procedures imposed by statutory insurance regulations, the purpose of which is to ensure that such liabilities are adequate to meet the Company's obligations under a variety of interest rate scenarios. A continuation of the current low interest rate environment over a prolonged period of time could cause the Company to increase statutory reserves as a result of cash flow testing, which would reduce statutory surplus of the life insurance subsidiaries and potentially limit the subsidiaries' ability to distribute cash to the holding company or write insurance business (as further described in a subsequent risk factor).

Regulatory initiatives, including the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), could adversely impact liquidity and volatility of financial markets in which we participate.

In response to the credit and financial crisis, U.S. and overseas governmental and regulatory authorities are considering or implementing enhanced or new regulatory requirements intended to prevent future crises or stabilize the institutions under their supervision. Such measures are leading to stricter regulation of financial institutions. Changes from Dodd-Frank and other U.S. and overseas governmental initiatives have created uncertainty and could continue to adversely impact liquidity and increase volatility of the financial markets in which we participate and, in turn, negatively affect our financial condition or results of operations.

Our annuity business may be, and in the past has been, adversely affected by volatile or declining financial market conditions.

Conditions in the U.S. and international financial markets affect the sale and profitability of our annuity products. In general, sales of variable annuities decrease when financial markets are declining or experiencing a higher than normal level of volatility over an extended period of time. Therefore, weak and/or volatile financial market performance may adversely affect sales of our variable annuity products to potential customers, may cause current customers to withdraw or reduce the amounts invested in our variable annuity products and may reduce the market value of existing customers' investments in our variable annuity products, in turn reducing the amount of variable annuity fee revenues generated. In addition, some of our variable annuity contracts offer guaranteed minimum death benefit features, which provide for a benefit if the contractholder dies and the contract value is less than a specified amount. A decline in the financial markets could cause the contract value to fall below this specified amount, increasing our exposure to losses from variable annuity products featuring guaranteed minimum death benefits. Declining or volatile financial markets that impact future profits may also impact the amortization of deferred policy acquisition costs.

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We may experience volatility in our results of operations and financial condition due to the fair value accounting for derivative instruments.

All derivative instruments, including derivative instruments embedded in fixed indexed annuity contracts, are recognized in the balance sheet at their fair values. Changes in the fair value of these instruments are recognized immediately in our results of operations as follows:

- Call options purchased to fund the annual index credits on our fixed indexed annuity products are presented at fair value. The fair value of the call options is based on the amount of cash expected to be received to settle the call options obtained from the counterparties adjusted for the nonperformance risk of the counterparty. The change in fair value of derivatives includes the gains or losses recognized at expiration of the option term or upon early termination as well as changes in fair value for open positions.
- The contractual obligations for future annual index credits are treated as a "series of embedded derivatives" over the expected lives of the applicable contracts. Increases or decreases in the fair value of embedded derivatives generally correspond to increases or decreases in equity market performance and changes in the interest rates used to discount the excess of the projected policy contract values over the projected minimum guaranteed contract values.

In future periods, the application of fair value accounting for derivatives and embedded derivatives to our fixed indexed annuity business may cause volatility in our results of operations.

Losses due to defaults by others could reduce our profitability or negatively affect the value of our investments.

Third party debtors may not pay or perform their obligations. These parties may include the issuers whose securities we hold, customers, reinsurers, borrowers under mortgage loans, trading counterparties, counterparties under swaps and other derivative contracts, clearing agents, exchanges, clearing houses and other financial intermediaries. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure or other reasons.

During or following an economic downturn, our municipal bond portfolio could be subject to a higher risk of default or impairment due to declining municipal tax bases and revenue. States are currently barred from seeking protection in federal bankruptcy court. However, federal legislation could possibly be enacted to allow states to declare bankruptcy in connection with deficit reductions or mounting unfunded pension liabilities, which could adversely impact the value of our investment portfolio.

The default of a major market participant could disrupt the securities markets or clearance and settlement systems in the U.S. or abroad. A failure of a major market participant could cause some clearance and settlement systems to

assess members of that system, including our broker-dealer subsidiary, or could lead to a chain of defaults that could adversely affect us. A default of a major market participant could disrupt various markets, which could in turn cause market declines or volatility and negatively impact our financial condition and results of operations.

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Catastrophic events, as well as significant weather events not designated as catastrophes, can have a material adverse effect on our financial condition and results of operations.

Underwriting results of property and casualty insurers are subject to weather and other conditions prevailing in an accident year. While one year may be relatively free of major weather or other disasters -- not all of which are designated by the insurance industry as a catastrophe, another year may have numerous such events causing results for such a year to be materially worse than for other years.

Our property and casualty insurance subsidiaries have experienced, and we anticipate that in the future they will continue to experience, catastrophe losses. A catastrophic event, a series of multiple catastrophic events or a series of non-catastrophe severe weather events could have a material adverse effect on the financial condition and results of operations of our insurance subsidiaries.

Various events can cause catastrophes, including hurricanes, windstorms, hail, severe winter weather, wildfires, earthquakes, explosions and terrorism. The frequency and severity of these catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposures in the area affected by the event and the severity of the event. Although catastrophes can cause losses in a variety of property and casualty lines, most of the catastrophe-related claims of our insurance subsidiaries are related to homeowners' coverages. Our ability to provide accurate estimates of ultimate catastrophe costs is based on several factors, including:

- the proximity of the catastrophe occurrence date to the date of our estimate;
- potential inflation of property repair costs in the affected area;
- the occurrence of multiple catastrophes in a geographic area over a relatively short period of time; and
- the outcome of litigation which may be filed against the Company by policyholders, state attorneys general and other parties relative to loss coverage disputes and loss settlement payments.

Based on 2014 direct premiums earned, 58% of the total annual premiums for our property and casualty business were for policies issued in the ten largest states in which our insurance subsidiaries write property and casualty coverage. Included in this top ten group are certain states which are considered to be more prone to catastrophe occurrences: California, North Carolina, Texas, Florida, South Carolina and Louisiana.

As an ongoing practice, we manage our exposure to catastrophes, as well as our exposure to non-catastrophe weather and other property loss risks. Reductions in property and casualty business written in catastrophe-prone areas may have a negative impact on near-term business growth and results of operations.

In addition to the potential impact on our property and casualty subsidiaries, our life subsidiary could experience claims of a catastrophic magnitude from events such as pandemics; terrorism; nuclear, biological or chemical

explosions; or other acts of war.

Our insurance subsidiaries seek to reduce their exposure to catastrophe losses through their underwriting strategies and the purchase of catastrophe reinsurance. Nevertheless, reinsurance may prove inadequate under certain circumstances.

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Uncollectible reinsurance, as well as reinsurance availability and pricing, can have a material adverse effect upon our business volume and profitability.

Reinsurance is a contract by which one insurer, called a reinsurer, agrees to cover a portion of the losses incurred by a second insurer in the event a claim is made under a policy issued by the second insurer. Our insurance subsidiaries obtain reinsurance to help manage their exposure to property, casualty and life insurance risks. Although a reinsurer is liable to our insurance subsidiaries according to the terms of its reinsurance policy, the insurance subsidiaries remain primarily liable as the direct insurers on all risks reinsured. As a result, reinsurance does not eliminate the obligation of our insurance subsidiaries to pay all claims, and each insurance subsidiary is subject to the risk that one or more of its reinsurers will be unable or unwilling to honor its obligations.

Although we limit participation in our reinsurance programs to reinsurers with high financial strength ratings and also limit the amount of coverage from each reinsurer, our insurance subsidiaries cannot guarantee that their reinsurers will pay in a timely fashion, if at all. Reinsurers may become financially unsound by the time that they are called upon to pay amounts due, which may not occur for many years. In the case of the Florida Hurricane Catastrophe Fund (“FHCF”), financial deficits and difficulties in accessing the capital markets may require the FHCF to make additional assessments against participating insurers. Additional coverage made available by the FHCF to the insurance industry in future contract periods could increase the likelihood of assessments in periods following significant hurricane losses.

Additionally, the availability and cost of reinsurance are subject to prevailing market conditions beyond our control. For example, significant losses from hurricanes or terrorist attacks, an increase in capital requirements, or a future lapse of the provisions of the Terrorism Risk Insurance Act could have a significant adverse impact on the reinsurance market.

If one of our insurance subsidiaries is unable to obtain adequate reinsurance at reasonable rates, that insurance subsidiary would have to increase its risk exposure and/or reduce the level of its underwriting commitments, which could have a material adverse effect upon the business volume and profitability of the subsidiary. Alternately, the insurance subsidiary could elect to pay the higher than reasonable rates for reinsurance coverage, which could have a material adverse effect upon its profitability until policy premium rates could be raised, in some cases subject to approval by state regulators, to incorporate this additional cost.

Our property and casualty loss reserves may not be adequate.

Our property and casualty insurance subsidiaries maintain loss reserves to provide for their estimated ultimate liability for losses and loss adjustment expenses with respect to reported and unreported claims incurred as of the end of each

accounting period. If these loss reserves prove inadequate, we will record a loss measured by the amount of the shortfall and, as a result, the financial condition and results of operations of our insurance subsidiaries will be adversely affected, potentially affecting their ability to distribute cash to the holding company.

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Reserves do not represent an exact calculation of liability. Reserves represent estimates, generally involving actuarial projections at a given time, of what our insurance subsidiaries expect the ultimate settlement and adjustment of claims will cost, net of salvage and subrogation. Estimates are based on assessments of known facts and circumstances, assumptions related to the ultimate cost to settle such claims, estimates of future trends in claims severity and frequency, changing judicial theories of liability, and other factors. These variables are affected by both internal and external events, including changes in claims handling procedures, economic inflation, unpredictability of court decisions, plaintiffs' expanded theories of liability, risks inherent in major litigation and legislative changes. Many of these items are not directly quantifiable, particularly on a prospective basis. Significant reporting lags may exist between the occurrence of an insured event and the time it is actually reported. Our insurance subsidiaries adjust their reserve estimates regularly as experience develops and further claims are reported and settled.

Due to the inherent uncertainty in estimating reserves for losses and loss adjustment expenses, we cannot be certain that the ultimate liability will not exceed amounts reserved, with a resulting adverse effect on our financial condition and results of operations.

Changing climate conditions may adversely affect our financial condition, results of operations or cash flows.

Many scientists indicate that the world's overall climate is getting warmer. Climate change, to the extent it produces rising temperatures and changes in weather patterns, could impact the frequency and/or severity of weather events and wildfires, the affordability and availability of our catastrophe reinsurance coverage, and our results of operations. If an increase in weather events and/or wildfires were to occur, in addition to the attendant increase in claim costs, which could adversely impact our results of operations and financial condition, concentrations of insurance risk could impact our ability to make homeowners insurance available to our customers. This could adversely impact our volume of business and our results of operations or cash flows.

Deviations from assumptions regarding future market appreciation, interest spreads, business persistency, mortality and morbidity used in calculating life and annuity reserves and deferred policy acquisition expense amounts could have a material adverse impact on our financial condition and results of operations.

The processes of calculating reserve and deferred policy acquisition expense amounts for our life and annuity businesses involve the use of a number of assumptions, including those related to market appreciation (the rate of growth in market value of the underlying variable annuity subaccounts due to price appreciation), interest spreads (the interest rates expected to be received on investments less the rate of interest credited to contractholders), business persistency (how long a contract stays with the company), mortality (the relative incidence of death over a given period of time) and morbidity (the relative incidence of disability resulting from disease or physical impairment). We periodically review the adequacy of these reserves and deferred policy acquisition expenses on an aggregate basis and, if future experience is estimated to differ significantly from previous assumptions, adjustments to reserves and deferred policy acquisition expenses may be required which could have a material adverse effect on our financial

condition and results of operations.

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An impairment of all or part of our goodwill could adversely affect our results of operations.

At December 31, 2014, we had $47.4 million of goodwill recorded on our consolidated balance sheet. Goodwill was recorded when the Company was acquired in 1989 and when Horace Mann Property & Casualty Insurance Company was acquired in 1994, in both instances reflecting the excess of cost over the fair market value of net assets acquired. In 2014, the goodwill balance was evaluated for impairment, as described in "Notes to Consolidated Financial Statements -- Note 1 -- Summary of Significant Accounting Policies", with no impairment charge resulting from such assessment. The evaluation of goodwill considers a number of factors including the impacts of a volatile financial market on earnings, discount rate assumptions, liquidity and the Company's market capitalization. If an evaluation of the Company's fair value or of the Company's segments' fair value indicated that all or a portion of the goodwill balance was impaired, the Company would be required to write off the impaired portion. Such a write-off could have a material adverse effect on our results of operations in the period of the write-off; however, management does not anticipate a material effect on the Company's financial condition.

Any downgrade in or adverse change in outlook for our claims-paying ratings, financial strength ratings or credit ratings could adversely affect our financial condition and results of operations.

Claims-paying ratings and financial strength ratings have become an increasingly important factor in establishing the competitive position of insurance companies. In the evolving 403(b) annuity market, school districts and benefit consultants have placed an emphasis on the relative financial strength ratings of competing companies. Each rating agency reviews its ratings periodically and from time to time may modify its rating criteria including, among other factors, its expectations regarding capital adequacy, profitability and revenue growth. A downgrade in the ratings or adverse change in the ratings outlook of any of our insurance subsidiaries by a major rating agency could result in a substantial loss of business for that subsidiary if school districts, policyholders or independent agents move their business to other companies having higher claims-paying ratings and financial strength ratings than we do. This loss of business could have a material adverse effect on the results of operations and financial condition of that subsidiary.

A downgrade in our holding company debt rating also could adversely impact our cost and flexibility of borrowing which could have an adverse impact on our liquidity, financial condition and results of operations.

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Reduction of the statutory surplus of our insurance subsidiaries could adversely affect their ability to write insurance business.

Insurance companies write business based, in part, upon guidelines including capital ratios considered by the NAIC and various rating agencies. Some of these ratios include risk-based capital ratios for both property and casualty insurance companies and life insurance companies, as well as a ratio of premiums to surplus for property and casualty insurance companies. Risk-based capital ratios measure an insurer's capital adequacy and consider various risks such as underwriting, investment, credit, asset concentration and interest rate. If our insurance subsidiaries cannot maintain profitability in the future or if significant investment valuation losses are incurred, they may be required to draw on their surplus, thereby reducing capital adequacy, in order to pay dividends to us to enable us to meet our financial obligations. As their surplus is reduced by the payment of dividends, continuing losses or both, our insurance subsidiaries' ability to write business and maintain acceptable financial strength ratings could also be reduced. This could have a material adverse effect upon the business volume and profitability of our insurance subsidiaries.

If we are not able to effectively develop and expand our marketing operations, including agents and other points of distribution, our financial condition and results of operations could be adversely affected.

The Company's agencies are owned primarily by non-employee, independent contractor, Exclusive Agents and nearly all of these agencies operate under the Agency Business model -- agents in outside offices with licensed producers -- which is designed to remove capacity constraints while increasing productivity. The economic viability of each agency is directly dependent of the productivity of the agency and the success at penetrating, serving and cross-selling the Company's educator market.

Our success in marketing and selling our products is largely dependent upon the efforts of our agent sales force and the success of their agency operations. As we expand our business, we may need to expand the number of agencies marketing our products. If we are unable to appoint additional agents, fail to retain high-producing agents, are unable to maintain the productivity of those agency operations or are unable to maintain market penetration in existing territories, sales of our products likely would decline and our financial condition and results of operations could be adversely affected.

If we are not able to maintain and secure (1) access to educators and (2) endorsements and other relationships with the educational community, our financial condition and results of operations could be adversely affected.

Our ability to successfully increase new business in the educator market is largely dependent on our ability to effectively access educators either in their school buildings or through other approaches. While this is especially true for the sale of 403(b) tax-qualified annuity products via payroll deduction, any significant decrease in access, either

through fewer payroll slots, increased security measures, impacts of state or federal level pension reform initiatives, requirements of national and state Do Not Call registries, or for other reasons could adversely affect the sale of all lines of our business and require us to change our traditional approach to worksite marketing and promotion, as well as contact with potential customers. With the current IRS regulations regarding Section 403(b) arrangements, including annuities, our ability to maintain and increase our share of the 403(b) market, and the access it gives us for other product lines, will depend on our ability to successfully compete in this market. Some

school districts and benefit consultants have placed an emphasis on the relative financial strength ratings of competing companies, as well as low cost product and distribution approaches, which may put us at a competitive disadvantage relative to other more highly-rated insurance companies.

At the time of this Annual Report on Form 10-K, the U.S. Department of Labor is considering changes to the standards applied to employer sponsored plans (which may include 403(b) plans), individual retirement account ("IRA") rollovers and financial advisors. If implemented, the revised standards could drive changes in employer and customer expectations, the sales process and the products offered. See also "Business -- Regulation".

Our ability to maintain and obtain product and corporate endorsements from, and/or marketing agreements with, local, state and national education-related associations is important to our marketing strategy. In addition to teacher organizations, we have established relationships with various other educator, principal, school administrator and school business official groups. These contacts and endorsements help to establish our brand name and presence in the educational community and to enhance our access to educators.

Economic and other factors affecting our niche market could adversely impact our financial condition and results of operations.

Horace Mann's strategic objective is to become the company of choice in meeting the insurance and financial services needs of the educational community. With K-12 teachers, administrators, and support personnel representing a significant percentage of our business, the financial condition and results of operations of our subsidiaries could be more prone than many of our competitors to the effects of economic forces and other issues affecting the educator market including, but not limited to, federal, state and local budget deficits and cut-backs and adverse changes in state and local tax revenues.

While the U.S. financial market and certain sectors of the economy have shown improvement over recent years, federal and state revenue shortages continue to pressure the budgets of many school districts. Teacher layoffs and early retirements have taken place and it is possible that additional reductions could occur. Similar to others in the insurance industry, the Company has experienced periods with pressure on new business sales levels. However, despite the economic headwinds, as of the time of this Annual Report on Form 10-K, the Company's retention of annuity accumulated values remains strong; the level of annuity scheduled deposit suspension continues to be significantly improved compared to the 2008-2009 period; and total annuity net fund flows were positive in each year in the 2008 through 2014 period. However, there can be no assurance that these business factors will remain favorable.

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The personal lines insurance and annuity markets are highly competitive and our financial condition and results of operations may be adversely affected by competitive forces.

We operate in a highly competitive environment and compete with numerous insurance companies, as well as mutual fund families, independent agent companies and financial planners. In some instances and geographic locations, competitors have specifically targeted the educator marketplace with specialized products and programs. We compete in our target market with a number of national providers of personal automobile and homeowners insurance and life insurance and annuities.

The insurance industry consists of a large number of insurance companies, some of which have substantially greater financial resources, more diversified product lines, more sophisticated product pricing, greater economies of scale and/or lower-cost marketing approaches compared to us. In our target market, we believe that the principal competitive factors in the sale of property and casualty insurance products are price, overall service, name recognition and worksite sales and service. We believe that for our market the principal competitive factors in the sale of annuity products and life insurance are worksite sales and service, product features, perceived stability of the insurer, price, overall service and name recognition. And, we believe that the Company’s focus on the educator market niche, as well as the knowledge obtained regarding this niche throughout the Company’s history, contribute to our ability to effectively and profitably serve this market.

Particularly in the property and casualty business, our insurance subsidiaries from time to time, generally on a cyclical basis, experience periods of intense competition during which they may be unable to increase policyholders and revenues without adversely impacting profit margins. During the current cycle, which is expected to persist through 2015 and potentially beyond, competition from direct writers and large, mass market carriers has been particularly aggressive, evidenced in part by their significant national advertising expenditures. In addition, advancements in vehicle technology and safety features, such as accident prevention technologies or the development of autonomous or partially autonomous vehicles -- once widely available and utilized, as well as expanded availability of usage-based insurance could materially alter the way that automobile insurance is marketed, priced and underwritten. The inability of our insurance subsidiaries to effectively anticipate the impact of these issues on our business and compete successfully in the property and casualty business could adversely affect the subsidiaries’ financial condition and results of operations and the resulting ability to distribute cash to the holding company.

In our annuity business, the current IRS Section 403(b) regulations make the 403(b) market more similar to the 401(k) market than it was prior to 2009. These regulations have reduced and could continue to reduce the number of competitors in this market as the 403(b) market has become more attractive to some of the larger companies experienced in 401(k) plans, including both insurance and mutual fund companies, that had not previously been active competitors in this business. While not yet widespread, there has been continued pressure in some states to adopt state-sponsored or mandated 403(b) plans with single- or limited-provider options; this pressure has come from competitor lobbying efforts and state legislature-initiated pension reform initiatives. The inability of our insurance subsidiaries to compete successfully in these markets could adversely affect the subsidiaries’ financial condition and results of operations and the resulting ability to distribute cash to the holding company.

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A reduction or elimination of the tax advantages of annuity and life products and/or a change in the tax benefits of various government-authorized retirement programs, such as 403(b) annuities and individual retirement accounts (“IRAs”), could make our products less attractive to clients and adversely affect our operating results.

A significant part of our annuity business involves fixed and variable 403(b) tax-qualified annuities, which are annuities purchased voluntarily by individuals employed by public school systems or other tax-exempt organizations. Our financial condition and results of operations could be adversely affected by changes in federal and state laws and regulations that affect the relative tax and other advantages of our life and annuity products to clients or the tax benefits of programs utilized by our customers. As a result of economic conditions from 2008 through 2014 and as of the time of this Annual Report on Form 10-K, revenue challenges exist at federal, state and local government levels. These challenges could increase the risk of future adverse impacts on current tax advantaged products or result in notable reforms to educator pension programs. See also “Business -- Regulation -- Regulation at Federal Level”.

Current federal income tax laws generally permit the tax-deferred accumulation of earnings on the premiums paid by the holders of annuities and life insurance products. Taxes, if any, are payable on income attributable to a distribution under the contract for the year in which the distribution is made. From time to time, Congress has considered legislation that would reduce or eliminate the benefit of such deferral of taxation on the accretion of value with life insurance and non-qualified annuity contracts. Enactment of this legislation, including a simplified “flat tax” income structure with an exemption from taxation for investment income, could result in fewer sales of our life insurance and annuity products.

The insurance industry is highly regulated.

We are subject to extensive regulation and supervision in the jurisdictions in which we do business. Each jurisdiction has a unique and complex set of laws and regulations. Furthermore, certain federal laws impose additional requirements on businesses, including insurers. Regulation generally is designed to protect the interests of policyholders, as opposed to stockholders and non-policyholder creditors. Such regulations, among other things, impose restrictions on the amount and type of investments our subsidiaries may hold. Certain states also regulate the rates insurers may charge for certain property and casualty products. Legislation and voter initiatives have expanded, in some instances, the states’ regulation of rates and have increased data reporting requirements. Consumer-related pressures to roll back rates, even if not enacted by legislation or upheld upon judicial appeal, may affect our ability to obtain timely rate increases or operate at desired levels of profitability. Changes in insurance regulations, including those affecting the ability of our insurance subsidiaries to distribute cash to us and those affecting the ability of our insurance subsidiaries to write profitable property and casualty insurance policies in one or more states, may adversely affect the financial condition and results of operations of our insurance subsidiaries. In addition, consumer privacy requirements may increase our cost of processing business. Our ability to comply with laws and regulations, at a reasonable cost, and to obtain necessary regulatory action in a timely manner, is and will continue to be critical to our success.

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Regulation that could adversely affect our insurance subsidiaries also includes statutory surplus and risk-based capital requirements. Maintaining appropriate levels of surplus, as measured by statutory accounting principles, is considered important by state insurance regulatory authorities and the private agencies that rate insurers' claims-paying abilities and financial strength. The failure of an insurance subsidiary to maintain levels of statutory surplus that are sufficient for the amount of its insurance written could result in increased regulatory scrutiny, action by state regulatory authorities or a downgrade by rating agencies.

Similarly, the NAIC has adopted a system of assessing minimum capital adequacy that is applicable to our insurance subsidiaries. This system, known as risk-based capital, is used to identify companies that may merit further regulatory action by analyzing the adequacy of the insurer's surplus in relation to statutory requirements.

Because state legislatures remain concerned about the availability and affordability of property and casualty insurance and the protection of policyholders, our insurance subsidiaries expect that they will continue to face efforts by those legislatures to expand regulations to address these concerns. Resulting new legislation could adversely affect the financial condition and results of operations of our insurance subsidiaries.

In the event of the insolvency, liquidation or other reorganization of any of our insurance subsidiaries, our creditors and stockholders would have no right to proceed against any such insurance subsidiary or to cause the liquidation or bankruptcy of any such insurance subsidiary under federal or state bankruptcy laws. The insurance laws of the domiciliary state would govern such proceedings and the relevant insurance commissioner would act as liquidator or rehabilitator for the insurance subsidiary. Creditors and policyholders of any such insurance subsidiary would be entitled to payment in full from the assets of the insurance subsidiary before we, as a stockholder, would be entitled to receive any distribution.

The financial position of our insurance subsidiaries also may be affected by court decisions that expand insurance coverage beyond the intention of the insurer at the time it originally issued an insurance policy.

Dodd-Frank created the Federal Insurance Office ("FIO") within the U.S. Department of the Treasury. The FIO studies the current insurance regulatory system and is charged with monitoring and providing specific reports on various aspects of the insurance industry. However, the FIO does not have general supervisory or regulatory authority over the business of insurance. In December 2013, the FIO released a report recommending ways to modernize and improve the system of insurance regulation in the U.S. While the report did not recommend full federal regulation of insurance, it did suggest an expanded federal role in some circumstances. While Dodd-Frank creates new opportunities for federal monitoring and limited intervention in the regulation of the insurance industry, and the FIO's reports and recommendations may create new pressures for broader federal regulatory authority over the insurance industry longer term, management does not expect the current provisions of Dodd-Frank to have a significant effect on the Company. Management will continue to monitor developments under Dodd-Frank, as various aspects of it continue to be addressed by governmental bodies. Additional regulations could adversely affect the efficiency and effectiveness of

business processes, financial condition and results of operations of the Company, insurers of similar size and/or the insurance industry as a whole.

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The insurance industry is highly cyclical.

The results of companies in the insurance industry historically have been subject to significant fluctuations due to competition, economic conditions, interest rates and other factors. In particular, companies in the property and casualty insurance segment of the industry historically have experienced pricing and profitability cycles. With respect to these cycles, the factors having the greatest impact include significant and/or rapid changes in loss costs, including changes in loss frequency and/or severity; prior approval and restrictions in certain states for price increases; intense price competition; less restrictive underwriting standards; aggressive marketing; and increased advertising, which have resulted in higher industry-wide combined loss and expense ratios.

Litigation may harm our financial strength or reduce our profitability.

Companies in the insurance industry have been subject to substantial litigation resulting from claims, disputes and other matters. Most recently, they have faced expensive claims, including class action lawsuits, alleging, among other things, improper sales practices and improper claims settlement procedures. Negotiated settlements of certain such actions have had a material adverse effect on many insurance companies. The resolution of similar future claims against any of our insurance subsidiaries, including the potential adverse effect on our reputation and charges against the earnings of our insurance subsidiaries as a result of legal defense costs, a settlement agreement or an adverse finding or findings against our insurance subsidiaries in such a claim, could have a material adverse effect on the financial condition and results of operations of our insurance subsidiaries.

Data security breaches or denial of service on our websites could have an adverse impact on the Company's business and reputation.

Unauthorized access to and unintentional dissemination of our confidential, highly-sensitive customer, employee or Company data or other breaches of data security in our facilities, networks or databases, or those of our agents or third-party vendors -- including information technology and software vendors, could result in loss or theft of assets or sensitive information, data corruption or operational disruption that may expose the Company to liability and/or regulatory action and may have an adverse impact on the Company's customers, employees, reputation and business. In addition, any compromise of the security of our data or prolonged denial of service on our websites could harm the Company's business and reputation. We have designed, implemented and routinely test industry-compliant procedures for protection of confidential information and sensitive corporate data, including rapid response procedures to help contain or prevent data loss if a breach were to occur. We have also implemented multiple technical security protections and contractual obligations regarding security breaches for our agents and third-party vendors. Even with these efforts, there can be no assurance that security breaches or service disruptions will be prevented.

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Successful execution of our business growth strategy is dependent on effective implementation of new or enhanced technology systems and applications.

Our ability to effectively execute our business growth strategy and leverage potential economies of scale is dependent on our ability to provide the requisite technology components for that strategy. While we have effectively upgraded our infrastructure technologies with improvements in our data center, a new communications platform and enhancements to our disaster recovery capabilities, our ability to replace or supplement dated, monolithic legacy business systems -- such as our life, annuity and property and casualty policy administrative systems -- with more flexible, maintainable, and customer accessible solutions will be necessary to achieve our plans. The inherent difficulty in replacing and/or modernizing these older technologies, coupled with the Company’s limited experience in these endeavors, presents an increased risk to delivering these technology solutions in a cost effective and timely manner. Our scale will require us to develop innovative solutions to address these challenges, including consideration of “software as a service” arrangements and other third-party based information technology capabilities. More modern approaches to software development and utilization of third-party vendors can augment the Company’s internal capacity for these implementations, but may not adequately reduce the operational risks of timely and cost effective delivery.

Loss of key vendor relationships could affect our operations.

We rely on services and products provided by a number of vendors in the United States and abroad. These include, for example, vendors of computer hardware and software, including on-demand software, and vendors of services such as investment management advisement, information technology services -- such as those associated with our life, annuity and property and casualty policy administrative systems -- and delivery services for customer policy-level communications. In the event that one or more of our vendors suffers a bankruptcy or otherwise becomes unable to continue to provide products or services, we may suffer operational difficulties and financial losses.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

HMEC's home office property at 1 Horace Mann Plaza in Springfield, Illinois, consisting of an office building totaling 225,000 square feet, is owned by the Company. Also in Springfield, the Company owns and leases some smaller buildings at other locations. In addition, the Company leases office space in suburban Dallas, Texas, and Raleigh, North Carolina, for its claims operations and leases some office space related to its field marketing operations. These

properties, which are utilized by all of the Company’s business segments, are adequate and suitable for the Company's current and anticipated future needs.

ITEM 3. Legal Proceedings

At the time of this Annual Report on Form 10-K, the Company does not have pending litigation from which there is a reasonable possibility of material loss.

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ITEM 4. Mine Safety Disclosures

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information and Dividends

HMEC's common stock is traded on the NYSE under the symbol of HMN. The following table sets forth the high and low sales prices of the common stock on the NYSE Composite Tape and the cash dividends paid per share of common stock during the periods indicated.

	Market Price		Dividend
Fiscal Period	High	Low	Paid
2014:			
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
2013:			
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

The payment of dividends in the future is subject to the discretion of the Board of Directors of HMEC and will depend upon general business conditions, legal restrictions and other factors the Board of Directors may deem to be relevant. Additional information is contained in “Notes to Consolidated Financial Statements -- Note 8 -- Statutory Information and Restrictions” listed on page F-1 of this report and in “Business -- Cash Flow”.

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Shareholder Return Performance Graph

The graph below compares cumulative total return* of Horace Mann Educators Corporation, the S&P 500 Insurance Index and the S&P 500 Index. The graph assumes $100 invested on December 31, 2009 in HMEC, the S&P 500 Insurance Index and the S&P 500 Index.

	12/09	12/10	12/11	12/12	12/13	12/14
HMEC	$ 100	$ 147	$ 116	$ 174	$ 283	$ 307
S&P 500 Insurance Index	100	116	106	126	185	200
S&P 500 Index	100	115	117	136	179	204

* The S&P 500 Index and the S&P 500 Insurance Index, as published by Standard and Poor's Corporation ("S&P"), assume an annual reinvestment of dividends in calculating total return. Horace Mann Educators Corporation assumes reinvestment of quarterly dividends when paid.

Holders and Shares Issued

As of February 15, 2015, the approximate number of holders of HMEC's common stock was 12,000.

During 2014, options were exercised for the issuance of 435,665 shares, 1.1% of the Company's common stock shares outstanding at December 31, 2013. The Company received $8.3 million as a result of these option exercises, including related federal income tax benefits.

Regarding the equity compensation plan information required by Item 201(d) of Regulation S-K, see "Item 12. Security Ownership of Certain Beneficial Owners and Management, and Related Stockholder Matters".

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Issuer Purchases of Equity Securities

On December 7, 2011, the Company's Board of Directors authorized a share repurchase program allowing repurchases of up to $50.0 million of Horace Mann Educators Corporation's Common Stock, par value $0.001. The share repurchase program authorizes the opportunistic repurchase of common shares in open market or privately negotiated transactions, from time to time, depending on market conditions. The share repurchase program does not have an expiration date and may be limited or terminated at any time without notice. During the three months ended December 31, 2014, the Company did not repurchase shares of HMEC common stock. As of December 31, 2014, $22.9 million remained authorized for future share repurchases.

ITEM 6. Selected Financial Data

The information required b