HORACE MANN EDUCATORS CORP /DE/
Form 10-K
February 28, 2008
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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, 2007

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 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 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 Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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, 2007, was $919.2 million.

As of February 19, 2008, 40,633,237 shares of the registrant s Common Stock, par value $0.001 per share, were outstanding, net of 20,241,747 shares of treasury stock.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant s Proxy Statement for the 2008 Annual Meeting of Shareholders are incorporated by reference into Part II Item 5 and 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, 2007.

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HORACE MANN EDUCATORS CORPORATION

FORM 10-K

YEAR ENDED DECEMBER 31, 2007

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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 private passenger 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) and Teachers Insurance Company (TIC), and each of which is an Illinois corporation; Horace Mann Property & Casualty Insurance Company (HMPCIC), a California corporation; and Horace Mann Lloyds (HM Lloyds), an insurance company domiciled in Texas.

The Company markets its products primarily to K-12 educators 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.

The Company markets and services its products primarily through an exclusive sales force of full-time agents employed by the Company and trained to sell multiline products. The Company s agents sell Horace Mann s products and limited additional third-party vendor products authorized by the Company. Many of the Company s agents are former educators or individuals with close ties to the educational community who utilize their contacts within, and knowledge of, the target market. Compensation for agents includes an incentive element based upon the profitability of the business they write. This exclusive 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, 2007 were $974.7 million and net income was $82.8 million. The Company s total assets were $6.3 billion at December 31, 2007. The property and casualty segment accounted for 55% of the Company s insurance premiums written and contract deposits for the year ended December 31, 2007; the annuity and life insurance segments together accounted for 45% of insurance premiums written and contract deposits for the year ended December 31, 2007 (35% and 10%, respectively).

The Company is one of the largest participants in 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 annuities purchased voluntarily by individuals employed by public school systems or other tax-exempt organizations. The Company has approved 403(b) payroll reduction capabilities in over one-third of the 16,000 school districts in the U.S.

The Company s investment portfolio had an aggregate fair value of $4.2 billion at December 31, 2007. Investments consist principally of investment grade, publicly traded fixed income securities.

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 Investor Relations section of the Company s Internet Web site, 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 Web site, www.sec.gov.

Also available in the Investor Relations section of the Company s Web site 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.

Louis G. Lower II, Chief Executive Officer of HMEC, timely submitted the Annual Section 12(a) CEO Certification to the New York Stock Exchange (NYSE) on June 11, 2007 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, 2006, the CEO and 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, 2007 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,				
	2007	2006	2005	2004	2003
	(Dollars in millions, except per share data)				
Statement of Operations Data:					
Insurance premiums and contract charges earned	$ 654.3	$ 653.9	$ 664.9	$ 674.7	$ 643.5
Net investment income	223.8	209.0	194.6	191.4	184.7
Realized investment gains (losses)	(3.4)	10.9	9.8	12.2	25.5
Total revenues	887.0	885.8	880.2	883.2	855.8
Amortization of intangible assets (1)	5.4	6.1	5.1	6.0	5.0
Interest expense	14.1	13.1	8.9	6.8	6.3
Income before income taxes	117.1	140.3	94.0	69.7	19.2
Net income (2)	82.8	98.7	77.3	56.3	19.0
Ratio of earnings to fixed charges (3)	1.8x	2.0x	1.8x	1.6x	1.2x
Per Share Data (4):					
Net income per share:					
Basic	$ 1.92	$ 2.29	$ 1.80	$ 1.32	$ 0.44
Diluted	$ 1.86	$ 2.19	$ 1.67	$ 1.25	$ 0.44
Shares of Common Stock (in millions):					
Weighted average - basic	43.1	43.0	42.9	42.8	42.7
Weighted average - diluted	44.6	45.8	47.9	47.3	42.9
Ending outstanding	42.2	43.1	43.0	42.8	42.7
Cash dividends per share	$ 0.42	$ 0.42	$ 0.42	$ 0.42	$ 0.42
Book value per share	$ 16.41	$ 15.25	$ 13.51	$ 13.45	$ 12.42
Balance Sheet Data, at Year End:					
Total investments	$ 4,180.3	$ 4,302.2	$ 3,996.5	$ 3,657.2	$ 3,385.7
Total assets	6,259.3	6,329.7	5,840.6	5,371.9	4,953.2
Total policy liabilities	3,383.3	3,301.4	3,172.1	3,010.6	2,787.0
Short-term debt				25.0	25.0
Long-term debt	199.5	232.0	190.9	144.7	144.7
Total shareholders equity	693.3	657.1	580.6	576.2	530.5
Segment Information (5):					
Insurance premiums written and contract deposits					
Property and casualty	$ 535.2	$ 539.8	$ 546.9	$ 562.3	$ 546.5
Annuity	337.1	325.7	320.1	327.0	296.6
Life	102.4	103.9	105.6	109.1	112.4
Total	974.7	969.4	972.6	998.4	955.5
Net income (loss)					
Property and casualty	$ 61.2	$ 74.3	$ 45.0	$ 27.6	$ (17.8)
Annuity	17.6	13.2	15.1	12.6	14.4
Life	17.3	14.5	13.4	14.8	13.4
Corporate and other (2) (6)	(13.3)	(3.3)	3.8	1.3	9.0
Total	82.8	98.7	77.3	56.3	19.0

(1) Amortization of intangible assets is comprised of amortization of acquired value of insurance in force and is the result of purchase accounting adjustments related to the 1989 acquisition of the Company.

(2) In 2005, the Company s federal income tax expense reflected a reduction of $9.1 million from the closing of tax years 1996 through 2001 with favorable resolution of the contingent tax liabilities related to those prior tax years.

(3) 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.

(4) Basic earnings per share is computed based on the weighted average number of shares outstanding. Diluted earnings per share is computed based on the weighted average number of shares and common stock equivalents outstanding. The Company s common stock equivalents relate to outstanding common stock options, Director Stock Plan units, Employee Stock Plan units and restricted stock units. The Company s Senior Convertible Notes, which were issued in May 2002, are considered potentially dilutive securities and are included in the calculation of diluted earnings per share, to the extent dilutive, per Emerging Issues Task Force (EITF) issue 04-8, The Effect of Contingently Convertible Instruments on Diluted Earnings per Share . In May 2007, the Company redeemed all remaining Senior Convertible Notes.

(5) Information regarding assets by segment at December 31, 2007, 2006 and 2005 is contained in Notes to Consolidated Financial Statements Note 13 Segment Information listed on page F-1 of this report.

(6) The corporate and other segment primarily includes interest expense on debt and the impact of realized investment gains and losses, debt retirement costs and gains 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 educators 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 3.6 million elementary and secondary teachers in public and private schools in the U.S. The Company also markets its products to other education-related customers, including school administrators, education support personnel, private school teachers, community college personnel and customer referrals.

Exclusive Agency Force

A cornerstone of the Company s marketing strategy is its exclusive sales force of full-time employee agents trained to sell multiline products. As of December 31, 2007, the Company employed 790 full-time agents, approximately 75% of which are licensed by the Financial Industry Regulatory Authority (FINRA), formerly the National Association of Securities Dealers, Inc. (NASD), to sell variable annuities and variable universal life policies. Many of the Company s agents were previously teachers, other members of the education profession or persons with close ties to the educational community. The Company s exclusive agents are under contract to market only the Company s products and limited additional third-party vendor products authorized by the Company. Collectively, the Company s principal insurance subsidiaries are licensed to write business in 49 states and the District of Columbia.

In 2006, the Company began the transition from a single-person agent operation to its new Agency Business Model (ABM), with agents in outside offices with support personnel and licensed producers, designed to remove current capacity constraints and increase productivity. The first Agency Business School session was conducted in October 2006, beginning the formal roll-out of this model. From October 2006 through December 31, 2007, 196 of the agents at December 31, 2007 and all field sales management completed this training. At the time of this Annual Report on Form 10-K, management anticipates conducting additional schools in 2008 and beyond for those agents who meet the Company s qualifications and demonstrate they are able to successfully migrate into the ABM model. On an ongoing basis, the Company will also provide follow-up training and support to those agents who have completed the school, to further embed repeatable processes and fully maximize the potential of ABM. Property and casualty initiatives to support that transition and drive business growth include expanding to more states the Company s Educator Segmentation Model a more precise approach to pricing automobile business and its Product Management Organization focusing on localized approaches to pricing, underwriting and marketing. The Company is also developing a new property and casualty policy administration system with an automated point-of-sale front end. Annuity and life initiatives to support the transition to ABM include the roll out of a new lineup of Horace Mann manufactured and branded products, as described in Annuity Segment and Life Segment .

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Broadening Distribution Options

In 2001, to complement and extend the reach of the Company s agency force and to more fully utilize its approved payroll deduction slots in school systems across the country which are assigned to Horace Mann, the Company began building 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 exclusive agents, the independent agents complement the annuity capabilities of the Company s agents in under-penetrated areas. At December 31, 2007, there were 903 independent agents approved to market the Company s annuity products throughout the U.S. During 2007, collected contract deposits from this distribution channel were approximately $43 million.

Geographic Composition of Business

The Company s business is geographically diversified. For the year ended December 31, 2007, based on direct insurance premiums and contract deposits for all product lines, the top five states and their portion of total direct insurance premiums and contract deposits were Illinois, 7.9%; Florida, 7.2%; North Carolina, 6.6%; California, 6.5%; and Minnesota, 5.3%.

HMEC s property and casualty subsidiaries 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 in 2007:

Property and Casualty Segment Top Ten States

(Dollars in millions)

	Property and Casualty Segment	
	Direct Premiums (1)	**Percent of Total**
State		
Florida	$ 56.3	10.1%
California	48.2	8.6
North Carolina	38.8	7.0
Minnesota	37.4	6.7
Texas	29.7	5.3
Louisiana	26.9	4.8
Pennsylvania	24.3	4.3
South Carolina	24.3	4.3
Georgia	17.8	3.2
Maine	17.4	3.1
Total of top ten states	321.1	57.4
All other areas	238.2	42.6
Total direct premiums	$ 559.3	100.0%

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

HMEC s principal life insurance subsidiary writes 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 in 2007:

Combined Life and Annuity Segments Top Ten States

(Dollars in millions)

State	Direct Premiums and Contract Deposits (1)	Percent of Total
Illinois	$ 67.1	15.1%
Virginia	28.9	6.5
North Carolina	27.2	6.1
South Carolina	20.6	4.6
Tennessee	18.2	4.1
Texas	17.8	4.0
California	17.1	3.8
Indiana	16.2	3.6
Florida	15.8	3.5
Minnesota	15.4	3.5
Total of top ten states	244.3	54.8
All other areas	201.6	45.2
Total direct premiums	$ 445.9	100.0%

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

National, State and Local Education Associations

The Company has had a long relationship with the National Education Association (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 2.8 million members. The Company maintains a special advisory board, primarily composed of leaders of state education associations, that meets with Company management at least annually. The NEA and its affiliated state and local associations sponsor 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 sponsorship of Company products. The Company does pay for certain special functions and advertising that appears in NEA and state education association publications.

From 1984 to September 1993 and from September 1996 to August 2007, the NEA purchased from the Company educator excess professional liability insurance for all of its members. The NEA s contract to purchase this insurance from the Company expired in August 2007. Premiums from this product represented less than 1% of all insurance premiums written and contract deposits of the Company in 2006.

The Company also has established relationships with a number of other educator groups, such as school administrator and principal associations, throughout the U.S. The Company pays for certain special functions and advertising that appears in publications of these organizations.

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Property and Casualty Segment

The property and casualty segment represented 55% of the Company s total insurance premiums written and contract deposits in 2007.

The primary property and casualty product offered by the Company is private passenger automobile insurance, which in 2007 represented 38% of the Company s total insurance premiums written and contract deposits and 68% of property and casualty net written premiums. As of December 31, 2007, the Company had approximately 535,000 voluntary automobile policies in force with annual premiums of approximately $364 million. 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 2007, homeowners insurance represented 17% of the Company s total insurance premiums written and contract deposits and 31% of property and casualty net written premiums. As of December 31, 2007, the Company had approximately 266,000 homeowners policies in force with annual premiums of approximately $190 million. The Company insures primarily residential homes.

Through 2006, educator excess professional liability insurance represented less than 1% of the Company s total insurance premiums written and contract deposits and less than 2% of property and casualty written premiums. The NEA s contract to purchase this insurance from the Company expired in August 2007. See Corporate Strategy and Marketing National, State and Local Education Associations . The Company s underwriting results from educator excess professional liability insurance have generally represented amounts which were not a material portion of net income for the Company or for the property and casualty segment.

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. As an example, in Florida the Company has partnered with three companies to place certain homeowners business to help control the Company s coastal risk exposure.

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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,		
	2007	**2006**	**2005**
Operations Data:			
Insurance premiums written (1)	$ 535.2	$ 539.8	$ 546.9
Insurance premiums earned (1)	535.1	537.7	549.6
Net investment income	38.0	35.3	33.2
Income before income taxes	84.7	104.8	58.0
Net income	61.2	74.3	45.0
Catastrophe costs, pretax (2)	23.6	19.8	69.2
Operating Statistics:			
Loss and loss adjustment expense ratio	67.4%	63.3%	72.4%
Expense ratio	24.5%	24.3%	23.2%
Combined loss and expense ratio	91.9%	87.6%	95.6%
Effect of catastrophe costs on the combined ratio (2)	4.4%	3.6%	12.3%
Automobile and Homeowners (Voluntary):			
Insurance premiums written			
Automobile	$ 365.3	$ 368.0	$ 381.1
Homeowners (1)	165.3	158.6	154.1
Total (1)	530.6	526.6	535.2
Insurance premiums earned			
Automobile	364.6	368.5	386.0
Homeowners (1)	160.5	156.5	152.8
Total (1)	525.1	525.0	538.8
Policies in force (in thousands)			
Automobile	535	533	531
Homeowners	266	266	266
Total	801	799	797

(1) As a result of catastrophes in the third quarter of 2005, the Company incurred additional ceded written and earned premiums to reinstate its property and casualty catastrophe reinsurance coverage of $9.9 million for the year ended December 31, 2005.

(2) 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 Statement of Operations and require 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 Claims Service, 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 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 and the property and casualty industry for the ten years ended December 31, 2007 were as follows:

Catastrophe Costs

(Dollars in millions)

	The Company (1)	Property and Casualty Industry (2)
Year Ended December 31,		
2007	$ 23.6	$ 6,500.0
2006	19.8	9,000.0
2005	69.2	61,900.0
2004	75.5	27,500.0
2003	33.2	12,900.0
2002	11.9	5,900.0
2001	11.2	26,500.0
2000	16.2	4,600.0
1999	19.6	8,300.0
1998	28.4	10,100.0

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

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.
2004 -	$19.9 million, Hurricane Charley; $11.9 million, Hurricane Frances; $19.2 million, Hurricane Ivan; $18.2 million, Hurricane Jeanne.
2003 -	$12.0 million, California wildfires; $9.6 million, May hail/tornadoes/wind; $5.0 million, Hurricane Isabel; $2.7 million, early April winter storms.
2002 -	$4.2 million, Hurricane Lili; $1.7 million, April Eastern states hail, tornadoes, wind and heavy rain; $1.2 million, Eastern states winter storms.
2001 -	$3.7 million, June Midwest wind/hail/tornadoes; $2.3 million, April tornadoes; $2.2 million, Tropical Storm Allison.
2000 -	$5.0 million, May tornadoes; $2.7 million, December winter storms.
1999 -	$5.4 million, Hurricane Floyd; $3.1 million, May tornadoes primarily in Oklahoma.
1998 -	$7.9 million, May Minnesota hailstorm; $2.9 million, May Upper Midwest hailstorm; $2.0 million, June Midwest wind/hail; $1.6 million, Hurricane Georges.

(2) Source: ISO news releases dated January 14, 2008 (for 2007 data) and January 16, 2007 (for 1998 through 2006 data). These amounts represent anticipated insured losses from catastrophes for personal and commercial property items, business interruption, terrorism, workers compensation and additional living expenses and exclude all loss adjustment expenses and are before federal income tax benefits.

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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 (1)

(Dollars in millions)

	Year Ended December 31,		
	2007	**2006**	**2005**
Claims and claim expense incurred (2)	$ 360.4	$ 340.6	$ 398.0
Amount attributable to catastrophes	23.6	19.2	59.3
Excluding catastrophes (2)	$ 336.8	$ 321.4	$ 338.7
Claims and claim expense payments	$ 365.5	$ 356.3	$ 396.2
Amount attributable to catastrophes	22.3	12.1	50.9
Excluding catastrophes	$ 343.2	$ 344.2	$ 345.3

(1) Net of reinsurance and before federal income tax benefits. Includes allocated loss adjustment expenses.

(2) Includes the impact of development of prior years reserves as quantified in Property and Casualty Reserves .

Property and Casualty Reserves

Property and casualty unpaid claims and claim settlement 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 reserve estimate 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 see Notes to Consolidated Financial Statements Note 3 Property and Casualty Unpaid Claims and Claim Expenses and Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Liabilities for Property and Casualty Claims and Claim Settlement Expenses .

All of the Company s property and casualty reserves for unpaid claims and claim settlement 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 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 following table is a summary reconciliation of the beginning and ending property and casualty insurance claims and claim expense reserves for each of the last three years. The table presents reserves on a net (after reinsurance) basis. The total net property and casualty insurance claims and claim expense incurred amounts are reflected in the Consolidated Statements of Operations listed on page F-1 of this report. The end of the year gross reserve (before reinsurance) balances are reflected in the Consolidated Balance Sheets also listed on page F-1 of this report.

Reconciliation of Property and Casualty Claims and Claim Expense Reserves

(Dollars in millions)

	Year Ended December 31,		
	2007	**2006**	**2005**
Gross reserves, beginning of year (1)	$ 317.8	$ 342.7	$ 335.0
Less reinsurance recoverables	22.4	31.6	25.7
Net reserves, beginning of year (2)	295.4	311.1	309.3
Incurred claims and claim expenses:			
Claims occurring in the current year	380.4	359.8	411.1
Decrease in estimated reserves for claims occurring in prior years (3)	(20.0)	(19.2)	(13.1)
Total claims and claim expenses incurred (4)	360.4	340.6	398.0
Claims and claim expense payments for claims occurring during:			
Current year	236.2	221.0	252.3
Prior years	129.3	135.3	143.9
Total claims and claim expense payments	365.5	356.3	396.2
Net reserves, end of year (2)	290.3	295.4	311.1
Plus reinsurance recoverables	15.9	22.4	31.6
Reported gross reserves, end of year (1)	$ 306.2	$ 317.8	$ 342.7

(1) Unpaid claims and claim expenses as reported in the Consolidated Balance Sheets, listed on page F-1 of this report, also include life, annuity, and group accident and health reserves of $9.2 million, $8.9 million, $8.1 million and $7.4 million at December 31, 2007, 2006, 2005 and 2004, respectively, in addition to property and casualty reserves.

(2) Reserves net of anticipated reinsurance recoverables.

(3) Shows the amounts by which the Company decreased its reserves in each of the periods indicated for claims occurring in previous periods to reflect subsequent information on such claims and changes in their projected final settlement costs. For discussion of the reserve development recorded by the Company in 2007, 2006 and 2005, see Notes to Consolidated Financial Statements Note 3 Property and Casualty Unpaid Claims and Claim Expenses listed on page F-1 of this report.

(4) Benefits, claims and settlement expenses as reported in the Consolidated Statements of Operations, listed on page F-1 of this report, also include life, annuity and group accident and health amounts of $48.1 million, $48.1 million and $44.7 million for the years ended December 31, 2007, 2006 and 2005, respectively, in addition to the property and casualty amounts.

The claim reserve development table below illustrates the change over time in the Net Reserves (defined in footnote 1 to the table above) 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 s 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 of prior periods. For example, if a claim determined in 2006 to be $150 thousand was first reserved in 1997 at $100 thousand, the $50 thousand deficiency (actual claim minus original estimate) would be included in the cumulative deficiency in each of the years 1997-2005 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 Claims Expense Reserve Development

(Dollars in millions)

						December 31,					
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Gross reserves for property and casualty claims and claim expenses	$ 289.1	$ 275.6	$ 271.2	$ 272.1	$ 275.7	$ 275.7	$ 304.3	$ 335.0	$ 342.7	$ 317.8	$ 306.2
Deduct: Reinsurance recoverables	41.3	55.9	64.4	49.1	34.1	44.7	20.6	25.7	31.6	22.4	15.9
Net Reserves for property and casualty claims and claim expenses (1)	247.8	219.7	206.8	223.0	241.6	231.0	283.7	309.3	311.1	295.4	290.3
Paid cumulative as of:											
One year later	127.0	129.3	135.9	139.0	153.4	160.4	145.2	143.9	138.3	129.8	
Two years later	174.9	185.7	191.6	202.6	226.0	222.3	209.5	202.5	196.5		
Three years later	205.0	215.4	225.4	243.3	258.4	258.6	244.1	236.6			
Four years later	219.5	232.1	246.9	256.1	276.3	278.7	264.1				
Five years later	227.7	243.3	252.7	264.1	286.5	291.4					
Six years later	234.2	245.1	257.6	268.6	294.2						
Seven years later	235.0	249.0	259.8	273.6							
Eight years later	237.3	249.6	264.1								
Nine years later	237.6	252.2									
Ten years later	240.1										
Net Reserves reestimated as of (1):											
End of year	247.8	219.7	206.8	223.0	241.6	231.0	283.7	309.3	311.1	295.4	290.3
One year later	222.9	215.1	229.5	239.5	265.6	287.3	287.5	296.2	291.8	275.4	
Two years later	217.8	237.9	248.3	260.5	294.7	297.1	283.1	282.7	279.7		
Three years later	233.4	245.4	256.0	277.0	301.3	297.9	283.5	278.2			
Four years later	235.5	248.0	266.9	280.2	298.5	301.8	281.3				
Five years later	237.2	254.7	269.3	277.9	301.8	300.6					
Six years later	241.2	257.8	268.1	279.9	299.4						
Seven years later	245.1	257.1	269.2	276.6							
Eight years later	245.0	257.8	265.9								
Nine years later	245.2	253.1									
Ten years later	240.7										
Net Reserve redundancy (deficiency) initial net reserves in excess of (less than) reestimated											

reserves:										
Amount (2)	$ 7.1	$ (33.4)	$ (59.1)	$ (53.6)	$ (57.8)	$ (69.6)	$ 2.4	$ 31.1	$ 31.4	$ 20.0
Percent	2.9%	-15.2%	-28.6%	-24.0%	-23.9%	-30.1%	0.8%	10.1%	10.1%	6.8%
Gross reestimated liability - latest	$ 276.2	$ 301.1	$ 315.3	$ 328.0	$ 354.5	$ 359.9	$ 322.4	$ 324.7	$ 339.3	$ 300.4
Reestimated reinsurance recoverables - latest	35.5	48.0	49.4	51.4	55.1	59.3	41.1	46.5	59.6	25.0
Net Reserve reestimated - latest (1)	$ 240.7	$ 253.1	$ 265.9	$ 276.6	$ 299.4	$ 300.6	$ 281.3	$ 278.2	$ 279.7	$ 275.4
Gross cumulative excess (deficiency) (2)	$ 12.9	$ (25.5)	$ (44.1)	$ (55.9)	$ (78.8)	$ (84.2)	$ (18.1)	$ 10.3	$ 3.4	$ 17.4

(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 3 Property and Casualty Unpaid Claims and Claim Expenses listed on page F-1 of this report.

Property and Casualty Reinsurance

All reinsurance is obtained through contracts which generally are renewed each calendar year. Although reinsurance does not legally discharge the Company from primary liability for the full amount of its policies, it does make the assuming reinsurer liable to the extent of the reinsurance ceded. Historically, the Company s losses from uncollectible reinsurance recoverables have been insignificant due to the Company s emphasis on the credit worthiness of its reinsurers. Past due reinsurance recoverables as of December 31, 2007 were insignificant.

Through 2007, the Company maintained both catastrophe excess of loss and catastrophe aggregate reinsurance coverage. The excess of loss coverage consisted of two contracts in addition to coverage with the Florida Hurricane Catastrophe Fund (FHCF). The primary contract (first event) provided 95% coverage of catastrophe losses above a retention of $25.0 million per occurrence up to $130.0 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 $40.0 million excess of $90.0 million. The other excess of loss contract (second and third events) provided 95% coverage of catastrophe losses above a retention of $15.0 million per occurrence up to $25.0 million per occurrence, after the Company retained $25.0 million of losses from an initial (first) event. This contract also provided for one mandatory reinstatement. Coverage for any event under this contract was conditional on the size of the industry loss associated with that event being less than $20.1 billion. 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 $14.7 million up to $87.2 million with the FHCF, based on the FHCF s financial resources. The FHCF contract is a one-year contract, effective June 1, 2007. The Company s FHCF coverage reflects the acquisition of additional coverage made available to the industry by the FHCF for the 2007-2008 contract period which resulted in changes to attachment points under the Company s primary reinsurance contract. Additional coverage made available by the FHCF to the industry in future contract periods could increase the likelihood of assessments in periods following significant hurricane losses. The catastrophe aggregate contract provided 95% coverage of the Company s 2007 catastrophe losses from events declared as catastrophic events by Property Claim Service (PCS), a subsidiary of ISO, capped at $10.0 million per occurrence, above an annual retention of $21.0 million, up to an annual limit of $40.0 million.

Effective January 1, 2008, the Company purchased catastrophe excess of loss coverage. The excess of loss coverage consists of three contracts in addition to the FHCF. The primary contract (first event) provides 95% coverage of catastrophe losses above a retention of $25.0 million per occurrence up to $150.0 million per occurrence. This contract consists of three layers, each of which provide for one mandatory reinstatement. The layers are $25.0 million excess of $25.0 million, $40.0 million excess of $50.0 million, and $60.0 million excess of $90.0 million. The second excess of loss contract (second event) provides 95% coverage of catastrophe losses above a retention of $15.0 million per occurrence up to $25.0 million per occurrence, after the Company retains $25.0 million of losses from an initial (first) event. The third excess of loss contract (third event) provides 95% coverage of catastrophe losses above a retention of $15.0 million per occurrence up to $25.0 million per occurrence and after the second excess of loss contract described above is exhausted. Neither the second nor the third excess of loss contract provide for a reinstatement. The FHCF limits described above continue through June 1, 2008, at which time a new annual contract will begin. The Company did not purchase catastrophe aggregate reinsurance coverage for 2008.

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 its participation in the CEA, management believes it is in the Company s best economic interest to offer earthquake coverage directly to its homeowners policyholders.

For liability coverages, including the educator excess professional liability policy, in 2007 the Company reinsured each loss above a retention of $700,000 up to $20 million. For property coverages in 2007, the Company reinsured each loss above a retention of $700,000 up to $2.5 million, including catastrophe losses that in the aggregate are less than the retention levels above. Effective January 1, 2008, the retention for liability coverages is $700,000 and the retention for property coverages is $750,000, with no change to the maximum limits.

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, 2008. No other single reinsurer s percentage participation in 2008 or 2007 exceeds 5%. For 2007, the Company s catastrophe second and third event excess of loss reinsurance coverage was provided equally by Renaissance Reinsurance Ltd. (Renaissance), a subsidiary of RenaissanceRe Holdings Ltd., and DaVinci Reinsurance Ltd. (DaVinci). Renaissance has ratings of A and A+ from A.M. Best and S&P, respectively. DaVinci is rated A by both A.M. Best and S&P. For 2008, the Company s catastrophe second event and third event excess of loss reinsurance is each provided by four reinsurers, although not the same four for both contracts, all rated A- or above by A.M. Best. For 2007, the Company s catastrophe aggregate reinsurance coverage was placed entirely with General Reinsurance Corporation, a subsidiary of Berkshire Hathaway Inc., having ratings of A++ and AAA from A.M. Best and S&P, respectively.

Property Catastrophe First Event Excess of Loss Reinsurance Participants In Excess of 5%

A.M. Best Rating	S&P Rating	Reinsurer	Parent	Participation 2008	Participation 2007
A+	AA	Tokio Millennium Re Ltd.	Millea Holdings Inc.	17%	7%
A-	NR	Flagstone Reinsurance Limited	Flagstone Reinsurance Holdings Limited	12%	9%
A+	AA-	Swiss Re Underwriters Agency, Inc.	Swiss Reinsurance Company, Zurich	8%	15%
A	A	AXIS Specialty Limited	AXIS Capital Holdings Limited	8%	11%
A	A	Aspen Insurance Limited	Aspen Insurance Holdings Limited	6%	*
A-	A-	Paris Re, France	Paris Re Holdings, Limited	6%	0%
A-	NR	New Castle Reinsurance Company, Ltd.	Citadel Investment Group, L.L.C.	*	10%
A	AA-	AXA Re	AXA	0%	9%
A	NR	Platinum Underwriters Bermuda, Ltd.	Platinum Underwriters Holdings, Ltd.	*	5%

* Less than 5%
NR Not rated.
For 2008, property catastrophe reinsurers representing 100% of the Company s total reinsured catastrophe coverage were rated A- (Excellent) or above by A.M. Best or AA by S&P.

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Annuity Segment

Beginning in 1961, educators in the Company s target market benefit from the provisions of Section 403(b) of the Internal Revenue Code. This section of the Code allows public school employees and employees of other tax-exempt organizations, such as not-for-profit private schools, to reduce their pretax income by making periodic contributions to an individual 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 403(b) tax-qualified annuity market, measured by 403(b) net written premium on a statutory accounting basis. The Company has approved 403(b) payroll reduction capabilities in over one-third of the 16,000 school districts in the U.S. Approximately 63% of the Company s new annuity contract deposits in 2007 were for 403(b) tax-qualified annuities; approximately 74% of accumulated annuity value on deposit is 403(b) tax-qualified. In 2007, annuities represented 35% of the Company s total insurance premiums written and contract deposits.

The Company markets tax-qualified annuities utilizing both fixed account only and combination contracts. The combination contract allows the contractholder to allocate funds to both fixed and variable alternatives. Under the fixed account option, both the principal and a rate of return are guaranteed. Contractholders of this product can change at any time their allocation of deposits between the guaranteed interest rate fixed account and available variable investment options.

In March 2006, the Company introduced new Horace Mann manufactured and branded annuity products. The Goal Planning Annuity (GPA) offers educators a variable annuity product with a fixed interest account option and two optional riders that enhance the death benefit feature of the product. Developed in partnership with Wilshire Associates, the Company s funds advisor, GPA provides educators the opportunity to invest with fund families such as T. Rowe Price, Fidelity, Alliance, Davis, Ariel Capital Management and Putnam, among others. By utilizing tools that provide assistance in determining needs and making asset allocation decisions, educators are able to choose the investment mix that meets their personal risk tolerance and retirement goals. Expanding Horizon is a fixed interest rate annuity contract for more conservative investors. This product offers educators a competitive rate of interest on their retirement dollars and the choice of bonuses to optimize their benefits at retirement. In addition to these new products, in May 2006 the Company added 12 additional investment options to its variable annuity products. This included seven lifecycle funds, with assets allocated among multiple investment classes within each fund based on its specific target date.

In August 2007, the Company completed development of group variable and fixed annuity products that are anticipated to allow greater flexibility in tailoring 403(b) annuity programs as the Company assists its school district partners in complying with the new IRS regulations that take effect in 2009. The first sales of these new group annuity products occurred in January 2008.

As of December 31, 2007, the Company s 60 variable account options included funds managed by some of the best-known names in the mutual fund industry, such as Wilshire, Fidelity, JPMorgan, T. Rowe Price, Neuberger Berman, AllianceBernstein, Rainier, Davis, Credit Suisse, BlackRock, Goldman Sachs, Dreyfus, Franklin Templeton, Ariel, Wells Fargo, Royce, Lord Abbett, Putnam, Cohen & Steers and Delaware, offering the Company s customers multiple investment options to address their personal investment objectives and risk

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tolerance. Total accumulated fixed and variable annuity cash value on deposit at December 31, 2007 was $3.7 billion.

In 2003, to assist agents in delivering the Value Proposition, the Company entered into a third-party vendor agreement with American Funds Distributors, Inc. (AFD) to market their retail mutual funds. In addition to retail mutual funds accounts, the Company s agents can also offer a 529 college savings program and Coverdell Education Savings Accounts through this marketing alliance. In 2005, the Company further expanded its product offerings to include fixed indexed annuities and single premium immediate annuities through additional marketing alliances. These third-party vendors underwrite these accounts or contracts and the Company receives commissions on the sales of these products.

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, 2007	2006	2005
Operations Data:			
Contract deposits:			
Variable	$ 149.9	$ 138.5	$ 137.8
Fixed	187.2	187.2	182.3
Total	337.1	325.7	320.1
Contract charges earned	21.8	19.7	17.9
Net investment income	128.9	119.9	112.9
Net interest margin (without realized investment gains and losses)	38.9	33.4	31.4
Income before income taxes	25.9	17.9	16.3
Net income	17.6	13.2	15.1
Operating Statistics:			
Fixed:			
Accumulated value	$ 2,151.9	$ 2,085.5	$ 1,961.7
Accumulated value persistency	91.6%	93.7%	94.5%
Variable:			
Accumulated value	$ 1,562.2	$ 1,494.6	$ 1,333.7
Accumulated value persistency	90.9%	91.5%	91.5%
Number of contracts in force	166,980	164,842	162,417
Average accumulated cash value (in dollars)	$ 22,243	$ 21,719	$ 20,290
Average annual deposit by contractholders (in dollars)	$ 2,427	$ 2,474	$ 2,436
Annuity contracts terminated due to surrender, death, maturity or other:			
Number of contracts	9,578	8,634	7,938
Amount	$ 345.0	$ 274.8	$ 243.6
Fixed accumulated cash value grouped by applicable surrender charge:			
0%	$ 700.1	$ 682.4	$ 530.8
Greater than 0% but less than 5%	157.4	133.0	78.3
5% and greater but less than 10%	1,165.2	1,147.7	1,226.7
10% and greater	15.6	11.5	18.8
Supplementary contracts with life contingencies not subject to discretionary withdrawal	113.6	110.9	107.1
Total	$ 2,151.9	$ 2,085.5	$ 1,961.7

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Life Segment

The Company entered the individual life insurance business in 1949 with traditional term and whole life insurance products. In 2006, the Company introduced new Horace Mann manufactured and branded products to better address the financial planning needs of educators. In February 2006, the Company introduced Life by Design, a new portfolio of life insurance products. The Life by Design portfolio features new 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. 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 152,000 policies, representing approximately $8.7 billion of life insurance in force, with annual insurance premiums and contract deposits of approximately $42.0 million as of December 31, 2007. In addition, the Company also had in force approximately 74,000 Experience Life policies, representing approximately $4.9 billion of life insurance in force, with annual insurance premiums and contract deposits of approximately $58.4 million.

In 2007, the life segment represented 10% of the Company s total insurance premiums written and contract deposits, including less than 1 percentage point attributable to the Company s group life and group disability income business.

During 2007, the average face amount of ordinary life insurance policies issued by the Company was $164,708 and the average face amount of all ordinary life insurance policies in force at December 31, 2007 was $70,973.

The maximum individual life insurance risk retained by the Company is $200,000 on any individual life, while either $100,000 or $125,000 is retained on each group life policy depending on the type of coverage. With the exception of two reinsurers whose ratings were B+ (Very Good) and who provided immaterial amounts of reinsurance 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. The Company reinsures 100% of the catastrophe risk in excess of $1 million up to $15 million per occurrence, with one reinstatement. In 2007 and 2008, the Company s catastrophe risk reinsurance program covers acts of terrorism and includes nuclear, biological and chemical explosions but excludes other acts of war.

In 2000, the Company instituted a program to offer long-term care and variable universal life policies with two third-party vendors underwriting such insurance. In 2003, the Company expanded its third-party vendor offerings with the addition of fixed interest rate universal life 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 products for the periods indicated.

Life Segment

Selected Historical Financial Information

(Dollars in millions, unless otherwise indicated)

	Year Ended December 31,		
	2007	**2006**	**2005**
Operations Data:			
Insurance premiums and contract deposits	$ 102.4	$ 103.9	$ 105.6
Insurance premiums and contract charges earned	97.4	96.5	97.4
Net investment income	57.0	53.4	49.3
Income before income taxes	26.6	22.3	22.3
Net income	17.3	14.5	13.4
Operating Statistics:			
Life insurance in force:			
Ordinary life	$ 12,093	$ 11,862	$ 11,588
Group life	1,484	1,538	1,554
Total	$ 13,577	$ 13,400	$ 13,142
Number of policies in force:			
Ordinary life	170,388	173,443	176,780
Group life	56,114	58,866	60,674
Total	226,502	232,309	237,454
Average face amount in force (in dollars):			
Ordinary life	$ 70,973	$ 68,391	$ 65,550
Group life	26,446	26,127	25,612
Total	59,942	57,682	55,345
Lapse ratio (ordinary life insurance in force)	5.8%	5.7%	6.5%
Ordinary life insurance terminated due to death, surrender, lapse or other:			
Face amount of insurance surrendered or lapsed	$ 659.4	$ 669.8	$ 733.4
Number of policies	5,690	6,278	6,941
Amount of death claims opened	$ 34.8	$ 35.5	$ 33.7
Number of death claims opened	1,344	1,305	1,310

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, more diversified product lines, greater economies of scale and/or lower-cost marketing approaches such as direct marketing, mail, Internet and telemarketing, compared to the Company.

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 and Nationwide as well as several regional companies. The Company also competes for automobile business with other companies such as American International Group (AIG), GEICO, Progressive and USAA, many of which feature direct marketing distribution.

Among the major national providers of annuities to educators, Variable Annuity Life Insurance Company (VALIC), a subsidiary of AIG, is one of the Company s major tax-qualified annuity competitors, as are ING US Financial Services, Lincoln Financial Group, MetLife and Security Benefit. Mutual fund families, independent agent companies and financial planners also compete in this marketplace.

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The market for tax-deferred annuity products will likely be impacted by the new Internal Revenue Service Section 403(b) regulations, which will make the 403(b) market more similar to the 401(k) market than it has been in the past. While this may drive some competitors out of the 403(b) market, it may make the 403(b) market more attractive to some of the larger 401(k) providers, including both insurance and mutual fund companies, that had not previously been active competitors in the 403(b) market.

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. When impairment of the value of an investment is considered other than temporary, the decrease in value is recorded as a charge to the results of operations and a new cost basis is established. At December 31, 2007, fixed income securities represented 94.4% of investments excluding securities lending collateral. Of the fixed income investment portfolio, 94.9% was investment grade and nearly 100% was publicly traded. At December 31, 2007, the average quality and average option-adjusted duration of the total fixed income portfolio were AA- and 5.5 years, respectively. At December 31, 2007, investments in non-investment grade securities represented 4.9% of total investments. There are no significant investments in mortgage loans, real estate, foreign securities, privately placed securities, or common stocks.

The Company has separate investment strategies and guidelines for its property and casualty assets and for its life and annuity 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 and real estate.

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The following table sets forth the carrying values and amortized cost of the Company s investment portfolio as of December 31, 2007:

Investment Portfolio

(Dollars in millions)

	Percentage of Total Carrying Value	Carrying Value			Amortized Cost
		Total	Life and Annuity	Property and Casualty	
Publicly Traded Fixed Maturity Securities, Equity Securities and Cash Equivalents:					
U.S. government and agency obligations (1):					
Mortgage-backed securities	21.8%	$ 911.4	$ 868.6	$ 42.8	$ 910.4
Other	5.9	246.5	232.7	13.8	244.0
Investment grade corporate and public utility bonds	39.1	1,633.9	1,557.9	76.0	1,626.9
Municipal bonds	12.9	541.1	25.9	515.2	535.1
Other mortgage-backed securities	6.6	276.3	260.5	15.8	283.4
Non-investment grade corporate and public utility bonds (2)	4.9	206.0	135.9	70.1	210.1
Foreign government bonds	0.4	15.9	14.7	1.2	14.4
Investment grade redeemable preferred stock	1.0	41.3	38.2	3.1	45.3
Non-investment grade redeemable preferred stocks (2)					
Equity securities:					
Investment grade non-redeemable preferred stocks	1.9	80.6	46.1	34.5	86.8
Non-investment grade non-redeemable preferred stocks (2)	0.1	2.7	2.0	0.7	3.6
Common stocks	0.1	3.2	2.7	0.5	3.7
Short-term investments (3)	1.0	41.2	33.5	7.7	41.2
Short-term investments, loaned securities collateral (3)	1.8	76.7	76.7		76.8
Total publicly traded securities	97.5	4,076.8	3,295.4	781.4	4,081.7
Other Investments:					
Private placements, investment grade (4)		0.6	0.6		0.6
Private placements, non- investment grade (2) (4)		0.1	0.1		0.1
Mortgage loans (5)	0.1	3.1	3.1		3.1
Policy loans	2.4	99.7	99.7		99.7
Total other investments	2.5	103.5	103.5		103.5
Total investments (6)	100.0%	$ 4,180.3	$ 3,398.9	$ 781.4	$ 4,185.2

(1) Includes $109.3 million fair value of investments guaranteed by the full faith and credit of the U.S. government and $1,048.6 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, 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) Short-term investments mature within one year of being acquired and are carried at cost, which approximates fair value. Short-term investments represent $44.6 million in money market funds rated AAA and $73.3 million in asset backed bonds maturing during 2008. The Company loans fixed income securities to third parties, primarily major brokerage firms. The Company separately maintains a minimum of 100% of the market value of the loaned securities as collateral for each loan.

(4) Fair values for private placements are estimated by the Company with the assistance of its investment advisors.

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

(6) Approximately 10% of the Company s investment portfolio, having a carrying value of $419.8 million as of December 31, 2007, consisted of securities with some form of credit support, such as insurance. Of the securities with credit support as of December 31, 2007, municipal bonds represented $355.9 million carrying value. All of the securities with credit support have the highest investment grade rating.

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Fixed Maturity Securities and Equity Securities

The following table sets forth the composition of the Company s fixed maturity securities portfolio by rating as of December 31, 2007:

Rating of Fixed Maturity Securities and Equity Securities(1)

(Dollars in millions)

	Percent of Total Carrying Value	Carrying Value	Amortized Cost
Fixed maturity securities			
AAA	47.0%	$ 1,818.4	$ 1,805.6
AA	9.4	364.6	370.2
A	19.5	754.8	762.9
BBB	19.0	736.9	729.5
BB	1.7	66.6	67.1
B	3.3	127.3	130.7
CCC or lower	0.1	3.5	3.6
Not rated (2)		0.9	0.7
Total fixed maturity securities	100.0%	$ 3,873.0	$ 3,870.3
Equity securities			
AAA			
AA	17.6%	$ 15.2	$ 17.0
A	61.3	53.0	56.3
BBB	16.3	14.1	16.1
BB	1.1	1.0	1.0
B			
CCC or lower			
Not rated (3)	3.7	3.2	3.7
Total equity securities	100.0%	$ 86.5	$ 94.1

(1) Ratings are as assigned primarily by S&P when available, with remaining ratings as assigned on an equivalent basis by Moody s. Ratings for publicly traded securities are determined when the securities are acquired and are updated monthly to reflect any changes in ratings.

(2) Included in this category is $0.7 million fair value of private placement securities not rated by either S&P or Moody s. The NAIC has rated 93.7% of these private placement securities as investment grade.

(3) This category includes common stocks that are not rated by either S&P or Moody s.

At December 31, 2007, 35.3% 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 28.4% of the total investment portfolio at December 31, 2007. 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 shareholders equity, net of applicable deferred tax asset or liability and the related impact on deferred policy acquisition costs and value of acquired insurance in force 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.

Cash Flow

As a holding company, HMEC conducts its principal operations through its subsidiaries. Payment by HMEC of principal and interest with respect to HMEC s indebtedness, and payment by HMEC of dividends to its shareholders, are dependent upon the ability of its insurance subsidiaries to pay cash dividends or make other cash payments to HMEC, including tax payments pursuant to tax sharing agreements. Restrictions on the subsidiaries ability to pay dividends or to make other cash payments to HMEC may materially affect HMEC s ability to pay principal and interest on its indebtedness and dividends on its common stock.

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 2008 from all of HMEC s insurance subsidiaries without prior regulatory approval is approximately $93 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.

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. In addition, the laws of the various states establish regulatory agencies with broad administrative powers to grant and revoke licenses to transact business, regulate trade practices, license agents, require statutory financial statements, and prescribe the type and amount of investments permitted.

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. State insurance regulations prohibit insurance companies from making any public statements or representations with regard to their risk-based capital levels. Based on current guidelines, the risk-based capital statutory requirements are not expected to have a negative regulatory impact on the Company s insurance subsidiaries.

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Assessments Against Insurers

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. The amount and timing of any future assessments on the Company under these laws cannot be reasonably estimated and are beyond the control of the Company. Most of these laws do provide, however, that an assessment may be excused or deferred if it would threaten an insurer s financial strength, 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. For the three years ended December 31, 2007, the Company s assessments, net of the related premium tax credits, were not significant.

In 2005, the Citizens Property Insurance Corporation of Florida (Florida Citizens) assessed the Company $1.8 million and the Louisiana Citizens Fair and Coastal Plan (Louisiana Citizens) assessed the Company $1.3 million. This $3.1 million reflected additional assessments related to hurricanes which occurred in 2005 and 2004 and contributed to the net loss reported from participation in mandatory insurance facilities in 2005. In 2006, the Company also paid an additional assessment of $0.6 million to Florida Citizens. The Company in turn is assessing its policyholders in the respective states and received $0.5 million and $2.9 million in recoupments of these amounts in 2007 and 2006, respectively. The 2007 and 2006 recoupments and assessment are reflected in the respective net gains reported above. See also Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations for the Three Years Ended December 31, 2007 Insurance Premiums and Contract Charges .

Mandatory Insurance Facilities

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.

In 2007, the Company reflected a net gain from participation in such mandatory pools and underwriting associations of $2.3 million before federal income taxes. In 2006, the Company reflected a pretax net gain of $3.5 million, primarily as a result of recoveries on assessments following hurricanes in 2005 and 2004. Participation produced a net pretax loss of $2.4 million in 2005.

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, 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 Fair Credit Reporting Act, Gramm-Leach-Bliley Act and USA PATRIOT Act, including its anti-money laundering regulations, also impact the Company s business.

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 life and annuity products to customers. For instance, on July 26, 2007, final new Internal Revenue Service (IRS) Section 403(b) regulations were published in the Federal Register. The new regulations alter the nature of 403(b) arrangements to an employer sponsored plan, compared to the historical view of 403(b) arrangements being individual plans funded by salary reduction. The effective date of the new regulations is generally January 1, 2009 with limited exceptions. Beginning with that date, contributions to Section 403(b) tax-qualified arrangements, including annuities, will need to be made pursuant to a written plan which includes all of the terms and conditions for eligibility, limitations and benefits under the plan, and which may incorporate other documents by reference including annuity contracts issued by approved product providers. Other highlights of the new regulations include modified distribution and transfer rules and the incorporation of numerous positions previously taken by the IRS since last issuing formal comprehensive Section 403(b) regulations in 1964. The Company, and many other providers of 403(b) arrangements, will need to adapt its products and services offered to better meet the changing needs of the school district sponsors of those arrangements and modify its administrative systems to support these changes. The lead time to the effective date, combined with preparations made by the Company since the new regulations were first proposed in late 2004, should permit ample time to assist the key school districts where Horace Mann has Section 403(b) payroll slots with the development of their written plans and to implement the new products and services required to enable the Company to continue to effectively serve this market.

One immediate impact of the new Section 403(b) regulations is that previous rules governing a participant s ability to exchange, without incurring income tax liability, one 403(b) annuity or funding agreement for another were changed effective September 25, 2007. New rules require that exchanges be limited to the product providers authorized in the sponsor s written plan or that have entered into an information sharing agreement with the sponsor. Many school district sponsors have been willing to enter into these information sharing agreements to allow participants the right to exchange contracts while their written plans are being completed; other districts have chosen to temporarily suspend their participants right to make such exchanges until they are more comfortable in their understanding of the new requirements or their written plans are complete. During this period of transition, new sales related to 403(b) exchanges could be adversely impacted for the Company and industry as a whole; conversely, any reduction in exchanges should provide an increase in retention ratios.

In recent years, the state insurance regulatory framework has come under public scrutiny and members of Congress have discussed proposals to provide for optional federal chartering of insurance companies. At the time of this Annual Report on Form 10-K, there are pending proposals which may be subject to congressional hearings in 2008.

Employees

At December 31, 2007, the Company had approximately 2,300 employees, including 790 full-time agents. 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.

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. Our ability to comply with these 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.

Examples of governmental regulation that has adversely affected the operations of our insurance subsidiaries include:

- the adoption in several states of legislation and other regulatory action intended to reduce the premiums paid for automobile and homeowners insurance by residents of those states;
- restrictions on a company s ability to achieve pricing adequacy and/or reduce their volume of business in catastrophe prone areas; and
- requirements that insurance companies:
  - pay assessments to support associations that fund state-sponsored insurance operations, or
  - involuntarily issue policies for high-risk automobile drivers.

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.

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 intense price competition, less restrictive underwriting standards, aggressive marketing and increased advertising, which have resulted in higher industry-wide combined loss and expense ratios.

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.

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The insurance industry consists of a large number of insurance companies, some of which have substantially greater financial resources, more diversified product lines, greater economies of scale and/or lower-cost marketing approaches, such as direct marketing, mail, Internet and telemarketing, 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, service, name recognition and education association sponsorships. We believe that the principal competitive factors in the sale of life insurance and annuity products are product features, perceived stability of the insurer, service, name recognition, price and education association sponsorships.

Particularly in the property and casualty business, our insurance subsidiaries have experienced, and expect to experience in the future, periods of intense competition during which they may be unable to increase policyholders and revenues without adversely impacting profit margins. The inability of an insurance subsidiary to compete successfully in the property and casualty business would adversely affect its financial condition and results of operations and its resulting ability to distribute cash to us.

In our annuity business, the new Internal Revenue Service (IRS) Section 403(b) regulations, which generally take effect January 1, 2009, will make the 403(b) market more similar to the 401(k) market than it has been in the past. While this may drive some competitors out of this market, it may make the 403(b) market more attractive to some of the larger 401(k) providers, including both insurance and mutual fund companies, that had not previously been active competitors in this business. The inability of an insurance subsidiary to compete successfully in these markets would adversely affect its financial condition and results of operations and its resulting ability to distribute cash to us.

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 educators, 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, state budget deficits and cut-backs and adverse changes in state tax revenues.

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 such 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 materially adversely affect the financial condition and results of operations of our insurance subsidiaries.

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A reduction or elimination of the tax advantages of life and annuity products and/or a change in the tax benefits of various government-authorized retirement programs, such as 403(b) annuities and 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. While the recent changes in IRS regulations governing 403(b) plans did not change the relative tax advantages of 403(b) annuities, our financial condition and results of operations could be adversely affected by changes in federal and state laws and regulations that do affect the relative tax and other advantages of our life and annuity products to clients or the tax benefits of programs utilized by our clients. See also Business 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.

Our property and casualty loss reserves may not be adequate.