HORACE MANN EDUCATORS CORP /DE/
Form 10-Q
August 08, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **June 30, 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

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 the registrant’s filer status, as such terms are defined in Rule 12b-2 of the Act.

Large accelerated filer	¨	Accelerated filer	x
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

As of July 31, 2013, 39,966,847 shares of Common Stock, par value $0.001 per share, were outstanding, net of 23,117,554 shares of treasury stock.

HORACE MANN EDUCATORS CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Horace Mann Educators Corporation:

We have reviewed the accompanying consolidated balance sheet of Horace Mann Educators Corporation and subsidiaries as of June 30, 2013, the related consolidated statements of operations and comprehensive income (loss) for the three-month and six-month periods ended June 30, 2013 and 2012, and the related consolidated statements of changes in shareholders' equity and cash flows for the six-month periods ended June 30, 2013 and 2012. These consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of 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 Public Company Accounting Oversight Board (United States), 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.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements referred to above for them 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), the consolidated balance sheet of Horace Mann Educators Corporation and subsidiaries as of December 31, 2012, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 28, 2013, we expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

KPMG LLP

Chicago, Illinois

August 8, 2013

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HORACE MANN EDUCATORS CORPORATION

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost 2013, $5,591,125; 2012, $5,311,457)	$ 5,930,614	$ 5,962,232
Equity securities, available for sale, at fair value (cost 2013, $78,016; 2012, $52,396)	83,040	53,503
Short-term and other investments	283,684	276,362
Total investments	6,297,338	6,292,097
Cash	37,881	15,181
Deferred policy acquisition costs	220,750	196,885
Goodwill	47,396	47,396
Other assets	226,904	217,886
Separate Account (variable annuity) assets	1,525,509	1,398,281
Total assets	$ 8,355,778	$ 8,167,726
LIABILITIES AND SHAREHOLDERS' EQUITY		
Policy liabilities		
Fixed annuity contract liabilities	$ 3,366,495	$ 3,257,758
Interest-sensitive life contract liabilities	769,751	761,671
Unpaid claims and claim expenses	303,352	289,395
Future policy benefits	218,758	214,562
Unearned premiums	211,738	213,268
Total policy liabilities	4,870,094	4,736,654
Other policyholder funds	99,921	103,227
Other liabilities	516,075	445,952
Short-term debt	38,000	38,000
Long-term debt	199,842	199,809
Separate Account (variable annuity) liabilities	1,525,509	1,398,281
Total liabilities	7,249,441	6,921,923
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, 2013, 63,028,857; 2012, 62,311,787	63	62
Additional paid-in capital	396,258	383,135
Retained earnings	958,816	921,969
Accumulated other comprehensive income (loss), net of taxes:		
Net unrealized gains on fixed maturities and equity securities	196,847	382,400
Net funded status of pension and other postretirement benefit obligations	(15,311)	(15,311)
Treasury stock, at cost, 2013, 23,117,353 shares; 2012, 22,943,925 shares	(430,336)	(426,452)

Total shareholders' equity	1,106,337	1,245,803
Total liabilities and shareholders' equity	$ 8,355,778	$ 8,167,726

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

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HORACE MANN EDUCATORS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues				
Insurance premiums and contract charges earned	$171,561	$166,335	$340,719	$331,839
Net investment income	77,361	76,334	154,764	152,009
Net realized investment gains	15,417	9,905	22,279	10,298
Other income	1,298	1,652	2,406	4,703
Total revenues	265,637	254,226	520,168	498,849
Benefits, losses and expenses				
Benefits, claims and settlement expenses	120,765	130,984	233,464	238,862
Interest credited	42,098	40,454	83,506	80,433
Policy acquisition expenses amortized	23,000	22,302	43,074	40,132
Operating expenses	39,014	38,577	77,832	76,427
Interest expense	3,549	3,554	7,103	7,110
Total benefits, losses and expenses	228,426	235,871	444,979	442,964
Income before income taxes	37,211	18,355	75,189	55,885
Income tax expense	11,216	5,252	22,182	16,111
Net income	$25,995	$13,103	$53,007	$39,774
Net income per share				
Basic	$0.65	$0.33	$1.34	$1.00
Diluted	$0.63	$0.32	$1.29	$0.96
Weighted average number of shares and equivalent shares (in thousands)				
Basic	39,768	39,544	39,648	39,669
Diluted	41,395	41,304	41,219	41,414
Net realized investment gains				
Total other-than-temporary impairment losses on securities	$(963)	$-	$(963)	$-
Portion of losses recognized in other comprehensive income	-	-	-	-
Net other-than-temporary impairment losses on securities recognized in earnings	(963)	-	(963)	-

Realized gains, net	16,380	9,905	23,242	10,298
Total	$15,417	$9,905	$22,279	$10,298

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

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HORACE MANN EDUCATORS CORPORATION

CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(Dollars in thousands)

	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Comprehensive income (loss)				
Net income	$25,995	$13,103	$53,007	$39,774
Other comprehensive income (loss), net of taxes:				
Change in net unrealized gains and losses on fixed maturities and equity securities	(177,219)	53,839	(185,553)	66,422
Change in net funded status of pension and other postretirement benefit obligations	-	-	-	-
Other comprehensive income (loss)	(177,219)	53,839	(185,553)	66,422
Total	$(151,224)	$66,942	$(132,546)	$106,196

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

HORACE MANN EDUCATORS CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(Dollars in thousands, except per share data)

	Six Months Ended June 30, 2013	2012
Common stock, $0.001 par value		
Beginning balance	$62	$62
Options exercised, 2013, 563,487 shares; 2012, 190,897 shares	1	-
Conversion of common stock units, 2013, 11,851 shares; 2012, 10,696 shares	-	-
Conversion of restricted stock units, 2013, 141,732 shares; 2012, 85,641 shares	-	-
Ending balance	63	62
Additional paid-in capital		
Beginning balance	383,135	373,384
Options exercised and conversion of common stock units and restricted stock units	12,413	3,773
Share-based compensation expense	710	860
Ending balance	396,258	378,017
Retained earnings		
Beginning balance	921,969	840,644
Net income	53,007	39,774
Cash dividends, 2013, $0.39 per share; 2012, $0.26 per share	(16,160)	(10,689)
Ending balance	958,816	869,729
Accumulated other comprehensive income (loss), net of taxes		
Beginning balance	367,089	251,980
Change in net unrealized gains and losses on fixed maturities and equity securities	(185,553)	66,422
Change in net funded status of pension and other postretirement benefit obligations	-	-
Ending balance	181,536	318,402
Treasury stock, at cost		
Beginning balance, 2013, 22,943,925 shares; 2012, 22,028,030 shares	(426,452)	(410,717)
Acquisition of shares, 2013, 173,428 shares; 2012, 705,057 shares	(3,884)	(11,955)
Ending balance, 2013, 23,117,353 shares; 2012, 22,733,087 shares	(430,336)	(422,672)
Shareholders' equity at end of period	$1,106,337	$1,143,538

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

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HORACE MANN EDUCATORS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands)

	Six Months Ended June 30,	
	2013	2012
Cash flows - operating activities		
Premiums collected	$335,344	$326,111
Policyholder benefits paid	(235,046)	(237,481)
Policy acquisition and other operating expenses paid	(136,046)	(119,085)
Federal income taxes paid	(22,545)	(13,643)
Investment income collected	152,500	149,237
Interest expense paid	(6,972)	(7,041)
Other	(1,908)	(3,362)
Net cash provided by operating activities	85,327	94,736
Cash flows - investing activities		
Fixed maturities		
Purchases	(677,196)	(707,267)
Sales	213,986	279,529
Maturities, paydowns, calls and redemptions	254,763	300,839
Purchase of other invested assets	(10,000)	(50,000)
Net cash (used in) provided by short-term and other investments	(18,971)	54,200
Net cash used in investing activities	(237,418)	(122,699)
Cash flows - financing activities		
Dividends paid to shareholders	(16,160)	(10,689)
Acquisition of treasury stock	(3,884)	(11,955)
Exercise of stock options	9,394	2,316
Annuity contracts, variable and fixed		
Deposits	188,562	188,446
Benefits, withdrawals and net transfers to Separate Account (variable annuity) assets	(135,036)	(114,044)
Life policy accounts		
Deposits	801	785
Withdrawals and surrenders	(2,410)	(2,630)
Cash received related to repurchase agreements	133,980	-
Change in bank overdrafts	(456)	(223)
Net cash provided by financing activities	174,791	52,006
Net increase in cash	22,700	24,043

Cash at beginning of period	15,181	7,452
Cash at end of period	$37,881	$31,495

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

HORACE MANN EDUCATORS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2013 and 2012

(Dollars in thousands, except per share data)

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements of Horace Mann Educators Corporation (“HMEC”; and together with its subsidiaries, the “Company” or “Horace Mann”) have been prepared in accordance with United States (“U.S.”) generally accepted accounting principles (“GAAP”) and with the rules and regulations of the Securities and Exchange Commission (“SEC”), specifically Regulation S-X and the instructions to Form 10-Q. Certain information and note disclosures which are normally included in annual financial statements prepared in accordance with GAAP but are not required for interim reporting purposes have been omitted. The Company believes that these consolidated financial statements contain all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary to present fairly the Company’s consolidated financial position as of June 30, 2013, the consolidated results of operations and comprehensive income for the three and six months ended June 30, 2013 and 2012, and the consolidated changes in shareholders’ equity and cash flows for the six months ended June 30, 2013 and 2012. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect (1) the reported amounts of assets and liabilities, (2) disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and (3) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The subsidiaries of HMEC market and underwrite personal lines of property and casualty (primarily personal lines automobile and homeowners) insurance, retirement annuities (primarily tax-qualified products) and life insurance, primarily to K-12 teachers, administrators and other employees of public schools and their families. HMEC’s principal operating subsidiaries are Horace Mann Life Insurance Company, Horace Mann Insurance Company, Teachers Insurance Company, Horace Mann Property & Casualty Insurance Company and Horace Mann Lloyds.

The Company has evaluated subsequent events through the date these consolidated financial statements were issued.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes to consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results to be expected for the full year.

The Company has reclassified the presentation of certain prior period information to conform with the 2013 presentation.

Note 1 - Basis of Presentation-(Continued)

Adopted Accounting Standards

Comprehensive Income

Effective January 1, 2013, the Company prospectively adopted accounting guidance to improve the disclosure of reclassifications out of accumulated other comprehensive income. The guidance requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, the reclassifications are required to be cross-referenced to other disclosures that provide additional detail about those amounts. As shown in "Note 8 — Accumulated Other Comprehensive Income", certain disclosures in the Company's Notes to Consolidated Financial Statements have been expanded to address additional information required by this guidance. The adoption of this accounting guidance did not have an effect on the results of operations or financial position of the Company.

Balance Sheet Offsetting

Effective January 1, 2013, the Company adopted accounting guidance to address disclosures about offsetting assets and liabilities. The guidance clarifies which instruments and transactions are subject to the offsetting disclosure requirements. The instruments and transactions include bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions. The adoption of this accounting guidance did not have an effect on the results of operations or financial position of the Company.

Note 2 - Investments

The Company's investment portfolio includes no free-standing derivative financial instruments (futures, forwards, swaps, option contracts or other financial instruments with similar characteristics), and there are no embedded derivative features related to the Company’s insurance products.

Fixed Maturities and Equity Securities

The Company’s investment portfolio is comprised primarily of fixed maturity securities (“fixed maturities”) and equity securities. The amortized cost or cost, unrealized investment gains and losses, fair values and other-than-temporary impairment (“OTTI”) included in accumulated other comprehensive income (loss) (“AOCI”) of all fixed maturities and equity securities in the portfolio as of June 30, 2013 and December 31, 2012 were as follows:

	Amortized Cost/Cost	Unrealized Gains	Unrealized Losses	Fair Value	OTTI in AOCI (2)
June 30, 2013					
Fixed maturity securities					
U.S. government and federally sponsored agency obligations (1):					
Mortgage-backed securities	$573,425	$46,609	$ 6,165	$613,869	$ -
Other, including					
U.S. Treasury securities	431,906	17,819	11,420	438,305	-
Municipal bonds	1,413,405	115,166	20,322	1,508,249	-
Foreign government bonds	49,517	5,913	216	55,214	-
Corporate bonds	2,344,406	197,675	28,376	2,513,705	-
Other mortgage-backed securities	778,466	30,938	8,132	801,272	2,653
Totals	$5,591,125	$414,120	$ 74,631	$5,930,614	$ 2,653
Equity securities	$78,016	$6,373	$ 1,349	$83,040	$ -
December 31, 2012					
Fixed maturity securities					
U.S. government and federally sponsored agency obligations (1):					
Mortgage-backed securities	$547,040	$72,644	$ 125	$619,559	$ -
Other, including					
U.S. Treasury securities	371,706	37,857	135	409,428	-
Municipal bonds	1,402,424	186,261	2,648	1,586,037	-
Foreign government bonds	48,476	9,393	-	57,869	-
Corporate bonds	2,258,554	313,430	4,950	2,567,034	-
Other mortgage-backed securities	683,257	41,080	2,032	722,305	3,214
Totals	$5,311,457	$660,665	$ 9,890	$5,962,232	$ 3,214

Equity securities	$52,396	$ 2,397	$ 1,290	$53,503	$ -

(1) Fair value includes securities issued by Federal National Mortgage Association (“FNMA”) of $383,040 and $375,111; Federal Home Loan Mortgage Corporation (“FHLMC”) of $431,649 and $418,174; and Government National Mortgage Association (“GNMA”) of $130,780 and $136,998 as of June 30, 2013 and December 31, 2012, respectively.

(2) Represents the amount of other-than-temporary impairment losses in AOCI which, beginning April 1, 2009, was not included in earnings under current accounting guidance. Amounts also include unrealized gains/losses on impaired securities relating to changes in the fair value of such securities subsequent to the impairment measurement date.

Compared to December 31, 2012, the reduction in net unrealized gains at June 30, 2013 was due to higher yields on U.S. Treasury securities and slightly wider credit spreads across most asset classes in 2013, the combination of which resulted in a decrease in net unrealized gains for the Company’s holdings of corporate, municipal, government and mortgage-backed securities.

Note 2 - Investments-(Continued)

The following table presents the fair value and gross unrealized losses of fixed maturities and equity securities in an unrealized loss position at June 30, 2013 and December 31, 2012, respectively. The Company views the decrease in value of all of the securities with unrealized losses at June 30, 2013 — which was driven largely by changes in interest rates, spread widening, financial market illiquidity and/or market volatility from the date of acquisition — as temporary. For fixed maturity securities, management does not have the intent to sell the securities and it is not more likely than not the Company will be required to sell the securities before the anticipated recovery of the amortized cost bases, and the present value of future cash flows exceeds the amortized cost bases. In addition, management expects to recover the entire cost bases of the fixed maturity securities. For equity securities, the Company has the ability and intent to hold the securities for the recovery of cost and recovery of cost is expected within a reasonable period of time. Therefore, no impairment of these securities was recorded at June 30, 2013.

	12 Months or Less		More than 12 Months		Total	
	Fair Value	Gross **Unrealized Losses**	Fair Value	Gross **Unrealized Losses**	Fair Value	Gross **Unrealized Losses**
June 30, 2013						
Fixed maturity securities						
U.S. government and federally sponsored agency obligations:						
Mortgage-backed securities	$103,346	$ 6,165	$ 44	$ -	$103,390	$ 6,165
Other	167,405	11,420	-	-	167,405	11,420
Municipal bonds	302,729	19,486	9,551	837	312,280	20,323
Foreign government bonds	5,762	216	-	-	5,762	216
Corporate bonds	541,977	24,891	13,749	3,484	555,726	28,375
Other mortgage-backed securities	189,646	6,986	35,632	1,146	225,278	8,132
Total fixed maturity securities	1,310,865	69,164	58,976	5,467	1,369,841	74,631
Equity securities (1)	29,394	926	1,033	423	30,427	1,349
Combined totals	$1,340,259	$ 70,090	$ 60,009	$ 5,890	$1,400,268	$ 75,980
Number of positions with a gross unrealized loss	435		33		468	
Fair value as a percentage of total fixed maturities and equity securities fair value	22.3 %		1.0 %		23.3 %	
December 31, 2012						
Fixed maturity securities						
U.S. government and federally sponsored agency obligations:						
Mortgage-backed securities	$11,006	$ 124	$ 50	$ 1	$11,056	$ 125

Other	9,944	135	-	-	9,944	135
Municipal bonds	108,578	2,605	3,990	43	112,568	2,648
Foreign government bonds	-	-	-	-	-	-
Corporate bonds	56,481	875	26,725	4,075	83,206	4,950
Other mortgage-backed securities	58,218	621	25,014	1,411	83,232	2,032
Total fixed maturity securities	244,227	4,360	55,779	5,530	300,006	9,890
Equity securities (1)	19,344	1,288	9	2	19,353	1,290
Combined totals	$263,571	$ 5,648	$ 55,788	$ 5,532	$319,359	$ 11,180
Number of positions with a gross unrealized loss	156		43		199	
Fair value as a percentage of total fixed maturities and equity securities fair value	4.4 %		0.9 %		5.3 %	

(1) Includes nonredeemable (perpetual) preferred stocks, common stocks and closed-end funds.

Note 2 - Investments-(Continued)

Credit Losses

The following table summarizes the cumulative amounts related to the Company's credit loss component of the other-than-temporary impairment losses on fixed maturity securities held as of June 30, 2013 and 2012 that the Company did not intend to sell as of those dates, and it was not more likely than not that the Company would be required to sell the securities before the anticipated recovery of the amortized cost bases, for which the non-credit portions of the other-than-temporary impairment losses were recognized in other comprehensive income:

	Six Months Ended June 30,	
	2013	2012
Cumulative credit loss (1)		
Beginning of period	$ 2,877	$ 3,957
New credit losses (2)	860	-
Losses related to securities sold or paid down during the period	-	-
End of period	$ 3,737	$ 3,957

(1) The cumulative credit loss amounts exclude other-than-temporary impairment losses on securities held as of the periods indicated that the Company intended to sell or it was more likely than not that the Company would be required to sell the security before the recovery of the amortized cost basis.

(2) Other than temporary impairment loss recorded on a Detroit general obligation bond.

Maturities/Sales of Fixed Maturities and Equity 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, including mortgage-backed securities and other asset-backed securities, estimated expected maturities consider broker-dealer survey prepayment assumptions and are verified for consistency with the interest rate and economic environments.

	Percent of Total Fair Value		June 30, 2013	
	June 30,	December 31,	Fair	Amortized

	2013		2012		Value	Cost
Estimated expected maturity:						
Due in 1 year or less	4.7	%	4.3	%	$279,815	$263,813
Due after 1 year through 5 years	20.7		20.8		1,226,101	1,155,912
Due after 5 years through 10 years	38.2		38.4		2,266,237	2,136,503
Due after 10 years through 20 years	19.3		18.7		1,145,965	1,080,363
Due after 20 years	17.1		17.8		1,012,496	954,534
Total	100.0	%	100.0	%	$5,930,614	$5,591,125
Average option-adjusted duration, in years	6.3		6.3			

Note 2 - Investments-(Continued)

Proceeds received from sales of fixed maturities 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Fixed maturity securities				
Proceeds received	$114,804	$121,228	$213,986	$279,529
Gross gains realized	9,878	8,471	14,390	17,362
Gross losses realized	(471)	(2,684)	(481)	(11,829)
Equity securities				
Proceeds received	$6,299	$915	$11,133	$924
Gross gains realized	2,776	8	3,344	17
Gross losses realized	(172)	(76)	(387)	(76)

Unrealized Gains and Losses on Fixed Maturities and Equity Securities

Net unrealized gains and losses are computed as the difference between fair value and amortized cost for fixed maturities or cost for equity securities. The following table reconciles the net unrealized investment gains and losses, net of tax, included in accumulated other comprehensive income (loss), before the impact on deferred policy acquisition costs:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net unrealized investment gains (losses) on fixed maturity securities, net of tax				
Beginning of period	$411,979	$298,096	$423,004	$284,338
Change in unrealized investment gains and losses	(182,919)	61,869	(189,828)	75,867
Reclassification of net realized investment (gains) losses to net income	(8,392)	(3,861)	(12,508)	(4,101)
End of period	$220,668	$356,104	$220,668	$356,104

Net unrealized investment gains (losses)

on equity securities, net of tax				
Beginning of period	$3,604	$2,238	$720	$2,408
Change in unrealized investment gains and losses	1,291	882	4,519	727
Reclassification of net realized investment (gains) losses to net income	(1,629)	(2,577)	(1,973)	(2,592)
End of period	$3,266	$543	$3,266	$543

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Note 2 - Investments-(Continued)

Repurchase Agreements

Beginning in 2013, the Company enters into repurchase agreements to earn incremental spread income. A repurchase agreement is a transaction in which one party (transferor) agrees to sell securities to another party (transferee) in return for cash (or securities), with a simultaneous agreement to repurchase the same securities at a specified price at a later date. These transactions are generally short-term in nature, and therefore, the carrying amounts of these instruments approximate fair value.

As part of repurchase agreements, the Company transfers U.S. government and government agency securities and receives cash. For the repurchase agreements, the Company receives cash in an amount equal to at least 95% of the fair value of the securities transferred, and the agreements with third parties contain contractual provisions to allow for additional collateral to be obtained when necessary. The cash received from the repurchase program is typically invested in high quality floating rate fixed maturity securities. The Company accounts for the repurchase agreements as collateralized borrowings. The securities transferred under repurchase agreements are included in fixed maturity, available-for-sale securities with the obligation to repurchase those securities recorded in Other Liabilities on the Company's Consolidated Balance Sheets. The fair value of the securities transferred was $129,767 as of June 30, 2013. The obligation for securities sold under agreement to repurchase was $134,000, including accrued interest, as of June 30, 2013.

Note 3 - Fair Value of Financial Instruments

The Company is required under GAAP to disclose estimated fair values for certain financial and non-financial assets and liabilities. Fair values of the Company's insurance contracts other than annuity 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.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between knowledgeable, unrelated and willing market participants on the measurement date. In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company categorizes its financial and non-financial assets and liabilities into a three-level hierarchy based on the priority of the inputs to the valuation technique. The three levels of inputs that may be used to measure fair value are:

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include fixed maturity and equity securities (both common stock and preferred stock) that are traded in an active exchange market, as well as U.S. Treasury securities.
Level 2	Unadjusted observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for the assets or liabilities. Level 2 assets and liabilities include fixed maturity securities with quoted prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. Government and agency mortgage-backed securities, non-agency structured securities, corporate fixed maturity securities and preferred stocks.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, certain discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation and for which the significant inputs are unobservable. This category generally includes certain private debt and equity investments.

NOTE 3 - Fair Value of Financial Instruments-(Continued)

When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. As a result, a Level 3 fair value measurement may include inputs that are observable (Level 1 or Level 2) and unobservable (Level 3). Net transfers into or out of Level 3 are reported as having occurred at the end of the reporting period in which the transfers were determined.

The following discussion describes the valuation methodologies used for financial assets and financial liabilities measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used, including discount rates and estimates of the amount and timing of future cash flows. The use of different methodologies, assumptions and inputs may have a material effect on the estimated fair values of the Company's securities holdings. Care should be exercised in deriving conclusions about the Company's business, its value or financial position based on the fair value information of financial and nonfinancial assets and liabilities presented below.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset or financial liability, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset or financial liability. The disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset or financial liability. In periods of market disruption, the ability to observe prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

Investments

For fixed maturity securities, each month the Company obtains fair value prices from its investment managers and custodian bank. Fair values for the Company's fixed maturity securities are based primarily on prices provided by its investment managers as well as its custodian bank for certain securities. The prices from the custodian bank are compared to prices from the investment managers. Differences in prices between the sources that the Company considers significant are researched and the Company utilizes the price that it considers most representative of an exit price. Both the investment managers and the custodian bank use a variety of independent, nationally recognized pricing sources to determine market valuations. Each designate specific pricing services or indexes for each sector of the market based upon the provider's expertise. Typical inputs used by these pricing sources include, but are not limited to, reported trades, benchmark yield curves, benchmarking of like securities, ratings designations, sector groupings, issuer spreads, bids, offers, and/or estimated cash flows and prepayment speeds.

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NOTE 3 - Fair Value of Financial Instruments-(Continued)

When the pricing sources cannot provide fair value determinations, the Company obtains non-binding price quotes from broker-dealers. The broker-dealers' valuation methodology is sometimes matrix-based, using indicative evaluation measures and adjustments for specific security characteristics and market sentiment. The market inputs utilized in the evaluation measures and adjustments include: benchmark yield curves, reported trades, broker/dealer quotes, ratings and corresponding issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. The extent of the use of each market input depends on the market sector and the market conditions. Depending on the security, the priority of the use of inputs may change or some market inputs may not be relevant. For some securities, additional inputs may be necessary.

The Company analyzes price and market valuations received to verify reasonableness, to understand the key assumptions used and their sources, to conclude the prices obtained are appropriate, and to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. Based on this evaluation and investment class analysis, each security is classified into Level 1, 2, or 3. The Company has in place certain control processes to determine the reasonableness of the financial asset fair values. These processes are designed to ensure (1) the values received are reasonable and accurately recorded, (2) the data inputs and valuation techniques utilized are appropriate and consistently applied, and (3) the assumptions are reasonable and consistent with the objective of determining fair value. For example, on a continuing basis, the Company assesses the reasonableness of individual security values received from pricing sources that vary from certain thresholds. The Company's fixed maturity securities portfolio is primarily publicly traded, which allows for a high percentage of the portfolio to be priced through pricing services. Approximately 88% and 91% of the portfolio, based on fair value, was priced through pricing services or index priced as of June 30, 2013 and 2012, respectively. The remainder of the portfolio was priced by broker-dealers or pricing models. When non-binding broker-dealer quotes could be corroborated by comparison to other vendor quotes, pricing models or analysis, the securities were generally classified as Level 2, otherwise they were classified as Level 3. There were no significant changes to the valuation process during the first six months of 2013.

Fair values of equity securities have been determined by the Company from observable market quotations, when available. When a public quotation is not available, equity securities are valued by using non-binding broker quotes or through the use of pricing models or analysis that is based on market information regarding interest rates, credit spreads and liquidity. The underlying source data for calculating the matrix of credit spreads relative to the U.S. Treasury curve are nationally recognized indices. In addition, credit rating (or credit quality equivalent information) of securities is also factored into a pricing matrix. These inputs are based on assumptions deemed appropriate given the circumstances and are believed to be consistent with what other market participants would use when pricing such securities. There were no significant changes to the valuation process in the first six months of 2013.

NOTE 3 - Fair Value of Financial Instruments-(Continued)

Short-term and other investments are comprised of short-term fixed income securities, policy loans and mortgage loans, as well as certain alternative investments which are accounted for as equity method investments and therefore excluded from the fair value tabular disclosures. For short-term fixed income securities, because of the nature of these assets, carrying amounts generally approximate fair values, which have been determined from public quotations, when available. The fair value of policy loans is based on estimates using discounted cash flow analysis and current interest rates being offered for new loans. The fair value of mortgage loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and the same remaining maturities.

Separate Account (Variable Annuity) Assets and Liabilities

Separate Account (variable annuity) assets are carried at fair value and represent variable annuity contractholder funds invested in various mutual funds. Fair values of these assets are based primarily on market quotations of the underlying securities. Investment performance related to these assets is fully offset by corresponding amounts credited to contractholders with the liability reflected within Separate Account (variable annuity) liabilities. Separate Account liabilities are equal to the estimated fair value of Separate Account assets.

Fixed Annuity Contract Liabilities and Policyholder Account Balances on Interest-sensitive Life Contracts

The fair values of fixed annuity contract liabilities and policyholder account balances on interest-sensitive life contracts are equal to the discounted estimated future cash flows (using the Company's current interest rates for similar products including consideration of minimum guaranteed interest rates). The Company carries these financial liabilities at cost.

Other Policyholder Funds

Other policyholder funds are liabilities related to supplementary contracts without life contingencies and dividend accumulations, which represent deposits that do not have defined maturities. Other policyholder funds are carried at cost, which management believes is a reasonable estimate of fair value due to the relatively short duration of these deposits, based on the Company’s past experience.

Short-term Debt

Short-term debt is carried at amortized cost, which management believes is a reasonable estimate of fair value due to the liquidity and short duration of these variable rate instruments.

Long-term Debt

The Company carries long-term debt at amortized cost. The fair value of long-term debt is estimated based on unadjusted quoted market prices of identical publicly traded issues.

Note 3 - Fair Value of Financial Instruments-(Continued)

Other Liabilities, Repurchase Agreements

The Company carries the obligations for securities sold under agreements to repurchase at cost, which approximates fair value due to the short duration of the obligations.

Financial Instruments Measured and Carried at Fair Value

The following table presents the Company's fair value hierarchy for those assets and liabilities measured and carried at fair value on a recurring basis as of June 30, 2013 and December 31, 2012. At June 30, 2013, Level 3 invested assets below comprised approximately 1.8% of the Company's total investment portfolio fair value.

			Fair Value Measurements at Reporting Date Using		
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
June 30, 2013					
Financial Assets					
Investments					
Fixed maturities					
U.S. government and federally sponsored agency obligations:					
Mortgage-backed securities	$613,869	$613,869	$-	$613,869	$-
Other, including U.S. Treasury securities	438,305	438,305	20,281	418,024	-
Municipal bonds	1,508,249	1,508,249	-	1,504,485	3,764
Foreign government bonds	55,214	55,214	-	55,214	-
Corporate bonds	2,513,705	2,513,705	10,563	2,446,552	56,590
Other mortgage-backed securities	801,272	801,272	-	751,929	49,343
Total fixed maturities	5,930,614	5,930,614	30,844	5,790,073	109,697
Equity securities	83,040	83,040	66,167	16,867	6
Short-term investments	82,120	82,120	67,249	14,871	-
Totals	6,095,774	6,095,774	164,260	5,821,811	109,703
Separate Account (variable annuity) assets (1)	1,525,509	1,525,509	1,525,509	-	-
Financial Liabilities	-	-	-	-	-
December 31, 2012					

Financial Assets					
Investments					
Fixed maturities					
U.S. government and federally sponsored agency obligations:					
Mortgage-backed securities	$619,559	$619,559	$-	$619,559	$-
Other, including U.S. Treasury securities	409,428	409,428	18,594	390,834	-
Municipal bonds	1,586,037	1,586,037	-	1,573,762	12,275
Foreign government bonds	57,869	57,869	-	57,869	-
Corporate bonds	2,567,034	2,567,034	11,934	2,469,378	85,722
Other mortgage-backed securities	722,305	722,305	-	689,133	33,172
Total fixed maturities	5,962,232	5,962,232	30,528	5,800,535	131,169
Equity securities	53,503	53,503	43,704	9,459	340
Short-term investments	87,561	87,561	87,561	-	-
Totals	6,103,296	6,103,296	161,793	5,809,994	131,509
Separate Account (variable annuity) assets (1)	1,398,281	1,398,281	1,398,281	-	-
Financial Liabilities	-	-	-	-	-

(1) Separate Account (variable annuity) liabilities are set equal to Separate Account (variable annuity) assets.

Note 3 - Fair Value of Financial Instruments-(Continued)

As of March 31, 2013, the Company transferred the separate account assets and liabilities into Level 1 from Level 2 after reassessing the underlying inputs for the determination of fair value for these assets and liabilities. As disclosed above, fair value is based primarily on market quotations of the underlying securities consistent with the method applied in all prior periods. The Company did not have any other transfers between Levels 1 and 2 during the six months ended June 30, 2013. The following tables present reconciliations for the three and six months ended June 30, 2013 and 2012 for all Level 3 assets measured at fair value on a recurring basis.

	Municipal Bonds	**Corporate Bonds**	**Other Mortgage-Backed Securities**	**Total Fixed Maturities**	**Equity Securities**	Total
Financial Assets						
Beginning balance April 1, 2013	$ 15,146	$ 55,527	$ 33,083	$ 103,756	$ 340	$ 104,096
Transfers into Level 3 (1)	1,000	18,768	35,533	55,301	-	55,301
Transfers out of Level 3 (1)	-	(16,663)	(18,403)	(35,066)	-	(35,066)
Total gains or losses						
Net realized gains (losses) included in net income	-	-	-	-	-	-
Net unrealized gains (losses) included in other comprehensive income	(315)	(824)	(291)	(1,430)	-	(1,430)
Purchases	-	-	-	-	-	-
Issuances	-	-	-	-	-	-
Sales	-	-	-	-	(334)	(334)
Settlements	-	-	-	-	-	-
Paydowns, maturities and distributions	(12,067)	(218)	(579)	(12,864)	-	(12,864)
Ending balance, June 30, 2013	$ 3,764	$ 56,590	$ 49,343	$ 109,697	$ 6	$ 109,703
Beginning balance, January 1, 2013	$ 12,275	$ 85,722	$ 33,172	$ 131,169	$ 340	$ 131,509
Transfers into Level 3 (1)	3,907	23,439	43,999	71,345	-	71,345
Transfers out of Level 3 (1)	-	(50,341)	(18,403)	(68,744)	-	(68,744)
Total gains or losses						
Net realized gains (losses) included in net income	-	-	-	-	-	-
Net unrealized gains (losses) included in other comprehensive income	(351)	(1,709)	(418)	(2,478)	-	(2,478)
Purchases	-	-	-	-	-	-

Issuances	-	-	-	-	-	-
Sales	-	-	-	-	(334)	(334)
Settlements	-	-	-	-	-	-
Paydowns, maturities and distributions	(12,067)	(521)	(9,007)	(21,595)	-	(21,595)
Ending balance, June 30, 2013	$ 3,764	$ 56,590	$ 49,343	$ 109,697	$ 6	$ 109,703

(1) Transfers into and out of Level 3 during the periods ended June 30, 2013 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 transfers out of the levels as of the ending date of the reporting period.

Note 3 - Fair Value of Financial Instruments-(Continued)

	Corporate Bonds	**Other Mortgage-Backed Securities**	**Total Fixed Maturities**	**Equity Securities**	Total
Financial Assets					
Beginning balance, April 1, 2012	$ 89,920	$ 13,065	$ 102,985	$ 385	$ 103,370
Transfers into Level 3 (1)	9,407	-	9,407	-	9,407
Transfers out of Level 3 (1)	(45,460)	-	(45,460)	-	(45,460)
Total gains or losses					
Net realized gains (losses) included in net income	-	-	-	-	-
Net unrealized gains (losses) included in other comprehensive income	2,725	9	2,734	-	2,734
Purchases	-	-	-	-	-
Issuances	-	-	-	-	-
Sales	-	-	-	-	-
Settlements	-	-	-	-	-
Paydowns and maturities	(133)	(163)	(296)	-	(296)
Ending balance, June 30, 2012	$ 56,459	$ 12,911	$ 69,370	$ 385	$ 69,755
Beginning balance, January 1, 2012	$ 88,256	$ 4,532	$ 92,788	$ 385	$ 93,173
Transfers into Level 3 (1)	18,240	8,504	26,744	-	26,744
Transfers out of Level 3 (1)	(50,707)	-	(50,707)	-	(50,707)
Total gains or losses					
Net realized gains (losses) included in net income	-	-	-	-	-
Net unrealized gains (losses) included in other comprehensive income	946	165	1,111	-	1,111
Purchases	-	-	-	-	-
Issuances	-	-	-	-	-
Sales	-	-	-	-	-
Settlements	-	-	-	-	-
Paydowns and maturities	(276)	(290)	(566)	-	(566)
Ending balance, June 30, 2012	$ 56,459	$ 12,911	$ 69,370	$ 385	$ 69,755

(1) Transfers into and out of Level 3 during the periods ended June 30, 2012 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 transfers out of the levels as of the ending date of the reporting period.

At June 30, 2013 and 2012, there were no realized gains or losses included in earnings that were attributable to changes in the fair value of Level 3 assets still held.

The valuation techniques and significant unobservable inputs used in the fair value measurement for financial instruments classified as Level 3 are subject to the control processes as previously described in this note for "Investments". Generally, valuation for fixed maturity securities include spread pricing, matrix pricing and discounted cash flow methodologies; inputs such as quoted prices for identical or similar securities that are less liquid; and 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 fixed maturities.

Note 3 - Fair Value of Financial Instruments-(Continued)

The sensitivity of the estimated fair values to changes in the significant unobservable inputs for fixed maturities and equity securities included in Level 3 generally relate to interest rate spreads, illiquidity premiums and default rates. Significant spread widening in isolation will adversely impact the overall valuation, while significant spread 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 Disclosed, But Not Carried, at Fair Value

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. The following table presents the carrying value, fair value and fair value hierarchy of these financial assets and financial liabilities at June 30, 2013 and December 31, 2012.

	Carrying Amount	Fair Value	Fair Value Measurements at Reporting Date Using Level 1	Level 2	Level 3
June 30, 2013					
Financial Assets					
Investments					
Other investments	$136,632	$140,062	$-	$-	$140,062
Financial Liabilities					
Fixed annuity contract liabilities	3,366,495	3,172,072	-	-	3,172,072
Policyholder account balances on interest-sensitive life contracts	78,732	78,235	-	-	78,235
Other policyholder funds	99,921	99,921	-	-	99,921
Short-term debt	38,000	38,000	-	38,000	-
Long-term debt	199,842	220,484	220,484	-	-
Other liabilities, repurchase agreement obligations	133,980	133,980	-	133,980	-
December 31, 2012					
Financial Assets					
Investments					
Other investments	$134,985	$135,121	$-	$-	$135,121
Financial Liabilities					
Fixed annuity contract liabilities	3,257,758	3,070,111	-	-	3,070,111
Policyholder account balances on					

interest-sensitive life contracts	79,017	78,519	-	-	78,519
Other policyholder funds	103,227	103,227	-	-	103,227
Short-term debt	38,000	38,000	-	38,000	-
Long-term debt	199,809	219,319	219,319	-	-

Note 4 - Debt

Indebtedness outstanding was as follows:

	June 30, 2013	December 31, 2012
Short-term debt:		
Bank Credit Facility, expires October 6, 2015	$38,000	$ 38,000
Long-term debt:		
6.05% Senior Notes, due June 15, 2015. Aggregate principal amount of $75,000 less unaccrued discount of $51 and $65 (6.1% imputed rate)	74,949	74,935
6.85% Senior Notes, due April 15, 2016. Aggregate principal amount of $125,000 less unaccrued discount of $107 and $126 (6.9% imputed rate)	124,893	124,874
Total	$237,842	$ 237,809

The Bank Credit Facility, 6.05% Senior Notes due 2015 (“Senior Notes due 2015”) and 6.85% Senior Notes due 2016 (“Senior Notes due 2016”) are described in “Notes to Consolidated Financial Statements — Note 5 — Debt” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

Federal Home Loan Bank

One of the Company’s subsidiaries, Horace Mann Life Insurance Company (“HMLIC”), is a member of the Federal Home Loan Bank of Chicago (“FHLB”), which provides HMLIC with access to collateralized borrowings and other FHLB products. As membership requires the ownership of member stock, on June 4, 2013, HMLIC purchased common stock to meet the membership requirement. Any borrowing from the FHLB requires the purchase of FHLB activity-based common stock in an amount equal to 5.0% of the borrowing. As of June 30, 2013 and for the period then ended, the Company had no borrowings outstanding from the FHLB.

Note 5 - Pension Plans and Other Postretirement Benefits

The Company has the following retirement plans: a defined contribution plan; a 401(k) plan; a defined benefit plan for employees hired on or before December 31, 1998; and certain employees participate in a supplemental defined contribution plan or a supplemental defined benefit plan or both.

Defined Benefit Plan and Supplemental Defined Benefit Plans

The following tables summarize the components of net periodic pension cost recognized for the defined benefit plan and the supplemental defined benefit plans for the three and six months ended June 30, 2013 and 2012.

	Defined Benefit Plan			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Components of net periodic pension (income) expense:				
Service cost:				
Benefit accrual	$-	$-	$-	$-
Other expenses	90	90	180	180
Interest cost	343	357	685	714
Expected return on plan assets	(559)	(606)	(1,119)	(1,212)
Settlement loss	229	459	487	918
Amortization of:				
Prior service cost	-	-	-	-
Actuarial loss	400	513	801	1,026
Net periodic pension expense	$503	$813	$1,034	$1,626

	Supplemental Defined Benefit Plans			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Components of net periodic pension (income) expense:				
Service cost:				
Benefit accrual	$ -	$ -	$ -	$ -
Other expenses	-	-	-	-
Interest cost	153	167	307	335
Expected return on plan assets	-	-	-	-

Settlement loss	-	-	-	-
Amortization of:				
Prior service cost	32	31	63	62
Actuarial loss	51	245	102	490
Net periodic pension expense	$ 236	$ 443	$ 472	$ 887

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Note 5 - Pension Plans and Other Postretirement Benefits-(Continued)

Postretirement Benefits Other Than Pensions

In addition to providing pension benefits, the Company also provides certain health care and life insurance benefits to a closed group of eligible employees. Effective January 1, 2007, the Company eliminated the previous group health insurance benefits for retirees 65 years of age and over, including elimination of pharmacy benefits for Medicare eligible retirees, and established a Health Reimbursement Account ("HRA") for each eligible participant in that closed group. Funding of HRA accounts was $90 and $88 for the six months ended June 30, 2013 and 2012, respectively.

The following table summarizes the components of the net periodic benefit for postretirement benefits other than pensions for the three and six months ended June 30, 2013 and 2012.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Components of net periodic benefit:				
Service cost	$ -	$ -	$ -	$ -
Interest cost	23	23	46	46
Amortization of prior service cost	-	-	-	-
Amortization of prior gain	(59)	(130)	(118)	(261)
Net periodic income	$ (36)	$ (107)	$ (72)	$ (215)

2013 Contributions

In 2013, there is no minimum funding requirement for the Company's defined benefit plan. The following table discloses the minimum funding requirements, contributions made and expected full year contributions for the Company's plans.

	Defined Benefit Pension Plans		
	Defined Benefit Plan	Supplemental Defined Benefit Plans	Other Postretirement Benefits

Minimum funding requirement for 2013	$ -	N/A	N/A
Contributions made in the six months ended June 30, 2013	-	$ 656	$ 215
Expected contributions (approximations) for the year ended December 31, 2013 as of the time of :			
This Form 10-Q (1)	3,000	1,320	480
2012 Form 10-K (2)	2,500	1,320	480

N/A - Not applicable.

(1) HMEC’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2013.

(2) HMEC’s Annual Report on Form 10-K for the year ended December 31, 2012, specifically “Notes to Consolidated Financial Statements — Note 9 — Pension Plans and Other Postretirement Benefits”.

Note 6 - 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:

	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount
Three months ended June 30, 2013				
Premiums written and contract deposits	$274,199	$ 7,509	$ 1,013	$267,703