

# Third Quarter 2021 Investor Presentation

November 3, 2021



# Safe Harbor Statement and Non-GAAP Measures

Certain statements made in this presentation should be considered forward-looking as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements give expectations or forecasts of future events. These statements are related to our intentions, beliefs, projections, estimations or forecasts of future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results to be materially different from those expressed or implied by the forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as anticipate, estimate, expect, project, intend, plan, believe and other words and terms of similar meaning in connection with a discussion of future operating or financial performance. We caution investors that these forward-looking statements are not guarantees of future performance, and actual results may differ materially.

Investors should consider the important risks and uncertainties that may cause such differences, including those risks discussed in our most recent Form 10-K and Form 10-Q filed with the Securities and Exchange Commission (SEC). Our forward-looking statements speak only as of the date of this presentation or as of the date they were made, and we undertake no obligation to update those statements.

The historical and forward-looking financial information contained in this presentation includes measures (marked with \* the first time they are presented within this document) that are not based on accounting principles generally accepted in the United States of America (non-GAAP) such as core earnings, core earnings per share, pretax reporting segment income excluding DAC unlocking, and book value per share excluding some components of accumulated other comprehensive income. An explanation of these measures is contained in the Glossary of Selected Terms included as Exhibit 99.1 in our most recent Form 8-K filed with the SEC and are reconciled to the most directly comparable measures prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) in the Appendix of the Investor Supplement available on our website at [investors.horacemann.com](http://investors.horacemann.com).

# Our Foundation: Financially sound company with strong strategy for profitable growth

## Longevity

- Founded by Educators for Educators in 1945 to sell auto insurance
- Offering 403(b) tax-qualified annuities since 1961
- NYSE listed (HMN) since 1991

## Financial strength

- \$14.3B in assets<sup>(1)</sup>
- \$1.4B in premium and contract deposits for 2020
- \$1.6B market capitalization<sup>(2)</sup>
- Highly rated by all four major rating agencies

## Niche market

- Educators have preferred risk profile
- Homogeneous customer set
- Serving about half of school locations<sup>(3)</sup> in our market footprint

## Multiline model

- Business mix balanced between segments
- Ability to provide total household solutions
- Provides earnings diversification

Proud to be the largest multiline financial services company focused on America's educators

# Driven by a noble mission

## Mission

We listen to and understand educators and those who serve our community. They are taking care of our children's future. We believe they deserve someone to look after theirs.

## Vision

We aspire to be the company of choice to provide financial solutions for all educators and others who serve our communities - to help them protect what they have today and prepare for a successful tomorrow.

## Value Proposition

We understand and solve the issues facing educators and others who serve the community, helping them achieve financial success to live better and retire happier.

# Delivering value proposition for educator customers by focusing on “PDI”

## Serving K-12 Educator Market

Homogenous customer set with attractive risk profiles

Solutions orientation addresses needs at every life stage

## Focused on “PDI”

### Products

- Products designed to meet educators' needs and protect their unique risks

### Distribution

- Knowledgeable, trusted distribution tailored to educator preferences

### Infrastructure

- Modern, scalable infrastructure that is easy to do business with

Finding best solution to achieve long-term objectives

# Madison National Life – strategic addition

\$172.5M transaction expected to close in early 2022; funded with cash on hand and additional borrowing on revolving line of credit

## Accelerates shareholder value creation

Immediately accretive  
to ROE and EPS

Diversifies written premium  
and earnings mix

## Enhances PDI

### Products

- Adds new suite of employer-sponsored benefit products, including short-and long-term group disability and group life

### Distribution

- Adds new distribution channel that is complementary to Horace Mann's strengths in individual products sold through local, trusted advisors
- Leverages long-standing relationships with K-12 districts in place for both Madison National and their independent benefits broker partners

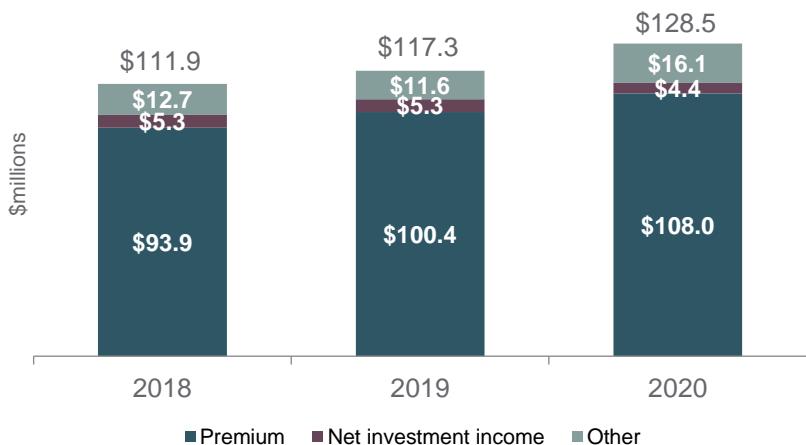
### Infrastructure

- Supports group product operations with proven, scalable platform that delivers strong customer experience focus

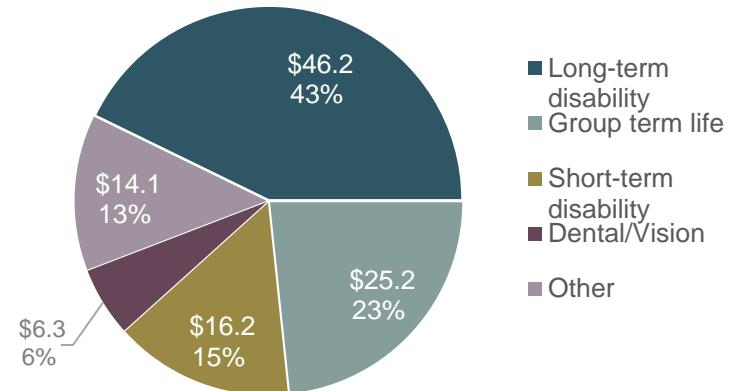
**Accretive use of capital strengthens PDI focus through employer channel**

# Madison National Life – snapshot

Statutory Revenue



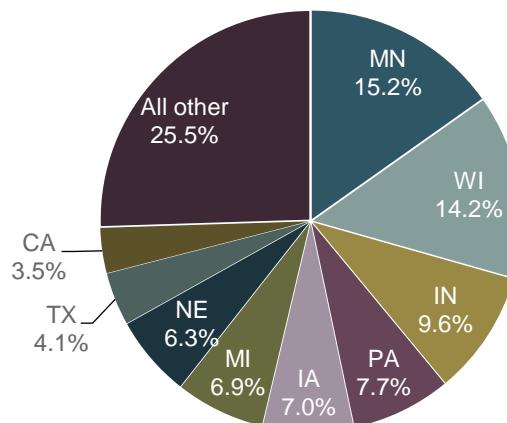
2020 Premium Mix by Product (\$ in millions)



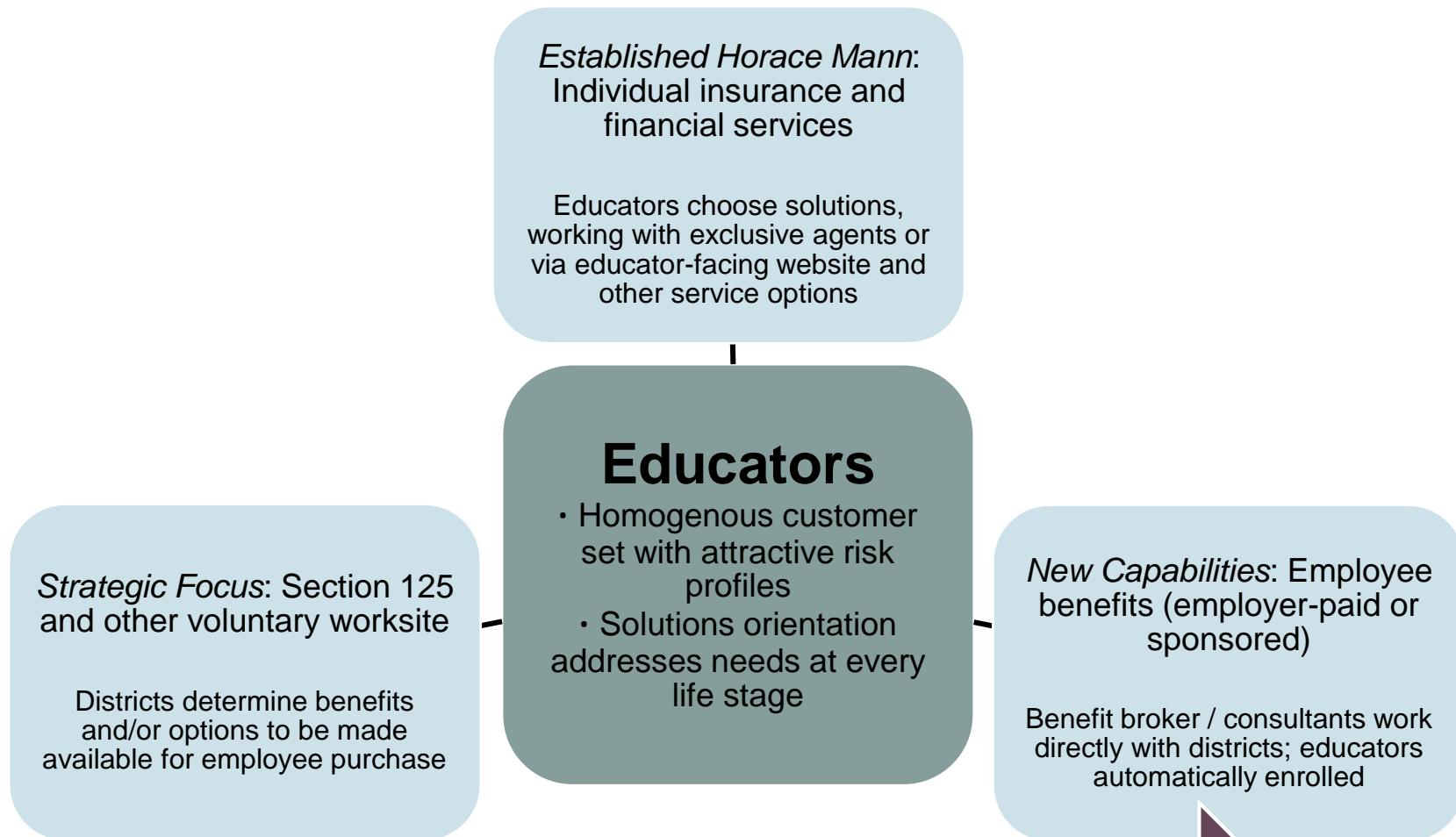
Statutory Earnings



2020 Premium Mix by State



# Enhancing distribution to maximize value of solutions for educators



Trend toward more comprehensive worksite benefits as districts face increasing difficulty attracting and retaining staff

# Growth journey continues with accretive transaction, bringing further transformation

2014-2018: Fix and Build	2019-2021: Transformation	2022-2025: Leverage Leadership
<b><i>Our performance:</i></b> Established solutions orientation; filled PDI gaps to set stage for profitable growth	<b><i>Our plan:</i></b> Smart integration of key transactions while executing on fix and build enhancements	<b><i>Our path:</i></b> Accelerated shareholder value creation; significantly larger market share – meeting educator needs wherever they are

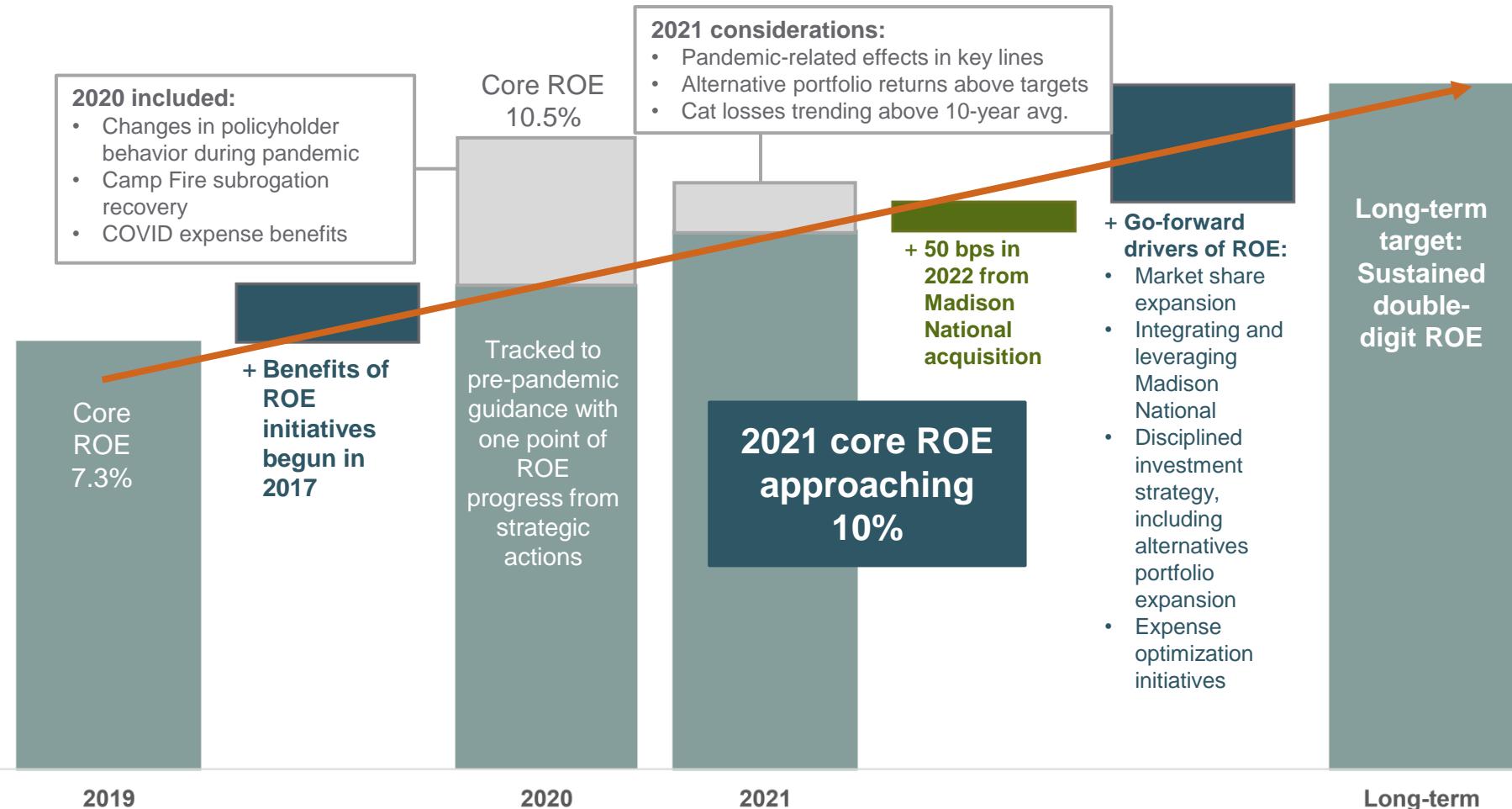
Acquisition of Madison National to drive market share expansion and add to EPS and ROE

## Key levers of recent ROE improvement:

- Improved Retirement segment profitability and reduced interest-rate risk with annuity reinsurance transaction
- Added Supplemental segment with 150,000 households and additional agents with NTA acquisition
- Improved auto loss ratio
- Drove reduced expenses through optimization efforts

# Accelerating shareholder value creation by increasing educator market share

Strategic progress toward long-term double-digit ROE objective will continue in 2021, even though the effect of changes in policyholder behavior due to pandemic expected to gradually return to more “normal” levels



# Q4 2021 core EPS<sup>(1)</sup> expected to be between 65 cents and 80 cents

- Full-year 2021 core ROE now expected to be near 10%
  - All business areas showing some signs of momentum, but pace continues to vary by segment and geography compared to pre-pandemic environment
- Fourth-quarter 2021 net investment income expected to be in the range of \$95 million to \$100 million
  - Alternative portfolio returns expected to remain above target levels
- Property & Casualty fourth-quarter 2021 segment guidance (see page 39) also reflects:
  - Underlying Auto loss ratio expected to be above third-quarter 2021 with frequency at or near pre-pandemic levels and higher severity
  - Catastrophe losses modeled between \$7 million and \$9 million, in line with 10-year average for quarter

# Go-forward strategic drivers of ROE

**Sales:** Grow sales by cross selling products while leveraging distribution to add new customers and school locations

**Each \$10M of:**

**Generates:**

New Supplemental sales	~15 basis points of ROE
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New Property and Casualty sales	~7.5 basis points of ROE
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New Life and Retirement sales	Longer-term ROE benefit
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**Expenses:** Optimize business structure to leverage investments in infrastructure while also maintaining expense discipline

**Each \$10M of:**

**Generates:**

Expense savings	~50 basis points of ROE
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**Investments:** Deliver strong investment performance through disciplined strategies including expansion of alternatives portfolio

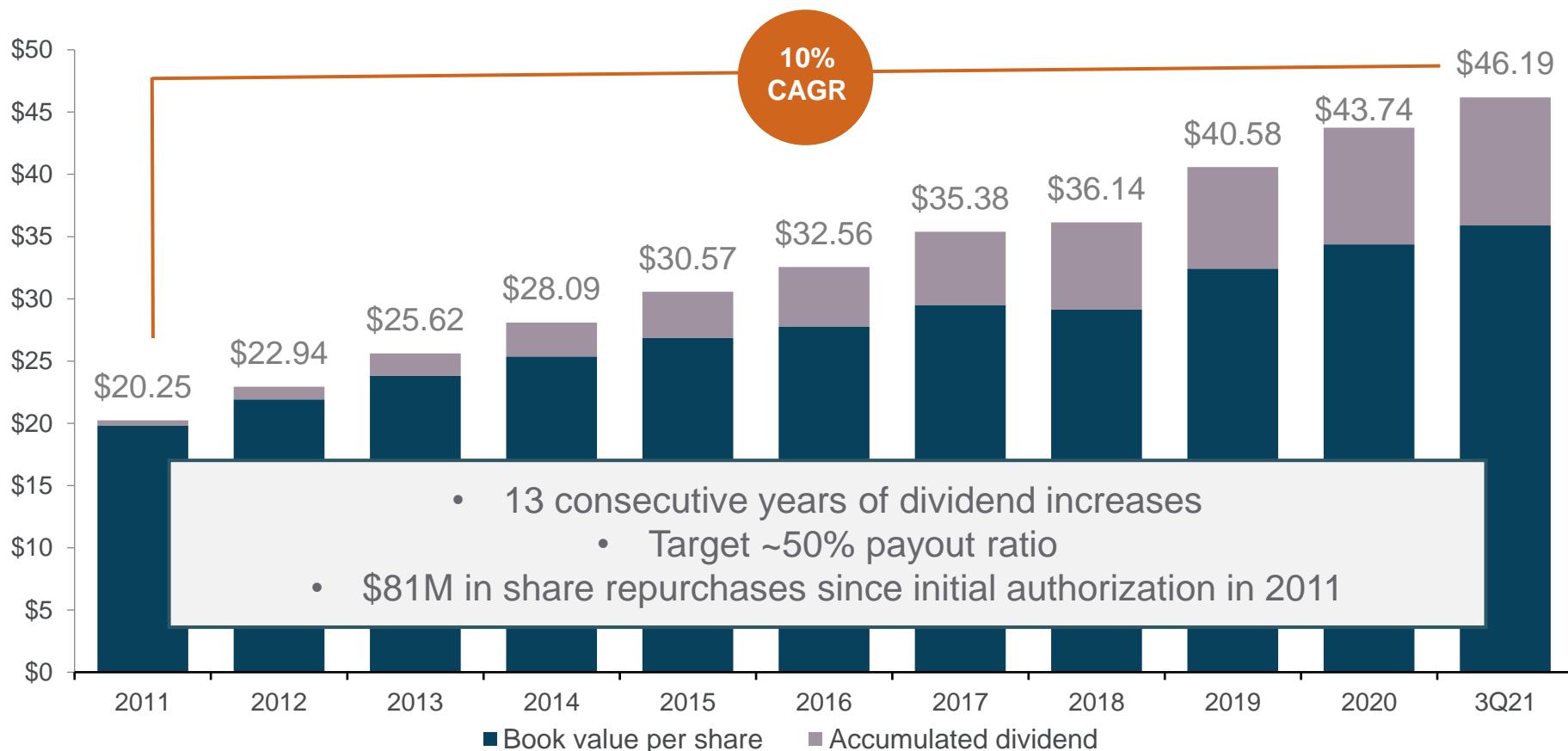
**Each \$100M of:**

**Generates:**

Investment in alternative portfolio	~20 basis points of incremental ROE
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# Focus on long-term shareholder value

Strong book value growth and 3.2% dividend yield<sup>(1)</sup>

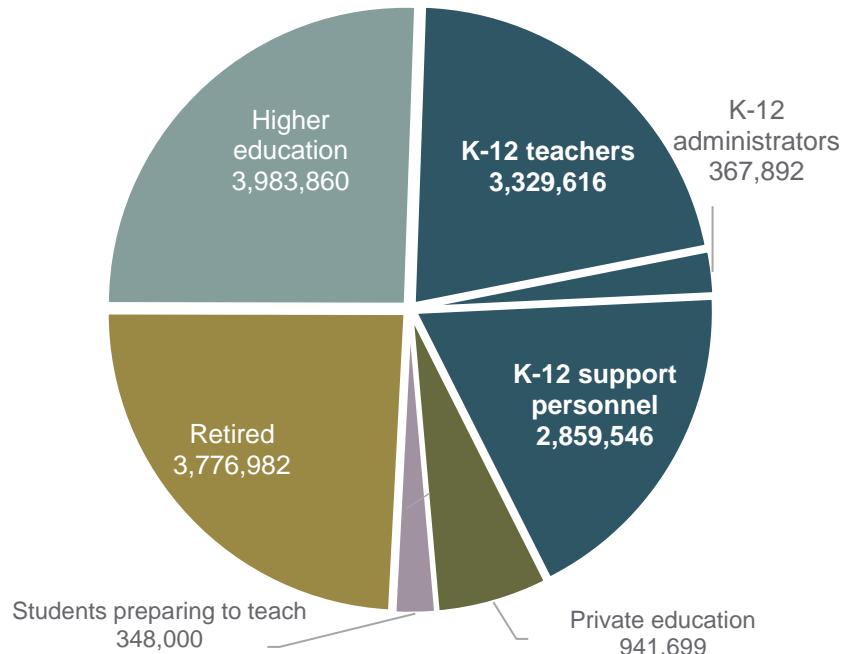


**PDI growth strategy leads to industry-leading cross-sell and retention**



# Sizeable opportunity within existing K-12 educator market and adjacent segments

U.S. educator market<sup>(1)</sup>



- 6.5 million K-12 educators nationwide
- Current customer base of roughly 470,000 educator households (~600,000 total households) in about half of the school buildings and administrative locations in our market footprint
- 8% increase in number of K-12 teachers anticipated between 2015 and 2027<sup>(2)</sup>
- Sizable demographic shift as Baby Boomers retire and Millennials make up a higher percentage of the workforce

(1) K-12, private education and higher education numbers from U.S. Dept. of Education, National Center for Education Statistics, Digest of Education Statistics. Student preparing to teach estimate derived from U.S. Dept. of Education, National Center for Education Statistics, The Condition of Education, 2016 (current year Education major Bachelors Degrees awarded times 4). Retired educator estimate derived from 2017 State Teacher and Public Employee Retirement Plans (public K-12 retirees receiving benefits).

(2) U.S. Department of Education, National Center for Education Statistics, Projections of Education Statistics to 2027, Feb. 2019.

# K-12 educators have similar characteristics and can be reached through a consistent channel

**Conservative & loyal**

- Usually buy higher insurance limits
- Tend to bundle auto & home insurance
- Loyalty results in strong retention

**Work close to home**

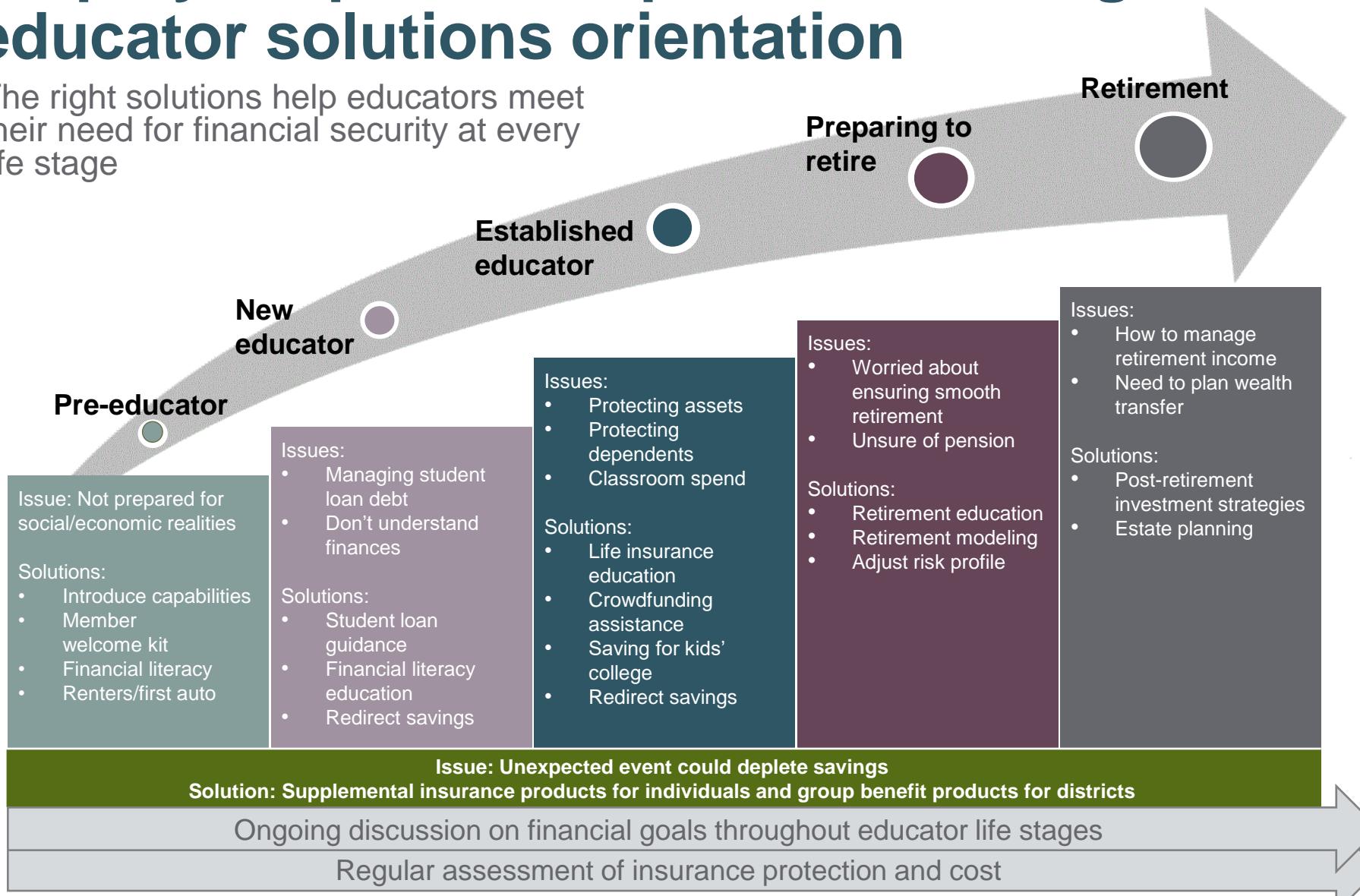
- Generally live close to school with short commutes
- Off-hour commutes with light traffic
- Tend to be off during adverse weather conditions

**Fiscally responsible**

- Focused on achieving goals
- Strong desire for guidance and education
- Open to reallocating savings to retirement needs

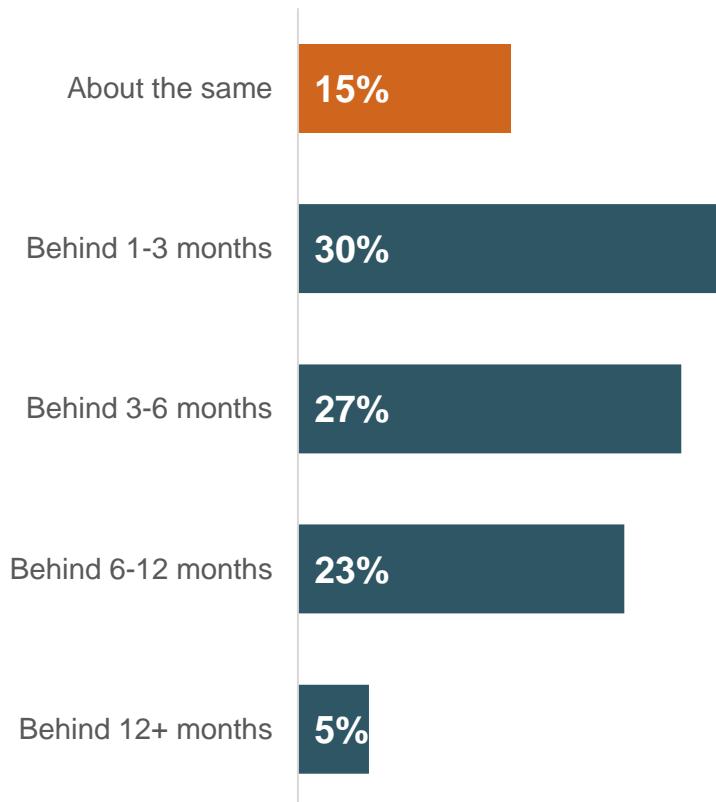
# Employer-sponsored products strengthens educator solutions orientation

The right solutions help educators meet their need for financial security at every life stage



# Pandemic lessons learned: Remote learning no substitute for in-person instruction

Educators' assessment of students' 2020-2021 academic progress vs. previous years<sup>(1)</sup>



Educators say extra measures needed to account for lost academic and social-emotional learning<sup>(1)</sup>

- 53% see a need for **a narrower focus on grade-level standards** to ensure students learn the most important concepts for their grade level
- 34% would like **more paraprofessionals** to provide targeted support to struggling students
- 30% requested access to **more social-emotional learning resources** to help students process the events of the past year

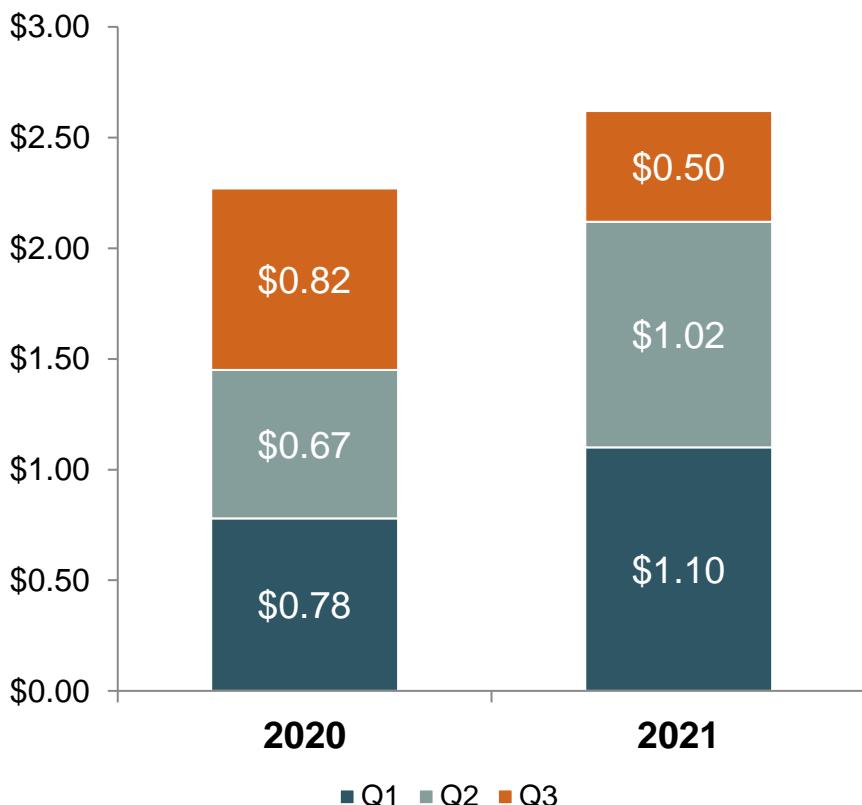
# Business details and results



# Third-quarter reflected strong business performance

Below prior year due to catastrophe losses and auto loss costs approaching pre-pandemic levels plus inclusion of Camp Fire subrogation recovery in third-quarter 2020

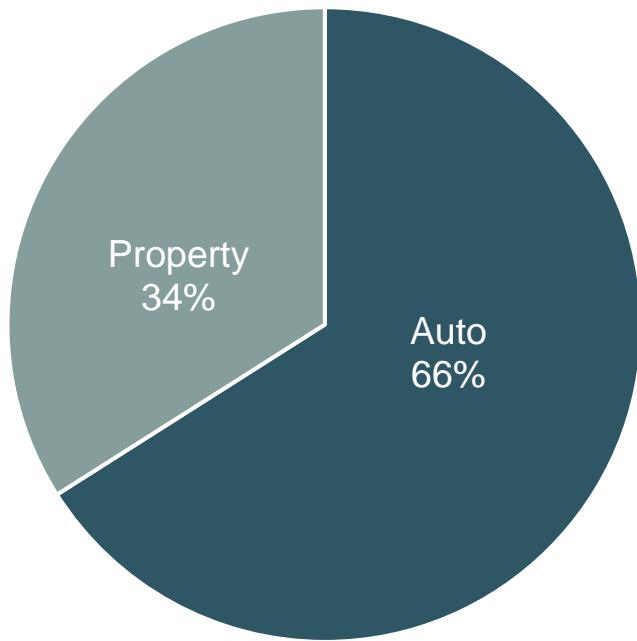
## Core EPS



- Net income of 39 cents per diluted share and core earnings of 50 cents per diluted share
  - Supplemental and Retirement quarterly sales highest since onset of pandemic; Life sales above prior year
  - Net investment income rose \$10 million, or 11%, on strong returns from alternatives portfolio
- Book value per share up 4% and book value excluding net unrealized gains\* up 7% from a year ago

# P&C segment: Providing coverage to protect what educators have today

**P&C Net Written Premium  
(\$636M)<sup>(1)</sup>**



## Opportunity

- Preferred risk profile
- Loyal customers less likely to leave due to rate actions

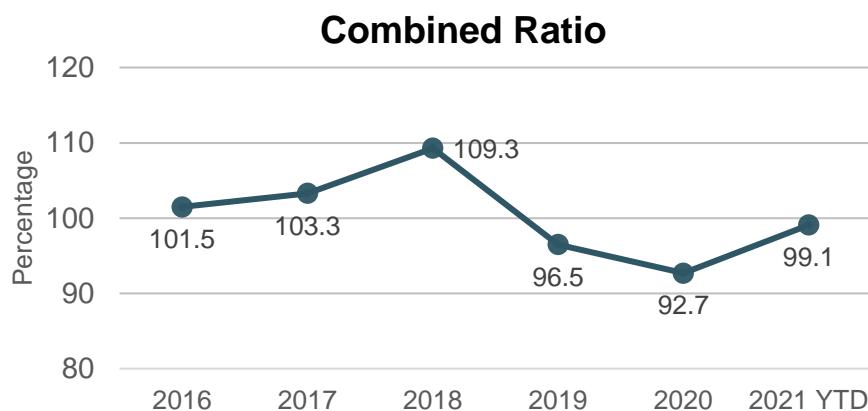
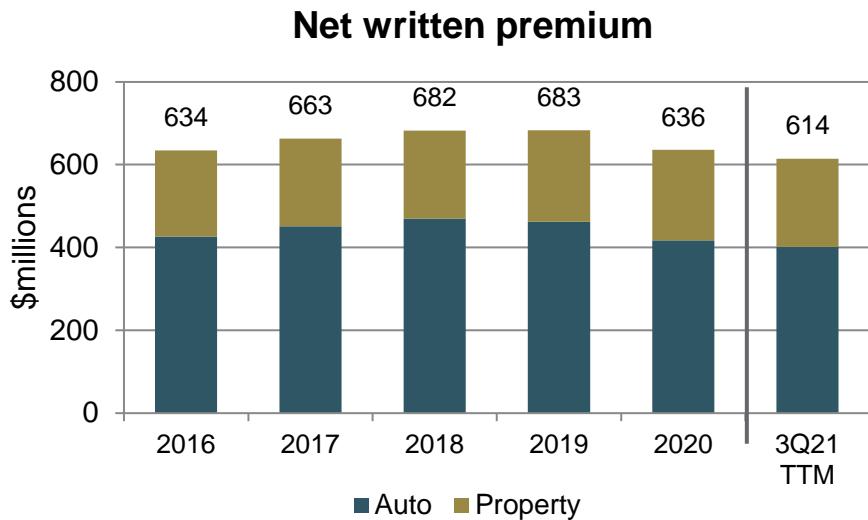
## Products

- Auto, homeowners, renters and umbrella
- Majority of P&C business is bundled Auto and Home
- Partnerships through Horace Mann General Agency

## Strategy

- Continuous improvement of P&C pricing segmentation
- Grow direct channel
- Modernize P&C infrastructure to enhance customer experience and ease of doing business

# P&C segment: Catastrophe losses, higher auto frequency leads to core loss; underlying profitability remains strong

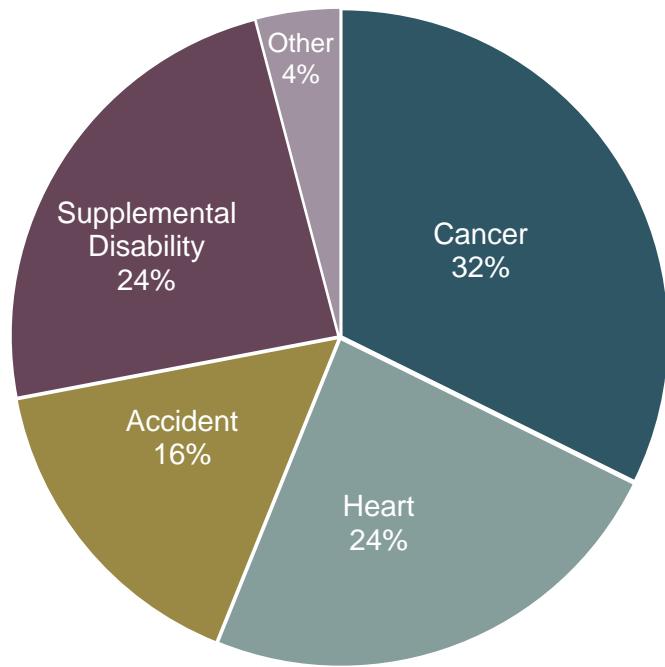


## 3Q21 results

- Segment core loss due to catastrophe loss costs and auto loss costs continuing to move closer to pre-pandemic levels
  - Policyholder catastrophe losses were \$38.6 million, which added 25.1 points to the combined ratio
    - \$23.7M in losses attributable to Hurricane Ida
  - Auto driving patterns returned to a more normal level and severity continues to rise; line remains profitable
  - Third quarter 2020 included \$8.7 million subrogation recovery, primarily from Camp Fire
- Premiums written were \$163.8 million
  - Auto average premiums decreased slightly from prior year due to changes in miles driven during pandemic
  - Property average premiums rose slightly as adjustments to coverage values continue to take effect

# Supplemental segment: Providing options for educators to address unexpected events

Supplemental coverage in-force<sup>(1)</sup>



## Opportunity

- Educators facing rising out-of-pocket healthcare costs
- No correlation between Supplemental morbidity risk, Life mortality risk or P&C weather risks

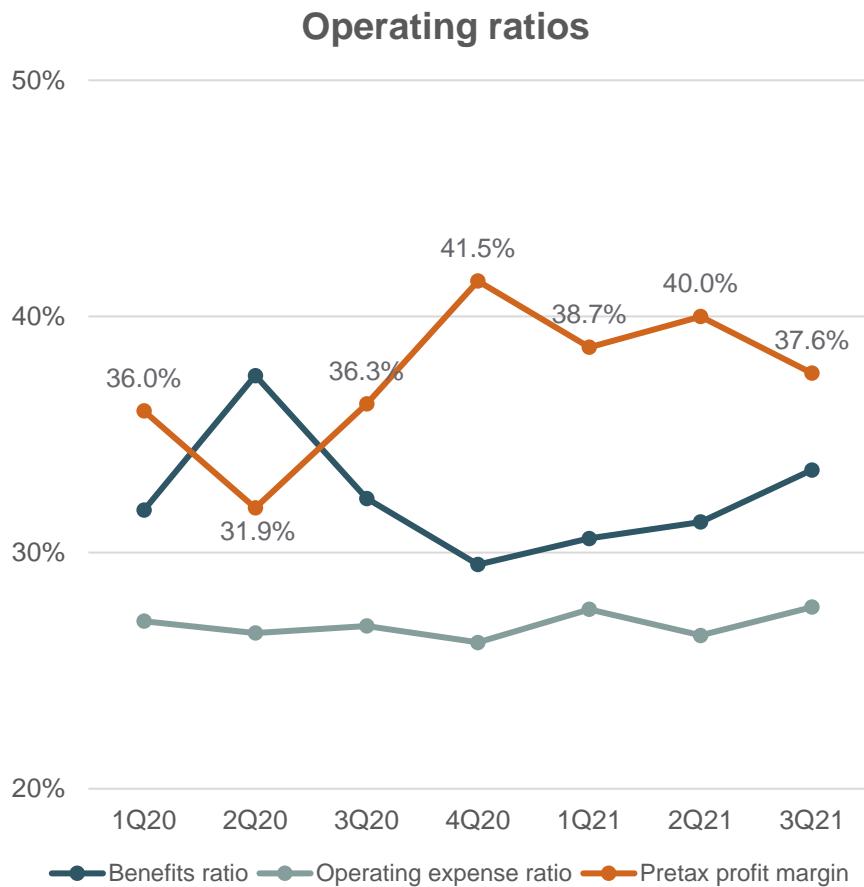
## Products

- Individual limited benefit products that are guaranteed renewable and portable
- Products include Cancer, Heart, Hospital and Accident as well as short-term Supplemental Disability

## Strategy

- Cross-sell existing Horace Mann educator customers
- Work with school districts and administrators to offer Supplemental products to enhance benefit offerings
- Continue to develop distinctive educator-focused individual and group products

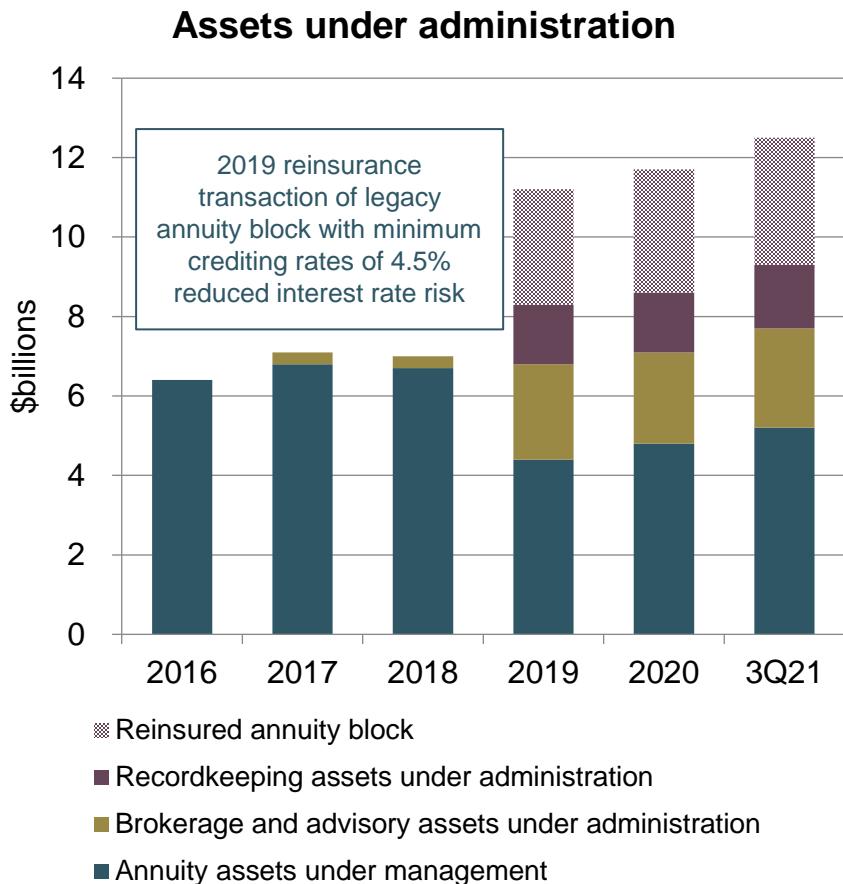
# Supplemental segment: Highest sales quarter since beginning of pandemic



## 3Q21 results

- \$2.0 million in sales
  - 42.9% increase over 3Q 2020; reflects improving access in some geographies
- Continued strong core earnings\* due to:
  - Higher net investment income
  - Favorable business trends including some benefit from changes in policyholder behavior due to pandemic
- Persistency remained very strong at 92.2%, demonstrating the need and value of supplemental products

# Retirement segment: Helping educators meet their financial goals with tailored solutions



## Opportunity

- Educators face complicated retirement system offerings
- Educators want guidance to plan for the future

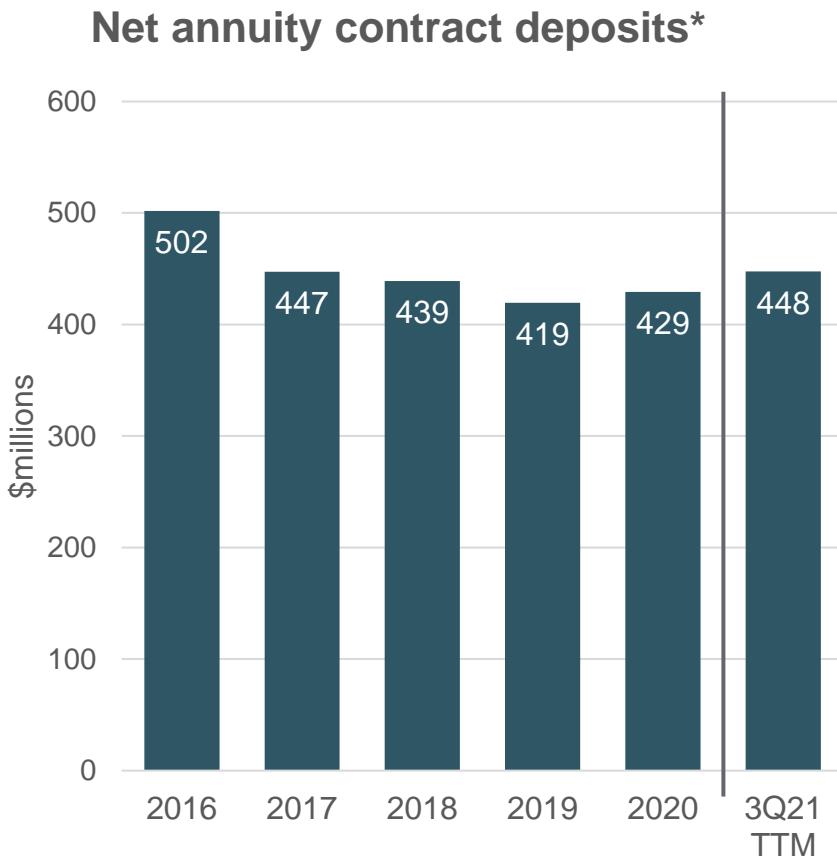
## Products

- Fixed annuities, variable annuities and Retirement Advantage mutual fund platform
- 62% of traditional annuities in 403(b)

## Strategy

- Leverage captive agents to build relationships with homogeneous set of customers
- Advanced planning capabilities & tools
- Build out Employer Services capabilities

# Retirement segment: Product suite meets unique needs of educator market

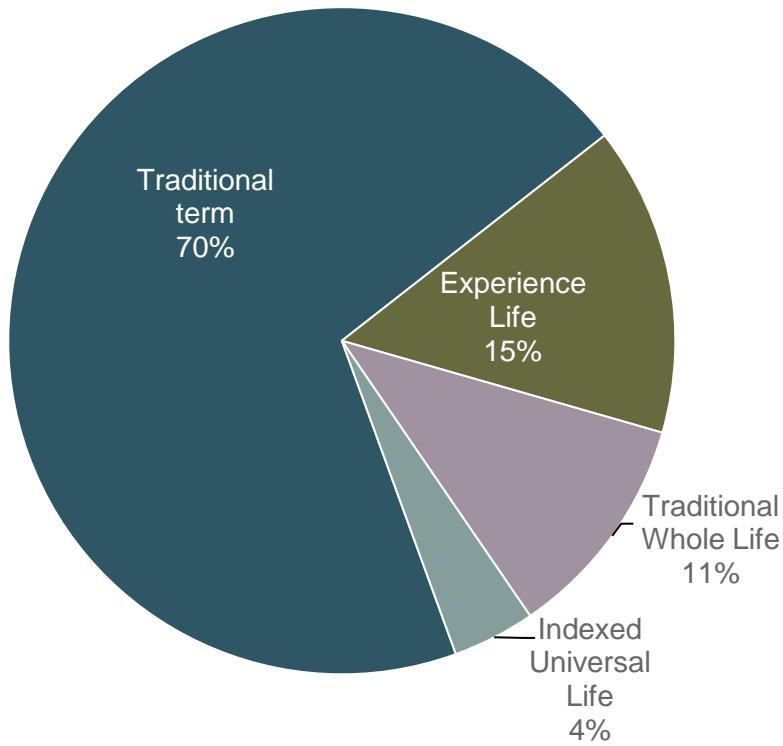


## 3Q21 results

- 2.3% increase in net annuity contract deposits for Q3; 5.7% increase YTD
- 84.9% rise in core earnings excluding DAC unlocking\* on strong investment spread
- Total cash value persistency remained strong at 94.7% for both variable and fixed annuities

# Life segment: Sizeable opportunity in our middle-market educator niche

## Individual insurance in force<sup>(1)</sup>



### Opportunity

- Many educators are uninsured or underinsured

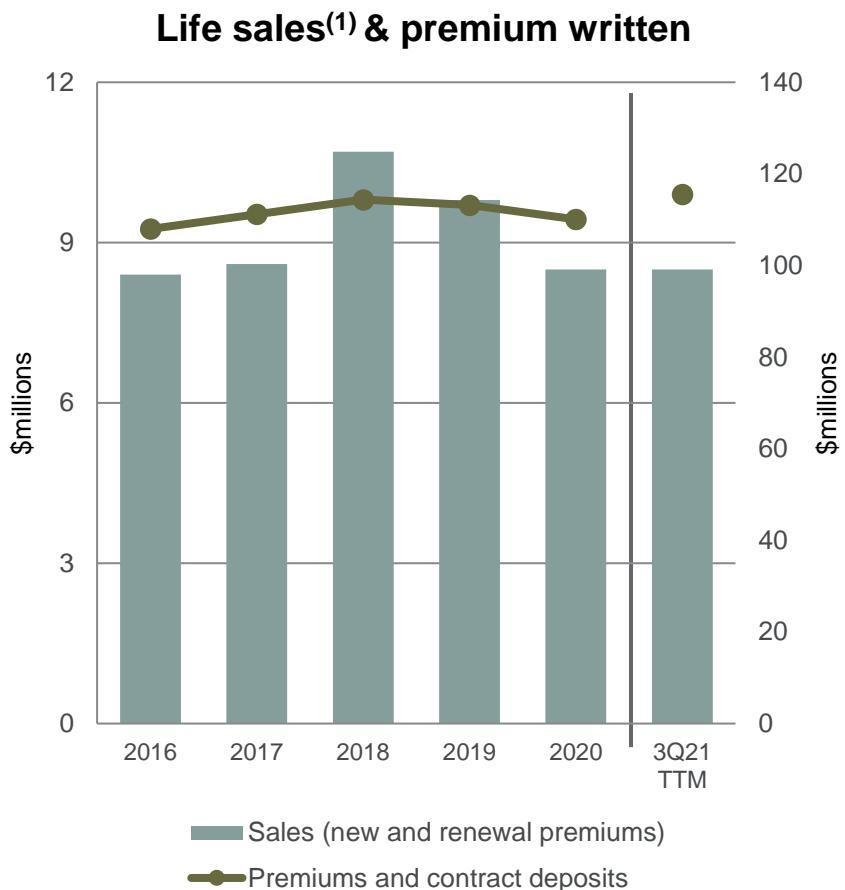
### Products

- Basic coverages appropriate for educator income levels
- Full suite of Life products available

### Strategy

- Leverage trusted agents to cross-sell customers
- Improve ease of doing business, including use of automated underwriting tools to reduce time to issue policies

# Life segment: Profitable in-force block

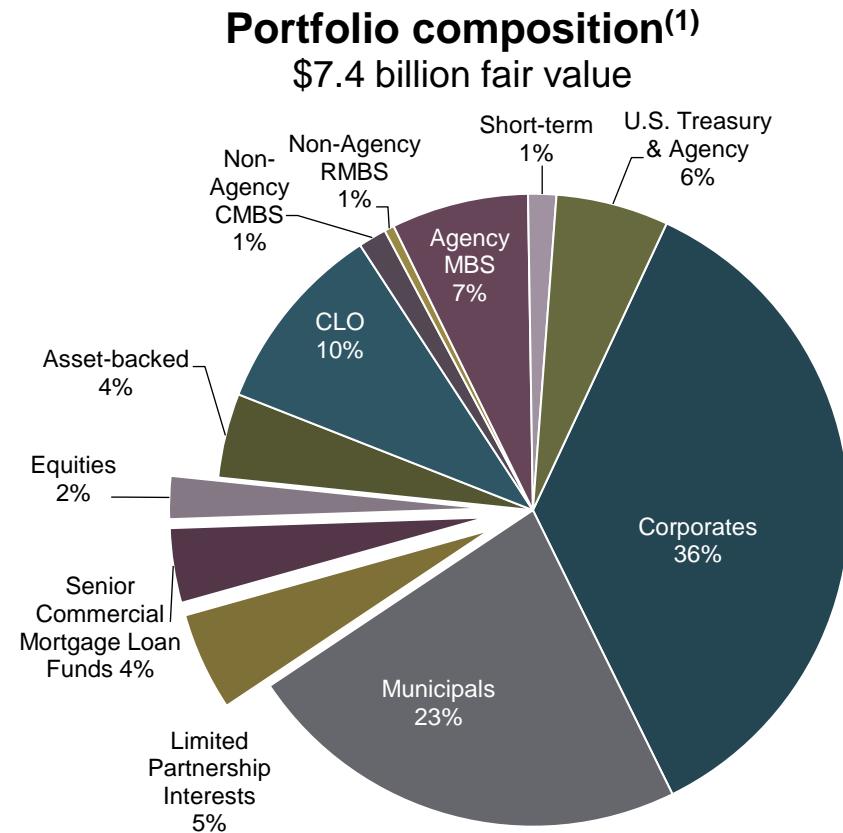


## 3Q21 results

- Annualized sales in line with last year
  - Strong new sales of recurring premium policies
  - Increase in sales of single premium policies
- Core earnings for the quarter rose 18.6% due to strong net investment income growth
- Full-year persistency at 96.2%; in line with prior periods

# Investments: High-quality, well-diversified portfolio

Constructed to support insurance liabilities through various market cycles



## \$6.5 billion fixed-maturity portfolio

- 64% A-rated or higher
- A+ weighted-average credit quality
- <5% below-investment grade exposure<sup>(2)</sup>
- 6.8 average duration
- 3.96% Q3 core pre-tax yield<sup>(3)</sup>
- 3.44% Q3 core new money yield

## \$615 million invested in senior commercial mortgage loan funds and limited partnership interests

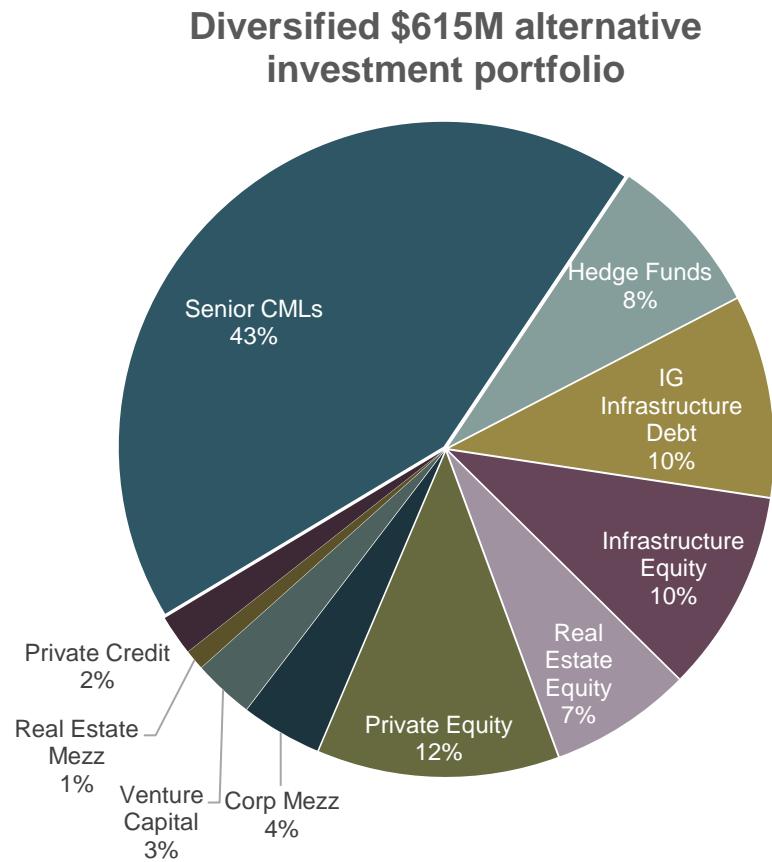
- ~9% of total investment portfolio

(1) As of September 30, 2021; excludes \$143.9 million in policy loans and \$10.6 million in derivatives used to hedge indexed annuity and life insurance products

(2) Does not include securities that are not rated

(3) Prospective investment yield

# Alternative portfolio: Diversified across strategies, risk and vintage year



- More than half of the portfolio is income-producing investment grade senior commercial mortgage loan (CML) and investment-grade (IG) infrastructure debt funds
- Remainder of funds in structured credit, hedge funds, infrastructure, real estate and private equity, capital-efficient private credit structures and corporate mezzanine funds
- 56 funds; well-diversified portfolio to minimize return volatility
- Nearly 48% funded; remainder of commitments expected to fund within next three years
  - Individual fund commitments range from ~\$5M to \$220M

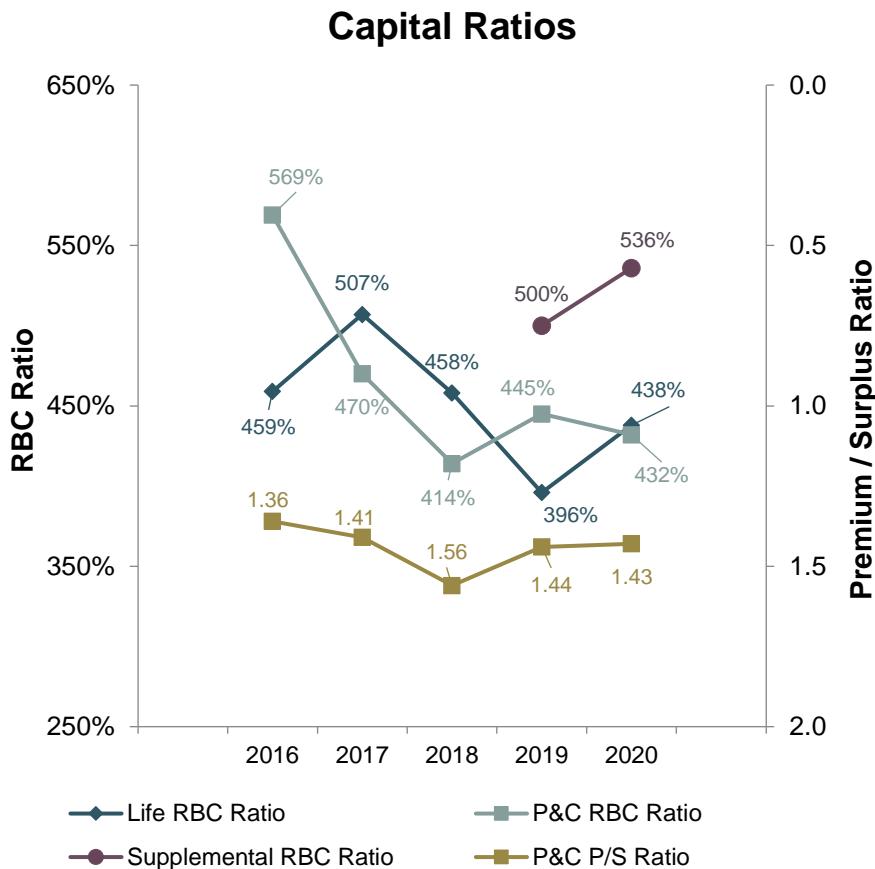
# Alternative portfolio is a growing contributor to net investment income

Targeting high-single digit returns



- Strong YTD annualized return of 13.99%, driven by outperformance in Private Equity and Venture Capital.
- Given economic and interest rate outlook, management set new portfolio allocation targets in late 2018:
  - 10% high quality commercial mortgage loan (CML) (NAIC 1-2) and investment grade infrastructure debt funds
  - 5% Other alternatives strategies
- On track to achieve target allocation by 2023
  - Target high-single digit portfolio returns:
    - o Mid-single digit returns for CML and infrastructure debt funds
    - o Double-digit returns for other strategies
  - Seasoning of older vintage private equity, venture capital and infrastructure equity funds will continue to generate additional returns as portfolio continues to mature

# Strong capital position, with more than adequate capital to grow businesses



- Capital management strategies support strong capital ratios
  - P&C loss reserves held at top half of independent actuarial range
  - Conservative L&R product design
  - New Supplemental segment delivering strong earnings
  - Investment portfolio appropriately positioned
- In conjunction with Madison National acquisition, targets for year-end RBCs are now 425% for life and retirement subsidiaries and 400% for property and casualty subsidiaries
  - Estimated RBC ratios as of September 30, 2021, align with targeted levels
- Debt-to-capital ratio<sup>(1)</sup> of 20.7%

# Appendix



# Highly rated by all rating agencies

Education market focus, earnings diversification and capital strength cited

Agency	Rating (affirmed/reviewed)	Outlook
AM Best Company	A (7/14/21)	Stable
Fitch Ratings	A (9/14/21)	Stable
Moody's Investor Services	A2 (10/28/21)	Stable
Standard & Poor's Global Inc.	A (2/18/21)	Stable

- AM Best upgraded Financial Strength Rating of subsidiary NTA Life to A (Excellent) in recent rating action
- Following July 14 announcement of the planned acquisition of Madison National, AM Best, Fitch and Moody's affirmed ratings

# Committed to Corporate Social Responsibility

## Increased ESG Board oversight

- Updated Board charters to confirm Board-level commitment and oversight of ESG topics
  - Cybersecurity
  - Human rights
  - Diversity and inclusion
  - Environmental stewardship
  - Employee health and safety

## Established Horace Mann Educators Foundation

- 501(c)(3) nonprofit organization
- Funded with initial contribution of \$1 million
- Created to honor the dedication of America's educators to our children by supporting them in their efforts to help each student reach their full potential

## Increased transparency

- Disclosed new environmental stewardship metrics, including waste, water and paper usage
- Expanded human capital disclosures to include employee age, ethnicity and location, in addition to gender
- Onboarded NAVEX for oversight of whistleblower programs

For more information, visit [csr.horacemann.com](http://csr.horacemann.com)



# Strong corporate governance policies aligned with long-term shareholder interests

Effective board structure	Performance-based NEO compensation	Governance best practices
<ul style="list-style-type: none"><li>• Separate CEO and chairman</li><li>• Non-employee director independence</li><li>• Audit, Compensation &amp; Nominating Committee completely independent</li><li>• Use of independent compensation consultant to complete intensive annual review of prevailing market compensation practices and industry standards</li></ul>	<ul style="list-style-type: none"><li>• Up to 78% of NEOs' target compensation linked to performance and equity-based incentives</li><li>• Annual incentive plan aligned with achieving shared corporate objectives</li><li>• Long-term equity-based incentive plan aligned with shareholder value metrics</li><li>• Significant NEO and board member stock ownership requirements</li></ul>	<ul style="list-style-type: none"><li>• Clawback provision for both cash &amp; equity awards</li><li>• Anti-hedging and pledging policy of company shares</li><li>• No single-trigger change in control benefits</li><li>• No excise tax gross-ups from change in control</li><li>• Limited perquisites and executive benefits</li><li>• No poison pill</li></ul>

# Strong and stable P&C reserves further reduce potential earnings volatility

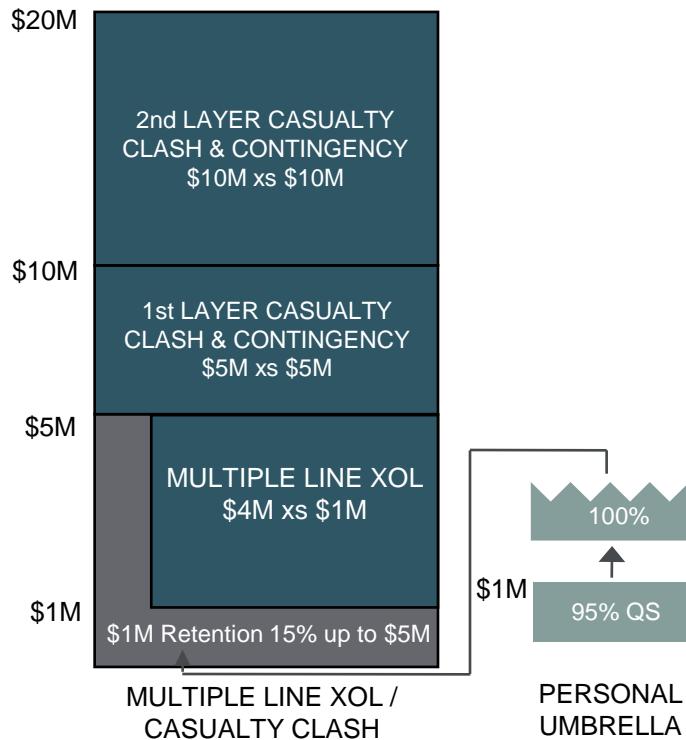
Net P&C Reserve Position

	Independent Actuary		HMN
(\$M)	Low	High	Held
2020	\$217.9	\$270.3	\$259.3
2019	\$230.4	\$278.7	\$266.5
2018	\$240.7	\$291.4	\$277.5

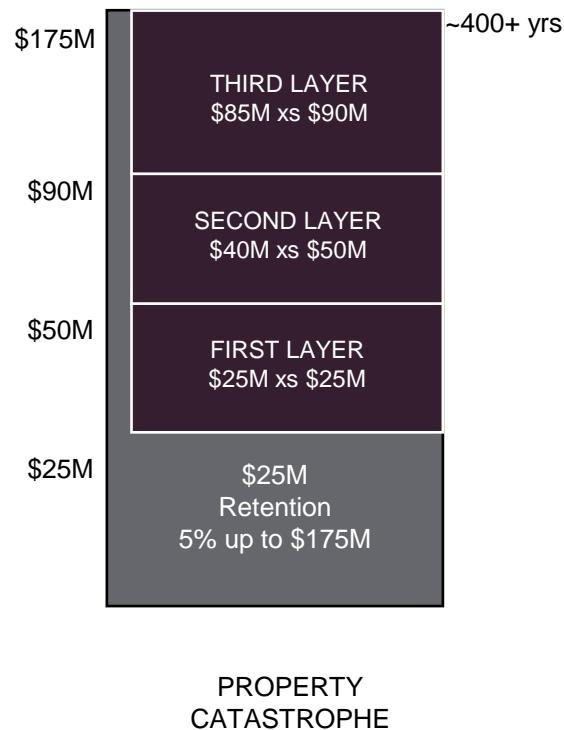
- **Appropriate conservatism**
  - Disciplined reserving practices
  - Recent favorable reserve development consistent with independent observations
- **Strong claims organization/capabilities**
  - Centralized claim offices
  - Technology/infrastructure
  - Implementation of best practices and procedures

# Current single-event catastrophe reinsurance provides PML coverage for a 1-in-400+ years event

Multiple Line XOL / Casualty<sup>(1)</sup>



Property<sup>(1)</sup>



# Updated 2021 analyst modeling considerations

2020 actual	Nine-month 2021 actual	Q4 2021 guidance	Segment guidance includes net investment income:
<b>Property &amp; Casualty core earnings</b>			
\$76.5 million	\$42.5 million	\$10-13 million	<ul style="list-style-type: none"> <li>Longer-term combined ratio target remains 95% to 96%</li> <li>Fourth-quarter 2021 underlying Auto loss ratio expected to be above third-quarter 2021, with frequency at or near pre-pandemic levels and higher severity</li> <li>Fourth-quarter 2021 catastrophe losses modeled between \$7 million and \$9 million, in line with the 10-year average for quarter</li> </ul>
<b>Supplemental core earnings</b>			
\$43.1 million	\$34.8 million	\$10-11 million	<ul style="list-style-type: none"> <li>No additional update</li> </ul>
<b>Retirement ex-DAC core earnings</b>			
\$26.8 million	\$34.8 million	\$10-11 million	<ul style="list-style-type: none"> <li>No additional update</li> </ul>
<b>Life core earnings</b>			
\$10.4 million	\$10.8 million	\$3-4 million	<ul style="list-style-type: none"> <li>No additional update</li> </ul>
<b>Total core earnings</b>			
\$143.1 million \$3.40/share	\$110.6 million \$2.62/share	\$28-34 million \$0.65-\$0.80/share	<ul style="list-style-type: none"> <li>Note: 2021 corporate expense includes interest expense of approximately \$14 million pretax annually</li> </ul>

**Note:** Q4 2021 net investment income now expected to be in range of \$95 to \$100 million (nine-month net investment income = \$308.4 million).

Net investment income was \$357.6 million in 2020. Underlying assumptions include:

- Core 2021 new money rate of approximately 3%
- Long-term target for return on alternatives portfolio remains in the mid- to high-single digits
- Annual accreted investment income on deposit asset on reinsurance of approximately \$100 million

# Horace Mann at a glance

Exchange ticker symbol	NYSE:HMN
Share Price	\$39.18 <sup>(1)</sup>
Weighted Average Diluted Shares (for 3Q21)	42.2 million
Market Capitalization	\$1.6 billion <sup>(1)</sup>
Annualized Dividend Per Share	\$1.24
Dividend Yield Per Share	3.2% <sup>(1)</sup>
Book Value Per Share*	\$35.90 <sup>(2)</sup>
Analyst Coverage	Dowling & Partners: Gary Ransom JMP Securities: Matt Carletti Keefe, Bruyette & Woods: Meyer Shields Piper Sandler: John Barnidge Raymond James: Greg Peters
Contact	Heather J. Wietzel Vice President, Investor Relations 217.788.5144 217.441.1326 <a href="http://investors.horacemann.com">investors.horacemann.com</a>