KEMPER Corp
Form DEF 14A
March 22, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant ¨ Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material under §240.14a-12

Kemper Corporation

(Name of registrant as specified in its charter)

(Name of person(s) filing proxy statement, if other than the registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

Table of Contents

Notice of 2013 Annual Meeting & Proxy Statement

Kemper Corporation

One East Wacker Drive

Chicago, Illinois 60601

kemper.com

Table of Contents

One East Wacker Drive

Chicago, Illinois 60601

Notice of Annual Meeting of Shareholders To Be Held May 1, 2013

The 2013 Annual Meeting of Shareholders (Annual Meeting) of Kemper Corporation (the Company or Kemper) will be held at 10:00 a.m. Central Daylight Time on Wednesday, May 1, 2013, at the Gene Siskel Film Center, 164 North State Street, Chicago, Illinois 60601. Attendees providing proper identification will be directed to the meeting room. The purpose of the Annual Meeting will be to:

(1) Elect a Board of Directors;

(2) Consider and vote on an advisory proposal on the ratification of the selection of Deloitte & Touche LLP as the Company s independent registered public accountant for 2013; and

(3) Consider and act upon such other business as may be properly brought before the meeting.

The Board of Directors has fixed March 5, 2013 as the record date for determining shareholders entitled to receive this notice and to vote at the Annual Meeting or any adjournments or postponements of the meeting. A list of registered shareholders as of the close of business on March 5, 2013 will be available for inspection at the Annual Meeting and for a period of ten days prior to May 1, 2013 during ordinary business hours at the Company s executive offices located at One East Wacker Drive, Chicago, Illinois 60601.

By Order of the Board of Directors.

C. Thomas Evans, Jr.

Secretary

Chicago, Illinois

March 22, 2013

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be Held on May 1, 2013: The Company s 2013 Proxy Statement and 2012 Annual Report to Shareholders are available at proxyvote.com.

Regardless of whether you plan to attend the Annual Meeting, please vote your proxy as promptly as possible. You may vote by timely returning your signed and dated proxy card in the postage-paid envelope provided, or you may vote by telephone or through the Internet. Instructions are printed on your proxy card. To obtain directions to attend in person, you may contact Investor Relations by telephone at 312.661.4930, or by e-mail at investor.relations@kemper.com.

Table of Contents

Table of Contents

Table of Contents

Table of Contents

Proxy Statement for the 2013 Annual Meeting of Shareholders

The Board of Directors (Board of Directors or Board) of Kemper Corporation (the Company or Kemper) is furnishing you with this Proxy Statement to solicit proxies to be voted at Kemper s 2013 Annual Meeting of Shareholders (Annual Meeting). The Annual Meeting will be held at 10:00 a.m. Central Daylight Time on Wednesday, May 1, 2013, at the Gene Siskel Film Center, 164 North State Street, Chicago, Illinois 60601. The proxies also may be voted at any adjournments or postponements of the meeting.

The mailing address of our principal executive offices is One East Wacker Drive, Chicago, Illinois 60601. We began sending these proxy materials on or about March 22, 2013 to all shareholders entitled to vote at the Annual Meeting.

All properly executed proxy cards, and all properly completed proxies submitted by telephone or through the Internet, that are delivered in response to this solicitation will be voted at the Annual Meeting in accordance with the directions given in the proxy, unless the proxy is revoked before the meeting.

Questions & Answers about the Annual Meeting & Voting

Proxy and Proxy Statement

What is a proxy?

A proxy is your legal appointment of another person to vote the stock you own. That other person is called a proxy. If you appoint someone as your proxy in a written document, that document is also called a proxy or a proxy card. We have designated Donald G. Southwell, our Chairman, President and Chief Executive Officer, and C. Thomas Evans, Jr., our Associate General Counsel and Secretary, to act as proxies for the Annual Meeting. You do not need to attend the Annual Meeting to vote your shares if you provide a proxy in the manner described in this Proxy Statement.

What is a Proxy Statement?

A Proxy Statement is a document that sets forth the information required by the federal securities laws and regulations administered by the Securities and Exchange Commission (SEC) which is intended to allow you to vote on an informed basis at the Annual Meeting.

Voting and Record Date

On what am I being asked to vote?

Shareholders will vote on the following proposals at the Annual Meeting:

1. Election of the director nominees listed on page 11 (Nominees); and

2. Advisory vote on the ratification of the selection of Deloitte & Touche LLP as the Company s independent registered public accountant for 2013.

Table of Contents

Who can vote?

You are entitled to vote at the Annual Meeting if you owned Kemper common stock (Common Stock) at the close of business on March 5, 2013. This date is called the record date (Record Date).

How many shares of Kemper stock are eligible to be voted at the Annual Meeting?

At the close of business on the Record Date, there were 58,558,148 shares of Common Stock issued and outstanding. Accordingly, 58,558,148 shares of Common Stock are eligible to be voted at the Annual Meeting. Kemper had no other voting securities outstanding on the Record Date.

How many votes do I have?

Each share of Common Stock that you owned on the Record Date entitles you to one vote. Your proxy card indicates the number of shares of Common Stock that you owned on the Record Date that may be voted at the Annual Meeting.

How do I give a proxy to vote my shares?

How you give a proxy to vote your shares depends on whether you hold your shares of Common Stock (i) as a registered shareholder or (ii) in street name through an institution, such as a stock brokerage firm or bank. The shares of a registered shareholder are registered with the Company s transfer agent, Computershare Trust Company, N.A. (Computershare), in the shareholder s own name. Shares held in street name are registered with the Company s transfer agent in the name of the stock brokerage firm or other institution (or the name of its nominee), but not in the shareholder s own name. In this case, the institution maintains its own internal records showing the shareholder as the actual beneficial owner of the shares.

Registered shareholders: If you hold your shares of Common Stock as a registered shareholder, you may give a proxy to vote your shares by one of the following methods:

- Complete, sign and date your proxy card and return it no later than the commencement of the Annual Meeting in the postage-paid envelope provided;

- Call the toll-free telephone number on your proxy card and follow the recorded instructions no later than 10:59 p.m. Central Daylight Time on Tuesday, April 30, 2013;

- Access the proxy voting website identified on your proxy card and follow the instructions no later than 10:59 p.m. Central Daylight Time on Tuesday April 30, 2013; or

- Attend the Annual Meeting in person and deliver your proxy card or ballot to one of the ushers when requested to do so.

Shares held through 401(k) Plan: For shares held through the Company s employee 401(k) Plan (401(k) Plan), proxy cards must be received, and telephone and website voting must be completed, by 1:00 a.m. Central Daylight Time on Monday, April 29, 2013 (401(k) Deadline), for your voting instructions to be effective. If you provide timely voting instructions for your 401(k) Plan shares, the plan trustee will confidentially vote your shares in accordance with your voting instructions. In accordance with the terms of the 401(k) Plan, if you do not vote your plan shares before the voting deadline, the plan trustee will vote your shares in the same proportion as all other shares were voted in accordance with timely voting instructions provided to the trustee by all other plan participants.

The telephone and internet voting procedures are designed to authenticate shareholders identities, to allow shareholders to give their voting instructions, and to confirm that shareholders instructions have been recorded properly. Shareholders who wish to give proxy voting instructions over the Internet should be aware that there may be costs associated with electronic access, such as usage charges from

2

Table of Contents

internet service providers and telephone companies. In addition, in choosing among the available alternatives for proxy voting, shareholders should be aware that there may be some risk that a vote either by telephone or over the Internet might not be properly recorded or counted because of an unanticipated electronic malfunction. *As described above, please note that the ability of shareholders of record to submit voting instructions by telephone and over the Internet ends at 10:59 p.m. Central Daylight Time on the day before the Annual Meeting, and, for 401(k) Plan shares, at the 401(k) Deadline.* The reason for this cut-off is to allow for the timely assembly and tabulation of voting instruction data.

Shares held in street name: Your broker (or other institution holding your shares of Common Stock in street name) generally will supply you with its own form of proxy card requesting you to provide your voting instructions in writing or, in some cases, by telephone or over the Internet. Following its receipt of your voting instructions, the institution will be authorized to provide a proxy to the Company to vote your shares in accordance with any instructions you provide.

How will my proxy be voted?

If you (or your broker or other institution holding your shares held in street name) properly sign and timely return your proxy card, or timely deliver your voting instructions by telephone or over the Internet, the individuals designated as proxies on the proxy card will vote your shares as you have directed. With respect to Proposal 1, you may choose to vote *FOR* or *AGAINST,* or to *ABSTAIN* from voting for each director Nominee. With respect to Proposal 2, you may choose to vote *FOR* or *AGAINST,* or to *ABSTAIN* from voting.

For shares held as a registered shareholder or through the 401(k) Plan, if you sign the proxy card but do not make specific choices, the designated proxies will vote your shares as recommended by the Company s Board of Directors. For shares held in street name, you should contact your broker (or other institution) to determine the method that your shares will be voted if you sign the proxy card but do not make specific choices. **The Board of Directors recommends that you vote FOR all of the director Nominees in Proposal 1 and FOR Proposal 2.**

What is the effect of marking the proxy card to abstain from voting on any of the Proposals?

A proxy card marked ABSTAIN from voting on any of the proposals will be treated as present for purposes of determining a quorum, but will not be counted as votes cast for or against the proposal.

What are broker non-votes and how might they affect voting?

The applicable rules of the New York Stock Exchange (NYSE) allow a stockbroker holding securities in street name for its customer to exercise discretionary voting power for those securities with respect to some matters (called discretionary matters) but not others (called non-discretionary matters), depending on the subject matter of the proposal being voted on. Broker non-votes can occur when a stockbroker does not receive voting instructions from its customer on a non-discretionary matter. Under the current NYSE rules, director elections (and all matters related to executive compensation) are considered non-discretionary matters for which brokers cannot vote undirected shares. Therefore, any shares you hold in street name will not be voted with regard to Proposal 1 unless you provide timely voting instructions to your broker. Under the NYSE rules, Proposal 2 is considered a discretionary matter for brokers, and a broker not receiving voting instructions from a customer will be free to cast a vote in its discretion as to this matter.

Table of Contents

How will voting on any other business be conducted?

As of the date hereof, the Company s management is aware of no business that may come before the Annual Meeting other than Proposals 1 and 2 as described in this Proxy Statement, and only the Board of Directors may introduce any additional business. However, if any other business should properly come before the Annual Meeting, your proxy card will authorize the persons designated as proxies to vote on any such matters in their discretion.

How will the votes be counted, and how do I find out the voting results after the Annual Meeting?

Representatives of Broadridge Financial Solutions, Inc. will tabulate the votes and act as inspectors of election. The Company will report the voting results in a Current Report on Form 8-K that it will file with the SEC within four business days after the Annual Meeting.

May I revoke my proxy or change my voting instructions?

Shares held as a registered shareholder: You may revoke your proxy or change your voting instructions for registered shares as follows:

Deliver another signed proxy card with a later date anytime prior to the commencement of the Annual Meeting;

Notify Kemper s Secretary, C. Thomas Evans, Jr., in writing prior the commencement of the Annual Meeting that you have revoked your proxy;

Call the toll-free telephone number, or access the proxy voting website, identified on the proxy card and re-vote any time prior to 10:59 p.m. Central Daylight Time on Tuesday, April 30, 2013; or

Attend the Annual Meeting in person and deliver a new signed proxy or ballot to one of the ushers when requested to do so.

Shares held through the 401(k) Plan: You may revoke your proxy or change your voting instructions for shares held through the 401(k) Plan by completing any of the following:

Deliver another signed proxy card with a later date prior to the 401(k) Deadline; or

Call the toll-free telephone number, or access the proxy voting website, identified on the proxy card and re-vote anytime prior to the 401(k) Deadline.

Shares held in street name: You should contact your stockbroker (or other institution holding your shares) to determine the procedures, if any, for revoking or changing your voting instructions for shares held in street name.

If I plan to attend the Annual Meeting, should I give my proxy?

Regardless of whether you plan to attend the Annual Meeting, we urge you to give a proxy. Returning your proxy card or giving voting instructions by telephone or over the Internet will not affect your right to attend the Annual Meeting and vote in person. However, giving a proxy will ensure that your shares are represented at the Annual Meeting in the event that you are unable to attend.

How do I vote in person?

If you owned Common Stock in your own name on the Record Date, your name will appear on the list of registered shareholders of the Company and, if you wish to attend in person, you will be admitted to the Annual Meeting and may vote by written ballot or by delivering a signed proxy card. However, note that: (i) Shares held through the 401(k) Plan must be voted by the 401(k) Deadline and,

Table of Contents

accordingly, may not be voted in person at the Annual Meeting; and (ii) if your shares are held in the name of a broker, bank or other institution, you must present written evidence at the Annual Meeting from the institution indicating that you were the beneficial owner of the shares on the Record Date and that you have been authorized by that institution to vote your shares in person. This written evidence is generally called a Legal Proxy and should be submitted to the Company s Secretary, C. Thomas Evans, Jr., prior to the commencement of the Annual Meeting.

What does it mean if I receive more than one proxy card?

If your Kemper shares are held under different names or in more than one account, you will receive more than one proxy card. Each proxy card will indicate the number of shares you are entitled to vote on that particular proxy card.

Quorum and Required Vote

What is a quorum?

To conduct business at the Annual Meeting, a quorum must be present; that is, a majority of the shares of Common Stock outstanding and entitled to vote as of the Record Date must be represented in person or by proxy at the Annual Meeting. If you properly submit a proxy, your shares covered by that proxy will be counted towards a quorum.

How many votes are required to elect the Nominees for the Board of Directors?

Under the Company s Amended and Restated Bylaws (Bylaws), if a quorum is present, each Nominee for director in Proposal 1 will be elected if the votes cast FOR exceed the votes cast AGAINST his or her election. Proposal 2 is advisory in nature and non-binding on the Company.

Shareholder Proposals, Nominations and Communications

May a shareholder nominate someone at the 2013 Annual Meeting to be a director of Kemper or bring any other business before the 2013 Annual Meeting?

The Company s Bylaws require advance notice to the Company if a shareholder intends to attend an annual meeting of shareholders in person and to nominate someone for election as a director or to bring other business before the meeting. Such a notice may be made only by a shareholder of record within the time period established in the Bylaws and described in each year s proxy statement. The deadline for notices in relation to the 2013 Annual Meeting has expired, and the Company did not receive any such notices during the prescribed notice period. *Accordingly, no such director nominations or other business proposed by shareholders from the floor of the 2013 Annual Meeting will be in order.* The procedures for shareholders to nominate directors or make other proposals relating to the 2014 Annual Meeting are summarized below in the answers to the following two questions.

How can a shareholder nominate someone to be a director of Kemper or bring any other business before the 2014 Annual Meeting?

In accordance with the advance notice requirements of the Bylaws described above, if a shareholder of record wishes to nominate directors or bring other business to be considered by shareholders at the 2014 Annual Meeting, such proposals must be made in writing to the Company no earlier than January 31, 2014 and no later than March 3, 2014. However, if the date of the 2014 Annual Meeting is advanced by more than 30 days or delayed by more than 60 days from the anniversary date of the 2013 Annual Meeting (*i.e.*, May 1, 2013), then such nominations and proposals must be delivered in writing to the Company no earlier than 90 days prior to the 2014 Annual Meeting and no

Table of Contents

later than the close of business on the *later* of (i) the 60th day prior to the 2014 Annual Meeting, or (ii) the 10th day following the day on which public announcement of the date of the 2014 Annual Meeting is first made.

All shareholder proposals and notices should be submitted to the Secretary of Kemper, at One East Wacker Drive, Chicago, Illinois 60601.

Please note that these requirements relate only to matters intended to be proposed from the floor of the 2014 Annual Meeting. They are separate from certain SEC requirements that must be met to have shareholder proposals included in the Company s Proxy Statement, as described immediately below.

When are shareholder proposals due so that they may be included in Kemper s Proxy Statement for the 2014 Annual Meeting?

The SEC has enacted amendments to its regulations regarding inclusion of shareholder proposals in company proxy statements, but such amendments are currently the subject to litigation that has cast uncertainty as to the requirements and effective date thereof. Pursuant to the regulations of the SEC that are currently in effect, shareholders who intend to submit proposals for inclusion in the Company s proxy materials for the 2014 Annual Meeting must do so no later than November 22, 2013. Certain other SEC requirements must also be met to have a shareholder proposal included in the Company s Proxy Statement. In addition, these requirements are independent of the advance notice requirements of the Company s Bylaws described immediately above. Under SEC rules in effect on the date of this Proxy Statement, shareholder nominations of persons for election to the Board of Directors are not eligible for inclusion in the Company s proxy materials. All shareholder proposals and notices should be submitted to the Secretary of Kemper, at One East Wacker Drive, Chicago, Illinois 60601.

How may a shareholder or other interested party communicate with the Board of Directors?

Shareholders and other interested parties may communicate with the Board of Directors, or with the non-management directors as a group, by calling the Kemper Corporate Responsibility Hotline (Hotline) at 866.398.0010 or submitting a report or inquiry online at *listenupreports.com*.

The Hotline and the online reporting function are managed by an independent company, and reports can be made anonymously or confidentially. Communications will be directed to the Chair of the Nominating & Corporate Governance Committee if addressed to the non-management or independent directors as a group.

Cost of Proxy Solicitation

What are the costs of soliciting these proxies and who pays them?

The Company has retained the services of Innisfree M&A Incorporated (Innisfree) to aid in the solicitation of proxies. Innisfree estimates that its fees and expenses for these services will not exceed $21,000. The Company will bear the total expense of the solicitation that will include, in addition to the amounts paid to Innisfree, amounts paid for printing and postage and to reimburse banks, brokerage firms and others for their expenses in forwarding proxy solicitation material. Although the principal distribution of proxy materials will be through the Internet, solicitation of proxies will also be made by mail. Additional proxy solicitation may be made by telephone or other direct communication with certain shareholders or their representatives by directors, officers and employees of the Company and its subsidiaries, who will receive no additional compensation for such solicitation.

Additional Information about Kemper and Householding Requests

Where can I find more information about Kemper?

The Company s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments thereto are accessible free of charge through its website, kemper.com, as soon as reasonably practicable after such materials are filed with or furnished to the SEC. **You may also obtain at no charge a copy of the Company s most recent Annual Report on Form 10-K, including the financial statements and the financial statement schedules, other materials filed with the SEC and additional information regarding Kemper as follows:**

Contact Kemper Investor Relations by telephone at 312.661.4930, or by e-mail at investor.relations@kemper.com.

Write to Kemper at One East Wacker Drive, Chicago, Illinois 60601, Attention: Investor Relations.

How may shareholders with the same address request delivery of either single or multiple copies of the Company s Proxy Statement?

If you and another shareholder who shares your address received multiple copies of this Proxy Statement, you may contact the Company as described above and request that a single copy be sent to your address for future deliveries of Company communications. This is commonly referred to as householding. If your proxy statement was householded but you prefer to receive a separate copy, you may contact the Company as described above to request a separate copy now or for future deliveries of Company communications.

Ownership of Kemper Common Stock

Directors and Executive Officers

The following table shows the beneficial ownership of the Common Stock as of March 5, 2013 (unless otherwise indicated) by: (i) each director; (ii) each executive officer named in the SUMMARY COMPENSATION TABLE on page 48 (Named Executive Officer or NEO); and (iii) all directors and executive officers as a group. To the Company s knowledge, the beneficial owner has both sole voting and sole dispositive power with respect to the shares listed opposite his or her name, unless otherwise indicated.

Table of Contents

Name of Beneficial Owner	Common Shares Held as of 3/18/2013 Unrestricted Common Shares	Unvested Restricted Shares	Stock Options Exercisable On or Before 5/17/2013	Amount and Nature of Beneficial Ownership	Percent of Class(1)
Directors and Director Nominee					
James E. Annable	53,742		36,959	90,701	*
Douglas G. Geoga	7,000		40,000	47,000	*
Reuben L. Hedlund	5,000		32,000	37,000(2)	*
Julie M. Howard	3,500		16,000	19,500	*
Robert J. Joyce					*
Wayne Kauth	11,000		33,090	44,090	*
Christopher B. Sarofim					*
Fayez S. Sarofim	3,678,885		4,000	3,682,885(3)	6.3%
Donald G. Southwell *Chairman, President and Chief Executive Officer*	158,528	45,000	658,524	862,052	1.5%
David P. Storch	5,000		16,000	21,000	*
Richard C. Vie	157,176		486,622	643,798(2)	1.1%
NEOs (other than Mr. Southwell, who is listed above)					
Frank J. Sodaro *Senior Vice President and Chief Financial Officer(4)*	8,215	8,075	28,000	44,290	*
Dennis R. Vigneau *Former Senior Vice President and Chief Financial Officer(5)*	1,000		18,750	19,750	*
Scott Renwick *Senior Vice President and General Counsel*	63,128	10,500	153,151	226,779	*
Edward J. Konar *Vice President*	42,375	9,000	74,189	125,564(2)	*
John M. Boschelli *Vice President and Chief Investment Officer*	24,600	6,000	62,597	93,197	*
Directors and Executive Officers as a Group (19 persons)	4,289,740	99,200	1,772,249	6,161,189(2)	10.2%

(1) The percentages shown for any individual and for the directors and executive officers as a group are based on the number of shares outstanding on March 18, 2013, plus shares that the respective individual or the group has the right to acquire through the exercise of stock options that are currently vested or that will vest on or before May 17, 2013 (see footnote (2) below). An asterisk in this column indicates ownership of less than 1% of the outstanding Common Stock. Each outstanding share of Common Stock includes an attached right under the Company s shareholder rights plan adopted August 4, 2004 (the Rights Plan). Among other provisions of the Rights Plan, if any person or group beneficially owns 15% or more (22% or more in the case of the Company s existing stockholder, Singleton Group LLC, and certain related persons) of the Common Stock without approval of the Board of Directors, then each shareholder (other than the non-approved acquirer and its affiliates and transferees) would be entitled to buy Common Stock having twice the market value of the exercise price of the rights that has been set at $150 per share.

(2) Shares shown for directors and all executive officers as a group include shares beneficially owned by (i) all directors, (ii) all NEOs, and (iii) all other executive officers of the Company. Such shares include an aggregate total of 1,772,249 shares that all directors and executive officers have the right to acquire as of May 17, 2013 through the exercise of stock options, 5,000 shares held by Mr. Hedlund that are pledged as security for a bank loan,

157,176 shares held by Mr. Vie that are pledged as collateral for a mortgage loan, and 26,463 shares held by Mr. Konar that are pledged as collateral for a line of credit. Shares shown for Mr. Konar also include 3,000 shares held by his wife. Effective February 1, 2013, the Company adopted a policy prohibiting all directors and employees who receive equity-based compensation from the Company from entering into any new arrangements involving pledging or other provision of Company securities as collateral. The policy applies to all Common Stock, including shares subject to stock ownership and holding requirements. Under the policy, any previously-existing arrangements can be maintained until the individual is able to implement an alternative arrangement not involving Company securities.

(3) Based on information as of December 31, 2012 reported in a Schedule 13G/A filed jointly with the SEC by Fayez S. Sarofim and Fayez Sarofim & Co. on February 11, 2013, Mr. Sarofim may be deemed to be the beneficial owner of 3,678,885 shares of Common Stock. Of such shares, Mr. Sarofim reported sole voting and dispositive power as to 2,461,070 shares, shared voting power as to 1,127,384 shares, and shared dispositive power as to 1,217,815 shares. Substantially all of the shares that are not subject to sole voting and dispositive power are held in accounts managed by Fayez Sarofim & Co. (of which Mr. Sarofim is the Chairman of the Board, Chief Executive Officer, a director, and the majority shareholder) or by its wholly-owned subsidiaries, Sarofim Trust Co. and Sarofim International Management Company, or are owned directly by Sarofim International Management Company for its own account. Fayez Sarofim & Co. maintains policies that preclude Mr. Sarofim from exercising voting and dispositive power with respect to Common Stock held in accounts managed by Fayez Sarofim & Co. and its subsidiaries. Mr. Sarofim s mailing address is Two Houston Center, Suite 2907, 909 Fannin Street, Houston, Texas 77010.

(4) Mr. Sodaro was elected as the Company s Senior Vice President and Chief Financial Officer, effective March 15, 2013, succeeding to the position held by Mr. Vigneau until such date.

(5) The number of Common Shares shown is based on information reported as of February 4, 2013 in a Form 4 filed by Mr. Vigneau on February 5, 2013.

Certain Beneficial Owners

The following table shows the beneficial ownership of Common Stock by each person, other than the Company s directors and executive officers shown above, known by the Company to be the beneficial owner of more than five percent of the outstanding Common Stock. To the Company s knowledge, the beneficial owner has both sole voting and sole dispositive powers with respect to the shares listed opposite the beneficial owner s name, unless otherwise indicated.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
Singleton Group LLC 11661 San Vicente Blvd., Suite 915 Los Angeles, California 90049	10,534,520(2)	18.0%
Dimensional Fund Advisors LP Palisades West, Building One 6300 Bee Cave Road Austin, Texas 78746	3,982,077(3)	6.8%
T. Rowe Price Group, Inc. 100 East Pratt Street Baltimore, Maryland 21202	3,855,014(4)	6.6%
BlackRock, Inc. 40 East 52nd Street New York, NY 10022	3,181,732(5)	5.5%

Table of Contents

(1) Based on the number of shares outstanding on March 18, 2013. Each outstanding share of Common Stock includes an attached right under the Company s Rights Plan. See footnote (1) to the table in the preceding section entitled Directors and Executive Officers.

(2) Based on information reported in a Form 4 filed with the SEC on July 20, 2010, the Singleton Group LLC (LLC) directly owns 10,534,520 shares of Common Stock. As reported in a Schedule 13D/A filed with the SEC on July 14, 2010, the LLC and Christina Singleton Mednick, William W. Singleton and Donald E. Rugg, as managers of the LLC, share voting and dispositive power with respect to the shares of Common Stock held by the LLC, and so may be deemed beneficial owners of all such shares. William W. Singleton and Christina Singleton Mednick reported having indirect interests in these shares as trustees and beneficiaries of certain trusts holding membership interests in the LLC and as managers of the LLC and disclaimed beneficial interest of the shares of Common Stock held by the Singleton Group LLC except to the extent of their respective pecuniary interest therein.

The Schedule 13D/A reported that Donald E. Rugg has sole voting and dispositive power with respect to 349 shares of Common Stock. As a result of these shares beneficially owned outside of the LLC and his role as a manager of the LLC, Donald E. Rugg may be deemed a beneficial owner of 10,534,869 shares of Common Stock, which constitutes 18.0% of the Common Stock.

(3) Based on information reported in a Schedule 13G/A filed with the SEC on February 11, 2013, Dimensional Fund Advisors LP (Dimensional) beneficially owns an aggregate of 3,982,077 shares of Common Stock as of December 31, 2012, as to which Dimensional has sole dispositive power and which includes 3,906,433 shares as to which it has sole voting power. According to the Schedule 13G/A, these shares are held by four investment companies to which Dimensional furnishes investment advice and certain other commingled group trusts and separate accounts for which Dimensional serves as investment manager. Dimensional also disclaimed beneficial ownership of these shares.

(4) Based on information reported in a Schedule 13G filed with the SEC on February 13, 2013, T. Rowe Price Group, Inc. (T. Rowe Price) beneficially owns an aggregate of 3,855,014 shares of Common Stock as of December 31, 2012, as to which T. Rowe Price has sole dispositive power and which includes 599,102 shares as to which it has sole voting power.

(5) Based on information reported in a Schedule 13G filed with the SEC on January 30, 2013, BlackRock, Inc. (BlackRock) beneficially owns an aggregate of 3,181,732 shares of Common Stock as of December 31, 2012, as to which BlackRock has sole voting and dispositive power. BlackRock also reported that it was filing as the parent holding company or control person of certain subsidiaries listed in the Schedule 13G.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), requires the Company s directors and executive officers and persons who beneficially own more than ten percent of the registered class of the Company s equity securities, to file with the SEC reports of ownership and reports of changes in ownership of such securities. Directors, executive officers, and greater than ten percent shareholders are required to furnish the Company with copies of all the reports they file under Section 16(a). Based on the Company s knowledge of stock transfers, its review of copies of reports filed under Section 16(a) and written representations by persons furnished to the Company, the Company believes that all filing requirements applicable to its directors, executive officers and more than ten percent beneficial owners were complied with for the fiscal year ended December 31, 2012.

Proposal 1: Election of Directors

Election

Nine directors are to be elected at the Annual Meeting to serve for a term of one year or until the election of their successors, or as otherwise provided under the Company s Bylaws. If any of the persons named below declines or is unable to serve as a director (which is not anticipated), the

10

Table of Contents

individuals designated as proxies on the proxy card reserve full discretion to vote for any or all other persons who may be nominated. The affirmative vote of the majority of the shares of Common Stock that are voted for or against a particular director Nominee, in person or by proxy, at the Annual Meeting is required to elect such director Nominee.

Two current Board members, Reuben L. Hedlund and Fayez S. Sarofim, who have served on the Board since 1993 and 1990, respectively, are not standing for re-election and will be retiring from the Board effective May 1, 2013. The Board of Directors commends Messrs. Hedlund and Sarofim for their long-standing commitment and exceptional contributions to the Board and the Company. As of May 1, 2013, the Board will reduce the size of the Board to nine members and, accordingly, the Board has slated nine nominees for election at the Annual Meeting. Robert Joyce was recommended to the Nominating & Corporate Governance Committee as a potential nominee by the Company s Chief Executive Officer after the Board expressed the desire to add another director with insurance industry experience. Christopher Sarofim was recommended to the Nominating & Corporate Governance Committee as a potential nominee by the Company s Chief Executive Officer and other non-management directors in the event of the possible retirement of Fayez Sarofim from the Board.

The nominees for the Board are as follows:

Name of Nominee	Age	Principal Occupation	Director Since
James E. Annable	69	Secretary to the Federal Advisory Council of the Board of Governors of the Federal Reserve	1993
Douglas G. Geoga	57	President and Chief Executive Officer of Salt Creek Hospitality, LLC	2000
Julie M. Howard	50	Chief Executive Officer of Navigant Consulting, Inc.	2010
Robert J. Joyce	64	Retired Chairman and Chief Executive Officer of Westfield Group	2012
Wayne Kauth	79	Independent consultant to the financial service industry	2003
Christopher B. Sarofim	49	Vice Chairman of Fayez Sarofim & Co.	
Donald G. Southwell	61	Chairman, President and Chief Executive Officer of Kemper Corporation	2002
David P. Storch	60	Chairman of the Board and Chief Executive Officer of AAR Corp.	2010
Richard C. Vie	75	Chairman Emeritus, Kemper Corporation	1990

Business Experience of Nominees

Each of the individuals selected by the Board of Directors to serve as a Nominee for election to the Board of Directors at the Annual Meeting meets the nominee standards for board members previously adopted by the Board of Directors as described below on page 22. The Nominating & Corporate Governance Committee and the Board of Directors believes that each Nominee has demonstrated significant business achievements, ethical principles and commitment to serve the Company and its shareholders, and that the specific experience, qualifications, attributes and skills of each Nominee adds to the collective ability of the Board to perform its duties and discharge its responsibilities with competence, professionalism and expertise.

The following is a summary of the business positions and public-company directorships held by each Nominee over at least the past five years, as well as some specific factors particular to such Nominee that, combined with the generally applicable factors noted above, led the Board to conclude that he or she should be selected as a nominee for election to the Board of Directors at the Annual Meeting:

James E. Annable serves as Secretary to the Federal Advisory Council of the Board of Governors of the Federal Reserve. Previously, Dr. Annable served as Economic Advisor to the Chief Executive Officer of JPMorgan Chase & Co. Prior to his retirement in June 2001, Dr. Annable served as Senior Vice President and Director of Economics for Bank One Corporation, and previously held a variety of offices with the bank and its predecessors.

Table of Contents

Dr. Annable holds a doctorate in economics and has extensive experience as an economic advisor to several major financial institutions, as well as the Federal Reserve. His expertise is of particular significance to the Board because changes in the U.S. economy and financial markets can significantly impact the results of operations and financial position of the Company and its subsidiaries.

Douglas G. Geoga is President and Chief Executive Officer of Salt Creek Hospitality, LLC, a privately-held firm engaged in making investments in the hospitality industry and providing related advisory services. Since October 2012, Mr. Geoga has also served as Executive Chairman of Foundations Recovery Network, LLC, an owner and operator of residential and outpatient substance abuse treatment centers. Since October 2010, Mr. Geoga has also served as non-executive Chairman of the owner of the Extended Stay America Hotel chain. From November 2002 until December 2009, Mr. Geoga s primary occupation was serving as principal of Geoga Group, LLC, an investment and advisory consulting firm focused primarily on the hospitality industry. Until July 2006, Mr. Geoga served as the President of Global Hyatt Corporation and as the President of Hyatt Corporation and the President of AIC Holding Co., the parent corporation of Hyatt International Corporation, both privately-held subsidiaries of Global Hyatt Corporation which collectively operated the Hyatt chain of hotels throughout the world. In addition, from 2000 through 2005, Mr. Geoga served as the President of Hospitality Investment Fund, L.L.C., a privately-held firm which was engaged in making investments in lodging and hospitality companies and projects.

Mr. Geoga s history as president of Hyatt Corporation, a global leader in its industry, and Chairman of Extended Stay Hotels, a national industry leader in its segment, as well as his extensive experience in private business investment, brings to the Board the perspective of both an operating executive and one who is sophisticated in corporate investments and finance.

Julie M. Howard is Chief Executive Officer and a member of the Board of Directors of Navigant Consulting, Inc., a Chicago-based specialty consulting firm. Ms. Howard has served as Chief Executive Officer and director of Navigant since March 2012. Ms. Howard joined Navigant in 1988 and served as its President from February 2006 to March 2012, and as its Chief Operating Officer from April 2003 until March 2012. Since October 2012, Ms. Howard has also been a director of InnerWorkings, Inc., a leading global marketing supply chain company.

Ms. Howard s business experience and involvement with strategic and operational programs, development of growth and profitability initiatives and regular interaction with a wide range of corporate constituents, contributes unique perspectives and skill sets to the Board in its oversight of the Company s business units and operating companies and their respective strategic initiatives.

Robert J. Joyce served as Chairman and Chief Executive Officer of Westfield Group from July 2003 to January 2011, and as Executive Chair of Westfield s Board from January 2011 until his retirement in March 2012. Westfield Group is privately held and provides a broad portfolio of insurance and financial services. Mr. Joyce also served as Chairman of Westfield Bank from December 2001 to April 2010. Prior to joining Westfield in 1996, Mr. Joyce held various senior leadership positions with Reliance Insurance Group (Reliance Group Holdings), and previously worked as a certified public accountant. Mr. Joyce served as a U.S. Navy Captain and is a veteran of Desert Storm and Desert Shield.

Mr. Joyce brings substantial leadership experience and insurance industry expertise to the Board. In addition to his service as chief executive officer and board chair at Westfield, Mr. Joyce served on the Board of Governors of the Property Casualty Insurers Association of America (PCI) and is a past chair of that organization. He also served as a Trustee of the Griffith Insurance Education Foundation and on the Board of the National Association of Independent Insurers.

Table of Contents

Wayne Kauth has been an independent consultant to the financial services industry, specializing in the life/health and property/casualty insurance fields, for more than the past five years. Mr. Kauth is a retired partner of Ernst & Young, LLP where he specialized in accounting and auditing matters for the insurance industry and was the firm s National Insurance Technical Director. Mr. Kauth holds both the Chartered Property & Casualty Underwriter and Chartered Life Underwriter designations and is a fellow of the Life Management Institute. As a certified public accountant, Mr. Kauth has served on a number of committees and working groups for the American Institute of Certified Public Accountants and National Association of Insurance Commissioners.

Mr. Kauth s lengthy career in public accounting with a specialization in the insurance industry provides the Board with a deep understanding of both financial accounting and reporting requirements, financial statement integrity and Sarbanes-Oxley controls, as well as statutory and actuarial accounting complexities unique to the insurance industry, and makes him particularly well-suited for his service on the Audit Committee.

Christopher B. Sarofim is the Vice Chairman of Fayez Sarofim & Co., a registered investment adviser, having joined the firm in 1988. He is a member of the firm s Executive, Finance and Investment Committees, and is also the President of the firm s foreign advisory business, Sarofim International Management Company. Mr. Sarofim shares portfolio management responsibilities for numerous separate accounts advised by the firm, as well as several Dreyfus Corporation mutual funds. Prior to joining Fayez Sarofim & Co., he was employed with Goldman, Sachs & Co. in corporate finance.

Mr. Sarofim offers the Board extensive experience in the investment world, gained with one of the nation s premier investment advisory firms. With his financial background and investment advisory experience, Mr. Sarofim can provide the Board financial market and securities analysis expertise, key aspects in the management of the Company s investment portfolio.

Donald G. Southwell has served as Chairman of the Board of Directors of the Company since January 1, 2010, and has served as President and Chief Executive Officer since August 2006. Mr. Southwell served as President and Chief Operating Officer between February 2002 and August 2006, as Senior Vice President between February 1999 and February 2002, and as Vice President between May 1998 and February 1999. Mr. Southwell served as the President of the Company s insurance operations from October 1999 until February 2002. Mr. Southwell joined Kemper in March 1996 as the head of the Kemper Life and Health Insurance Group.

Mr. Southwell s position as Chief Executive Officer provides a crucial liaison between the Board and the members of the Company s executive and operational management, and his seventeen years of service to the Company, including eleven years as its President and thirteen years heading its insurance operations, have provided him with an extensive understanding and perspective relative to the Company s business operations, plans and strategies that are essential to the effective functioning of the Board.

David P. Storch is currently Chairman of the Board and Chief Executive Officer of AAR Corp. AAR is a leading provider of diverse products and value-added services to the worldwide aviation/aerospace and government/defense industries. Mr. Storch served from October 2005 until June 2007 as AAR s Chairman of the Board, President and Chief Executive Officer, from 1996 to October 2005 as its President and Chief Executive Officer, from 1989 to 1996 as its President and Chief Operating Officer, and from 1988 to 1989 as its Vice President. Mr. Storch is also a director of KapStone Paper and Packaging Corporation, a leading North American producer of unbleached kraft paper products and linerboard. Mr. Storch has served as Lead Director of the Board of Directors since August 2012.

Table of Contents

Mr. Storch brings the Board substantial leadership expertise. His experiences as a chief executive officer of a large public company, an executive responsible for business development, Chairman of the Board of AAR, a board member of another public company and a business leader in his industry, offer the Board broad and unique perspectives and hands-on knowledge of the challenges of running a public company.

Richard C. Vie served as Chairman of the Board of Directors of the Company from January 1999 through December 2009. Mr. Vie held the executive office of Chairman from August 2006 until his retirement as an employee and executive officer of the Company on December 31, 2009, and currently holds the honorary title of Chairman Emeritus. From March 1992 until August 2006, Mr. Vie served as Chief Executive Officer, and also served as President from March 1992 until February 2002.

Mr. Vie s extensive knowledge and deep understanding of the Company s businesses and the industries in which they operate, gained over his thirty-one years with the Company and its affiliated companies in a variety of roles, including fourteen years as Chief Executive Officer of the Company and eleven years as its Chairman of the Board, provide invaluable expertise and insight to the Board.

Recommendation of the Board of Directors

The Board of Directors Recommends that You Vote *For* the Election of all Nine Nominees for Director in Proposal 1.

Director Compensation

The following table shows the compensation earned for 2012 by the non-employee members of the Board of Directors.

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash ($)(1)	Option Awards ($)(2)	All Other Compensation ($)(3)	Total ($)
James E. Annable	120,500	37,353		157,853
Douglas G. Geoga	105,500	37,353		142,853
Reuben L. Hedlund	80,000	37,353		117,353
Julie M. Howard	83,500	37,353		120,853
Robert J. Joyce*	30,583	41,382		71,965
Wayne Kauth	93,500	37,353		130,853
Fayez S. Sarofim	66,000	37,353		103,353
David P. Storch	69,500	37,353		106,853
Richard C. Vie	80,500	37,353	37,555	155,408

* Mr. Joyce became a member of the Board of Directors on August 1, 2012.

(1) Fees shown in this column were earned for service on the Board and/or Board committees, and include amounts deferred at the election of an individual Board member under the Kemper Corporation Nonqualified Deferred Compensation Plan. For more information about the Deferred Compensation Plan, see the narrative discussion in the Executive Compensation section under the heading Deferred Compensation Plan on page 46.

(2) The amounts shown in this column represent the aggregate grant date fair values of the stock option awards granted on May 2, 2012 to the designated non-employee directors other than Mr. Joyce, and on August 1, 2012 to Mr. Joyce. The Black-Scholes option pricing model was

Table of Contents

used to estimate the fair value of each option on the grant date. For a discussion of valuation assumptions, see Note 10 to the consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012. Additional information about director stock option grants is provided on page 16 below in the narrative following the table captioned 2012 Annual Non-Employee Director Compensation Program.

For each non-employee director, the following table shows the total number of outstanding option shares held as of December 31, 2012:

Name	Outstanding Option Shares as of 12/31/12(#)
James E. Annable	36,959
Douglas G. Geoga	40,000
Reuben L. Hedlund	36,000
Julie M. Howard	16,000
Robert J. Joyce	4,000
Wayne Kauth	33,090
Fayez S. Sarofim	8,000
David P. Storch	16,000
Richard C. Vie(1)	615,032

(1) Includes 12,000 shares received as a non-employee director after 2009, and 603,032 shares granted as an employee prior to 2010 under the applicable equity-based compensation plans of the Company.

(3) The amount shown in this column represents (i) perquisites received by Mr. Vie in the aggregate amount of $29,755, which includes $29,706 in incremental costs to the Company for office and technical support services provided during 2012, and (ii) matching contributions of $7,800 made for Mr. Vie in 2012 by the Company pursuant to its Matching Gifts to Education Program. Under the matching gifts program, the Company will match tax deductible donations of up to $10,000 made to eligible educational institutions by employees, directors and retirees of the Company on a $2 for $1 basis up to an aggregate of $20,000 per donor for donations in any one year.

2012 Annual Non-Employee Director Compensation Program

The amounts shown in the Director Compensation table above as Fees Earned or Paid in Cash are based on the annual non-employee director compensation program in effect for 2012 that provided for the following compensation:

Board/Committee	Annual Committee Chair Retainer ($)	Annual Member Retainer ($)	Meeting Attendance Fee ($)	Annual Stock Option Awards (#)
Board of Directors		35,000	1,500	4,000
Executive Committee	16,000	8,000		
Audit Committee	27,000	12,000	2,000(1)	
Compensation Committee	15,000	8,000		
Investment Committee	15,000	10,000	3,000(2)	
Nominating & Corporate Governance Committee	15,000	5,000		

(1) Meeting attendance fee is $2,000 for each Audit Committee Meeting attended on a day other than a day when the Board of Directors meets.

15

(2) Meeting attendance fee is $3,000 for each Investment Committee Meeting attended on a day other than a day when the Board of Directors meets.

Each director who is not an employee of the Company or any subsidiary of the Company, or has retired as an employee of the Company or a subsidiary of the Company, automatically receives a grant of options to purchase 4,000 shares of Common Stock under the Company s 2011 Omnibus Equity Plan (Omnibus Plan) at the conclusion of each Annual Meeting. Upon becoming a director, each new member of the Board of Directors who is not employed by the Company receives a grant of options to purchase 4,000 shares of Common Stock. The compensation program for non-employee directors was revised, effective May 1, 2013, to add a deferred stock unit award covering 500 shares of Common Stock to all board members at the conclusion of each Annual Meeting and an annual retainer fee of $20,000 for the Lead Director.

The exercise price for all options granted to non-employee directors is the closing price of a share of Common Stock on the grant date. All such options become exercisable on the first anniversary of the grant date, expire on the tenth anniversary of the grant date, and, for options granted prior to 2009, include the right to receive restorative options under specified circumstances. As discussed in the Compensation Discussion and Analysis section below, under the heading Elimination of Restorative Option Program on page 45, the restorative option program was eliminated on a prospective basis effective in 2009. As a result, annual stock option awards granted by the Company beginning in 2009 do not include the right to receive restorative options. In connection with options granted prior to 2009, restorative options are granted automatically to replace shares of previously-owned Common Stock that an exercising option holder surrenders, either actually or constructively, to satisfy the exercise price, so long as certain requirements are met at the time of exercise. The non-employee directors are eligible to defer up to 100% of the fees earned for service on the board and board committees under the Deferred Compensation Plan. For more information about the Deferred Compensation Plan, see the narrative discussion in the Executive Officer Compensation and Benefits section below under the caption Deferred Compensation Plan.

All directors are entitled to reimbursement for travel expenses incurred in attending Board of Directors and Board committee meetings and other Company business. Each of the Company s directors, including the directors who are also members of management, is a party to an indemnification and expense advancement agreement with the Company, as permitted by the Delaware General Corporation Law. The provisions of these agreements are substantially the same as the indemnification provisions applicable to the directors under the Company s Bylaws and Certificate of Incorporation, except that the agreements may not be amended or terminated without the written consent of the respective director.

In addition to the compensation received as a non-employee director in 2012, Mr. Vie received payments from the Company to which he was entitled as a former employee. Mr. Vie retired from the Company on December 31, 2009 and, effective January 1, 2010, began to receive benefits under the Company s defined benefit pension plans and to participate in a program offering retiree group health and life insurance coverage, to which he is entitled to participate through July 31, 2013 as a former employee of United Insurance Company of America. As a former executive of the Company s former parent corporation, Teledyne, Inc., Mr. Vie had elected to defer a portion of his compensation that he earned under the Teledyne Management Bonus Compensation Plan (Teledyne Plan) until his retirement. The Company assumed liability for Mr. Vie s balance under the Teledyne Plan at the time of Kemper s spin-off from Teledyne in 1990. Beginning January 1, 2010, the Company began making payments to Mr. Vie under the Teledyne Plan as a result of his retirement from the Company on December 31, 2009. These amounts will be paid to Mr. Vie on a quarterly basis over a ten-year period.

Table of Contents

Corporate Governance

The Company has adopted the following documents which are posted under *Governance* on the Company s website at kemper.com. Copies of these documents may also be obtained free of charge by request to the Company at One East Wacker Drive, Chicago, IL 60601, Attention: Investor Relations.

Corporate Governance Guidelines

Charters of the Following Committees of the Board of Directors:

- Audit Committee
- Compensation Committee
- Investment Committee
- Nominating & Corporate Governance Committee

Code of Business Conduct and Ethics

Code of Ethics for Senior Financial Officers

Director Independence Standards

The Code of Business Conduct and Ethics applies to the Company s directors, officers and other employees. The Code of Ethics for Senior Financial Officers applies to the Company s Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, or persons performing similar functions. The Company intends to disclose future amendments to, and any waivers for directors or officers (though none are anticipated) from, the Code of Business Conduct and Ethics or the Code of Ethics for Senior Financial Officers under *Governance* on its website at *kemper.com*.

Related Person Transactions

The Board of Directors has adopted a written policy (Policy on Related Person Transactions) for review, approval and ratification of transactions involving the Company and related persons (directors, executive officers, shareholders owning five percent or more of Common Stock, or immediate family members of any of the foregoing). The Policy on Related Person Transactions covers any related person transaction unless it involves: (i) a transaction generally available to all employees of the Company; (ii) less than $120,000 in the aggregate; or (iii) a relationship as an insurance policyholder entered and maintained in the ordinary course of business of a subsidiary of the Company on terms no more favorable to the related person than those applicable to non-affiliated third parties or those generally available to employees of the Company. Covered related person transactions must be approved or ratified by the Nominating & Corporate Governance Committee of the Board of Directors. In addition, approval under the Policy on Related Person Transactions is required before the Company can make charitable contributions exceeding $120,000 in the aggregate in any fiscal year to a charitable organization for which a related person serves as an executive officer, director, trustee or in a similar capacity.

Upon learning of a proposed or existing related person transaction requiring review under the Policy on Related Person Transactions, management is required to submit the matter for consideration by the Nominating & Corporate Governance Committee, which will review the transaction and make a determination as to whether it is consistent with the best interests of the Company and its shareholders. In its review, the Nominating & Corporate Governance Committee may consider the facts and circumstances it deems significant and relevant to the particular transaction, including such factors as the related person s relationship to the Company and interest in the transaction, the value of the transaction and any reasonable alternatives, and the potential impact of the transaction on the

Table of Contents

Company, the related person and other applicable parties. No director who is on the Nominating & Corporate Governance Committee will participate in the review or approval under the Policy on Related Person Transactions of a transaction involving such director or a member of his or her immediate family. In accordance with the Policy on Related Person Transactions, the Nominating & Corporate Governance Committee has reviewed certain transactions with the Company involving Fayez Sarofim & Co.

Fayez Sarofim is Chairman of the Board, Chief Executive Officer, a director, and the majority shareholder of Fayez Sarofim & Co. (FS&C), a registered investment advisory firm. Christopher Sarofim is Vice Chairman of FS&C. FS&C provides investment management services with respect to certain assets of the Company s subsidiary, Trinity Universal Insurance Company (Trinity) pursuant to an agreement entered into by the parties in the second quarter of 2010. In addition, FS&C provides investment management services with respect to certain funds of the Company s tax-qualified defined benefit pension plan (Pension Plan) under an agreement between the parties in effect prior to 2010. The agreements governing these services are terminable by either party at any time on 30 days advance written notice. At December 31, 2012, Trinity had $125.2 million in assets, and the Pension Plan had $120.7 million in assets, under management with FS&C. Under these arrangements, FS&C is entitled to fees calculated and payable quarterly based on the fair market value of the assets under management. During 2012, Trinity incurred fees of $0.3 million, and the Pension Plan incurred fees of $0.3 million, in the aggregate to FS&C.

In addition, FS&C provides investment management services as a sub-investment advisor to the Dreyfus Appreciation Fund, an open-end, diversified management investment fund (the Fund), offered as one of the alternative investment choices afforded to employees participating in the 401(k) Plan and/or defined contribution retirement plan (DC Plan). According to published reports filed by FS&C with the SEC, the Fund pays monthly fees to FS&C according to a graduated schedule computed at an annual rate based on the value of the Fund s average daily net assets. The Company does not compensate FS&C for services provided to the Fund. As of December 31, 2012, Company employees participating in these plans had allocated $20.4 million for investment in the Fund, representing 7% of the total amount invested in such plans.

The Nominating & Corporate Governance Committee performed an initial review of the transactions involving FS&C at the outset of each relationship and determined that the transactions had been entered into on terms no less favorable to the Company than could have been negotiated with non-affiliated third parties and were consistent with the best interests of the Company and its shareholders. The Nominating & Corporate Governance Committee considers these relationships on an annual basis and reviews any material changes in the related facts and circumstances to ensure that they are consistent with the Company s Policy on Related Person Transactions.

Director Independence

The Board of Directors has adopted categorical standards (Director Independence Standards) to assist in its determination of director independence as required by Section 303A of the Listed Company Manual (NYSE Listing Standards) of the NYSE and applicable SEC rules. The Director Independence Standards are posted under *Governance* on the Company s website at *kemper.com.* Under the Director Independence Standards, a director is not independent for purposes of his or her service on the Board of Directors or a particular Board committee unless the director and his or her immediate family members meet all independence requirements applicable to such service under the NYSE Listing Standards and SEC rules. The Director Independence Standards incorporate by reference certain relationships listed in the NYSE and SEC independence rules. In addition, the

Table of Contents

Director Independence Standards define four specific types of relationships as categorically immaterial. Two of these types of relationships involve an organization or entity that either received charitable contributions from the Company or engaged in transactions with the Company, in either case to the extent the annual amounts involved did not exceed $120,000. The other two types of relationships are: (i) status as an insurance policyholder of a Company subsidiary in the ordinary course of business of the subsidiary on terms no more favorable to the director than those applicable to policies with unaffiliated third parties or those generally available to Company employees; and (ii) the receipt by a director of administrative support or retirement compensation for prior service from a former employer of such director that has a business relationship with the Company. The Board of Directors believes that these specified types of relationships would not affect or influence the Company s business relationships or create a direct or indirect material interest in the Company s business transactions on the part of a director.

In connection with its annual independence assessment of the individuals recommended by the Nominating & Corporate Governance Committee as nominees for election to the Board of Directors at the 2013 Annual Meeting, the Board of Directors reviewed the applicable independence rules and the factual information derived from the questionnaires and affirmations completed by the individual directors and other available information. The Board of Directors affirmatively determined that, under the NYSE Listing Standards, applicable SEC rules and the Director Independence Standards, a majority of the members of the Board of Directors is independent, that director nominees Annable, Geoga, Howard, Joyce, Kauth and Storch are each independent and have no material relationships with the Company.

Meetings and Committees of the Board of Directors

The Company s Board of Directors met five times in 2012. Under the Company s Corporate Governance Guidelines, directors are expected to attend Board meetings and meetings of the Board committees on which they serve. Except for Reuben Hedlund and Fayez Sarofim, each director attended at least 75% of the 2012 meetings of the Board of Directors and Board committees on which such director served. Mr. Hedlund attended 74%, and Mr. Sarofim attended 69%, of such meetings. The non-employee members of the Board of Directors meet regularly in executive session. Since August 2012, when the Board established the role of Lead Director and designated Mr. Storch to fill the position, Mr. Storch has presided at the executive sessions. Prior to such date, Mr. Hedlund presided at the executive sessions as Chair of the Nominating & Corporate Governance Committee.

Under the Company s Policy on Director Attendance at Annual Meetings, all directors are expected to attend annual meetings of the Company s shareholders unless unavoidable obligations or other circumstances prevent their attendance. Each of the directors who were members of the Board of Directors on May 2, 2012, the date of the 2012 Annual Meeting, attended such meeting.

Table of Contents

The Board of Directors has five principal committees: Audit Committee, Compensation Committee, Executive Committee, Investment Committee and Nominating & Corporate Governance Committee. In addition, Mr. Southwell serves on the Special Equity Grant Committee that has been delegated limited grant authority under the Omnibus Plan. The following table shows the current membership and the number of meetings held in 2012 by each of the principal Board committees:

Audit Committee	**Compensation Committee**	**Executive Committee**	**Investment Committee**	**Nominating & Corporate Governance Committee**
James E. Annable	James E. Annable(1)	James E. Annable	James E. Annable	James E. Annable
Douglas G. Geoga	Douglas G. Geoga	Donald G. Southwell	Douglas G. Geoga(1)	Reuben L. Hedlund(1)
Reuben L. Hedlund	Julie M. Howard	David P. Storch	Fayez S. Sarofim	Julie M. Howard
Julie M. Howard	Wayne Kauth	Richard C. Vie(1)	Donald G. Southwell	David P. Storch
Robert J. Joyce	David P. Storch		Richard C. Vie	
Wayne Kauth(1)				
8 meetings held in 2012	2 meetings held in 2012	0 meetings held in 2012(2)	8 meetings held in 2012	5 meetings held in 2012

(1) Committee Chair

(2) Action was also taken by unanimous consent in lieu of meetings in 2012 four times by the Executive Committee.

The following is a brief description of the functions of the five principal Board committees:

Audit Committee Assists the Board of Directors in fulfilling its oversight responsibilities with respect to:

- the integrity of the Company s financial statements;
- the Company s compliance with legal and regulatory requirements;
- the independent registered public accountant s qualifications, independence and performance; and
- the performance of the Company s internal audit function.

The Audit Committee is a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. Among other things, the Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the work of the Company s independent registered public accountant, including prior approval of the audit engagement fees and terms.

The Board of Directors has determined that each member of the Audit Committee is independent and financially literate in accordance with the NYSE Listing Standards, that each member of the Audit Committee meets the independence requirements for audit committee membership under the SEC rules, and that Mr. Kauth is qualified as an audit committee financial expert under the SEC rules. The Audit Committee Charter is posted under *Governance* on the Company s website at *kemper.com*.

Compensation Committee Assists the Board of Directors in fulfilling its responsibilities relating to:

- overseeing the compensation of the Company s executive officers, operating company presidents and group executives;
- reviewing and discussing with management the Compensation Discussion and Analysis section of the Company s annual proxy statement and approving the related Compensation Committee Report;

Table of Contents

reviewing and approving corporate goals and objectives relevant to the compensation of the Company s Chief Executive Officer (CEO), evaluating the CEO s performance and compensation in light of such goals and objectives, and setting the CEO s compensation based on such evaluation;

reviewing and making recommendations to the Board of Directors regarding the Company s incentive compensation and equity-based compensation plans;

reviewing and approving the base salary, bonus and equity award components of the annual compensation of the executive officers, operating company presidents and group executives;

setting performance criteria, and certifying the results thereof, for cash bonuses under the Kemper Corporation 2009 Performance Incentive Plan (Performance Incentive Plan);

reviewing and approving any employment agreements or severance or change-in-control arrangements involving any of the Company s executive officers;

approving award recipients and determining the terms of awards under the Omnibus Plan (with the limited exception of awards granted by the Special Equity Grant Committee pursuant to its delegated authority) and administering the Omnibus Plan and its predecessor plans, the 1995 Non-Employee Stock Option Plan (Director Option Plan), the 1997 Stock Option Plan (1997 Option Plan), the 2002 Employee Stock Option Plan (2002 Option Plan), and the 2005 Restricted Stock and Restricted Stock Unit Plan (Restricted Stock Plan); and

reviewing and making recommendations to the Board of Directors on director compensation.

The Board of Directors has determined that each member of the Compensation Committee is independent in accordance with the NYSE Listing Standards. The Compensation Committee Charter is posted under *Governance* on the Company s website at *kemper.com*. Additional information about the Compensation Committee procedures is provided below in the section entitled Executive Compensation.

Executive Committee May exercise all powers and authority of the Board of Directors in the management of the business of the Company except for:

certain powers which, under Delaware law, may be exercised only by the full Board of Directors; and

such other powers as may be granted to other committees by resolution of the Board of Directors or as defined in the charters of such committees.

Investment Committee Oversees the Company s investment objectives and policies and reviews the performance of the Company s investment portfolios on a consolidated basis. The Investment Committee is also responsible for review and approval of the policies and objectives for the Company s investment activities that are established and maintained by the Company s Chief Investment Officer. The Investment Committee Charter is posted under *Governance* on the Company s website at *kemper.com.*

Nominating & Corporate Governance Committee Assists the Board of Directors in fulfilling its responsibilities with respect to:

identifying potential candidates qualified to become Board members and recommending director nominees to the Board in connection with each annual meeting of shareholders;

Table of Contents

- developing and assessing principles and guidelines for corporate governance, executive succession, business conduct and ethics and recommending their adoption and periodic revision to the Company s Board of Directors;

- leading the Board of Directors in its annual review of the Board s performance; and

- recommending to the Board director nominees, chairs for each Board committee and an independent Board member to serve as Lead Director.

The Board of Directors has determined that each member of the Nominating & Corporate Governance Committee is independent in accordance with the NYSE Listing Standards. The Nominating & Corporate Governance Committee Charter is posted under *Governance* on the Company s website at *kemper.com*.

Selection of Board Nominees

In accordance with its charter, the Nominating & Corporate Governance Committee recommends a full slate of director nominees for election each year at the Annual Meeting. As needed to fill actual or anticipated vacancies on the Board of Directors, the Nominating & Corporate Governance Committee screens and interviews candidates, and conducts inquiries into each candidate s background, qualifications and independence in accordance with the NYSE Listing Standards and SEC rules. The Nominating & Corporate Governance Committee may, in its discretion, retain search firms to identify director candidates.

The Company will consider director recommendations by shareholders that are made in writing, addressed to Kemper s Secretary, and include: (a) the candidate s name, address and telephone number; (b) a brief biographical description of the candidate, including his or her occupation for the last five years and a statement of the qualifications of the candidate to serve as director; and (c) the candidate s signed consent to serve as a director if elected and to be named in the Company s proxy statement as a nominee. The Nominating & Corporate Governance Committee will consider shareholder recommendations using the same standards it uses to assess all other candidates for director.

The Nominating & Corporate Governance Committee evaluates potential nominees for director against the following standards that were previously adopted by the Board of Directors, as well as other attributes and skill sets considered desirable or necessary to address particular needs from time to time:

- The highest ethical standards and integrity.

- Must be willing and able to devote sufficient time to the work of the Board.

- Must be willing and able to represent the interests of shareholders as a whole rather than those of special interest groups.

- No conflicts of interest that would interfere with performance as a director.

- A reputation for working constructively with others.

- A history of achievement at a high level in business or the professions that reflects superior standards.

- Possess qualities that contribute to the Board s diversity.

The primary focus in recruitment and nomination of directors has been on skills and experience. Other than as noted in the last bullet point above, the Nominating & Corporate Governance Committee does not have a specific policy or requirement with regard to its consideration of diversity in identifying director nominees, nor has it attempted to define or limit the concept of diversity to any particular set of characteristics. The Nominating & Corporate Governance Committee and the Board of Directors believe that the Board should be comprised of members with complementary and diverse skills and experience which, collectively, contribute breadth of perspective and enable the Board to be an effective overseer of a publicly-traded insurance organization.

Compensation Committee Interlocks and Insider Participation

The Board of Directors has determined that each member of the Compensation Committee is independent in accordance with the NYSE Listing Standards. The Compensation Committee consists of James E. Annable, Douglas G. Geoga, Julie M. Howard, Wayne Kauth and David P. Storch. None of these individuals is a current or former officer or employee of the Company or any of its subsidiaries, and none of these individuals had a relationship with the Company during 2012 which required disclosure by the Company under the SEC rules on transactions with related persons. Related person transactions and the independence of the non-employee members of the Company s Board of Directors are discussed in more detail above under the headings Related Person Transactions and Director Independence.

No executive officer of the Company has served as a director or member of the compensation committee or other board committee of another entity that had an executive officer who served on the Company s Compensation Committee or Board of Directors.

Board Leadership and Role in Risk Oversight

Board s Leadership Structure

The structure of the Company s Board of Directors includes a Chairman of the Board, a Lead Director and five principal board committees. The Audit Committee, Compensation Committee and Nominating & Corporate Governance Committee are comprised entirely of independent directors. The Executive Committee and the Investment Committee are comprised of a mix of independent directors, other non-employee directors and the CEO.

The Board established the role of Lead Director in August 2012. The Lead Director serves as the primary liaison between non-employee directors and the Chairman, President and Chief Executive Officer (although all non-employee directors are encouraged to communicate freely with the Chairman, President and Chief Executive Officer and other members of management at any time). In addition, the Lead Director sets agendas for, and presides over, the executive sessions of non-employee directors and, in the absence of the Chairman of the Board, presides at Board meetings.

Mr. Southwell serves as Chairman of the Board, and Mr. Storch serves as Lead Director. Mr. Southwell s combined role of Chairman and Chief Executive Officer promotes clarity of corporate focus and unified leadership by the director most familiar with the Company s business, industry and strategic goals, as well as its history and culture. The Company believes that its leadership structure is appropriate for the Company given these benefits and the counterbalancing role provided by the independent oversight of the Company s non-employee directors, who meet regularly in executive session, the direction and management of the Lead Director, and the significant functions provided by the key Board committees that are comprised of independent directors and are able to retain independent outside advisors in their discretion.

Table of Contents

Board s Role in Risk Oversight

The Board of Directors plays an active role in the oversight of risk assessment and management at various levels of the Board s leadership structure. The Chairman of the Board plays an integral role in identifying the material issues and risks to be brought to the Board s attention. Full board and board committee meetings provide the directors with regular opportunities to discuss key matters and raise questions with management, auditors and any consultants retained by the Board or committee.

The Board is regularly informed by members of the Company s executive and operational management about a wide range of matters that could pose significant risks to the Company. These include, for example, strategic plans, corporate transactions, and significant operational projects and developments. In addition, Board committees have the opportunity to evaluate areas of potential risk on issues pertinent to their particular functional responsibilities. The Audit Committee has oversight responsibilities pertaining to a number of matters that involve potential risk to the Company, most notably, the Company s financial reporting and internal controls, the internal audit function, matters reported through the Hotline, guidelines and policies regarding financial risk assessment and management, and the performance of the Company s independent auditors. In carrying out these responsibilities, the Audit Committee reviews, for example, the Company s quarterly and annual financial statements and related SEC disclosures and auditor s reports and communications, enterprise and business unit risk management assessments (including risks associated with catastrophe losses), and internal audit plans and significant findings. The Compensation Committee has oversight responsibilities pertaining to the Company s executive compensation and equity-based compensation programs. In carrying out these responsibilities, the Compensation Committee reviews performance goals and metrics under the Company s Performance Incentive Plan, look-back and projection assessments of such goals and metrics, and levels of ownership of the Company s Common Stock resulting from equity grants to its executives.

Audit Committee Report

This report concerns the Audit Committee and its activities regarding the Company s financial reporting and auditing processes.

The role of the Audit Committee is one of oversight, and does not include conducting audits or determining whether the financial statements are complete and accurate. The responsibility for the completeness and accuracy of the Company s financial statements and the assessment of the effectiveness of the Company s internal control over financial reporting rests with the Company s management. It is the responsibility of the Company s independent registered public accountant to perform an audit of, and to express an opinion on whether, the Company s annual financial statements are fairly presented in conformity with accounting principles generally accepted in the United States of America and the effectiveness of the Company s internal control over financial reporting. The responsibility of the Audit Committee is to review and monitor these processes on behalf of the Board of Directors.

In this context, the Audit Committee has reviewed and discussed with management and Deloitte & Touche LLP (Deloitte & Touche), the Company s independent registered public accountant for the fiscal year ended December 31, 2012, the Company s audited financial statements and the effectiveness of the Company s internal control over financial reporting. The Audit Committee has also discussed with Deloitte & Touche the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Volume 1, AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. The Audit Committee has received from and discussed with Deloitte & Touche its written disclosures and letter regarding its

Table of Contents

independence required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accountant s communications with the Audit Committee regarding independence, and has discussed with Deloitte & Touche its independence. In reliance on these reviews and discussions, and the report of Deloitte & Touche as the Company s independent registered public accountant, the Audit Committee recommended to the Board of Directors that the Company s audited financial statements for the year ended December 31, 2012 be included in the Company s Annual Report on Form 10-K for that year for filing with the SEC.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF KEMPER CORPORATION

Wayne Kauth Chair	Reuben L. Hedlund
James E. Annable	Julie M. Howard
Douglas G. Geoga	Robert J. Joyce

Independent Registered Public Accountant

Independent Registered Public Accountant Fees for 2012 and 2011

Deloitte & Touche, a registered public accountant with the Public Company Accounting Oversight Board, served as the Company s independent registered public accountant for and during the years ended December 31, 2012 and 2011. The following table provides information regarding the fees for professional services provided by Deloitte & Touche for 2012 and 2011.

Fee Type	2012	2011
Audit Fees	$ 3,888,162	$ 3,730,891
Audit-Related Fees	26,200	299,183
Tax Fees		
All Other Fees		
Total Fees	$ 3,914,362	$ 4,030,074

Audit Fees in 2012 and 2011 included fees for: (a) the audit of the Company s annual financial statements and to provide an opinion on the effectiveness of the Company s internal control over financial reporting; (b) the review of the financial statements included in the Company s quarterly reports on Form 10-Q; and (c) other services normally provided by the independent registered public accountant, including services in connection with regulatory filings by the Company and its subsidiaries for the 2012 and 2011 fiscal years, respectively. Audit-Related Fees in 2012 relate to fees for the audit of one of the Company s employee benefit plans. Audit-Related Fees in 2011 relate to fees for certain due diligence services and the audit of one of the Company s employee benefit plans.

Pre-Approval of Services

Under its charter, the Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the Company s independent registered public accountant, including the prior approval of audit engagements and all permitted non-audit engagements of the independent registered public accountant. Prior approval of non-audit services may be delegated to the Chair of the Audit Committee. All services provided to the Company by Deloitte & Touche in 2012 and 2011 were pre-approved by the Audit Committee.

Table of Contents

Proposal 2:

Advisory Vote on Ratification of Independent Registered Public Accountant

The Audit Committee has selected Deloitte & Touche as the Company s independent registered public accountant for 2013, and the Board is asking shareholders to ratify that selection. Under applicable laws, rules and regulations, the Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the Company s independent registered public accountant. The Board believes that shareholder ratification of the appointment of the independent registered public accountant, while not legally required, represents good governance practice in light of the significance of the independent registered public accountant s role in the process of ensuring the integrity of the Company s financial statements.

The vote is advisory, which means that the vote is not binding on the Company, our Board of Directors or the Audit Committee. The affirmative vote of a majority of the outstanding Common Stock having voting power present, in person or by proxy, at the Annual Meeting is required to ratify the selection of Deloitte & Touche as the Company s independent registered public accountant for the 2013 fiscal year. In the event that the appointment is not ratified, the Audit Committee will consider whether the appointment of a different independent registered public accountant would better serve the interests of the Company and its shareholders. Despite shareholder ratification, the Audit Committee may appoint a new independent registered public accountant at any time if it determines in its sole discretion that such appointment is appropriate and in the best interests of the Company and its shareholders.

It is expected that representatives from Deloitte & Touche will be present at the Annual Meeting. Such representatives may make a statement if they desire to do so and will be available to respond to appropriate questions.

Recommendation of the Board of Directors

The Board of Directors Recommends that You Vote *For* Proposal 2.

Executive Officers

The following narratives summarize the business experience over at least the last five years of the Company s current executive officers, other than Mr. Southwell, whose business experience is described above in the section entitled Business Experience of Nominees. Positions described below as being with the Company may have been held with Kemper or one or more of its subsidiaries. The executive officers serve at the pleasure of the Board of Directors.

John M. Boschelli, 44, was elected Chief Investment Officer in May 2009 and a Vice President of the Company in May 2007. Mr. Boschelli served as the Company s Treasurer from February 2002 until May 2009. Before becoming Treasurer, Mr. Boschelli served as the Assistant Treasurer of the Company, a position he held from December 1997 until April 2002.

Lisa M. King, 53, was elected Vice President Human Resources of the Company in May 2009, and has served as its Ethics Officer since 2008. Ms. King served as the Company s Director of Human Resources from April 2008 until May 2009. From 2002 until 2008, Ms. King served as Vice President of Human Resources of the Company s wholly-owned subsidiary, Trinity Universal Insurance Company, and, beginning in 2004, as its Ethics Officer. Prior to 2002, Ms. King held a number of human resources positions within the Kemper organization and for affiliates of its predecessor.

Table of Contents

Edward J. Konar, 56, was elected a Vice President of the Company in January 2001, and has served as the Life & Health Group Executive since January 2008. Mr. Konar has served as President of the Kemper Home Service Companies since January 2010. From October 2002 until August 2008, Mr. Konar served as Vice President of Corporate Administration. Mr. Konar joined the Company in March 1990 as Tax Director and served in that capacity until October 2002.

Denise I. Lynch, 46, was elected a Vice President of the Company in February 2013 and was promoted to the position of Property & Casualty Group Executive in December 2012. She has served as President of Kemper Preferred since joining the Company in January 2009. From March 2008 to December 2008, Ms. Lynch served as Vice President of Sales & Marketing Excellence for the property and casualty insurance operations within The Hartford. From April 2002 to December 2007, Ms. Lynch served as Vice President Small Segment and Vice President Customer Experience with West, a Thomson Reuters Business.

Scott Renwick, 61, was elected a Senior Vice President of the Company in February 2002, and has served as General Counsel since February 1999. Mr. Renwick served as Secretary between May 1996 and May 2011, and as Counsel between January 1991 and February 1999.

Richard Roeske, 52, was elected a Vice President of the Company in January 2001, and has served as Chief Accounting Officer since August 1999. For a portion of 2010, Mr. Roeske served as interim Chief Financial Officer. Between 1990, when he joined the Company, and 1999, Mr. Roeske held a number of accounting positions within the Kemper organization.

Frank J. Sodaro, 44, was elected Senior Vice President & Chief Financial Officer in March 2013. Mr. Sodaro previously served as Vice President Planning & Analysis for the Company from May 2009 until March 2013, and as Assistant Corporate Controller for the Company from June 1998 until May 2009. Prior to 1998, he held a number of positions within the Company s accounting and internal audit departments.

Executive Compensation

Discussion of Compensation Committee Governance

Compensation Committee Authority and Delegation

The scope and authority of the Compensation Committee is described in the Corporate Governance section above and is set forth in the committee s charter, which is posted under *Governance* on the Company s website at *kemper.com*.

The Compensation Committee has the sole authority to retain outside legal, accounting or other advisors, including compensation consultants to assist the committee in its evaluation of executive compensation, and to approve related fees and other terms of retention of such advisors. Under the terms of its charter, the Compensation Committee may delegate to its subcommittees such power and authority as it deems appropriate, except where delegation is inconsistent with applicable legal and regulatory requirements. However, the Compensation Committee does not presently have any subcommittees, and no such delegations have been made.

The Special Equity Grant Committee of the Board has been delegated authority by the Board of Directors to grant a limited number of awards under the Omnibus Plan, to designate the recipients of such awards, and to determine the size, terms and conditions of such awards. Under the delegated authority, the Special Equity Grant Committee may grant only new hire, promotional and retention awards, and may not grant an award to any of the Company s officers who are required to file reports of their beneficial ownership of shares of Common Stock under Section 16 of the Exchange Act (Section 16 Officers). The delegated authority has been used sparingly and is regularly monitored by the Compensation Committee. More information about delegations and awards thereunder that have been made under the Company s equity-compensation plans is included under the heading Delegated Authority in the Compensation Discussion and Analysis section on page 45.

Compensation Committee Process Overview

The Compensation Committee performs an annual review of the Company s executive compensation policies, practices and programs, and of the compensation paid to the Company s executive officers and directors. Annual reviews have historically started at an offsite meeting of the Compensation Committee held in the last quarter of each year without the presence of management. At its first meeting each year, typically held in late January or early February, the Compensation Committee makes decisions with regard to annual compensation of the Company s executive officers, operating company presidents and group executives. This generally includes any changes to the Company s executive compensation plans and programs, determinations as to the current-year base salary and equity-based compensation awards, selection and weighting of specific performance criteria and target bonus percentages for current-year Performance Incentive Plan awards, and validation of performance results for determining any payouts under applicable Performance Incentive Plan and performance-based equity awards granted in prior years. Also at its initial meeting each year, the Compensation Committee has historically determined its recommendations to the Board of Directors about any changes to the non-employee director compensation program.

The Role of Compensation Consultants

The Compensation Committee has engaged the services of an independent compensation consultant in connection with its annual executive compensation review and for such additional services as it has deemed necessary from time to time. The Compensation Committee engaged Exequity LLP (Exequity) as its independent compensation consultant for its deliberations on 2012 executive officer and director compensation. The Compensation Committee has considered the independence of Exequity and concluded that its work and relationships do not raise any conflicts of interest under applicable SEC rules. The Compensation Committee directed Exequity to provide the committee with benchmarking data based on comparable companies in the industry for certain executive officer positions, data and practices with respect to outside director compensation and advice on current trends and developments related to executive compensation matters in the context of annual shareholder meetings and proxy disclosures. The involvement of Exequity in the 2012 executive compensation decision-making process is described in more detail in the discussion under the heading Benchmarking Analysis in the Compensation Discussion and Analysis section below.

The Role of Executive Officers

The CEO plays an important role in the annual compensation decision-making process for the executive officers of the Company other than himself by providing performance assessments and making compensation recommendations to the Compensation Committee. The information provided by the CEO includes annual recommendations regarding any changes to the annual base salary and the equity compensation grants to the other members of senior management and the selection and weighting of the specific performance criteria and target bonus percentages under the Company s Performance Incentive Plan.

The Chief Financial Officer has also been involved in the annual compensation decision-making process for any executive officer who reports directly to him, by providing performance assessments and making compensation recommendations to the CEO for consideration by the Compensation Committee. Additionally, at the request of the Compensation Committee, the Company s management

Table of Contents

provides data to the committee s independent compensation consultant about the Company s cash and equity-based compensation programs, employee benefit and retirement plans and the compensation and stock holdings of the Company s executive officers.

In addition to considering the benchmarking data provided by its independent compensation consultant, the Compensation Committee also considers the recommendations provided by the CEO with regard to the compensation of the other executive officers, and discusses the rationale and strategy involved in determining these recommendations in meetings with the CEO. The Compensation Committee views its role with regard to the compensation of these other executive officers as collaborative, giving due consideration to the CEO s knowledge and judgment in determining the recommended levels of their compensation.

Non-employee director compensation is determined exclusively by the Board of Directors, after considering recommendations of the Compensation Committee. The Company s executive officers do not make recommendations and are not otherwise involved in the process of analyzing and determining compensation for the non-employee members of the Board of Directors, except that the CEO participates as a Board member when non-employee director compensation is considered and determined by the Board of Directors.

Compensation Discussion and Analysis

Executive Summary

The Company s executive compensation program and its underlying philosophy have always emphasized pay for performance and shareholder-focused awards, with few perquisites and significant portions of compensation consisting of cash bonuses and equity awards based on performance, including stock options, the value of which is based on long-term appreciation of the Company s Common Stock.

Significant features of the executive compensation program and related Company policies include:

components with significant at-risk compensation with a mix of short-term and long-term goals;

cash bonus program with annual and 3-year performance-based awards;

equity-based compensation program that includes 3-year performance-based restricted stock;

grant agreements with executive officers that include:

(i) clawback clauses for the recoupment or forfeiture of compensation in the event of certain accounting restatements or as otherwise required by law; and

(ii) a double-trigger standard conditioning payout on involuntary or constructive discharge in the event of a change-in-control

no excise tax gross-ups; and

policies prohibiting directors and employee recipients of equity-based compensation awards from participating in:

(i) hedging transactions that would limit their risks from decreases in the price of the Company s Common Stock; and

(ii) pledging arrangements involving Company securities, as described in more detail in footnote 2 on page 9.

Table of Contents

Overview of CEO Compensation

The total compensation provided to the CEO includes three main components: base salary, performance-based annual cash incentive award and long-term cash and equity-based incentive awards. The total value of the CEO s compensation package is heavily weighted to performance-based awards because of the significance of his role to the overall direction and success of the Company. Further, long-term incentive awards represent the largest component of the CEO s compensation, serving the goals of retention as well as alignment with stockholders interests in the long-term appreciation in the value of the Company s Common Stock.

Compensation Mix: Increasing Focus on Performance-Based Components

The pie charts below illustrate the results of the changes to the executive compensation program to add more long-term performance-based vehicles that began in 2009 with the introduction of cash bonus and equity-based awards based on performance criteria measured over three-year performance periods. These changes have resulted in a mix of pay for the CEO that consists of more performance-based and long-term awards as a percentage of his annual total compensation package.

The percentages shown in the pie charts below are based on annual base salary, target-level values of cash awards under the Performance Incentive Plan (PIP Awards), and grant date fair values of equity-based compensation awards. This formulation differs from the values shown in the Summary Compensation Table that reports only actual payments under PIP Awards, rather than target-level values, and includes Change in Pension Value and Nonqualified Deferred Compensation Earnings or All Other Compensation.

CEO Compensation Mix

As illustrated above, for the years 2010, 2011 and 2012, base salary as a percentage of total CEO compensation was 29%, 27% and 26%, and performance-based compensation (including stock options) was 71%, 73% and 74%, respectively. This illustrates a gradual continuation of the shift to more at-risk compensation that began in 2009 with the addition of performance-based multi-year cash incentive and performance-based restricted stock awards, and resulted in the change in the relative proportions of the compensation components in subsequent years. The trend towards pay for performance continued in 2012, when the mix of components was further adjusted to increase the performance-based cash award portion and decrease the stock option portion, consistent with the comparative peer benchmarking provided to the Compensation Committee by Exequity.

Compensation for 2013

At its meeting in February 2013, the Compensation Committee approved a CEO compensation package for 2013 that was identical to his compensation in 2012. The Compensation Committee approved a Target Bonus Percentage for Mr. Southwell of 75% for each of the Annual and Multi-Year PIP Awards, granted him 80,000 stock options and 15,000 shares of performance-based restricted stock, and set his 2013 base salary at the same level that has been in effect since 2010.

CEO Compensation and Alignment with Long-Term Interests of Shareholders

As mentioned above, the Compensation Committee has endeavored to enhance the alignment of the CEO s total compensation with the long-term interests of shareholders by including a mix of components in the form of:

- performance-based cash awards tied to achieving key annual and multi-year financial performance metrics such as growth in Earned Premiums, Profit Margins and Return on Equity;
- performance-based restricted stock awards tied exclusively to the performance of Kemper s total shareholder return (TSR) relative to a peer group; and
- stock option awards tied to achieving absolute long-term appreciation in the price of the Company s Common Stock.

CEO Share Ownership

Under the Company s Stock Ownership Policy (as described in more detail on page 44 below), the CEO is required to maintain, at a minimum, ownership of the lesser of 50,000 shares or the number of shares of Common Stock valued at three times his annual base salary. The Compensation Committee closely monitors the CEO s shareholdings and believes that the equity-based compensation awards that he has received, along with his subsequent retention of shares acquired through the exercise of stock options and vesting of restricted stock, have further aligned his interests with those of the Company s shareholders. The CEO has exceeded the minimum levels required under the Stock Ownership Policy, as demonstrated in the table below that shows the number of shares of Common Stock that he owns, and their valuation, as of March 18, 2013.

Shares of Unrestricted Common Stock(#)	Shares of Unvested Restricted Stock(#)	Total Share Ownership(#)	Value of Shares Owned ($)(1)	2013 Base Salary($)	Value of Shares Owned as a Multiple of Base Salary (#)
158,528	45,000	203,528	6,421,308	1,000,000	6.4x

(1) Based on the closing price ($31.55) of a share of Common Stock on March 18, 2013.

Table of Contents

TSR Performance: Kemper Common Stock Compared to S&P Supercomposite Insurance Index (Peer Group)

The metrics of each performance-based restricted stock award granted to the NEOs are based on the relative performance of Kemper s TSR compared to the Peer Group, as discussed in more detail below on page 42. The NEOs would forfeit these awards if the Company s TSR over the applicable performance period falls below the 25th percentile of the S&P Supercomposite Insurance Index (Peer Group). The graph below shows relative TSR performance over the period from January 1, 2010 through December 31, 2012.

Allocation of Specific Elements of Compensation

The basic objective of the Company s executive compensation program is to attract, retain and motivate the performance of the Company s executives by providing compensation packages that include reasonable and competitive direct compensation structured to reward its executives for increasing shareholder value. As mentioned above, shifts in the program over the past several years have added increased emphasis on contingent rewards linked to Company performance. The Company s NEOs receive a few modest perquisites and are eligible to participate in employee health and welfare benefits and retirement plans offered by the Company.

The Company s executive compensation program does not, and has not historically, used fixed formulas to allocate compensation between cash and non-cash compensation, or determine the mix of forms or levels of compensation. Rather, the program includes a range of tools aimed at providing competitive advantage and flexibility to respond to developments within, or otherwise affecting, the Company from time to time. Consistent with the overall program objectives and underlying philosophy described above, the Company emphasizes the compensation elements linked most closely to increasing shareholder value.

Providing a competitive salary is important in achieving the Company s objective of attracting and retaining superior executive talent. An individual s responsibilities and experience as well as competitive marketplace factors are generally taken into account in determining his or her salary. The cash incentive bonus component of compensation furthers the fundamental principle of linking compensation to Company performance, particularly growth and profitability, two metrics that the Company believes are critical to the creation of shareholder value. Equity-based compensation is considered another key source of contingent compensation intended to further align management incentives with shareholder interests. The Compensation Committee strongly believes that stock incentives, including stock options and performance-based restricted stock, provide an effective means of motivating shareholder-focused behavior by key executives. The Compensation Committee closely monitors share retention by key executives, and imposes a holding period for shares obtained as a result of equity-based compensation awards to executive officers. For more information about executive officer stock ownership, see the discussion on page 44 under the heading Stock Ownership Policy.

Compensation Strategy and Analysis

General Strategy

In its deliberations on executive compensation, the Compensation Committee considers cash and equity-based compensation in light of their consistency with the Company s underlying principles and objectives, the total value to individual executives and the cost to the Company. Executive compensation decisions incorporate the following three-part approach by the Compensation Committee:

Reward results primarily through long-term incentives with contingent value based on stock performance, while closely monitoring senior management s stock retention;

Consider, with the assistance of its independent compensation consultant, industry data on levels of executive compensation for certain specific positions at similar companies in the industry to assess the extent to which the Company s practices may vary from industry practices and determine whether any noted variances are reasonable, appropriate and purposefully designed to successfully attract and retain skilled executives in a highly competitive marketplace; and

Obtain a clear understanding of the business strategies and objectives of the CEO and other members of senior management, and their reasoning and recommendations for motivating their key subordinates. The Compensation Committee believes it is important and appropriate to give serious consideration to the views of senior management who run the Company and supervise its key managerial employees.

Benchmarking Analysis

As part of its executive compensation review for 2012, the Compensation Committee considered two benchmarking analyses presented by Exequity. The first analysis considered the compensation components of base salary, actual bonus, long-term incentives, and total compensation of the Company s CEO, Chief Financial Officer and General Counsel, based on an analysis of proxy statements filed by a peer group (the Proxy Group). The positions of the CEO, Chief Financial Officer and General Counsel were matched, to the extent these positions were disclosed by the companies in the Proxy Group, and compensation data was based on disclosures in proxy statements filed in 2011. As reported in such proxy statements, bonus data included in the analysis were actual bonuses earned in 2010 and paid in 2011. Long-term incentives were annualized and valued using Exequity valuation methodology.

The Proxy Group consisted of seventeen publicly-traded companies in the insurance industry with profiles similar to the Company s based on information disclosed in their proxy statements. Most of the companies included in the Proxy Group had a majority of their operations in the property and casualty insurance sector of the insurance industry and revenues, assets and market capitalization at levels comparable to those of the Company. The following companies were included in the Proxy Group:

Alleghany Corporation	HCC Insurance Holdings, Inc.
American National Insurance Company	Mercury General Corporation
W.R. Berkley Corporation	The Progressive Corporation
Cincinnati Financial Corporation	Protective Life Corporation
Delphi Financial Group Inc.	Selective Insurance Group, Inc.
FBL Financial Group, Inc.	Torchmark Corporation
First American Financial Corporation	Tower Group, Inc.
Genworth Financial, Inc.	White Mountains Insurance Group, Ltd.
The Hanover Insurance Group, Inc.	

The second benchmarking analysis presented by Exequity considered the compensation components of base salary, target bonus, long-term incentives and total compensation for the Company s CEO, Chief Financial Officer, General Counsel, Chief Investment Officer and operating company presidents with the compensation for comparable positions at companies within two peer groups of U.S.-based insurance companies participating in Equilar s Top 25 Survey (Equilar Survey). The first insurance peer group consisted of all U.S.-based insurance companies in the Equilar Survey, excluding U.S.-based subsidiaries of foreign companies and mutual insurance companies without publicly available size data (the All Insurance Peer Group). The second insurance peer group consisted of a subset of the All Insurance Peer Group with book values of assets between one-third and three times the Company s book value of assets (the All Insurance Peer Subgroup). Equilar Survey data was current as of May 1, 2011.

The following companies were included in the All Insurance Peer Group; those designated with an asterisk comprise the All Insurance Peer Subgroup:

The Allstate Corporation	Montpelier Re Holdings Ltd.*
American Family Insurance Group*	The Navigators Group, Inc.*
Arch Capital Group Ltd.*	The Northwestern Mutual Life Insurance Company
Assurant, Inc.*	OneBeacon Insurance Group, Ltd.*
Erie Indemnity Company*	The Phoenix Companies, Inc.*
First American Financial Corporation*	The Progressive Corporation*
Genworth Financial, Inc.	Protective Life Corporation*
Harleysville Group Inc.*	Prudential Financial, Inc.
The Hartford Financial Services Group, Inc.	State Auto Financial Corporation*
Lincoln National Corporation	Transatlantic Holdings, Inc.*

The Compensation Committee utilized the benchmarking data as a test of the reasonability of the compensation paid to the Company s CEO, other executive officers, and operating company presidents. In evaluating the benchmarking data, the Compensation Committee did not follow a rigid process, establish specific pay objectives in evaluating the benchmarking data (such as, for example, targeting different elements of compensation at the median), or utilize the data as part of specific formulas when making compensation determinations for these executives. Instead, the Compensation Committee considered the benchmarking analysis as a means of identifying any outliers and determining whether the levels of compensation provided to the CEO, other executive officers, and operating company presidents are within appropriate ranges in comparison to comparable companies. The benchmarking data was also subjectively considered by the Compensation Committee as an

Table of Contents

additional point of reference in its deliberations on compensation levels for these executives, along with other factors such as Company performance, individual performance and the Company s compensation philosophy and objectives. The Compensation Committee believes that the Company s executive compensation program is fair, competitive with marketplace practices and effective in enhancing shareholder value.

Annual Determination of Specific Compensation

The determination of the specific amount of salary, participation level for cash bonus awards and size of equity-based grants for a particular executive officer depends in substantial part on the nature and scope of the responsibilities of the individual s job and the quality and impact of the individual s performance and contributions.

Salary

At its meetings in December 2011 and January 2012, the Compensation Committee deliberated with regard to Mr. Southwell s compensation package for 2012. The Committee considered multi-year comparative compensation summary for Mr. Southwell provided by Exequity for the meetings. The Committee reviewed in detail Mr. Southwell s total compensation package (base compensation, annual bonus, long-term incentives, benefits and perquisites and potential change-of-control payments), as well as data on his stock ownership, the value of equity received from the Company s long-term incentive plans and available benchmarking information. The Committee determined that Mr. Southwell s compensation package satisfied its compensation policy for the CEO that emphasizes longer-term incentives and de-emphasizes perquisites and personal benefits. Following its review and discussion of the comparative summary and Mr. Southwell s historical compensation data and his responsibilities, accomplishments and goals, the Compensation Committee decided not to provide a 2012 base salary increase for Mr. Southwell, but to maintain his salary at the level in effect since 2010. The Compensation Committee determined that the CEO s base salary should be held at the $1,000,000 deductibility limit under Section 162(m) of the Internal Revenue Code of 1986, as amended, and the regulations and interpretations promulgated thereunder (Internal Revenue Code) to ensure the full deductibility of the base salary.

In reviewing the amount of base salary for each of the other executive officers for 2012, the Compensation Committee considered the recommendations made by the CEO based on his assessment of the individual s job performance and contributions, relevant benchmarking analysis, and observations of the Committee with respect to the individual s job performance. The executive officer performance assessments were subjective and did not entail measurement against specific goals or other objective factors. Following its review and discussion, the Compensation Committee approved base salary increases for the other NEOs, noting that the salaries of Messrs. Renwick, Konar and Boschelli had been held constant since 2008.

Performance Incentive Plan Awards

The Performance Incentive Plan is a cash incentive program used to motivate and reward eligible executives of the Company and its subsidiaries, and provides for annual incentive awards (Annual PIP Awards) and multi-year incentive awards (Multi-Year PIP Awards) (collectively Annual and Multi-Year PIP Awards or PIP Awards). Each year, the Compensation Committee makes a selection of the specific performance criteria applicable to Annual and Multi-Year PIP Awards for a particular year from a range of performance indicators set forth in the Performance Incentive Plan.

The two types of Awards granted under the Plan are:

Annual PIP Award under which a participant is given the opportunity to earn a cash bonus based on the results of performance criteria measured over a performance period of one year or less.

Multi-Year PIP Award under which a participant is given the opportunity to earn a cash award based on the results of one or more performance criteria measured over a performance period of more than one year (generally three years).

Threshold, Target and Maximum Performance Levels

For each of the 2012 Annual and Multi-Year PIP Awards granted to the NEOs, the Compensation Committee established threshold, target and maximum performance levels. The threshold performance level is the minimum level of performance that must be met before a payout may occur. The threshold performance level was set at one-fourth of the target level, and the maximum performance level was set at twice the target level. The maximum level is set high to encourage excellence and reward superior performance, while at the same time placing a reasonable limit on the size of the potential payout.

2012 PIP Awards and Target Bonus Percentages

At its meeting in January 2012, the Compensation Committee granted Annual and Multi-Year PIP Awards to the NEOs, and assigned a target bonus percentage to each recipient representing a percentage of his annual base salary (Target Bonus Percentage). For 2012 Annual PIP Awards, annual base salary is the recipient s base salary in effect as of April 1, 2012. For 2012 Multi-Year PIP Awards, the base salary is the average of the recipient s base salary in effect as of April 1 during each of 2012, 2013 and 2014.

In making its decisions for 2012, the Compensation Committee considered whether the goals and incentives aligned well with the current realities of the insurance industry and the overall business climate in the markets in which the Company operates. The Compensation Committee approved performance criteria (Performance Criteria) for the 2012 PIP Awards consistent with those approved under the 2011 PIP Awards, but with metrics recalibrated to be less responsive at both ends of the performance matrices in an attempt to make it more difficult to achieve the maximum performance level and to fall below the threshold performance level. The threshold performance level was also lowered to 25% from 50% of the target level to enhance the motivational aspect of the awards. In addition, a catastrophe loss collar was implemented for PIP Awards with performance measures based on operating results of the Company s property and casualty businesses, so that award calculations based on such measures will limit the effect of catastrophe losses to a maximum of 1.5 times and a minimum of 0.5 times the projected catastrophe losses for such business units.

The Compensation Committee approved Target Bonus Percentages of 50% for each of the 2012 Annual and Multi-Year PIP Awards for each of the NEOs other than Mr. Southwell. The 50% Target Bonus Percentages were the same levels as had been set for such officers for 2011. For Mr. Southwell, the Compensation Committee approved a Target Bonus Percentage of 75% for each of the Annual and Multi-Year PIP Awards. The change was part of the committee s strategy of shifting the mix of CEO compensation components to increase performance-based cash awards to a level more consistent with the comparative peer data provided by Exequity, and to reduce reliance on stock options. As noted on page 42, the Compensation Committee also approved a reduction in the size of Mr. Southwell s stock option award for 2012, from 125,000 to 80,000 shares.

Table of Contents

The Performance Criteria adopted for the 2012 PIP Awards granted to the NEOs were designed to take into account the Company s business plans, which included reduction of certain risk exposures, managing capital more efficiently and re-shaping the business mix over time to improve profitability. These Performance Criteria are shown in the following table.

Performance Criteria for 2012 PIP Awards

Name	Performance Criteria 2012 Annual PIP Award	Performance Criteria 2012 Multi-Year PIP Award
Donald G. Southwell	Annual Kemper Consolidated (1) Earned Premium Revenue Growth; (2) Operating Profit Margin	3-Year Average of Kemper Consolidated (1) Revenue Growth; (2) Return on Equity
Dennis R. Vigneau	Annual Kemper Consolidated (1)	