Filed with the SEC on May 7, 2021

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2021
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)	(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	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 par value	HMN	New York Stock Exchange

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 ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes ☐ No ☑

As of April 30, 2021, the registrant had 41,483,522 common shares, $0.001 par value, outstanding.

HORACE MANN EDUCATORS CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2021
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PART I: FINANCIAL INFORMATION

ITEM 1. | Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Horace Mann Educators Corporation:

Results of Review of Interim Financial Information

We have reviewed the consolidated balance sheet of Horace Mann Educators Corporation and subsidiaries (the Company) as of March 31, 2021, the related consolidated statements of operations, comprehensive income (loss) and changes in shareholders' equity for the three-month period ended March 31, 2021 and 2020, and cash flows for the three-month period ended March 31, 2021 and 2020, and the related notes (collectively, the consolidated interim financial information). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial information for it to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2020, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 26, 2021, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2020, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

This consolidated interim financial information is the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with the standards of the PCAOB. A review of consolidated interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ KPMG LLP
KPMG LLP

Chicago, Illinois
May 7, 2021

HORACE MANN EDUCATORS CORPORATION
CONSOLIDATED BALANCE SHEETS
($ in millions, except share data)

	March 31, 2021 (Unaudited)	December 31, 2020
ASSETS		
Investments		
Fixed maturity securities, available for sale, at fair value (amortized cost, net 2021, $5,992.7; 2020, $5,788.6)	$ 6,356.3	$ 6,345.3
Equity securities at fair value	140.0	121.6
Limited partnership interests	505.2	449.0
Short-term and other investments	311.6	346.3
Total investments	7,313.1	7,262.2
Cash	39.4	22.3
Deferred policy acquisition costs	262.5	229.8
Deposit asset on reinsurance	2,442.2	2,420.9
Intangible assets	155.2	158.5
Goodwill	43.5	43.5
Other assets	436.7	443.2
Separate Account (variable annuity) assets	3,052.9	2,891.4
Total assets	$ 13,745.5	$ 13,471.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
Policy liabilities		
Investment contract and policy reserves	$ 6,480.0	$ 6,445.3
Unpaid claims and claim expenses	452.5	438.8
Unearned premiums	250.3	264.5
Total policy liabilities	7,182.8	7,148.6
Other policyholder funds	885.1	751.3
Other liabilities	494.4	453.1
Short-term debt	135.0	135.0
Long-term debt	302.4	302.3
Separate Account (variable annuity) liabilities	3,052.9	2,891.4
Total liabilities	12,052.6	11,681.7
Preferred stock, $0.001 par value, authorized 1,000,000 shares; none issued	—	—
Common stock, $0.001 par value, authorized 75,000,000 shares; issued, 2021, 66,408,710; 2020, 66,316,797	0.1	0.1
Additional paid-in capital	489.2	488.4
Retained earnings	1,460.8	1,434.6
Accumulated other comprehensive income (loss), net of tax:		
Net unrealized investment gains on fixed maturity securities	243.6	366.3
Net funded status of benefit plans	(11.2)	(11.2)
Treasury stock, at cost, 2021, 24,942,064 shares; 2020, 24,902,579 shares	(489.6)	(488.1)
Total shareholders' equity	1,692.9	1,790.1
Total liabilities and shareholders' equity	$ 13,745.5	$ 13,471.8

See Notes to Consolidated Financial Statements.

HORACE MANN EDUCATORS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
($ in millions, except per share data)

	Three Months Ended March 31,	
	2021	2020
Statements of Operations		
Revenues		
Premiums and contract charges earned	$ 227.6	$ 236.3
Net investment income	95.5	82.3
Net investment losses	(9.0)	(18.5)
Other income	7.9	7.2
Total revenues	322.0	307.3
Benefits, losses and expenses		
Benefits, claims and settlement expenses	134.3	138.7
Interest credited	50.6	51.5
Operating expenses	58.0	60.7
DAC unlocking and amortization expense	24.1	30.0
Intangible asset amortization expense	3.3	3.7
Interest expense	3.5	4.2
Total benefits, losses and expenses	273.8	288.8
Income before income taxes	48.2	18.5
Income tax expense	8.9	—
Net income	$ 39.3	$ 18.5
Net income per share		
Basic	$ 0.94	$ 0.44
Diluted	$ 0.93	$ 0.44
Weighted average number of shares and equivalent shares		
Basic	41.9	41.8
Diluted	42.1	42.0
Statements of Comprehensive Income (Loss)		
Net income	$ 39.3	$ 18.5
Other comprehensive income (loss), net of tax:		
Change in net unrealized investment gains (losses) on fixed maturity securities	(122.7)	(93.8)
Change in net funded status of benefit plans	—	—
Other comprehensive income (loss)	(122.7)	(93.8)
Comprehensive income (loss)	$ (83.4)	$ (75.3)

See Notes to Consolidated Financial Statements.

HORACE MANN EDUCATORS CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
($ in millions, except per share data)

	Three Months Ended March 31,	
	2021	2020
Common stock, $0.001 par value		
Beginning balance	$ 0.1	$ 0.1
Options exercised	—	—
Conversion of common stock units	—	—
Conversion of restricted stock units	—	—
Ending balance	0.1	0.1
Additional paid-in capital		
Beginning balance	488.4	481.0
Options exercised and conversion of common stock units and restricted stock units	(1.2)	(0.2)
Share-based compensation expense	2.0	1.1
Ending balance	489.2	481.9
Retained earnings		
Beginning balance	1,434.6	1,352.5
Net income	39.3	18.5
Dividends, 2021, $0.31 per share; 2020, $0.30 per share	(13.1)	(12.7)
Cumulative effect of change in accounting principle	—	(0.5)
Ending balance	1,460.8	1,357.8
Accumulated other comprehensive income (loss), net of tax:		
Beginning balance	355.1	219.7
Change in net unrealized investment gains (losses) on fixed maturity securities	(122.7)	(93.8)
Change in net funded status of benefit plans	—	—
Ending balance	232.4	125.9
Treasury stock, at cost		
Beginning balance	(488.1)	(486.0)
Acquisition of shares	(1.5)	(2.1)
Ending balance	(489.6)	(488.1)
Shareholders' equity at end of period	$ 1,692.9	$ 1,477.6

See Notes to Consolidated Financial Statements.

HORACE MANN EDUCATORS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
($ in millions)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Cash flows - operating activities		
Net income	$ 39.3	$ 18.5
Adjustments to reconcile net income to net cash provided by operating activities		
Net investment losses	9.0	18.5
Amortization of premiums and accretion of discounts on fixed maturity securities, net	0.2	0.9
Depreciation and intangible asset amortization	5.5	5.3
Share-based compensation expense	2.2	1.2
Changes in:		
Accrued investment income	(5.0)	(9.5)
Insurance liabilities	78.0	65.7
Premium receivables	3.8	2.2
Deferred policy acquisitions	2.5	(4.4)
Reinsurance recoverables	(1.2)	0.3
Income tax liabilities	8.9	1.1
Other operating assets and liabilities	2.7	(15.8)
Other	(3.9)	3.4
Net cash provided by operating activities	142.0	87.4
Cash flows - investing activities		
Fixed maturity securities		
Purchases	(478.4)	(535.3)
Sales	95.5	98.2
Maturities, paydowns, calls and redemptions	176.3	237.9
Equity securities		
Purchases	(28.4)	(4.1)
Sales and repayments	0.4	1.5
Limited partnership interests		
Purchases	(58.6)	(14.1)
Sales	13.7	2.3
Change in short-term and other investments, net	40.0	73.6
Net cash used in investing activities	(239.5)	(140.0)
Cash flows - financing activities		
Dividends paid to shareholders	(12.9)	(12.4)
Acquisition of treasury stock	(1.5)	(2.1)
Proceeds from exercise of stock options	0.3	0.5
Withholding tax payments on RSUs tendered	(1.7)	(1.3)
Annuity contracts: variable, fixed and FHLB funding agreements		
Deposits	235.8	192.7
Benefits, withdrawals and net transfers to Separate Account (variable annuity) assets	(101.1)	(101.7)
Life policy accounts		
Deposits	2.2	2.5
Withdrawals and surrenders	(1.1)	(1.2)
Change in deposit asset on reinsurance	(2.8)	(13.3)
Change in book overdrafts	(2.6)	4.6
Net cash provided by financing activities	114.6	68.3
Net increase in cash	17.1	15.7
Cash at beginning of period	22.3	25.5
Cash at end of period	$ 39.4	$ 41.2

See Notes to Consolidated Financial Statements.

NOTE 1 - Basis of Presentation and Significant Accounting Policies

Business

Horace Mann Educators Corporation is a holding company for insurance subsidiaries that market and underwrite personal lines of property and casualty insurance products (primarily personal lines of automobile and property insurance), supplemental insurance products (primarily cancer, heart, hospital, supplemental disability and accident coverages), retirement products (primarily tax-qualified fixed and variable annuities) and life insurance products, primarily to K-12 teachers, administrators and other employees of public schools and their families (collectively, HMEC, the Company or Horace Mann).

Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and with the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and disclosures normally included in annual financial statements prepared in conformity with GAAP, but are not required for interim reporting purposes, have been omitted. These Consolidated Financial Statements and Notes thereto should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in Part II - Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2020. The results of operations for the three months ended March 31, 2021 are not necessarily indicative of the results to be expected for the full year.

The accompanying Consolidated Financial Statements and Notes thereto are unaudited. These financial statements reflect all adjustments (generally consisting only of normal recurring accruals) which are, in the opinion of management, necessary for the fair presentation of the consolidated financial position, results of operations and cash flows for the interim periods. The Company's significant accounting policies are summarized in Part II - Item 8, Note 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Consolidation

All intercompany transactions and balances between HMEC and its subsidiaries and affiliates have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The most significant critical accounting estimates include valuation of hard-to-value fixed maturity securities (including evaluation of impairments), evaluation of goodwill and intangible assets for impairment, valuation of annuity and life deferred policy acquisition costs, valuation of liabilities for property and casualty unpaid claims and claim expenses and valuation of certain investment contracts and policy reserves.

Future Adoption of New Accounting Standards

Accounting for Long-Duration Insurance Contracts

In August 2018, the FASB issued accounting and disclosure guidance that contains targeted improvements to the accounting for long-duration insurance contracts. Under the new guidance, the cash flow assumptions used to measure the liability for future policy benefits for traditional insurance contracts will be required to be updated at least annually with changes recognized as a benefit expense (i.e., assumptions will no longer be locked-in).

NOTE 1 - Basis of Presentation and Significant Accounting Policies (continued)

Insurance entities will be required to use a standard discount rate to measure the liabilities that will be equivalent to the yield from a high-quality bond. The new guidance also changes the amortization of deferred acquisition costs (DAC) to be on a constant-level basis over the expected term of the related contracts with no interest accruing on the DAC balance. The new guidance also introduces a new category of contract features associated with deposit type contracts referred to as market risk benefits (MRBs). Contract features meeting the definition of a MRB will be measured at fair value. New disclosures will be required for long-duration insurance contracts in order to provide better transparency into the exposure of insurance entities and the drivers of their results. For public business entities, the guidance is effective for annual reporting periods beginning after December 15, 2022, including interim periods within those years. With regards to the liability for future policy benefits and DAC, the guidance applies to contracts in force as of the beginning of the earliest period presented and may be applied retrospectively. With regards to MRBs, the guidance is to be applied retrospectively at the beginning of the earliest period presented. Early adoption is permitted. Management is currently evaluating the impact this guidance will have on the results of operations and financial position of the Company.

NOTE 2 - Investments

Net Investment Income

The components of net investment income for the following periods were as follows:

($ in millions)	Three Months Ended March 31,	
	2021	2020
Fixed maturity securities	$ 58.0	$ 59.4
Equity securities	1.1	1.2
Limited partnership interests	11.3	(2.7)
Short-term and other investments	2.8	2.9
Investment expenses	(2.1)	(2.2)
Net investment income - investment portfolio	71.1	58.6
Investment income - deposit asset on reinsurance	24.4	23.7
Total net investment income	$ 95.5	$ 82.3

Net Investment Gains (Losses)

Net investment gains (losses) for the following periods were as follows:

($ in millions)	Three Months Ended March 31,	
	2021	2020
Fixed maturity securities	$ (5.4)	$ 1.1
Equity securities	(2.7)	(14.7)
Short-term investments and other	(0.9)	(4.9)
Net investment losses	$ (9.0)	$ (18.5)

The Company, from time to time, sells invested assets subsequent to the reporting date that were considered temporarily impaired at such reporting date. Such sales are due to issuer specific events occurring subsequent to the reporting date that result in a change in the Company's intent or ability to hold an invested asset. The types of events that may result in a sale include significant changes in the economic facts and circumstances related to the invested asset, significant unforeseen changes in liquidity needs, or changes in the Company's investment strategy.

NOTE 2 - Investments (continued)

Net Investment Gains (Losses) by Transaction Type

The following table reconciles net investment gains (losses) by transaction type:

($ in millions)	Three Months Ended March 31, 2021	2020
Credit loss impairments[(1)]	$ (1.1)	$ —
Intent-to-sell impairments	(2.1)	(3.7)
Total impairments on investments recognized in net income	(3.2)	(3.7)
Sales and other, net	(2.1)	4.5
Change in fair value - equity securities	(2.8)	(14.5)
Change in fair value and gains (losses) realized on settlements - derivatives	(0.9)	(4.8)
Net investment losses	$ (9.0)	$ (18.5)

(1) For the three months ended March 31, 2021, the Company recognized a valuation allowance of $1.1 million for credit loss impairments with respect to fixed maturity securities available for sale.

Fixed Maturity Securities

The Company's investment portfolio is comprised primarily of fixed maturity securities. Amortized cost, net, gross unrealized investment gains (losses) and fair values of all fixed maturity securities in the portfolio were as follows:

($ in millions)	Amortized Cost, net	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2021				
Fixed maturity securities				
U.S. Government and federally sponsored agency obligations:[(1)]				
Mortgage-backed securities	$ 627.1	$ 52.9	$ 1.7	$ 678.3
Other, including U.S. Treasury securities	444.2	25.4	11.3	458.3
Municipal bonds	1,609.9	161.7	3.5	1,768.1
Foreign government bonds	40.1	4.4	—	44.5
Corporate bonds	2,063.6	148.6	18.0	2,194.2
Other asset-backed securities	1,207.8	19.2	14.1	1,212.9
Totals	$ 5,992.7	$ 412.2	$ 48.6	$ 6,356.3
December 31, 2020				
Fixed maturity securities				
U.S. Government and federally sponsored agency obligations:[(1)]				
Mortgage-backed securities	$ 605.5	$ 79.6	$ 0.3	$ 684.8
Other, including U.S. Treasury securities	395.0	39.2	1.0	433.2
Municipal bonds	1,612.3	215.7	0.5	1,827.5
Foreign government bonds	40.2	4.9	—	45.1
Corporate bonds	1,905.2	221.6	3.9	2,122.9
Other asset-backed securities	1,230.4	24.1	22.7	1,231.8
Totals	$ 5,788.6	$ 585.1	$ 28.4	$ 6,345.3

(1) Fair value includes securities issued by Federal National Mortgage Association (FNMA) of $373.3 million and $387.1 million; Federal Home Loan Mortgage Corporation (FHLMC) of $333.6 million and $344.3 million; and Government National Mortgage Association (GNMA) of $125.7 million and $132.3 million as of March 31, 2021 and December 31, 2020, respectively.

NOTE 2 - Investments (continued)

The following table presents the fair value and gross unrealized losses for fixed maturity securities in an unrealized loss position at March 31, 2021 and December 31, 2020, respectively. The Company views the decrease in fair value of all of the fixed maturity securities with unrealized losses at March 31, 2021 — which was driven largely by increasing interest rates, spread widening, financial market illiquidity and/or market volatility from the date of acquisition — as temporary. As of March 31, 2021, the Company has not made the decision to sell and it is not more likely than not the Company will be required to sell the fixed maturity securities with unrealized losses before an anticipated recovery in value. Therefore, it was determined that the unrealized losses on the fixed maturity securities presented in the table below were not indicative of any impairments as of March 31, 2021.

($ in millions)	12 Months or Less		More than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
March 31, 2021						
Fixed maturity securities						
U.S. Government and federally sponsored agency obligations:						
Mortgage-backed securities	$ 24.0	$ 1.5	$ 3.1	$ 0.2	$ 27.1	$ 1.7
Other	172.4	11.3	—	—	172.4	11.3
Municipal bonds	126.5	3.4	5.4	0.1	131.9	3.5
Foreign government bonds	0.5	—	—	—	0.5	—
Corporate bonds	382.1	16.4	47.1	1.6	429.2	18.0
Other asset-backed securities	137.1	1.3	359.4	12.8	496.5	14.1
Total	$ 842.6	$ 33.9	$ 415.0	$ 14.7	$ 1,257.6	$ 48.6
Number of positions with a gross unrealized loss	548		200		748	
Fair value as a percentage of total fixed maturity securities at fair value	13.3 %		6.5 %		19.8 %	
December 31, 2020						
Fixed maturity securities						
U.S. Government and federally sponsored agency obligations:						
Mortgage-backed securities	$ 4.9	$ 0.1	$ 2.6	$ 0.2	$ 7.5	$ 0.3
Other	95.9	1.0	—	—	95.9	1.0
Municipal bonds	18.1	0.5	—	—	18.1	0.5
Foreign government bonds	—	—	—	—	—	—
Corporate bonds	126.6	3.7	10.9	0.2	137.5	3.9
Other asset-backed securities	316.9	17.2	409.3	5.5	726.2	22.7
Total	$ 562.4	$ 22.5	$ 422.8	$ 5.9	$ 985.2	$ 28.4
Number of positions with a gross unrealized loss	308		123		431	
Fair value as a percentage of total fixed maturity securities at fair value	8.9 %		6.7 %		15.6 %	

Fixed maturity securities with an investment grade rating represented 91.8% of the gross unrealized losses as of March 31, 2021. With respect to fixed maturity securities involving securitized financial assets, the underlying collateral cash flows were stress tested to determine there was no adverse change in the present value of cash flows below the amortized cost basis.

NOTE 2 - Investments (continued)

Maturities of Fixed Maturity Securities

The following table presents the distribution of the Company's fixed maturity securities portfolio by estimated expected maturity. Estimated expected maturities differ from contractual maturities, reflecting assumptions regarding borrowers' utilization of the right to call or prepay obligations with or without call or prepayment penalties. For structured securities, estimated expected maturities consider broker-dealer survey prepayment assumptions and are verified for consistency with the interest rate and economic environments.

($ in millions)	Percent of Total Fair Value		March 31, 2021	
	March 31, 2021	December 31, 2020	Fair Value	Amortized Cost, net
Estimated expected maturity:				
Due in 1 year or less	4.1 %	4.0 %	$ 261.3	$ 255.5
Due after 1 year through 5 years	28.2 %	28.3 %	1,789.8	1,713.5
Due after 5 years through 10 years	28.3 %	28.0 %	1,799.7	1,669.5
Due after 10 years through 20 years	24.0 %	24.6 %	1,523.5	1,412.2
Due after 20 years	15.4 %	15.1 %	982.0	942.0
Total	100.0 %	100.0 %	$ 6,356.3	$ 5,992.7
Average option-adjusted duration, in years	6.6	6.4		

Sales of Fixed Maturity and Equity Securities

Proceeds received from sales of fixed maturity and equity securities, each determined using the specific identification method, and gross gains and gross losses realized as a result of those sales for each period were as follows:

($ in millions)	Three Months Ended March 31,	
	2021	2020
Fixed maturity securities		
Proceeds received	$ 95.5	$ 98.2
Gross gains realized	1.2	4.8
Gross losses realized	(3.4)	(0.3)
Equity securities		
Proceeds received	$ 0.4	$ 1.5
Gross gains realized	0.1	0.3
Gross losses realized	—	(0.6)

Net Unrealized Investment Gains (Losses) on Fixed Maturity Securities

The following table reconciles net unrealized investment gains (losses) on fixed maturity securities, net of tax, included in accumulated other comprehensive income (AOCI), before the impact of DAC:

($ in millions)	Three Months Ended March 31,	
	2021	2020
Net unrealized investment gains (losses) on fixed maturity securities, net of tax		
Beginning of period	$ 439.8	$ 264.4
Change in net unrealized investment gains (losses) on fixed maturity securities	(159.0)	(103.8)
Reclassification of net investment (gains) losses on securities to net income	6.4	(10.7)
End of period	$ 287.2	$ 149.9

NOTE 2 - Investments (continued)

Limited Partnership Interests

Investments in limited partnership interests are accounted for using the equity method of accounting and include interests in senior commercial mortgage loan funds, hedge funds, infrastructure debt funds, infrastructure equity funds and other funds. Principal factors influencing carrying amount appreciation or decline include operating performance, comparable public company earnings multiples, capitalization rates and the economic environment. The Company recognizes an impairment loss for equity method limited partnership interests when evidence demonstrates that the loss is other than temporary. Evidence of a loss in value that is other than temporary may include the absence of an ability to recover the carrying amount of the investment or the inability of the investee to sustain a level of earnings that would justify the carrying amount of the investment. The carrying amounts of equity method limited partnership interests were as follows:

($ in millions)	March 31, 2021	December 31, 2020
Senior commercial mortgage loan funds	$ 197.3	$ 149.6
Hedge funds	62.6	63.2
Infrastructure debt funds	58.4	58.3
Infrastructure equity funds	56.2	52.1
Other[1]	130.7	125.8
Total	$ 505.2	$ 449.0

(1) Other consists primarily of limited partnership interests in real estate equity funds, private equity funds and corporate mezzanine funds.

Offsetting of Assets and Liabilities

The Company's derivatives are subject to enforceable master netting arrangements. Collateral support agreements associated with each master netting arrangement provide that the Company will receive or pledge financial collateral in the event minimum thresholds have been reached. The following table presents instruments that were subject to a master netting arrangement for the Company.

($ in millions)	Gross Amounts	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets/ Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Received	
March 31, 2021						
Asset derivatives:						
Free-standing derivatives	$ 17.5	$ —	$ 17.5	$ 14.2	$ 3.3	$ —
December 31, 2020						
Asset derivatives:						
Free-standing derivatives	$ 16.8	$ —	$ 16.8	$ 13.7	$ 2.6	$ 0.5

Deposits

At March 31, 2021 and December 31, 2020, fixed maturity securities with a fair value of $26.6 million and $26.9 million, respectively, were on deposit with governmental agencies as required by law in various states for which the insurance subsidiaries of HMEC conduct business. In addition, at March 31, 2021 and December 31, 2020, fixed maturity securities with a fair value of $844.1 million and $707.3 million, respectively, were on deposit with the Federal Home Loan Bank of Chicago (FHLB) as collateral for amounts subject to funding agreements, advances and borrowings which were equal to $774.5 million at March 31, 2021 and $644.5 million at December 31, 2020. The deposited securities are reported as Fixed maturity securities on the Company’s Consolidated Balance Sheets.

NOTE 3 - Fair Value of Financial Instruments

The Company is required to disclose estimated fair values for certain financial and nonfinancial assets and liabilities. Fair values of the Company’s insurance contracts other than annuity contracts (which are investment contracts) are not required to be disclosed. However, the estimated fair values of liabilities under all insurance contracts are taken into consideration in the Company’s overall management of interest rate risk through the matching of investment maturities with amounts due under insurance contracts.

Information regarding the three-level hierarchy presented below and the valuation methodologies utilized by the Company to estimate fair values at each reporting date is included in Part II - Item 8, Note 3 of the Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020.

NOTE 3 - Fair Value of Financial Instruments (continued)

Financial Instruments Measured and Carried at Fair Value on a Recurring Basis

The following table presents the Company's fair value hierarchy for those financial assets and financial liabilities measured and carried at fair value on a recurring basis. During the three months ended March 31, 2021 and 2020, there were no transfers between Level 1 and Level 2. At March 31, 2021, Level 3 invested assets comprised 5.1% of the Company's total investment portfolio at fair value.

($ in millions)	Carrying Amount	Fair Value	Fair Value Measurements at Reporting Date Using: Level 1	Level 2	Level 3
March 31, 2021					
Financial Assets					
Investments					
Fixed maturity securities					
U.S. Government and federally sponsored agency obligations:					
Mortgage-backed securities	$ 678.3	$ 678.3	$ —	$ 668.0	$ 10.3
Other, including U.S. Treasury securities	458.3	458.3	27.1	431.2	—
Municipal bonds	1,768.1	1,768.1	—	1,709.5	58.6
Foreign government bonds	44.5	44.5	—	44.5	—
Corporate bonds	2,194.2	2,194.2	14.4	2,030.7	149.1
Other asset-backed securities	1,212.9	1,212.9	—	1,091.0	121.9
Total fixed maturity securities	6,356.3	6,356.3	41.5	5,974.9	339.9
Equity securities	140.0	140.0	38.1	101.6	0.3
Short-term investments	101.8	101.8	98.7	3.1	—
Other investments	42.8	42.8	—	42.8	—
Totals	$ 6,640.9	$ 6,640.9	$ 178.3	$ 6,122.4	$ 340.2
Separate Account (variable annuity) assets[(1)]	$ 3,052.9	$ 3,052.9	$ 3,052.9	$ —	$ —
Financial Liabilities					
Investment contract and policy reserves, embedded derivatives	$ 2.7	$ 2.7	$ —	$ 2.7	$ —
Other policyholder funds, embedded derivatives	$ 107.6	$ 107.6	$ —	$ —	$ 107.6
December 31, 2020					
Financial Assets					
Investments					
Fixed maturity securities					
U.S. Government and federally sponsored agency obligations:					
Mortgage-backed securities	$ 684.8	$ 684.8	$ —	$ 673.7	$ 11.1
Other, including U.S. Treasury securities	433.1	433.1	18.3	414.8	—
Municipal bonds	1,827.5	1,827.5	—	1,767.9	59.6
Foreign government bonds	45.1	45.1	—	45.1	—
Corporate bonds	2,122.9	2,122.9	14.9	1,952.2	155.8
Other asset-backed securities	1,231.9	1,231.9	—	1,103.6	128.3
Total fixed maturity securities	6,345.3	6,345.3	33.2	5,957.3	354.8
Equity securities	121.6	121.6	39.2	82.1	0.3
Short-term investments	141.8	141.8	137.7	4.1	—
Other investments	36.3	36.3	—	36.3	—
Totals	$ 6,645.0	$ 6,645.0	$ 210.1	$ 6,079.8	$ 355.1
Separate Account (variable annuity) assets[(1)]	$ 2,891.4	$ 2,891.4	$ 2,891.4	$ —	$ —
Financial Liabilities					
Investment contract and policy reserves, embedded derivatives	$ 2.5	$ 2.5	$ —	$ 2.5	$ —
Other policyholder funds, embedded derivatives	$ 104.5	$ 104.5	$ —	$ —	$ 104.5

(1) Separate Account (variable annuity) liabilities are equal to the estimated fair value of the Separate Account (variable annuity) assets.

NOTE 3 - Fair Value of Financial Instruments (continued)

Changes in Level 3 Fair Value Measurements

The reconciliation for all financial assets and financial liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) was as follows:

($ in millions)	Financial Assets						Financial Liabilities[1]
	Municipal Bonds	Corporate Bonds	Mortgage-Backed and Other Asset-Backed Securities[2]	Total Fixed Maturity Securities	Equity Securities	Total	
Beginning balance, January 1, 2021	$ 59.6	$ 155.8	$ 139.4	$ 354.8	$ 0.3	$ 355.1	$ 104.5
Transfers into Level 3[3]	—	24.1	3.1	27.2	—	27.2	—
Transfers out of Level 3[3]	—	(27.3)	(5.9)	(33.2)	—	(33.2)	—
Total gains or losses							
Net investment gains (losses) included in net income related to financial assets	—	—	—	—	—	—	—
Net investment (gains) losses included in net income related to financial liabilities	—	—	—	—	—	—	4.3
Net unrealized investment gains (losses) included in OCI	(0.9)	(2.0)	(0.3)	(3.2)	—	(3.2)	—
Purchases	—	—	—	—	—	—	—
Issuances	—	—	—	—	—	—	0.7
Sales	—	—	—	—	—	—	—
Settlements	—	—	—	—	—	—	—
Paydowns, maturities and distributions	(0.1)	(1.5)	(4.1)	(5.7)	—	(5.7)	(1.9)
Ending balance, March 31, 2021	$ 58.6	$ 149.1	$ 132.2	$ 339.9	$ 0.3	$ 340.2	$ 107.6
Beginning balance, January 1, 2020	$ 44.3	$ 104.0	$ 146.8	$ 295.1	$ 0.1	$ 295.2	$ 93.7
Transfers into Level 3[3]	63.7	18.9	22.5	105.1	—	105.1	—
Transfers out of Level 3[3]	—	(10.1)	(2.9)	(13.0)	—	(13.0)	—
Total gains or losses							
Net investment gains (losses) included in net income related to financial assets	—	—	—	—	—	—	—
Net investment (gains) losses included in net income related to financial liabilities	—	—	—	—	—	—	(5.0)
Net unrealized investment gains (losses) included in OCI	(3.0)	(5.5)	(24.4)	(32.9)	—	(32.9)	—
Purchases	—	6.9	1.9	8.8	—	8.8	—
Issuances	—	—	—	—	—	—	1.3
Sales	—	—	—	—	—	—	—
Settlements	—	—	—	—	—	—	—
Paydowns, maturities and distributions	(0.1)	(2.5)	(3.4)	(6.0)	—	(6.0)	(2.5)
Ending balance, March 31, 2020	$ 104.9	$ 111.7	$ 140.5	$ 357.1	$ 0.1	$ 357.2	$ 87.5

(1) Represents embedded derivatives, all related to the Company's fixed indexed annuity products, reported in Other policyholder funds in the Company's Consolidated Balance Sheets.

(2) Includes U.S. Government and federally sponsored agency obligations for mortgage-backed securities and other asset-backed securities.

(3) Transfers into and out of Level 3 during the three months ended March 31, 2021 and 2020 were attributable to changes in the availability of observable market information for individual fixed maturity securities. The Company's policy is to recognize transfers into and out of the levels as having occurred at the end of the reporting period in which the transfers were determined.

For the three months ended March 31, 2021 and March 31, 2020, the Company had no net investment gains or losses on Level 3 financial assets. For the three months ended March 31, 2021, the Company had $4.3 million of net investment losses that were included in net income and were attributable to changes in the fair value of Level 3 financial liabilities; for the three months ended March 31, 2020, the respective net investment gains were $5.0 million.

NOTE 3 - Fair Value of Financial Instruments (continued)

Quantitative Information about Level 3 Fair Value Measurements

The following table provides quantitative information about the significant unobservable inputs for recurring fair value measurements categorized within Level 3.

($ in millions) Financial Assets	Fair Value at March 31, 2021	Valuation Technique(s)	Unobservable Inputs	Range (Weighted Average) and Single Point Best Estimate[1]
Municipal bonds	$ 58.6	discounted cash flow	I spread[2]	307 - 391 bps
Corporate bonds	149.1	discounted cash flow	N spread[3]	272 - 553 bps
		market comparable	option adjusted spread	12.54%
Other asset-backed securities	121.9	vendor price	haircut	3.00% - 5.00%
		discounted cash flow	constant prepayment rate	20.00%
		discounted cash flow	T spread[4]	235 - 800 bps
		discounted cash flow	PDI interest margin[5]	7.13%
		discounted cash flow	SBL interest margin[6]	4.50%
Government mortgage-backed securities	10.3	vendor price	haircut	3.00% - 5.00%
Equity securities	0.3	Black Scholes	equity value	low - 31.00%; high - 41.00%

($ in millions) Financial Liabilities	Fair Value at March 31, 2021	Valuation Technique(s)	Unobservable Inputs	Range (Weighted Average) and Single Point Best Estimate[1]
Derivatives embedded in fixed indexed annuity products	$ 107.6	discounted cash flow	lapse rate	5.30%
			mortality multiplier[7]	63.00%
			option budget	0.90% - 2.50%
			non-performance adjustment[8]	5.00%

(1) When a range of unobservable inputs is not readily available, the Company uses a single point best estimate.
(2) "I spread" is the interpolated weighted average life point on the "on the run" (OTR) point of the curve.
(3) "N spread" is the interpolated weighted average life point on the swap curve.
(4) "T spread" is a specific point on the OTR curve.
(5) "PDI" stands for private debt investment.
(6) "SBL" stands for broadly syndicated loans.
(7) Mortality multiplier is applied to the Annuity 2000 table.
(8) Determined as a percentage of a risk-free rate.

The valuation techniques and significant unobservable inputs used in the fair value measurement for financial assets and financial liabilities classified as Level 3 are subject to the control processes as described in Part II - Item 8, Note 3 in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. Generally, valuation techniques for fixed maturity securities include spread pricing, matrix pricing and discounted cash flow methodologies; include inputs such as quoted prices for identical or similar securities that are less liquid; and are based on lower levels of trading activity than securities classified as Level 2. The valuation techniques and significant unobservable inputs used in the fair value measurement for equity securities classified as Level 3 use similar valuation techniques and significant unobservable inputs as those used for fixed maturity securities.

NOTE 3 - Fair Value of Financial Instruments (continued)

The sensitivity of the estimated fair values to changes in the significant unobservable inputs for fixed maturity and equity securities included in Level 3 include: benchmark yield, liquidity premium, estimated cash flows, prepayment and default speeds, spreads, weighted average life, and credit rating. Significant spread widening in isolation will adversely impact the overall valuation, while significant tightening will lead to substantial valuation increases. Significant increases (decreases) in illiquidity premiums in isolation will result in substantially lower (higher) valuations. Significant increases (decreases) in expected default rates in isolation will result in substantially lower (higher) valuations.

Financial Instruments Not Carried at Fair Value; Disclosure Required

The Company has various other financial assets and financial liabilities used in the normal course of business that are not carried at fair value, but for which fair value disclosure is required. These financial assets and financial liabilities are further described in Part II - Item 8, Note 3 in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. The following table presents the carrying amount, fair value and fair value hierarchy of these financial assets and financial liabilities.

($ in millions)	Carrying Amount	Fair Value	Fair Value Measurements at Reporting Date Using		
			Level 1	Level 2	Level 3
March 31, 2021					
Financial Assets					
Other investments	$ 167.1	$ 170.8	$ —	$ —	$ 170.8
Deposit asset on reinsurance	2,442.2	2,796.3	—	—	2,796.3
Financial Liabilities					
Investment contract and policy reserves, fixed annuity contracts	4,876.0	4,995.1	—	—	4,995.1
Investment contract and policy reserves, account values on life contracts	99.9	109.4	—	—	109.4
Other policyholder funds	777.4	777.4	—	720.7	56.7
Short-term debt	135.0	135.0	—	—	135.0
Long-term debt	302.4	331.5	—	331.5	—
December 31, 2020					
Financial Assets					
Other investments	$ 168.3	$ 172.1	$ —	$ —	$ 172.1
Deposit asset on reinsurance	2,420.9	3,030.6	—	—	3,030.6
Financial Liabilities					
Investment contract and policy reserves, fixed annuity contracts	4,847.6	4,963.3	—	—	4,963.3
Investment contract and policy reserves, account values on life contracts	98.7	108.4	—	—	108.4
Other policyholder funds	646.8	646.8	—	590.7	56.1
Short-term debt	135.0	135.0	—	—	135.0
Long-term debt	302.3	331.1	—	331.1	—

NOTE 4 - Deposit Asset on Reinsurance

In the second quarter of 2019, the Company reinsured a $2.9 billion block of in force fixed and variable annuity business with a minimum crediting rate of 4.5%. This represented approximately 50% of the Company's in force fixed annuity account balances. The arrangement contains investment guidelines and a trust to help meet the Company's risk management objectives.

The annuity reinsurance transaction was effective April 1, 2019. Under the agreement, approximately $2.2 billion of fixed annuity reserves were reinsured on a coinsurance basis. The separate account assets and liabilities of approximately $0.7 billion were reinsured on a modified coinsurance basis and thus, remain on the Company's consolidated financial statements, but the related results of operations are fully reinsured.

The Company determined that the reinsurance agreement does not expose the reinsurer to a reasonable possibility of a significant loss from insurance risk. Therefore, the Company recognizes the reinsurance agreement using the deposit method of accounting. The assets transferred to the reinsurer as consideration paid is reported as a Deposit asset on reinsurance on the Company's Consolidated Balance Sheets. As amounts are received or paid, consistent with the underlying reinsured contracts, the Deposit asset on reinsurance is adjusted. The Deposit asset on reinsurance is accreted to the estimated ultimate cash flows using the interest method and the adjustment is reported as Net investment income. Interest accreted on the Deposit asset on reinsurance was $24.4 million and $23.7 million for the three months ended March 31, 2021 and 2020, respectively.

NOTE 5 - Goodwill and Intangible Assets

The Company conducts impairment testing for goodwill and intangible assets at least annually, or more often if events, changes or circumstances indicate that the carrying amount may not be recoverable. See Part II - Item 8, Note 1 in the Company's Annual Report on Form 10-K for the year ended December 31, 2020 for further description of impairment testing.

There were no changes in the carrying amount of goodwill by reporting unit for the three months ended March 31, 2021. The carrying amount of goodwill by reporting unit as of March 31, 2021 was as follows:

($ in millions)	March 31, 2021
Property and Casualty	$ 9.5
Supplemental	19.6
Retirement	4.5
Life	9.9
Total	$ 43.5

As of March 31, 2021, the outstanding amounts of definite-lived intangible assets subject to amortization are attributable to the acquisitions of Benefit Consultants Group, Inc. (BCG) and NTA Life Enterprises, LLC (NTA) during 2019. The acquisition of BCG resulted in initial recognition of definite-lived intangible assets subject to amortization in the amount of $14.1 million and the acquisition of NTA resulted in initial recognition of definite-lived intangible assets subject to amortization in the amount of $160.4 million. As of March 31, 2021 the outstanding amounts of definite-lived intangible assets subject to amortization were as follows:

NOTE 5 - Goodwill and Intangible Assets (continued)

($ in millions)	Weighted Average Useful Life (in Years)		
At inception:			
Value of business acquired	30	$	94.4
Value of distribution acquired	17		54.0
Value of agency relationships	14		17.0
Value of customer relationships	10		9.1
Total	23		174.5
Accumulated amortization and impairments:			
Value of business acquired			(12.6)
Value of distribution acquired			(9.4)
Value of agency relationships			(4.6)
Value of customer relationships			(3.5)
Total			(30.1)
Net intangible assets subject to amortization:		$	144.4

With regards to the definite-lived intangible assets in the table above, the value of business acquired intangible asset represents the present value of the expected underwriting profit within policies that were in force on the date of acquisition. The value of distribution acquired intangible asset represents the present value of future business to be written by the existing agency force. The value of agency relationships intangible asset represents the present value of the commission overrides retained by NTA. The value of customer relationships intangible asset represents the present value of the expected profits from existing BCG customers in force at the date of acquisition. All of the aforementioned definite-lived intangible assets were valued using the income approach.

Estimated future amortization of the Company's definite-lived intangible assets were as follows:

($ in millions) Year Ending December 31,		
2021 (excluding the three months ended March 31, 2021)	$	9.8
2022		12.1
2023		11.2
2024		10.5
2025		9.8
Thereafter		91.0
Total	$	144.4

The value of business acquired intangible asset is being amortized by product based on the present value of future premiums to be received. The value of distribution acquired intangible asset is being amortized on a straight-line basis. The value of agency relationships intangible asset is being amortized based on the present value of future premiums to be received. The value of customer relationships intangible asset is being amortized based on the present value of future profits to be received.

Indefinite-lived intangible assets (not subject to amortization) as of March 31, 2021 were as follows:

($ in millions)		
Trade names	$	7.9
State licenses		2.9
Total	$	10.8

The trade names intangible asset represents the present value of future savings accruing to NTA and BCG by virtue of not having to pay royalties for the use of the trade names, valued using the relief from royalty method. The state licenses intangible asset represents the regulatory licenses held by NTA that were valued using the cost approach.

NOTE 6 - Unpaid Claims and Claim Expenses

The following table is a summary reconciliation of the beginning and ending Property and Casualty unpaid claims and claim expense reserves for the periods indicated. The table presents reserves on both a gross and 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. The end of the period gross reserve (before reinsurance) balances and the reinsurance recoverable balances are reflected on a gross basis in the Consolidated Balance Sheets.

($ in millions)	Three Months Ended March 31,	
	2021	2020
Property and Casualty		
Beginning gross reserves[1]	$ 372.2	$ 387.0
Less: reinsurance recoverables	112.9	120.5
Net reserves, beginning of period[2]	259.3	266.5
Incurred claims and claim expenses:		
Claims occurring in the current period	94.8	105.5
Decrease in estimated reserves for claims occurring in prior periods[3]	—	(1.0)
Total claims and claim expenses incurred[4]	94.8	104.5
Claims and claim expense payments for claims occurring during:		
Current period	34.4	43.5
Prior periods	58.1	64.3
Total claims and claim expense payments	92.5	107.8
Net reserves, end of period[2]	261.6	263.2
Plus: reinsurance recoverables	112.5	119.0
Ending gross reserves[1]	$ 374.1	$ 382.2

(1) Unpaid claims and claim expenses as reported in the Consolidated Balance Sheets also include reserves for Supplemental, Retirement and Life of $78.4 million and $56.2 million as of March 31, 2021 and 2020, 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.

(4) Benefits, claims and settlement expenses as reported in the Consolidated Statements of Operations also include amounts for Supplemental, Retirement and Life of $39.5 million and $34.2 million for the three months ended March 31, 2021 and 2020, respectively, in addition to Property and Casualty amounts.

Net favorable development of total reserves for Property and Casualty claims occurring in prior years was $0.0 million and $1.0 million for the three months ended March 31, 2021 and 2020, respectively. The favorable development for the three months ended March 31, 2020 was the result of favorable loss trends in automobile for accident years 2019 and prior.

NOTE 7 - Reinsurance

The Company recognizes the cost of reinsurance premiums over the contract periods for such premiums in proportion to the insurance protection provided. Amounts recoverable from reinsurers for unpaid claims and claim settlement expenses, including estimated amounts for unsettled claims, claims incurred but not yet reported and policy benefits, are estimated in a manner consistent with the insurance liability associated with the policy. The effects of reinsurance on premiums written and contract deposits; premiums and contract charges earned; and benefits, claims and settlement expenses were as follows:

($ in millions)	Gross Amount	Ceded to Other Companies[1]	Assumed from Other Companies	Net Amount
Three months ended March 31, 2021				
Premiums written and contract deposits[2]	$ 320.6	$ 5.9	$ 1.5	$ 316.2
Premiums and contract charges earned	234.2	8.4	1.8	227.6
Benefits, claims and settlement expenses	135.6	2.5	1.2	134.3
Three months ended March 31, 2020				
Premiums written and contract deposits[2]	$ 333.7	$ 6.3	$ 1.4	$ 328.8
Premiums and contract charges earned	243.2	8.4	1.5	236.3
Benefits, claims and settlement expenses	139.5	1.9	1.1	138.7

(1) Excludes the annuity reinsurance transaction accounted for using the deposit method that is discussed in Note 4.

(2) This measure is not based on accounting principles generally accepted in the United States of America (non-GAAP). An explanation of this non-GAAP measure is contained in the Glossary of Selected Terms included as Exhibit 99.1 in the Company's reports filed with the SEC.

NOTE 8 - Commitments

Investment Commitments

The Company has outstanding commitments to fund investments primarily in limited partnership interests. Such unfunded commitments were $752.3 million and $571.9 million as of March 31, 2021 and December 31, 2020, respectively.

NOTE 9 - Segment Information

The Company conducts and manages its business through five segments. The four operating segments, representing the major lines of business, are: Property and Casualty (primarily personal lines automobile and property insurance products), Supplemental (primarily cancer, heart, hospital, supplemental disability and accident coverages), Retirement (primarily tax-qualified fixed and variable annuities) and Life (life insurance products). The Company does not allocate the impact of corporate-level transactions to these operating segments, consistent with the basis for management's evaluation of the results of those segments, but classifies those items in the fifth segment, Corporate and Other. In addition to ongoing transactions such as corporate debt service, net investment gains (losses) and certain public company expenses, such items also have included corporate debt retirement costs, when applicable. Summarized financial information for these segments is as follows:

($ in millions)	Three Months Ended March 31,	
	2021	2020
Insurance premiums and contract charges earned		
Property and Casualty	$ 155.8	$ 166.5
Supplemental	31.7	33.0
Retirement	8.6	7.4
Life	31.5	29.4
Total	$ 227.6	$ 236.3
Net investment income		
Property and Casualty	$ 10.8	$ 10.3
Supplemental	5.3	3.5
Retirement	60.4	53.5
Life	19.6	15.6
Corporate and Other	—	(0.1)
Intersegment eliminations	(0.6)	(0.5)
Total	$ 95.5	$ 82.3
Net income (loss)		
Property and Casualty	$ 27.9	$ 26.6
Supplemental	11.4	10.5
Retirement	10.6	(0.9)
Life	0.7	0.6
Corporate and Other	(11.3)	(18.3)
Total	$ 39.3	$ 18.5

($ in millions)	March 31, 2021	December 31, 2020
Assets		
Property and Casualty	$ 1,298.9	$ 1,324.9
Supplemental	824.7	811.5
Retirement	9,455.6	9,198.7
Life	2,069.0	2,044.5
Corporate and Other	163.1	182.3
Intersegment eliminations	(65.8)	(90.1)
Total	$ 13,745.5	$ 13,471.8

NOTE 10 - Accumulated Other Comprehensive Income (Loss)

AOCI represents the accumulated change in shareholders' equity from transactions and other events and circumstances from non-shareholder sources. For the Company, AOCI includes the after tax change in net unrealized investment gains (losses) on fixed maturity securities and the after tax change in net funded status of benefit plans for the periods as shown in the Consolidated Statements of Changes in Shareholders' Equity. The following table reconciles these components.

($ in millions)	Net Unrealized Investment Gains (Losses) on Securities(1)(2)	Net Funded Status of Benefit Plans(1)	Total(1)
Beginning balance, January 1, 2021	$ 366.3	$ (11.2)	$ 355.1
Other comprehensive income (loss) before reclassifications	(129.1)	—	(129.1)
Amounts reclassified from AOCI	6.4	—	6.4
Net current period other comprehensive income (loss)	(122.7)	—	(122.7)
Ending balance, March 31, 2021	$ 243.6	$ (11.2)	$ 232.4
Beginning balance, January 1, 2020	$ 230.4	$ (10.7)	$ 219.7
Other comprehensive income (loss) before reclassifications	(104.5)	—	(104.5)
Amounts reclassified from AOCI	10.7	—	10.7
Net current period other comprehensive income (loss)	(93.8)	—	(93.8)
Ending balance, March 31, 2020	$ 136.6	$ (10.7)	$ 125.9

(1) All amounts are net of tax.

(2) The pretax amounts reclassified from AOCI, $(8.1) million and $(13.6) million, are included in Net investment losses and the related income tax expenses, $(1.7) million and $(2.9) million, are included in Income tax expense in the Consolidated Statements of Operations for the three month periods ended March 31, 2021 and 2020 respectively.

Comparative information for elements that are not required to be reclassified in their entirety to net income in the same reporting period is disclosed in Note 2.

NOTE 11 - Supplemental Consolidated Cash and Cash Flow Information

($ in millions)	March 31, 2021	December 31, 2020
Cash	$ 38.3	$ 21.8
Restricted cash	1.1	0.5
Total cash and restricted cash reported in the Consolidated Balance Sheets	$ 39.4	$ 22.3

($ in millions)	Three Months Ended March 31,	
	2021	2020
Cash paid (recovered) during the three months for:		
Interest	$ 0.6	$ 1.4
Income taxes	(0.1)	(0.7)

Non-cash investing activities with respect to modifications or exchanges of fixed maturity securities as well as paid-in-kind activity for policy loans were insignificant for the three months ended March 31, 2021 and 2020, respectively.

ITEM 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A)

($ in millions, except per share data)

Measures within this MD&A that are not based on accounting principles generally accepted in the United States of America (non-GAAP) are marked with an asterisk (*) the first time they are presented within this Part I - Item 2. An explanation of these measures is contained in the Glossary of Selected Terms included as Exhibit 99.1 to this Quarterly Report on Form 10-Q 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 to the Company's First Quarter 2021 Investor Supplement.

Increases or decreases in this MD&A that are not meaningful are marked "N.M.".

Forward-looking Information

Statements made in the following discussion that are not historical in nature are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995 and are subject to known and unknown risks, uncertainties and other factors. Horace Mann Educators Corporation (referred to in Part I - Items 2 - 4 and Part II of this report as "we", "our", "us", the "Company", "Horace Mann" or "HMEC") is an insurance holding company. We are not under any obligation to (and expressly disclaim any such obligation to) update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. It is important to note that our actual results could differ materially from those projected in forward-looking statements due to a number of risks and uncertainties inherent in our business. See Part I - Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2020 for additional information regarding risks and uncertainties.

Introduction

The purpose of this MD&A is to provide an understanding of our consolidated results of operations and financial condition. This MD&A should be read in conjunction with the Consolidated Financial Statements and Notes thereto contained in Part I - Item 1 of this report.

HMEC is an insurance holding company, and through its subsidiaries, we market and underwrite personal lines of property and casualty insurance products, supplemental insurance products, retirement products and life insurance products in the United States of America (U.S.). We market our products primarily to K-12 teachers, administrators and other employees of public schools and their families.

This MD&A covers our consolidated financial highlights followed by consolidated results of operations, an outlook for future performance, details about critical accounting estimates, results of operations by segment, investment results and liquidity and capital resources.

Coronavirus Disease (COVID-19) Considerations

Beginning in March 2020, the global pandemic associated with the novel coronavirus COVID-19 and related economic conditions introduced unprecedented challenges for our country. Those challenges are ongoing. We relied on our previously developed Corporate Pandemic Plan to address preparation, prevention and response measures specific to COVID-19 while allowing flexibility to quickly react to evolving circumstances and implement varying actions accordingly.

As discussed in our Annual Report on Form 10-K for the year ended December 31, 2020, we successfully met the challenges of the pandemic environment and are now operating in a hybrid model. Our return to office plans are being guided by data from the Center for Disease Control. We presently limit office occupancy to approximately half of pre-COVID-19 levels to enable effective social distancing. We have also implemented other prevention strategies to reduce the potential transmission of COVID-19, such as requiring face masks in common office areas.

We continue to monitor cybersecurity including increasing security and network monitoring to proactively identify and prevent potential security threats and vulnerabilities. We also are identifying and assessing critical third-party vendors and ensuring their ability to continue to perform as anticipated.

Horace Mann markets primarily to K-12 teachers, administrators and other employees of public schools and their families and we estimate that 80% of our customer base are educators or other individuals employed by public school systems. Educators have largely remained employed through the pandemic, although they may be even busier than before, as many are being asked to devote time to both in-person teaching as well as remote learning to minimize the spread of COVID-19 in their communities.

Growth in new sales has slowed since the pandemic began, particularly sales generated from in-person events at schools. We continue to work with our network of exclusive agents to make sure they are using virtual tools that can allow them to reach current and potential educator customers when face-to-face interactions are not possible. We are implementing a variety of new and modified forums to provide access to the financial solutions we offer educators.

For further discussion regarding the current period and potential future impacts of COVID-19 and related economic conditions on HMEC, see Outlook for 2021 and other content within this MD&A as well as Part I - Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2020.

Consolidated Financial Highlights

(All comparisons vs. same periods in 2020, unless noted otherwise)

($ in millions)	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	2021-2020 Change %
Total revenues	$ 322.0	$ 307.3	4.8%
Net income	39.3	18.5	112.4%
Per diluted share:			
Net income	0.93	0.44	111.4%
Net investment losses, after tax	(0.17)	(0.34)	N.M.
Book value per share	$ 40.83	$ 35.80	14.1%
Net income return on equity - last twelve months	9.3 %	11.3 %	
Net income return on equity - annualized	9.0 %	4.9 %	

For the three months ended March 31, 2021, net income increased $20.8 million primarily due to higher net investment income, a lower level of net investment losses, lower deferred acquisition costs (DAC) unlocking and amortization expense partially offset by a higher effective income tax rate.

Consolidated Results of Operations

(All comparisons vs. same periods in 2020, unless noted otherwise)

($ in millions)	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	2021-2020 Change %
Premiums and contract charges earned	$ 227.6	$ 236.3	-3.7%
Net investment income	95.5	82.3	16.0%
Net investment losses	(9.0)	(18.5)	N.M.
Other income	7.9	7.2	9.7%
Total revenues	322.0	307.3	4.8%
Benefits, claims and settlement expenses	134.3	138.7	-3.2%
Interest credited	50.6	51.5	-1.7%
Operating expenses	58.0	60.7	-4.4%
DAC unlocking and amortization expense	24.1	30.0	-19.7%
Intangible asset amortization expense	3.3	3.7	-10.8%
Interest expense	3.5	4.2	-16.7%
Total benefits, losses and expenses	273.8	288.8	-5.2%
Income before income taxes	48.2	18.5	160.5%
Income tax expense	8.9	—	N.M.
Net income	$ 39.3	$ 18.5	112.4%

Premiums and Contract Charges Earned

For the three months ended March 31, 2021, premiums and contract charges earned decreased $8.7 million primarily due to lower premiums earned by Property and Casualty.

Net Investment Income

Excluding accreted investment income on the deposit asset on reinsurance, for the three months ended March 31, 2021, net investment income increased $12.5 million as more favorable returns on limited partnership interests continued to offset slightly lower yields on fixed maturity securities. Investment yields continue to be impacted by the low interest rate environment of recent years. The annualized investment yield on the portfolio excluding limited partnership interests* was as follows:

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Investment yield, excluding limited partnership interests, pretax - annualized*	4.2%	4.5%
Investment yield, excluding limited partnership interests, after tax - annualized*	3.4%	3.6%

During the three months ended March 31, 2021, we continued to identify and purchase investments with attractive risk-adjusted yields relative to market conditions without venturing into asset classes or individual securities that would be inconsistent with our overall investment guidelines for the core portfolio. We also funded a modest level of limited partnership interests in line with our intent to expand this portion of our portfolio to increase yields while balancing principal protection and risk.

For the three months ended March 31, 2021, net investment losses were $9.5 million lower than last year primarily due to $15.2 million of after-tax losses on changes in fair value of equity securities and derivatives recognized in the prior year period due to equity-related market volatility. The breakdown of net investment losses by transaction type were as follows:

($ in millions)	Three Months Ended March 31,			
	2021		2020	
Impairments on investments recognized in net income	$	(3.2)	$	(3.7)
Sales and other, net		(2.1)		4.5
Change in fair value - equity securities		(2.8)		(14.5)
Change in fair value and losses realized on settlements - derivatives		(0.9)		(4.8)
Net investment losses	$	(9.0)	$	(18.5)

From time to time, we may sell securities subsequent to the reporting date that were considered temporarily impaired at the reporting date. Such sales are due to issuer specific events occurring subsequent to the reporting date that result in a change in our intent to sell a security.

Other Income

For the three months ended March 31, 2021, other income was comparable to the prior year period.

Benefits, Claims and Settlement Expenses

For the three months ended March 31, 2021, benefits, claims and settlement expenses decreased $4.4 million, driven primarily by favorable automobile loss experience partially offset by unfavorable mortality and property loss experience.

Interest Credited

For the three months ended March 31, 2021, interest credited decreased $0.9 million, driven primarily by lower interest rates on Federal Home Loan Bank of Chicago (FHLB) funding agreements. Under the deposit method of accounting, the interest credited on the reinsured annuity block continues to be reported. The average deferred annuity credited rate, excluding the reinsured annuity block was 2.4% and 2.5% at March 31, 2021 and March 31, 2020, respectively.

Operating Expenses

For the three months ended March 31, 2021, operating expenses decreased $2.7 million, primarily due to a continued lower level of expenses related to changes made due to COVID-19 as well as business optimization initiatives.

Deferred Acquisition Costs Unlocking and Amortization Expense

For the three months ended March 31, 2021, DAC unlocking and amortization expense decreased $5.9 million, primarily due to prior year period unfavorable DAC unlocking in Retirement from market performance.

Intangible Asset Amortization Expense

For the three months ended March 31, 2021, intangible asset amortization expense decreased $0.4 million.

Interest Expense

For the three months ended March 31, 2021, interest expense decreased $0.7 million due to lower interest rates on our senior revolving credit facility.

Income Tax Expense

The effective income tax rate, including net investment gains (losses), was 18.5% and 0.0% for the three months ended March 31, 2021 and 2020, respectively. Income from investments in tax-advantaged securities reduced the effective income tax rates by 3.9 and 7.5 percentage points for the three months ended March 31, 2021 and 2020, respectively.

Total income tax expense for the three months ended March 31, 2020, included a benefit of $2.8 million related to the CARES Act, which reduced the effective income tax rate by 2.8 percentage points, to reflect a net operating loss carryback to taxable years when the corporate rate was 35% compared to the current corporate rate of 21%.

We record liabilities for uncertain tax filing positions where it is more likely than not that the position will not be sustainable upon audit by taxing authorities. These liabilities are reevaluated routinely and are adjusted appropriately based on changes in facts or law. We have no unrecorded liabilities from uncertain tax filing positions.

At March 31, 2021, our federal income tax returns for years prior to 2014 are no longer subject to examination by the Internal Revenue Service. We do not anticipate any assessments for tax years that remain subject to examination to have a material effect on our financial position or results of operations.

Outlook for 2021

The following discussion provides outlook information for our results of operations and capital position.

The impacts of the COVID-19 pandemic and related economic conditions on the Company's results continue to be highly uncertain and outside the Company's control. The scope, duration and magnitude of the direct and indirect effects of the pandemic continue to evolve in ways that are difficult or impossible to anticipate. For additional information on the risks posed by the pandemic, see "A large-scale pandemic, the occurrence of terrorism or military actions may have an adverse effect on our business" included in Part I - Item 1A—Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2020.

At the time of issuance of this Quarterly Report on Form 10-Q, we estimate that 2021 full-year net income will be within a range of $3.00 to $3.20 per diluted share, generating a core return on equity* of over 9%. The outlook assumes a federal statutory corporate tax rate of 21%. This range is unchanged from our Outlook for 2021 we discussed in the Annual Report on Form 10-K for the year ended December 31, 2020.

Property and Casualty Segment

Premiums written* for 2021 are anticipated to be below 2020 levels. We expect sales* will remain under pressure while COVID-19 vaccines are being rolled out across the country, with a return to pre-pandemic sales levels likely to begin in the fourth quarter.

We expect the pandemic's impact on automobile loss costs will continue in 2021, reflecting continued lower frequency related to new driving patterns, as well as a partial offset because of the anticipated uptick in uninsured/underinsured motorist claims. Over the course of 2021, we anticipate loss ratios will gradually rise toward our long-term target levels. Our outlook presumes that some changes to driving patterns will become more permanent, but those would be offset by some of the factors that increased severity in 2020. We anticipate fairly stable automobile rates in 2021.

We expect the underlying property loss ratio* will be stable in 2021 with rates expected to rise in the low-single digits.

As a result, the Property and Casualty full-year combined ratio is expected to be 95% - 96%, assuming catastrophe losses add approximately 9.0 to 9.5 points. Net income for Property and Casualty is anticipated to be in the range of $54 million to $58 million.

Supplemental Segment

Over the course of 2021, we expect Supplemental's pretax profit margin will move closer to our long-term mid 20% target range, as the favorable trends in benefits paid from changes in policyholder behavior due to COVID-19 significantly decline in 2021 while sales* gradually return to pre-pandemic levels. Net investment income should continue to benefit from the portfolio repositioning. Including these factors, net income for Supplemental is anticipated to be in the range of $33 million to $35 million.

Retirement Segment

We expect Retirement to generate net income in the range of $38 million to $40 million in 2021, reflecting higher net investment income from the alternatives portfolio as well as an increase in fees on our annuity business.

Life Segment

We expect Life to generate net income between $17 million and $19 million in 2021, reflecting modeled mortality costs and increased net investment income from the alternatives portfolio. Total sales* are expected to gradually return to pre-pandemic levels.

Investments

For 2021, we expect total net investment income between $370 million and $390 million, including approximately $100 million of accreted investment income on the deposit asset on reinsurance in the Retirement segment. The return on the alternatives portfolio is expected to be in the mid- to high-single digits in 2021, compared with a below-target 5% in 2020 due to market volatility early in the year.

As described in Critical Accounting Estimates, certain of our significant accounting measurements require the use of estimates and assumptions. As additional information becomes available, adjustments may be required. Those adjustments are charged or credited to net income for the period in which the adjustments are made and may impact actual results compared to our estimates above. Additionally, see Forward-looking Information in this Quarterly Report on Form 10-Q as well as Part I - Items 1 and 1A of our Annual Report on Form 10-K for the year ended December 31, 2020 concerning other important factors that could impact actual results. We believe that a projection of net income is not appropriate on a forward-looking basis because it is not possible to provide a valid forecast of net investment gains (losses), which can vary substantially from one period to another and may have a significant impact on net income.

Critical Accounting Estimates

The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions based on information available at the time the consolidated financial statements are prepared. These estimates and assumptions affect the reported amounts of our consolidated assets, liabilities, shareholders' equity and net income. Certain accounting estimates are particularly sensitive because of their significance to our consolidated financial statements and because of the possibility that subsequent events and available information may differ markedly from management's judgments at the time the consolidated financial statements were prepared. We have discussed with the Audit Committee the quality, not just the acceptability, of our accounting principles as applied in our financial reporting. The discussions generally included such matters as the consistency of our accounting policies and their application, and the clarity and completeness of our consolidated financial statements, which include related disclosures. Information regarding our accounting policies pertaining to these topics is located in the Notes to the Consolidated Financial Statements contained in Part II - Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2020.

We have identified the following accounting estimates as critical in that they involve a higher degree of judgment and are subject to a significant degree of variability:

- Valuation of hard-to-value fixed maturity securities, including evaluation of impairments
- Evaluation of goodwill and intangible assets for impairment
- Valuation of annuity and life deferred policy acquisition costs
- Valuation of liabilities for property and casualty unpaid claims and claim expenses
- Valuation of certain investment contract and policy reserves

Compared to December 31, 2020, at March 31, 2021, there were no material changes to accounting policies for areas most subject to significant management judgments identified above. In addition to disclosures in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2020, discussion of accounting policies, including certain sensitivity information, was presented in Management's Discussion and Analysis of Financial Condition and Results of Operations -- Critical Accounting Estimates in that Form 10-K.

Results of Operations by Segment

Consolidated financial results primarily reflect the operating results of our four operating segments as well as the corporate and other line. These reporting segments are defined based on financial information we use to evaluate performance and to determine the allocation of resources.

- Property and Casualty
- Supplemental
- Retirement
- Life
- Corporate and Other

The determination of segment data is described in more detail in Part I - Item 1, Note 9 of the Consolidated Financial Statements in this report. The following sections provide analysis and discussion of the results of operations for each of the reporting segments as well as investment results.

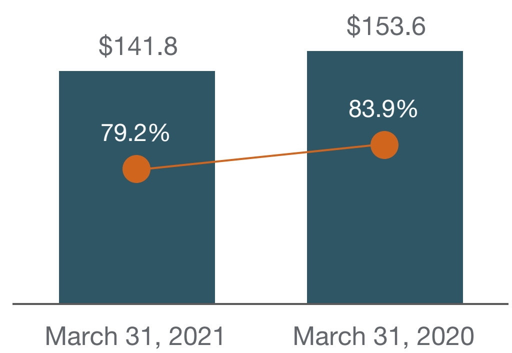
Property and Casualty

(All comparisons vs. same periods in 2020, unless noted otherwise)

For the three months ended March 31, 2021, net income reflected the following factors:

- Premiums written* and premiums earned reduced by lower new business and lower miles driven
- 1.9 points of improvement in the reported loss ratio as the lower automobile loss frequency more than offset a 1.7 point increase from catastrophe losses
- 4.2 points of improvement in the Property and Casualty underlying loss ratio* driven by lower automobile loss frequency reflecting changing driving patterns due to the pandemic
- Higher income tax expense as the prior year period benefited from a one-time tax benefit of $2.0 million as a result of the CARES Act

Premiums Written* and Underlying Combined Ratio* ($ in millions)



The following table provides certain financial information for Property and Casualty for the periods indicated.

($ in millions, unless otherwise indicated)	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	2021-2020 Change
Financial Data:			
Premiums written*:			
Automobile	$ 99.2	$ 109.4	-9.3%
Property and other	42.6	44.2	-3.6%
Total premiums written	141.8	153.6	-7.7%
Change in unearned premiums	14.0	12.9	8.5%
Total premiums earned	155.8	166.5	-6.4%
Incurred claims and claims expenses:			
Claims occurring in the current year	94.7	105.4	-10.2%
Prior years' reserve development	—	1.0	-100.0%
Total claims and claim expenses incurred	94.7	104.4	-9.3%
Operating expenses, including DAC amortization	39.5	43.2	-8.6%
Underwriting gain	21.6	18.9	14.3%
Net investment income	10.8	10.3	4.9%
Income before income taxes	34.4	29.8	15.4%
Net income / core earnings*	27.9	26.6	4.9%
Operating Statistics:			
Automobile			
Loss and loss adjustment expense ratio	59.1%	65.8%	-6.7 pts
Expense ratio	25.1%	25.9%	-0.8 pts
Combined ratio:	84.2%	91.7%	-7.5 pts
Prior years' reserve development	—%	-0.9%	0.9 pts
Catastrophe losses	0.3%	0.2%	0.1 pts
Underlying combined ratio*	83.9%	92.4%	-8.5 pts
Property			
Loss and loss adjustment expense ratio	64.1%	56.5%	7.6 pts
Expense ratio	26.0%	26.2%	-0.2 pts
Combined ratio:	90.1%	82.7%	7.4 pts
Prior years' reserve development	—%	—%	— pts
Catastrophe losses	20.1%	15.8%	4.3 pts
Underlying combined ratio*	70.0%	66.9%	3.1 pts
Risks in force (in thousands)			
Automobile[(1)]	393	424	-7.3%
Property	182	192	-5.2%
Total	575	616	-6.7%

(1) Includes assumed risks in force of 4.

On a reported basis, the 7.5 points of improvement in the automobile combined ratio for the three months ended March 31, 2021 was mainly attributable to a 7.7 point reduction in the automobile underlying loss ratio*. The decline in average automobile loss costs in the three months ended March 31, 2021, compared to the prior year period was largely due to decreased frequency experienced subsequent to COVID-19 lockdowns that began in March 2020. The reported property combined ratio increased 7.4 points for the three months ended March 31, 2021 due to a 4.3 point increase in catastrophe losses with the remaining increase due to higher non-catastrophe weather losses and non-weather water losses.

For the three months ended March 31, 2021, total premiums written* decreased $11.8 million, primarily due to a reduction in automobile written premiums*. For the remainder of 2021, we anticipate the rate environment will be relatively stable, resulting in low-single digit average rate increases (including states with no rate actions) for both automobile and property for the full year. Average approved rate changes for the three months ended March 31, 2021 were insignificant. Growth in sales* has slowed due to COVID-19.

For the three months ended March 31, 2021, automobile premiums written* decreased $10.2 million as the number of automobile risks in force has declined and we have implemented a lower level of rate increases. Further, the average premium written and average premium earned decreased 2.5% and 1.5%, respectively, for the three months ended March 31, 2021, partly because miles driven is lower. The automobile 12 month retention rate for new and renewal risks was 81.9% which was up 0.6 points compared to a year ago. Educator risks as a percentage of overall automobile risks remained stable at 85.2% as of March 31, 2021.

For the three months ended March 31, 2021, property and other premiums written* decreased $1.6 million as the number of property risks in force has declined, however, the average premium written and average premium earned increased 2.4% and 2.6%, respectively. The 12 month retention rate for new and renewal risks increased to 87.3% from 87.1% at March 31, 2021 and 2020, respectively. Educator risks as a percentage of overall property risks remained stable at 82.4% as of March 31, 2021.

We continue to evaluate and implement actions to further mitigate our exposure in catastrophe-prone areas of the country. Such actions could include, but are not limited to, non-renewal of property policies, restricted agent geographic placement, limitations on agent new business sales, further tightening of underwriting standards and increased utilization of third-party vendor products.

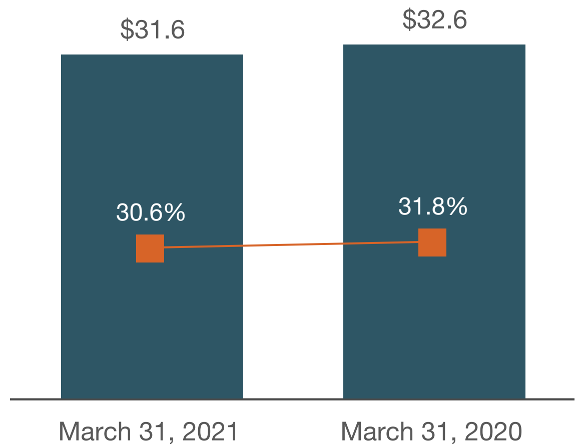
Supplemental

(All comparisons vs. same periods in 2020, unless noted otherwise)

For the three months ended March 31, 2021, net income reflected the following factors:

- Favorable business trends including short-term benefit from changes in policyholder behavior due to COVID-19
- Improved net investment income driven by more favorable returns on limited partnership interests

Premiums Written and Contract Deposits* and Benefits Ratio ($ in millions)



The following table provides certain information for Supplemental for the periods indicated.

($ in millions, unless otherwise indicated)	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	2021-2020 Change
Financial Data:			
Premiums written and contract deposits*	$ 31.6	$ 32.6	-3.1%
Premiums and contract charges earned	31.7	33.0	-3.9%
Net investment income	5.3	3.5	51.4%
Benefits and settlement expenses	9.7	10.5	-7.6%
Operating expenses (includes DAC unlocking and amortization expense)	10.4	10.1	3.0%
Intangible asset amortization expense	2.9	3.2	-9.4%
Income before income taxes	14.6	13.4	9.0%
Net income / core earnings*	11.4	10.5	8.6%
Operating Statistics:			
Supplemental insurance in force (thousands)	284	297	-4.4%
Benefits ratio[1]	30.6 %	31.8 %	-1.2pts
Operating expense ratio[2]	27.6 %	27.1 %	0.5pts
Pretax profit margin[2]	38.7 %	36.0 %	2.7pts
Persistency	91.5 %	89.2 %	2.3pts

(1) Benefits ratio measured to earned premium.
(2) Operating expense ratio and pretax profit margin measured to total revenues.

Supplemental sales* were $1.0 million in the first quarter of 2021 compared to $3.7 million in the first quarter of 2020. Across the industry, supplemental products have traditionally been sold through a worksite enrollment model and have been the most impacted by the limitations of a virtual-only model. Horace Mann agents continue to cross sell supplemental products to their existing educator customers and we continue to support benefit enrollments. Persistency was up 2.3 points at 91.5%.

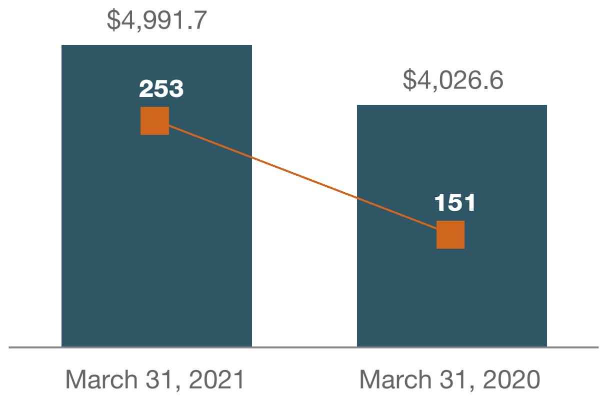
Retirement

(All comparisons vs. same periods in 2020, unless noted otherwise)

For the three months ended March 31, 2021, net income increased $11.5 million, reflecting the following factors:

- $6.9 million increase in net investment income driven by favorable returns on limited partnership interests
- $0.8 million of favorable DAC unlocking in the current period, compared with $4.0 million of unfavorable DAC unlocking from market performance in the prior year period

Annuity Assets Under Management and Annualized Net Interest Spread on Fixed Annuities ($ in millions)



The following table provides certain information for Retirement for the periods indicated.

($ in millions, unless otherwise indicated)	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	2021-2020 Change
Financial Data:			
Contract charges earned	$ 8.6	$ 7.4	16.2%
Net investment income	60.4	53.5	12.9%
Interest credited	39.3	40.3	-2.5%
Net interest margin without net investment gains (losses)	22.2	14.1	57.4%
Net interest margin - reinsured block	(1.1)	(0.9)	-22.2%
Mortality loss and other reserve charges	1.1	1.6	-31.3%
Operating expenses	16.0	16.2	-1.2%
DAC and intangible asset amortization expense, excluding DAC unlocking	5.5	5.2	5.8%
DAC unlocking	(0.8)	4.0	-120.0%
Income (loss) before income taxes	12.6	(1.1)	N.M.
Net income (loss)	10.6	(0.9)	N.M.
Core earnings	10.6	(0.9)	N.M.
Operating Statistics:			
Annuity contract deposits, net*			
Variable	$ 61.6	$ 57.8	6.6%
Fixed	44.2	48.0	-7.9%
Total	105.8	105.8	—%
Single	57.2	53.3	7.3%
Recurring	48.6	52.5	-7.4%
Total	105.8	105.8	—%
Assets under administration (AUA)			
Annuity assets under management(1)	4,991.7	4,026.6	24.0%
Broker and advisory assets under administration	2,388.1	2,093.9	14.1%
Recordkeeping assets under administration	1,546.3	1,260.8	22.6%
Total	8,926.1	7,381.3	20.9%
Persistency			
Variable annuities	95.1 %	94.5 %	0.6 pts
Fixed annuities	95.0 %	94.0 %	1.0 pts
Total	95.0 %	94.1 %	0.9 pts
Annuity contracts in force (thousands)	230	229	0.4%
Fixed spread - YTD annualized (basis points)	253	151	102bps

(1) Amounts reported as of March 31, 2021 and March 31, 2020 exclude $782.8 million and $539.6 million, respectively, of assets under management held under modified coinsurance reinsurance.

For the three months ended March 31, 2021, total annuity contract deposits, net* for variable and fixed annuities were comparable to the prior year period. Educators continue to find value in our Retirement savings products, including our competitively priced annuity products. Cash value persistency remained strong at 95.1% for variable annuities and 95.0% for fixed annuities.

At March 31, 2021, annuity assets under management were $965.1 million above a year ago primarily due to market appreciation and positive net inflows. Variable assets under management, excluding amounts held under the modified coinsurance agreement, increased by $855.5 million from a year ago primarily due to market appreciation and positive net inflows. Assets under administration, which includes Retirement Advantage® and other advisory and recordkeeping assets were up 20.9% from a year ago, as assets under management rose primarily due to strong market appreciation over the past 12 months. The year-to-date annualized net interest spread on fixed annuities, excluding reinsurance, increased 102 basis points, reflecting higher net investment income.

We actively manage our interest rate risk exposure, considering a variety of factors, including earned interest rates, credited interest rates and the relationship between the expected durations of assets and liabilities. We estimate that over the next 12 months approximately $458.2 million of the Retirement and Life combined investment portfolio and related investable cash flows will be reinvested at current market rates. As interest rates remain at low levels, borrowers may prepay or redeem the securities with greater frequency in order to borrow at lower market rates, which could increase investable cash flows and exacerbate the reinvestment risk.

As a general guideline, for a 100 basis point decline in the average reinvestment rate and based on our existing policies and investment portfolio, the impact from investing in that lower interest rate environment could further reduce Retirement net investment income by approximately $1.7 million in year one and $5.2 million in year two, further reducing the annualized net interest spread on fixed annuities by approximately 6 basis points and 17 basis points in the respective periods, compared to the current period annualized net interest spread on fixed annuities. We could also consider potential changes in rates credited to policyholders, tempered by any restrictions on the ability to adjust policyholder rates due to minimum guaranteed crediting rates.

The expectation for future annualized net interest spreads on fixed annuities is also an important component in the amortization of DAC. In terms of the sensitivity of this amortization to the annualized net interest spread on fixed annuities, based on DAC as of March 31, 2021 and assuming all other assumptions are met, a 10 basis point deviation in the current year targeted annualized net interest rate spread on the fixed annuities assumption would impact amortization between $0.4 million and $0.5 million. This result may change depending on the magnitude and direction of any actual deviations but represents a range of reasonably likely experience for the noted assumption.

The annuity reinsurance agreement entered in the second quarter of 2019, which reinsured the $2.2 billion block of in force fixed annuities with a minimum crediting rate of 4.5%, helps mitigate the risk of not being able to generate appropriate spreads on the annuity business. Information regarding the interest crediting rates and balances equal to the minimum guaranteed rate for deferred annuity account values excluding the reinsured block is shown below.

($ in millions)	March 31, 2021				
	Total Deferred Annuities		Deferred Annuities at Minimum Guaranteed Rate		
	Percent of Total	Accumulated Value (AV)	Percent of Total Deferred Annuities AV	Percent of Total	Accumulated Value
Minimum guaranteed interest rates:					
Less than 2%	54.8 %	$ 1,369.2	59.1 %	42.8 %	$ 809.7
Equal to 2% but less than 3%	11.5 %	287.5	83.3 %	12.7 %	239.6
Equal to 3% but less than 4%	24.9 %	622.9	99.9 %	32.9 %	622.4
Equal to 4% but less than 5%	6.8 %	170.5	100.0 %	9.0 %	170.5
5% or higher	2.0 %	49.9	100.0 %	2.6 %	49.9
Total	100.0 %	$ 2,500.0	75.7 %	100.0 %	$ 1,892.1

We will continue to be disciplined in executing strategies to mitigate the negative impact on profitability of a sustained low interest rate environment. However, the success of these strategies may be affected by the factors discussed in Part I - Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2020 and other factors in this report.

Life

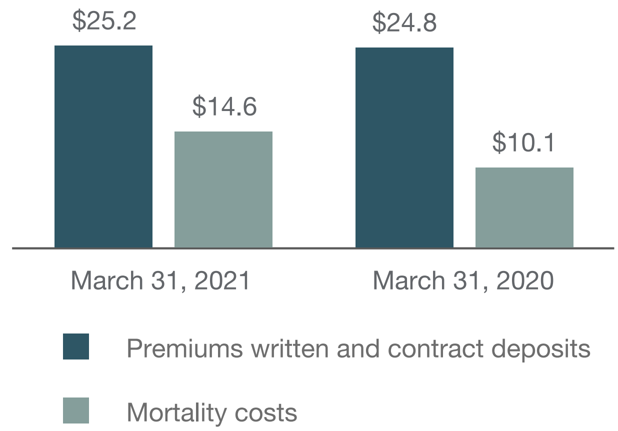
(All comparisons vs. same periods in 2020, unless noted otherwise)

For the three months ended March 31, 2021, net income increased $0.1 million, reflecting the following factors:

- Higher mortality costs offset by
- Higher net investment income driven by favorable returns on limited partnership interests

The following table provides certain information for Life for the periods indicated.

Premiums Written and Contract Deposits* and Mortality Costs ($ in millions)



($ in millions, unless otherwise indicated)	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	2021-2020 Change
Financial Data:			
Premiums written and contract deposits*	$ 25.2	$ 24.8	1.6%
Premiums and contract charges earned	31.5	29.4	7.1%
Net investment income	19.6	15.6	25.6%
Benefits and settlement expenses	28.8	22.2	29.7%
Interest credited	11.2	11.2	—%
Operating expenses	8.3	9.1	-8.8%
DAC amortization expense, excluding unlocking	1.8	1.9	-5.3%
DAC unlocking	0.2	(0.1)	300.0%
Income before income taxes	0.9	0.7	28.6%
Net income / core earnings*	0.7	0.6	16.7%
Operating Statistics:			
Life insurance in force	$ 19,936	$ 19,295	3.3%
Number of policies in force (thousands)	201	201	—%
Average face amount in force (in dollars)	$ 99,368	$ 96,225	3.3%
Lapse ratio (ordinary life insurance in force)	3.9 %	4.7 %	-0.8pts
Mortality costs	$ 14.6	$ 10.1	44.6%

For the three months ended March 31, 2021, annualized Life sales* were unchanged compared to the prior year period on steady new sales of recurring term and whole life policies, and lower new sales of indexed universal life policies. Full-year persistency for life products of 96.1% improved from the prior year period.

Corporate and Other

(All comparisons vs. same periods in 2020, unless noted otherwise)

The following table provides certain financial information for Corporate and Other for the periods indicated.

($ in millions)	Three Months Ended March 31, 2021	2020	2021-2020 Change %
Interest expense	$ 3.4	$ 4.0	-15.0%
Net investment losses pretax	(9.0)	(18.5)	N.M.
Tax on net investment losses	(1.9)	(4.0)	N.M.
Net investment losses after tax	(7.1)	(14.5)	N.M.
Net loss	(11.3)	(18.3)	38.3%
Core earnings (loss)*	(4.2)	(3.8)	-10.5%

For the three months ended March 31, 2021, the net loss decreased because net investment losses in the current period were lower. For the three months ended March 31, 2020, the net loss reflected $15.2 million after-tax of net investment losses on changes in fair value for equity securities and derivatives - all due to COVID-19 related market volatility.

Investment Results

(All comparisons vs. same periods in 2020, unless noted otherwise)

Our investment strategy is primarily focused on generating income to support product liabilities and balances principal protection and risk. Total net investment income includes net investment income from our investment portfolio as well as accreted investment income from the deposit asset on reinsurance related to our reinsured block of approximately $2.9 billion of policy liabilities related to legacy individual annuities written in 2002 or earlier.

($ in millions)	Three Months Ended March 31, 2021	2020	2021-2020 Change %
Net investment income - Investment portfolio	$ 71.1	$ 58.6	21.3%
Investment income - Deposit asset on reinsurance	24.4	23.7	3.0%
Total net investment income	95.5	82.3	16.0%
Pretax net investment gains (losses)	(9.0)	(18.5)	N.M.
Pretax net unrealized investment gains on fixed maturity securities	363.6	189.7	91.7%

Excluding accreted investment income on the deposit asset on reinsurance, net investment income increased $12.5 million for the three months ended March 31, 2021, as more favorable returns on limited partnership interests continued to offset slightly lower yields on fixed maturity securities.

For the three months ended March 31, 2021, pretax net investment losses decreased $9.5 million primarily because pretax net investment losses on equity securities and derivatives were higher in the prior year period. Pretax net unrealized investment gains on fixed maturity securities were down $193.1 million compared to December 31, 2020, reflecting a 83 basis points increase in the 10-year U.S. Treasury yield that more than offset tighter credit spreads across most asset classes.

Fixed Maturity and Equity Securities Portfolios

The table below presents our fixed maturity and equity securities portfolios by major asset class, including the 10 largest sectors of our corporate bond holdings (based on fair value).

($ in millions)	March 31, 2021			
	Number of Issuers	Fair Value	Amortized Cost, net	Pretax Net Unrealized Gain (Loss)
Fixed maturity securities				
Corporate bonds				
Banking & Finance	145	$ 492.0	$ 460.9	$ 31.1
Insurance	50	185.0	168.2	16.8
Energy(1)	77	175.5	164.7	10.8
Healthcare, Pharmacy	82	161.2	152.7	8.5
Real Estate	43	125.4	119.5	5.9
Utilities	68	115.9	109.5	6.4
Misc.	29	110.3	109.9	0.4
Transportation	47	101.4	95.5	5.9
Technology	44	98.9	94.4	4.5
Food and Beverage	35	79.1	70.6	8.5
All other corporates(2)	356	549.5	517.6	31.9
Total corporate bonds	976	2,194.2	2,063.5	130.7
Mortgage-backed securities				
U.S. Government and federally sponsored agencies	266	475.1	441.2	33.9
Commercial(3)	130	329.5	310.0	19.5
Other	40	49.3	49.7	(0.4)
Municipal bonds(4)	602	1,768.1	1,609.9	158.2
Government bonds				
U.S.	40	458.3	444.3	14.0
Foreign	7	44.5	40.2	4.3
Collateralized loan obligations(5)	173	675.0	673.1	1.9
Asset-backed securities	113	362.3	360.8	1.5
Total fixed maturity securities	2,347	$ 6,356.3	$ 5,992.7	$ 363.6
Equity securities				
Non-redeemable preferred stocks	25	$ 110.2		
Common stocks	93	8.6		
Closed-end fund	1	21.2		
Total equity securities	119	$ 140.0		
Total	2,466	$ 6,496.3		

(1) At March 31, 2021, the fair value amount included $343.2 million which were non-investment grade.

(2) The All other corporates category contains 19 additional industry sectors. Broadcasting and media, consumer products, telecommunications, metal and mining, and industry manufacturing represented $275.2 million of fair value at March 31, 2021, with the remaining 14 sectors each representing less than $242.5 million.

(3) At March 31, 2021, 99.6% were investment grade, with an overall credit rating of AA+, and the positions were well diversified by property type, geography and sponsor.

(4) Holdings are geographically diversified, 52.2% are tax-exempt and 77.1% are revenue bonds tied to essential services, such as mass transit, water and sewer. The overall credit quality of the municipal bond portfolio was AA- at March 31, 2021.

(5) Based on fair value, 95.0% of the collateralized loan obligation securities were rated investment grade by Standard and Poor's Global Inc. (S&P), Moody's Investors Service, Inc. (Moody's) and/or Fitch Ratings, Inc. (Fitch) at March 31, 2021.

At March 31, 2021, our diversified fixed maturity securities portfolio consisted of 3,734 investment positions, issued by 2,347 entities, and totaled approximately $6.4 billion in fair value. This portfolio was 89.4% investment grade, based on fair value, with an average quality rating of A+. Our investment guidelines target single corporate issuer concentrations to 0.5% of invested assets for AAA or AA rated securities, 0.35% of invested assets for A or BBB rated securities, and $5.0 million for non-investment grade securities.

Rating of Fixed Maturity Securities and Equity Securities[1]

The following table presents the composition and fair value of our fixed maturity and equity securities portfolios by rating category. At March 31, 2021, 88.8% of these combined portfolios were investment grade, based on fair value, with an overall average quality rating of A+. We have classified the entire fixed maturity securities portfolio as available for sale, which is carried at fair value.

($ in millions)	Percent of Portfolio Fair Value		March 31, 2021	
	December 31, 2020	March 31, 2021	Fair Value	Amortized Cost, net
Fixed maturity securities				
AAA	11.6 %	11.4 %	$ 722.2	$ 705.7
AA[2]	40.0	38.7	2,458.2	2,304.0
A	18.7	17.8	1,133.6	1,049.0
BBB	21.2	21.5	1,368.2	1,276.5
BB	2.4	2.6	168.3	161.1
B	1.1	1.2	75.2	73.7
CCC or lower	0.1	0.1	4.8	4.7
Not rated[3]	4.9	6.7	425.8	418.0
Total fixed maturity securities	100.0 %	100.0 %	$ 6,356.3	$ 5,992.7
Equity securities				
AAA	— %	— %	$ —	
AA	—	—	—	
A	0.7	0.6	0.8	
BBB	62.2	59.8	83.7	
BB	10.9	9.2	12.9	
B	—	—	—	
CCC or lower	—	—	—	
Not rated	26.2	30.4	42.6	
Total equity securities	100.0 %	100.0 %	$ 140.0	
Total			$ 6,496.3	

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

(2) At March 31, 2021, the AA rated fair value amount included $454.2 million of U.S. Government and federally sponsored agency securities and $666.3 million of mortgage-backed and other asset-backed securities issued by U.S. Government and federally sponsored agencies.

(3) This category primarily represents private placement and municipal securities not rated by either S&P, Moody's or Fitch.

At March 31, 2021, the fixed maturity securities portfolio had $48.6 million of pretax gross unrealized investment losses on $1,257.6 million of fair value related to 748 positions. Of the investment positions with gross unrealized losses, there were 16 trading below 80.0% of the carrying value at March 31, 2021.

We view the pretax gross unrealized investment losses of all our fixed maturity securities at March 31, 2021 as temporary. Future changes in circumstances related to these and other securities could require subsequent recognition of impairment.

Liquidity and Capital Resources

Off-Balance Sheet Arrangements

At March 31, 2021 and 2020, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we engaged in such relationships.

Investments

Information regarding our investment portfolio, which is comprised primarily of investment grade fixed maturity securities, is presented in Part I - Item 1, Note 2 of the Consolidated Financial Statements as well as Part I - Item 2 - Investments Results in this report.

Cash Flow

Our short-term liquidity requirements, within a 12 month operating cycle, are for the timely payment of claims and benefits to policyholders, operating expenses, interest payments and federal income taxes. Cash flow generated from operations has been, and is expected to be, adequate to meet our operating cash needs in the next 12 months. Cash flow in excess of operational needs has been used to fund business growth, pay dividends to shareholders and repurchase shares of our common stock. Long-term liquidity requirements, beyond one year, are principally for the payment of future insurance and annuity policy claims and benefits, as well as retirement of debt. The following table summarizes our consolidated cash flows activity for the periods indicated.

($ in millions)	Three Months Ended March 31,		2021-2020
	2021	2020	Change %
Net cash provided by operating activities	$ 142.0	$ 87.4	62.5%
Net cash used in investing activities	(239.5)	(140.0)	-71.1%
Net cash provided by financing activities	114.6	68.3	67.8%
Net increase in cash	17.1	15.7	8.9%
Cash at beginning of period	22.3	25.5	-12.5%
Cash at end of period	$ 39.4	$ 41.2	-4.4%

Operating Activities

As a holding company, we conduct our principal operations in the personal lines segment of the property and casualty, supplemental and life insurance industries through our subsidiaries. Our insurance subsidiaries generate cash flow from premium and investment income, generally well in excess of their immediate needs for policy obligations, operating expenses and other cash requirements. Cash provided by operating activities primarily reflects net cash flows generated by the insurance subsidiaries.

For the three months ended March 31, 2021, net cash provided by operating activities increased $54.6 million, primarily due to lower claims paid on insurance policies and higher investment income collected.

Investing Activities

Our insurance subsidiaries maintain significant investments in fixed maturity securities to meet future contractual obligations to policyholders. In conjunction with our management of liquidity and other asset/liability management objectives, we, from time to time, will sell fixed maturity securities prior to maturity, and reinvest the proceeds into other investments with different interest rates, maturities or credit characteristics. Accordingly, we have classified the entire fixed maturity securities portfolio as available for sale.

Financing Activities

Financing activities include primarily payment of dividends, receipt and withdrawal of funds by annuity contractholders, changes in the deposit asset on reinsurance, issuances and repurchases of our common stock, fluctuations in book overdraft balances, and borrowings, repayments and repurchases related to debt facilities.

For the three months ended March 31, 2021, net cash provided by financing activities increased $46.3 million compared to the prior year period, primarily due to a $55.0 million increase in cash inflows from advances received under FHLB funding agreements.

The following table shows activity from FHLB funding agreements for the periods indicated.

($ in millions)	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Change $	Change %
Balance at beginning of the period	$ 590.5	$ 495.0		
Advances received from FHLB funding agreements	130.0	75.0	$ 55.0	73.3%
Principal repayment on FHLB funding agreements	—	—		
Balance at end of the period	$ 720.5	$ 570.0		

Liquidity Sources and Uses

Our potential sources and uses of funds principally include the following activities:

	Property and Casualty	Supplemental	Retirement	Life	Corporate and Other
Activities for potential sources of funds					
Receipt of insurance premiums, contractholder charges and fees	☑	☑	☑	☑	
Recurring service fees, commissions and overrides	☑	☑	☑	☑	☑
Contractholder fund deposits		☑	☑	☑	
Reinsurance and indemnification program recoveries	☑	☑	☑	☑	
Receipts of principal, interest and dividends on investments	☑	☑	☑	☑	☑
Sales of investments	☑	☑	☑	☑	☑
Funds from FHLB and line of credit agreements	☑	☑	☑	☑	☑
Intercompany loans	☑	☑	☑	☑	☑
Capital contributions from parent	☑	☑	☑	☑	
Dividends or return of capital from subsidiaries					☑
Tax refunds/settlements	☑	☑	☑	☑	☑
Funds from periodic issuance of additional securities					☑
Proceeds from debt issuances					☑
Receipt of intercompany settlements related to employee benefit plans					☑
Activities for potential uses of funds					
Payment of claims and related expenses	☑	☑	☑	☑	
Payment of contract benefits, surrenders and withdrawals		☑	☑	☑	
Reinsurance cessions and indemnification program payments	☑	☑	☑	☑	
Operating costs and expenses	☑	☑	☑	☑	☑
Purchase of investments	☑	☑	☑	☑	☑
Repayment of FHLB and line of credit agreements	☑	☑	☑	☑	☑
Payment or repayment of intercompany loans	☑	☑	☑	☑	☑
Capital contributions to subsidiaries					☑
Dividends or return of capital to shareholders/parent company	☑	☑	☑	☑	☑
Tax payments/settlements	☑	☑	☑	☑	☑
Common share repurchases					☑
Debt service expenses and repayment					☑
Payments related to employee benefit plans					☑
Payments for acquisitions					☑

We actively manage our financial position and liquidity levels in light of changing market, economic and business conditions. Liquidity is managed at both the entity and enterprise level across HMEC and is assessed on both base and stressed level liquidity needs. We believe we have sufficient liquidity to meet these needs. Additionally, we have existing intercompany agreements in place that facilitate liquidity management across HMEC to enhance flexibility.

As of March 31, 2021, we held $1.2 billion of cash, U.S. government and agency fixed maturity securities and public equity securities (excluding non-redeemable preferred stocks and foreign equity securities) which, under normal market conditions, could be rapidly liquidated.

Certain remote events and circumstances could constrain our liquidity. Those events and circumstances include, for example, a catastrophe resulting in extraordinary losses, a downgrade of our Senior Notes rating to non-investment grade status or a downgrade in our insurance subsidiaries' financial strength ratings. The rating agencies also consider the interdependence of our individually rated entities; therefore, a rating change in one entity could potentially affect the ratings of other related entities.

Capital Resources

We have determined the amount of capital that is needed to adequately fund and support business growth, primarily based on risk-based capital formulas, including those developed by the National Association of Insurance Commissioners. Historically, our insurance subsidiaries have generated capital in excess of such needed levels. These excess amounts have been paid to us through dividends. We have then utilized these dividends and our access to the capital markets to fund growth initiatives, service and retire debt, pay dividends to our shareholders, repurchase shares of our common stock and for other corporate purposes. If necessary, we also have other potential sources of liquidity that could provide for additional funding to meet corporate obligations or pay shareholder dividends, including a revolving line of credit, as well as issuances of various securities.

The insurance subsidiaries are subject to various regulatory restrictions which limit the amount of annual dividends or other distributions, including loans or cash advances, available to us without prior approval of the insurance regulatory authorities. The aggregate amount of dividends that may be paid in 2021 from all of our insurance subsidiaries without prior regulatory approval is $248.7 million, excluding the impact and timing of prior dividends, of which $9.0 million was paid during the three months ended March 31, 2021. We anticipate that our sources of capital will continue to generate sufficient capital to meet the needs for business growth, debt interest payments, shareholder dividends and our share repurchase program. Additional information is contained in Part II - Item 8, Note 13 of the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2020.

Total capital was $2,130.3 million at March 31, 2021, including $437.4 million of short-term and long-term debt. Total debt represented 20.5% of total capital including net unrealized investment gains on fixed maturity securities (23.2% excluding net unrealized investment gains on fixed maturity securities*) at March 31, 2021, which was below our long-term target of 25%.

Shareholders' equity was $1,692.9 million at March 31, 2021, including net unrealized investment gains on fixed maturity securities of $243.6 million after taxes and the related impact of DAC associated with annuity contracts and life insurance products with account values. The market value of our common stock and the market value per share were $1,791.8 million and $43.21, respectively, at March 31, 2021. Book value per share was $40.83 at March 31, 2021 ($34.95 excluding net unrealized investment gains on fixed maturity securities*).

Additional information regarding net unrealized investment gains on fixed maturity securities at March 31, 2021 is included in Part I - Item 1, Note 2 of the Consolidated Financial Statements as well as in Part I - Item 2 - Investment Results in this report.

Total shareholder dividends paid was $12.9 million for the three months ended March 31, 2021. In March 2021, the Board of Directors (Board) approved an increase in the regular quarterly dividend to $0.31 per share.

For the three months ended March 31, 2021, we repurchased 39,485 shares of our common stock at an average price per share of $38.44 under our share repurchase program, which is further described in Part II - Item 8, Note 12 of the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2020. As of March 31, 2021, $19.1 million remained authorized for future share repurchases under the share repurchase program.

The following table summarizes our debt obligations.

($ in millions)	Interest Rates	Final Maturity	March 31, 2021	December 31, 2020
Short-term debt				
Bank Credit Facility	Variable	2024	$ 135.0	$ 135.0
Long-term debt[1]				
4.50% Senior Notes, Aggregate principal amount of $250.0 less unaccrued discount of $0.3 and $0.4 and unamortized debt issuance costs of $1.3 and $1.3	4.50%	2025	248.4	248.3
Federal Home Loan Bank borrowing	0.41%	2022	54.0	54.0
Total			$ 437.4	$ 437.3

(1) We designate debt obligations as "long-term" based on maturity date at issuance.

As of March 31, 2021, we had outstanding $250.0 million aggregate principal amount of 4.50% Senior Notes (Senior Notes), which will mature on December 1, 2025, issued at a discount resulting in an effective yield of 4.53%. Interest on the Senior Notes is payable semi-annually at a rate of 4.50%. Detailed information regarding the redemption terms of the Senior Notes is contained in the Part II - Item 8, Note 9 of the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2020. The Senior Notes are traded in the open market (HMN 4.50).

As of March 31, 2021, we had $54.0 million of borrowings outstanding with FHLB. The Board has authorized a maximum amount equal to 15% of net aggregate admitted assets less separate account assets of the insurance subsidiaries for FHLB borrowing and funding agreements which is below our maximum FHLB borrowing capacity. For the total $54.0 million received, $4.0 million matures on May 17, 2021, $25.0 million matures on October 5, 2022 and $25.0 million matures on December 2, 2022. Interest on the borrowings accrue at an annual weighted average rate of 0.41% as of March 31, 2021. The $54.0 million of FHLB borrowings is reported as Long-term debt in the Consolidated Balance Sheets.

On June 21, 2019, we, as borrower, replaced our current line of credit with a new five-year Credit Agreement (Bank Credit Facility). The new Bank Credit Facility increased the amount available on this senior revolving credit facility to $225.0 million from $150.0 million. PNC Capital Markets, LLC and JPMorgan Chase Bank, N.A. served as joint leads on the new agreement, with The Northern Trust Company, U.S. Bank National Association, KeyBank National Association, Comerica Bank and Illinois National Bank participating in the syndicate. Terms and conditions of the new Bank Credit Facility are substantially consistent with the prior agreement, with an interest rate based on LIBOR plus 115 basis points.

As of March 31, 2021, the amount outstanding on the senior revolving credit facility was $135.0 million. The $90.0 million unused portion of the Bank Credit Facility is available for use and subject to a variable commitment fee, which was 0.15% on an annual basis at March 31, 2021.

To provide additional capital management flexibility, we filed a "universal shelf" registration statement on Form S-3 with the Securities and Exchange Commission (SEC) on March 10, 2021. The registration statement, which registered the offer and sale from time to time of an indeterminate amount of various securities, which may include debt securities, common stock, preferred stock, depositary shares, warrants, delayed delivery contracts and/or units that include any of these securities, was automatically effective on March 10, 2021. Unless withdrawn by us earlier, this registration statement will remain effective through March 10, 2024. No securities associated with the registration statement have been issued at the time of issuance of this Quarterly Report on Form 10-Q.

On March 13, 2018, we filed a "shelf" registration statement on Form S-4 with the SEC which became effective on May 2, 2018. Under this registration statement, we may from time to time offer and issue up to 5,000,000 shares of our common stock in connection with future acquisitions of other businesses, assets or securities. Unless withdrawn by us, this registration statement will remain effective indefinitely. No securities associated with the registration statement have been issued at the time of issuance of this Quarterly Report on Form 10-Q.

Financial Ratings

Our principal insurance subsidiaries are rated by A.M. Best Company, Inc. (A.M. Best), Fitch, Moody's and S&P. These rating agencies have also assigned ratings to our Senior Notes. The ratings that are assigned by these agencies, which are subject to change, can impact, among other things, our access to sources of capital, cost of capital, and competitive position. These ratings are not a recommendation to buy or hold any of our securities.

All four agencies currently have assigned the same insurance financial strength ratings to our Property and Casualty and Life insurance subsidiaries. Only A.M. Best currently rates our Supplemental segment's subsidiaries. Assigned ratings and respective affirmation/review dates as of April 30, 2021 were as follows:

	Insurance Financial Strength Ratings (Outlook)		Debt Ratings (Outlook)		Affirmed/ Reviewed
A.M. Best					7/2/2020
HMEC (parent company)	N.A.		bbb	(stable)	
HMEC's Life subsidiary	A	(stable)	N.A.		
HMEC's Property and Casualty subsidiaries	A	(stable)	N.A.		
HMEC's Supplemental subsidiaries	A-	(stable)	N.A.		
Fitch	A	(stable)	BBB	(stable)	9/22/2020
Moody's	A2	(stable)	Baa2	(stable)	10/8/2020
S&P	A	(stable)	BBB	(stable)	2/18/2021

Reinsurance Programs

Information regarding the reinsurance programs for our Property and Casualty, Supplemental and Life segments is located in Part II - Item 8, Note 8 of the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2020.

Effective April 1, 2019, we reinsured a block of approximately $2.9 billion of individual annuity policy liabilities to AA- S&P rated RGA Reinsurance Company, a subsidiary of Reinsurance Group of America, Incorporated (RGA). The block includes $2.2 billion of fixed annuities reinsured under coinsurance and $0.7 billion of variable annuities reinsured under modified coinsurance. RGA's financial obligations for the general account liabilities of the reinsured annuity contracts are secured by its assets placed in a comfort trust for our sole use and benefit. Upon RGA's material breach of the reinsurance agreement, deterioration of its risk-based capital ratio to a certain level, or certain other events, we may recapture the reinsured business.

ITEM 3. | Quantitative and Qualitative Disclosures about Market Risk

Market value risk, our primary market risk exposure, is the risk that our invested assets will decrease in value. This decrease in value may be due to (1) a change in the yields realized on our assets and prevailing market yields for similar assets, (2) an unfavorable change in the liquidity of an investment, (3) an unfavorable change in the financial prospects of the issuer of an investment, or (4) a downgrade in the credit rating of the issuer of an investment. Also see Consolidated Results of Operations in Part I - Item 2 of this report regarding net investment gains (losses).

Significant changes in interest rates expose us to the risk of experiencing losses or earning a reduced level of income based on the difference between the interest rates earned on our investments and the credited interest rates on our insurance and investment contract liabilities. Also see Consolidated Results of Operations in Part I - Item 2 of this report regarding interest credited to policyholders.

We seek to manage our market value risk by coordinating the projected cash inflows of assets with the projected cash outflows of liabilities. For all of our assets and liabilities, we seek to maintain reasonable durations, consistent with the maximization of income without sacrificing investment quality, while providing for liquidity and diversification. The investment risk associated with variable annuity deposits and the underlying mutual funds is assumed by those contractholders, and not by us. Certain fees that we earn from variable annuity deposits are based on the market value of the funds deposited.

More detailed descriptions of our exposure to market value risks and the management of those risks is contained in Part II - Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2020.

ITEM 4. | Controls and Procedures

Management's Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 as amended (Exchange Act), as of March 31, 2021. Based on this evaluation, the chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us (including our consolidated subsidiaries) that is required to be included in our periodic SEC filings. No material weaknesses in our disclosure controls and procedures were identified in the evaluation and therefore, no corrective actions were taken. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1A. | Risk Factors

At the time of issuance of this Quarterly Report on Form 10-Q, we believe there are no material changes from the risk factors as previously disclosed in Part I - Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020.

ITEM 2. | Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

On September 30, 2015, the Board authorized a share repurchase program allowing repurchases of up to $50.0 million of our common stock, par value $0.001 (Program). The Program authorizes the repurchase of our common stock in open market or privately negotiated transactions, from time to time, depending on market conditions. The Program does not have an expiration date and may be limited or terminated at any time without notice. During the three months ended March 31, 2021, we repurchased shares of our common stock under the Program as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased under the Program	Approximate Dollar Value of Shares that may yet be Purchased under the Program
January 1 - 31	—	—	—	$ 20.6 million
February 1 - 28	39,485	$ 38.44	39,485	$ 19.1 million
March 1 - 31	—	—	—	$ 19.1 million
Total	39,485	$ 38.44	39,485	$ 19.1 million

ITEM 5. | Other Information

Not applicable.

ITEM 6. | Exhibits

The following items are filed as Exhibits. Management contracts and compensatory plans are indicated by an asterisk (*).

Exhibit No.	Description
(3) Articles of incorporation and bylaws:	
3.1	Restated Certificate of Incorporation of HMEC, filed with the Delaware Secretary of State on June 24, 2003, incorporated by reference to Exhibit 3.1 to HMEC's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed with the Securities and Exchange Commission (the "SEC") on August 14, 2003.
3.2	Bylaws of HMEC, incorporated by reference to Exhibit 3.2 to HMEC's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed with the SEC on August 14, 2003.

(4) Instruments defining the rights of security holders, including indentures:

4.1	Indenture, dated as of November 23, 2015, by and between HMEC and The Bank of New York Mellon Trust Company, N.A., as trustee, incorporated by reference to Exhibit 4.1 to HMEC's Current Report on Form 8-K dated November 18, 2015, filed with the SEC on November 23, 2015.
4.1(a)	Form of HMEC 4.500% Senior Notes due 2025, incorporated by reference to Exhibit 4.2 to HMEC's Current Report on Form 8-K dated November 18, 2015, filed with the SEC on November 23, 2015.
4.2	Certificate of Designations for HMEC Series A Cumulative Convertible Preferred Stock, incorporated by reference to Exhibit 4.3 to HMEC's Annual Report on Form 10-K for the year ended December 31, 2005, filed with the SEC on March 16, 2006.
4.3	Description of Securities, incorporated by reference to Exhibit 4.3 to HMEC's Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on March 2, 2020.

(10) Material contracts:

10.1	Credit Agreement dated as of June 21, 2019 among HMEC, certain financial institutions named therein and PNC Bank, N.A., as administrative agent, incorporated by reference to Exhibit 10.1 to HMEC's Current Report on Form 8-K dated June 24, 2019, filed with the SEC on June 24, 2019.
10.1(a)	First Amendment to Credit Agreement dated as of June 21, 2019 among HMEC, certain financial institutions named therein and PNC Bank, N.A., as administrative agent, incorporated by reference to Exhibit 10.1(a) to HMEC's Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on March 2, 2020.
10.2*	Horace Mann Educators Corporation Amended and Restated 2002 Incentive Compensation Plan ("2002 Incentive Compensation Plan"), incorporated by reference to Exhibit 10.2 to HMEC's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, filed with the SEC on August 9, 2005.
10.2(a)*	Revised Specimen Employee Stock Option Agreement under the 2002 Incentive Compensation Plan, incorporated by reference to Exhibit 10.6(b) to HMEC's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on March 2, 2009.
10.2(b)*	Specimen Employee Restricted Stock Unit Agreement under the 2002 Incentive Compensation Plan, incorporated by reference to Exhibit 10.6(d) to HMEC's Annual Report on Form 10-K for the year ended December 31, 2005, filed with the SEC on March 16, 2006.
10.2(c)*	Revised Specimen Employee Restricted Stock Unit Agreement under the 2002 Incentive Compensation Plan, incorporated by reference to Exhibit 10.6(f) to HMEC's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on March 2, 2009.
10.2(d)*	Specimen Non-employee Director Restricted Stock Unit Agreement under the 2002 Incentive Compensation Plan, incorporated by reference to Exhibit 10.6(e) to HMEC's Annual Report on Form 10-K for the year ended December 31, 2005, filed with the SEC on March 16, 2006.
10.2(e)*	Revised Specimen Non-employee Director Restricted Stock Unit Agreement under the 2002 Incentive Compensation Plan, incorporated by reference to Exhibit 10.6(h) to HMEC's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on March 2, 2009.

10.3*	First Amendment to the HMEC 2010 Comprehensive Executive Compensation Plan (As Amended and Restated Effective as of May 20, 2015), incorporated by reference to Exhibit 10.3 to HMEC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, filed with the SEC on May 9, 2017.
10.3(a)*	HMEC 2010 Comprehensive Executive Compensation Plan (As Amended and Restated Effective May 20, 2015) (Section 16 Officer) Non-Qualified Stock Option Agreement - Employee Grantee, incorporated by reference to Exhibit 10.3(a) to HMEC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, filed with the SEC on May 9, 2017.
10.3(b)*	HMEC 2010 Comprehensive Executive Compensation Plan (As Amended and Restated Effective May 20, 2015) (Non-Section 16) Non-Qualified Stock Option Agreement - Employee Grantee, incorporated by reference to Exhibit 10.3(b) to HMEC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, filed with the SEC on May 9, 2017.
10.3(c)*	HMEC 2010 Comprehensive Executive Compensation Plan (As Amended and Restated Effective May 20, 2015) Service-Vested Restricted Stock Units Agreement - Employee Grantee, incorporated by reference to Exhibit 10.3(c) to HMEC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, filed with the SEC on May 9, 2017.
10.3(d)*	HMEC 2010 Comprehensive Executive Compensation Plan (As Amended and Restated Effective May 20, 2015) Performance-Based Restricted Stock Units Agreement - Employee Grantee, incorporated by reference to Exhibit 10.3(d) to HMEC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, filed with the SEC on May 9, 2017.
10.3(e)*	HMEC 2010 Comprehensive Executive Compensation Plan (As Amended and Restated Effective May 20, 2015) Service-Vested Restricted Stock Units Agreement - Employee Grantee (One-Time Grant Service), incorporated by reference to Exhibit 10.3(e) to HMEC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, filed with the SEC on May 9, 2017.
10.3(f)*	Specimen Employee Performance-Based Restricted Stock Units Agreement - Key Strategic Grantee under the HMEC 2010 Comprehensive Executive Compensation Plan incorporated by reference to Exhibit 10.3(e) to HMEC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, filed with the SEC on May 6, 2016.
10.3(g)*	Specimen Non-employee Director Restricted Stock Unit Agreement under the HMEC 2010 Comprehensive Executive Compensation Plan, incorporated by reference to Exhibit 10.17(a) to HMEC's Current Report on Form 8-K dated May 27, 2010, filed with the SEC on June 2, 2010.
10.4*	Horace Mann Supplemental Employee Retirement Plan, 2002 Restatement, incorporated by reference to Exhibit 10.1 to HMEC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, filed with the SEC on May 15, 2002.
10.5*	Horace Mann Executive Supplemental Employee Retirement Plan, 2002 Restatement, incorporated by reference to Exhibit 10.2 to HMEC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, filed with the SEC on May 15, 2002.
10.6*	Amended and Restated Horace Mann Nonqualified Supplemental Money Purchase Pension Plan, incorporated by reference to Exhibit 10.9 to HMEC's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on March 2, 2009.
10.7*	Summary of HMEC Non-employee Director Compensation, incorporated by reference to Exhibit 10.7 to HMEC's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, filed with the SEC on August 7, 2020.

10.8*	Summary of HMEC Named Executive Officer Annualized Salaries.
10.9*	Form of Severance Agreement between HMEC, Horace Mann Service Corporation ("HMSC") and certain officers of HMEC and/or HMSC, incorporated by reference to Exhibit 10.13 to HMEC's Annual Report on Form 10-K for the year ended December 31, 2012, filed with the SEC on February 28, 2013.
10.10*	HMSC Executive Change in Control Plan, incorporated by reference to Exhibit 10.15 to HMEC's Current Report on Form 8-K dated February 15, 2012, filed with the SEC on February 22, 2012.
10.10(a)*	HMSC Executive Change in Control Plan Schedule A Plan Participants.
10.11*	HMSC Executive Severance Plan, incorporated by reference to Exhibit 10.16 to HMEC's Current Report on Form 8-K dated March 7, 2012, filed with the SEC on March 13, 2012.
10.11(a)*	First Amendment to the HMSC Executive Severance Plan, incorporated by reference to Exhibit 10.16(a) to HMEC's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, filed with the SEC on August 9, 2012.
10.11(b)*	HMSC Executive Severance Plan Schedule A Participants.
10.12	Stock Purchase Agreement Among Horace Mann Educators Corporation, and Robert Paglione, Paglione Family Irrevocable Trust F/B/O Adam Paglione, Paglione Family Irrevocable Trust F/B/O Lisa and Jorge Arroyo, Beau Adams and Benefit Consultants Group, Inc. dated as of October 30, 2018, incorporated by reference to Exhibit 10.12 to HMEC's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 1, 2019.
10.13	Purchase Agreement By and Among Ellard Family Holdings, Inc., Brian M. Ellard, The JCE Exempt Trust and Horace Mann Educators Corporation dated as of December 10, 2018, incorporated by reference to Exhibit 10.13 to HMEC's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 1, 2019.
10.14	Executive Transition Agreement between HMSC and Wade A. Rugenstein as of December 5, 2018, incorporated by reference to Exhibit 10.14 to HMEC's Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on March 2, 2020.

(11) Statement regarding computation of per share earnings.

(15) KPMG LLP letter regarding unaudited interim financial information.

(31) Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002:

31.1	Certification by Marita Zuraitis, Chief Executive Officer of HMEC.
31.2	Certification by Bret A. Conklin, Chief Financial Officer of HMEC.

(32) Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002:

32.1	Certification by Marita Zuraitis, Chief Executive Officer of HMEC.
32.2	Certification by Bret A. Conklin, Chief Financial Officer of HMEC.

(99) Additional exhibits:

99.1	Glossary of Selected Terms.

(101) Interactive Data File:

101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HORACE MANN EDUCATORS CORPORATION
(Registrant)

Date May 7, 2021

/s/ Marita Zuraitis

Marita Zuraitis
President and Chief Executive Officer

Date May 7, 2021

/s/ Bret A. Conklin

Bret A. Conklin
Executive Vice President and
Chief Financial Officer

Date May 7, 2021

/s/ Kimberly A. Johnson

Kimberly A. Johnson
Senior Vice President, Controller and
Principal Accounting Officer