HORACE MANN EDUCATORS CORP /DE/
Form 10-K
March 03, 2014

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

FORM 10-K

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

For the fiscal year ended **December 31, 2013**

OR

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

For the transition period from ______ to ______

Commission file number 1-10890

HORACE MANN EDUCATORS CORPORATION

(Exact name of registrant as specified in its charter)

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

1 Horace Mann Plaza, Springfield, Illinois 62715-0001
(Address of principal executive offices, including Zip Code)

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

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant based on the closing price of the registrant's Common Stock on the New York Stock Exchange and the shares outstanding on June 30, 2013, was $973.0 million.

As of February 21, 2014, 40,570,366 shares of the registrant's Common Stock, par value $0.001 per share, were outstanding, net of 23,204,505 shares of treasury stock.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's Proxy Statement for the 2014 Annual Meeting of Shareholders are incorporated by reference into Part II Item 5 and Part III Items 10, 11, 12, 13 and 14 of Form 10-K as specified in those Items and will be filed with the Securities and Exchange Commission within 120 days after December 31, 2013.

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PART I

ITEM 1. Business

Forward-looking Information

It is important to note that the Company's actual results could differ materially from those projected in forward-looking statements. Additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained in “Item 1A. Risk Factors” and in “Management's Discussion and Analysis of Financial Condition and Results of Operations -- Forward-looking Information”.

Overview and Available Information

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

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

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

The Company's insurance premiums written and contract deposits for the year ended December 31, 2013 were $1.1 billion and net income was $110.9 million. The Company's total assets were $8.8 billion at December 31, 2013. The Company's investment portfolio had an aggregate fair value of $6.5 billion at December 31, 2013 and consisted principally of investment grade, publicly traded fixed maturity securities.

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The Company conducts and manages its business through four segments. The three operating segments, representing the major lines of insurance business, are: property and casualty insurance, annuity products, and life insurance. The Company does not allocate the impact of corporate-level transactions to the insurance segments, consistent with the basis for management's evaluation of the results of those segments, but classifies those items in the fourth segment, corporate and other. The property and casualty, annuity, and life segments accounted for 52%, 39% and 9%, respectively, of the Company's insurance premiums written and contract deposits for the year ended December 31, 2013.

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

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

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

On June 19, 2013, the Chief Executive Officer ("CEO") of HMEC timely submitted the Annual Section 12(a) CEO Certification to the New York Stock Exchange ("NYSE") without any qualifications. The Company filed with the SEC, as exhibits to the Annual Report on Form 10-K for the year ended December 31, 2012, the CEO and Chief Financial Officer ("CFO") certifications required under Section 302 of the Sarbanes-Oxley Act.

History

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

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following consolidated statement of operations and balance sheet data have been derived from the consolidated financial statements of the Company, which have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The consolidated financial statements of the Company for each of the years in the five-year period ended December 31, 2013 have been audited by KPMG LLP, an independent registered public accounting firm. The following selected historical consolidated financial data should be read in conjunction with the consolidated financial statements of HMEC and its subsidiaries and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(Dollars in millions, except per share data)				
Statement of Operations Data:					
Insurance premiums and contract charges earned	$ 690.9	$ 670.5	$ 667.1	$ 672.7	$ 659.6
Net investment income	313.6	306.0	288.3	272.1	246.8
Realized investment gains	22.2	27.3	37.7	23.8	26.3
Total revenues	1,031.2	1,010.8	998.3	974.8	937.4
Amortization of intangible assets (1)	-	-	-	-	0.2
Interest expense	14.2	14.2	14.0	14.0	14.0
Income before income taxes	154.1	149.2	94.9	110.2	101.8
Net income	110.9	103.9	70.5	80.1	72.4
Ratio of earnings to fixed charges (2)	1.8x	1.8x	1.6x	1.7x	1.7x
Per Share Data (3):					
Net income per share:					
Basic	$ 2.75	$ 2.63	$ 1.77	$ 2.04	$ 1.85
Diluted	$ 2.66	$ 2.51	$ 1.70	$ 1.95	$ 1.79
Shares of Common Stock (in millions):					
Weighted average - basic	40.4	39.5	39.9	39.3	39.2
Weighted average - diluted	41.6	41.4	41.4	41.0	40.5
Ending outstanding	40.5	39.4	39.8	39.7	39.2
Cash dividends per share	$ 0.7800	$ 0.5500	$ 0.4600	$ 0.3500	$ 0.2375
Book value per share	$ 27.14	$ 31.65	$ 26.53	$ 21.36	$ 17.57
Balance Sheet Data, at Year End:					
Total investments	$ 6,539.5	$ 6,292.1	$ 5,677.5	$ 5,073.6	$ 4,574.6
Total assets	8,826.7	8,167.7	7,435.2	6,945.7	6,286.1
Total policy liabilities	5,029.2	4,736.7	4,401.0	4,068.7	3,794.6
Short-term debt	38.0	38.0	38.0	38.0	38.0
Long-term debt	199.9	199.8	199.7	199.7	199.6
Total shareholders' equity	1,099.3	1,245.8	1,055.4	847.1	688.3

Segment Information (4):					
Insurance premiums written and contract deposits					
Property and casualty	$ 570.4	$ 550.8	$ 545.9	$ 557.1	$ 553.5
Annuity	423.0	417.6	433.9	395.5	349.8
Life	100.8	99.3	98.6	99.4	100.4
Total	1,094.2	1,067.7	1,078.4	1,052.0	1,003.7
Net income					
Property and casualty	$ 44.4	$ 37.1	$ 5.9	$ 27.0	$ 29.9
Annuity	44.7	40.5	30.9	30.8	20.3
Life	20.4	21.9	19.4	20.2	18.3
Corporate and other (5)	1.4	4.4	14.3	2.1	3.9
Total	110.9	103.9	70.5	80.1	72.4

(1) Amortization of intangible assets is comprised of amortization of acquired value of insurance in force and is the result of purchase accounting adjustments related to the 1989 acquisition of the Company. These intangible assets were fully amortized by December 31, 2009.

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

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

(4) Information regarding assets by segment at December 31 2013, 2012 and 2011 is contained in "Notes to Consolidated Financial Statements -- Note 13 -- Segment Information" listed on page F-1 of this report.

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

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Corporate Strategy and Marketing

The Horace Mann Value Proposition

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

Target Market

Management believes that Horace Mann is the largest national multiline insurance company focused on the nation's educators as its primary market. The Company's target market consists primarily of K-12 teachers, administrators and other employees of public schools and their families located throughout the U.S. The U.S. Department of Education estimates that there are approximately 6.2 million teachers, school administrators and education support personnel in public schools in the U.S.; approximately 3.3 million of these individuals are elementary and secondary teachers.

Dedicated Agency Force

A cornerstone of Horace Mann's marketing strategy is its dedicated sales force of agents trained to sell the Company's multiline products. As of December 31, 2013, the Company had a combined total of 759 Exclusive Agencies and Employee Agents. Approximately 77% of the appointed agents are licensed by the Financial Industry Regulatory Authority, Inc. ("FINRA") to sell variable annuities and variable universal life policies. Some individuals in the agency force were previously teachers, other members of the education profession or persons with close ties to the educational community. The Company's dedicated agents are under contract to market only the Company's products and limited additional third-party vendor products. Collectively, the Company's principal insurance subsidiaries are licensed to write business in 49 states and the District of Columbia.

Approximately 90% of the Company's dedicated agency force operates in its Agency Business Model ("ABM"), consisting of Exclusive Agencies as well as Employee Agents in outside offices with licensed producers -- which was designed to remove capacity constraints and increase productivity. The Company's Exclusive Agent ("EA") agreement is designed to place agents in the position to become business owners and invest their own capital to grow their agencies. From 2009 through 2013, many previous Employee Agents migrated and other individuals were recruited and appointed directly into the EA agreement. Upon appointment, these non-employee, independent contractors are under contract and trained to market only the Company's multiline products and limited additional third-party vendor products. Additionally, an independent contractor may sign multiple EA agreements with the Company and manage more than one Exclusive Agency. At December 31, 2013, 86% of the combined Exclusive Agencies and Employee Agents were under the EA agreement. Going forward, the EA agreement will be offered to additional qualified Employee Agents. At December 31, 2013, approximately 60% of the 654 Exclusive Agencies had been formed by new appointments. Management expects that all future new agent appointments will be under the EA agreement. On an ongoing basis, the Company provides follow-up training and support to agents regarding the Company's products, as well as to further embed repeatable processes and fully maximize the potential of ABM.

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Broadening Distribution Options

To complement and extend the reach of the Company's agency force and to more fully utilize its approved payroll reduction slots in school systems across the country, the Company utilizes a network of independent agents to distribute the Company's 403(b) tax-qualified annuity products. In addition to serving educators in areas where the Company does not have dedicated agents, the independent agents complement the annuity capabilities of the Company's agency force in under-penetrated areas. At December 31, 2013, there were 501 independent agents approved to market the Company's annuity products throughout the U.S. During 2013, collected contract deposits from this distribution channel were approximately $50 million. Combined with business from the Company's dedicated agency force, total annuity collected contract deposits were approximately $423 million for the year ended December 31, 2013.

Geographic Composition of Business

The Company's business is geographically diversified. For the year ended December 31, 2013, based on direct premiums and contract deposits for all product lines, the top five states and their portion of total direct insurance premiums and contract deposits were California, 8.0%; North Carolina, 6.7%; Texas, 6.2%; Florida, 5.7%, and Minnesota, 5.5%.

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

Property and Casualty Segment Top Ten States

(Dollars in millions)

State	Property and Casualty Segment 2013 Direct Premiums (1)	Percent of Total
California	$ 59.2	10.2 %
North Carolina	43.1	7.4
Texas	39.0	6.7
Minnesota	36.8	6.3
Florida	36.7	6.3
South Carolina	31.3	5.4
Louisiana	30.6	5.3
Pennsylvania	21.4	3.7
Georgia	19.9	3.5
Maine	16.1	2.8
Total of top ten states	334.1	57.6
All other areas	246.0	42.4
Total direct premiums	$ 580.1	100.0 %

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

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

Combined Life and Annuity Segments Top Ten States

(Dollars in millions)

State	2013 Direct Premiums and Contract Deposits (1)	Percent of Total
Pennsylvania	$ 38.0	7.2 %
Illinois	32.8	6.2
North Carolina	31.1	5.9
Texas	29.8	5.6
California	29.0	5.5
Virginia	28.2	5.4
South Carolina	27.9	5.3
Florida	26.3	5.0
Minnesota	24.2	4.6
Tennessee	23.0	4.4
Total of top ten states	290.3	55.1
All other areas	236.8	44.9
Total direct premiums	$ 527.1	100.0 %

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

National, State and Local Education Associations

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

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

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

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Support of Educator Programs

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

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

Property and Casualty Segment

The property and casualty segment represented 52% of the Company's consolidated insurance premiums written and contract deposits in 2013.

The primary property and casualty product offered by the Company is private passenger automobile insurance, which in 2013 represented 34% of the Company's total insurance premiums written and contract deposits and 65% of property and casualty net written premiums. As of December 31, 2013, the Company had approximately 482,000 voluntary automobile policies in force. The Company's automobile business is primarily preferred risk, defined as a household whose drivers have had no recent accidents and no more than one recent moving violation.

In 2013, homeowners insurance represented 18% of the Company's total insurance premiums written and contract deposits and 34% of property and casualty net written premiums. As of December 31, 2013, the Company had approximately 235,000 homeowners policies in force. The Company insures primarily residential homes.

The Company has programs in a majority of states to provide higher-risk automobile and homeowners coverages, with third-party vendors underwriting and bearing the risk of such insurance and the Company receiving commissions on the sales. As an example, in Florida the Company's agents write certain homeowners policies for third-party vendors to help control the Company's coastal risk exposure.

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Selected Historical Financial Information For Property and Casualty Segment

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

Property and Casualty Segment
Selected Historical Financial Information

(Dollars in millions)

	Year Ended December 31, 2013	2012	2011
Financial Data:			
Insurance premiums written	$ 570.4	$ 550.8	$ 545.9
Insurance premiums earned	561.9	546.3	547.5
Net investment income	36.2	36.8	36.9
Income before income taxes	57.2	47.9	0.6
Net income	44.4	37.1	5.9
Catastrophe costs, pretax (1)	40.2	43.3	86.0
Operating Statistics:			
Loss and loss adjustment expense ratio	68.6 %	71.3 %	80.8 %
Expense ratio	27.7 %	27.0 %	25.8 %
Combined loss and expense ratio	96.3 %	98.3 %	106.6 %
Effect of catastrophe costs on the combined ratio (1)	7.2 %	8.0 %	15.7 %
Automobile and Homeowners (Voluntary):			
Insurance premiums written			
Automobile	$ 371.7	$ 360.3	$ 359.9
Homeowners	195.0	186.9	182.1
Total	566.7	547.2	542.0
Insurance premiums earned			
Automobile	367.5	357.1	363.0
Homeowners	190.8	185.5	181.1
Total	558.3	542.6	544.1
Policies in force (in thousands)			
Automobile	482	487	489
Homeowners	235	237	239
Total	717	724	728

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

the Company's periodic results of operations.

Catastrophe costs - The sum of catastrophe losses and property and casualty catastrophe reinsurance reinstatement premiums.

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

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Catastrophe Costs

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

Catastrophe Costs
(Dollars in millions)

	The Company (1)
Year Ended December 31,	
2013	$ 40.2
2012	43.3
2011	86.0
2010	49.2
2009	33.1
2008	73.9
2007	23.6
2006	19.8
2005	69.2
2004	75.5

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

2013 -	Wind/hail/tornado events in May, June and August were $10.1 million, $4.0 million and $7.9 million, respectively; winter storm events in February and April were $3.7 million and $3.4 million, respectively.
2012 -	Wind/hail/tornado events in March, April, May and June were $6.6 million, $6.6 million, $5.8 million and $11.9 million, respectively; June tropical storm and wildfire events, $1.4 million combined; $4.0 million, Hurricane Isaac; $2.8 million, Hurricane/Superstorm Sandy.
2011 -	Wind/hail/tornado events in April, May and June were $28.0 million, $17.6 million and $8.5 million, respectively; $8.0 million, Hurricane Irene.
2010 -	Wind/hail/tornado events in March, May, June, July and October were $4.8 million, $8.3 million, $12.1 million, $5.5 million and $7.7 million, respectively.
2009 -	$9.3 million, July wind/hail/tornadoes; $6.3 million, June wind/hail/tornadoes.
2008 -	$16.5 million, Hurricane Gustav; $15.5 million, Hurricane Ike; $9.8 million, May wind/hail/tornadoes; $7.0 million, June wind/hail/tornadoes; $3.0 million, December winter storm.
2007 -	

	$4.7 million, August wind/hail/tornadoes; $4.5 million, October California wildfires; $3.5 million, June wind/hail/tornadoes.
2006 -	$5.0 million, August wind/hail/tornadoes; $3.9 million, April wind/hail/tornadoes.
2005 -	$23.7 million, Hurricane Katrina; $15.0 million, Hurricane Wilma; $10.8 million, Hurricane Rita; $6.5 million, September Minnesota tornadoes; $5.0 million, Hurricane Dennis.
2004 -	$19.9 million, Hurricane Charley; $11.9 million, Hurricane Frances; $19.2 million, Hurricane Ivan; $18.2 million, Hurricane Jeanne.

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

Impact of Catastrophe Losses
(Dollars in millions)

	Year Ended December 31, 2013	2012	2011
Claims and claim expense incurred (1)	$ 385.6	$ 389.4	$ 442.5
Amount attributable to catastrophes (2)	40.2	43.3	86.0
Excluding catastrophes (1)	$ 345.4	$ 346.1	$ 356.5
Claims and claim expense payments	$ 384.7	$ 398.2	$ 462.3
Amount attributable to catastrophes (2)	38.0	47.9	83.4
Excluding catastrophes	$ 346.7	$ 350.3	$ 378.9

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

Property and Casualty Reserves

Property and casualty unpaid claims and claim expenses ("loss reserves") represent management's estimate of ultimate unpaid costs of losses and settlement expenses for claims that have been reported and claims that have been incurred but not yet reported. The Company calculates and records a single best estimate of the reserve as of each balance sheet date in conformity with generally accepted actuarial standards. For additional information regarding the process used to estimate property and casualty reserves, the risk factors involved and reserve development recorded in each of the three years ended December 31, 2013, see "Notes to Consolidated Financial Statements -- Note 4 -- Property and Casualty Unpaid Claims and Claim Expenses" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Critical Accounting Policies -- Liabilities for Property and Casualty Claims and Claim Expenses".

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

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

Reconciliation of Property and Casualty Claims and Claim Expense Reserves

(Dollars in millions)

	Year Ended December 31, 2013	2012	2011
Gross reserves, beginning of year (1)	$ 274.5	$ 281.1	$ 301.6
Less reinsurance recoverables	13.7	11.5	12.2
Net reserves, beginning of year (2)	260.8	269.6	289.4
Incurred claims and claim expenses:			
Claims occurring in the current year	403.6	406.6	452.8
Decrease in estimated reserves for claims occurring in prior years (3)	(18.0)	(17.2)	(10.3)
Total claims and claim expenses incurred (4)	385.6	389.4	442.5
Claims and claim expense payments for claims occurring during:			
Current year	265.8	271.3	314.8
Prior years	118.9	126.9	147.5
Total claims and claim expense payments	384.7	398.2	462.3
Net reserves, end of year (2)	261.7	260.8	269.6
Plus reinsurance recoverables	14.1	13.7	11.5
Reported gross reserves, end of year (1)	$ 275.8	$ 274.5	$ 281.1

(1) Unpaid claims and claim expenses as reported in the Consolidated Balance Sheets, listed on page F-1 of this report, also include life, annuity, and group accident and health reserves of $15.8 million, $14.9 million, $13.7 million and $14.1 million at December 31, 2013, 2012, 2011 and 2010, respectively, in addition to property and casualty segment reserves.

(2) Reserves net of anticipated reinsurance recoverables.

(3) Shows the amounts by which the Company decreased its reserves in each of the periods indicated for claims occurring in previous periods to reflect subsequent information on such claims and changes in their projected final settlement costs. For discussion of the reserve development recorded by the Company in 2013, 2012 and 2011, see “Notes to Consolidated Financial Statements -- Note 4 -- Property and Casualty Unpaid Claims and Claim Expenses” listed on page F-1 of this report.

(4) Benefits, claims and settlement expenses as reported in the Consolidated Statements of Operations, listed on page F-1 of this report, also include life, annuity and group accident and health amounts of $62.7 million, $58.8 million and $59.9 million for the years ended December 31, 2013, 2012 and 2011, respectively, in addition to the property and casualty segment amounts.

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

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In evaluating the information in the table below, it should be noted that each amount includes the effects of all changes in amounts for prior periods. For example, if a claim was first reserved in 2003 at $100 thousand and then determined in 2012 to be $150 thousand, the $50 thousand deficiency (actual claim minus original estimate) would be included in the cumulative deficiency in each of the years 2003 - 2011 shown below. This table presents development data by calendar year and does not relate the data to the year in which the accident actually occurred. Conditions and trends that have affected the development of these reserves in the past will not necessarily recur in the future. It may not be appropriate to use this cumulative history in the projection of future performance.

Property and Casualty

Claims and Claims Expense Reserve Development

(Dollars in millions)

	December 31, 2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Gross reserves for property and casualty claims and claim expenses	$ 304.3	$ 335.0	$ 342.7	$ 317.8	$ 306.2	$ 297.8	$ 301.0	$ 301.6	$ 281.1	$ 274
Deduct: Reinsurance recoverables	20.6	25.7	31.6	22.4	15.9	14.8	15.8	12.2	11.5	13.
Net Reserves for property and casualty claims and claim expenses (1)	283.7	309.3	311.1	295.4	290.3	283.0	285.2	289.4	269.6	260
Paid cumulative as of:										
One year later	145.2	143.9	138.3	129.8	134.1	139.4	132.8	147.5	126.9	118
Two years later	209.5	202.5	196.5	184.1	184.2	187.3	186.5	196.8	169.2	
Three years later	244.1	236.6	225.0	209.5	208.0	213.0	210.4	217.1		
Four years later	264.1	252.7	239.1	223.5	220.0	225.2	220.5			
Five years later	272.4	259.7	248.2	231.0	226.5	228.8				
Six years later	276.9	263.3	253.0	235.5	229.2					
Seven years later	279.0	266.7	255.9	237.1						
Eight years later	281.3	268.4	256.9							
Nine years later	281.3	268.5								
Ten years later	281.3									

Net Reserves reestimated as of (1):										
End of year	283.7	309.3	311.1	295.4	290.3	283.0	285.2	289.4	269.6	260
One year later	287.5	296.2	291.8	275.4	272.2	271.3	264.7	279.1	252.4	242
Two years later	283.1	282.7	279.7	262.1	263.0	255.7	258.6	269.9	233.5	
Three years later	283.5	278.2	270.2	255.3	254.0	254.5	255.6	251.6		
Four years later	281.3	272.8	256.3	241.6	239.0	245.3	240.1			
Five years later	280.6	268.4	257.3	242.9	239.8	239.9				
Six years later	281.1	268.3	259.6	243.0	237.1					
Seven years later	281.1	269.8	259.7	241.4						
Eight years later	282.4	269.4	258.8							
Nine years later	281.3	268.4								
Ten years later	281.2									
Net Reserve redundancy (deficiency) initial net reserves in excess of (less than) reestimated reserves:										
Amount (2)	$ 2.5	$ 40.9								