KEMPER Corp
Form 10-K
February 12, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015
OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-18298
Kemper Corporation
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	95-4255452 (I.R.S. Employer Identification No.)
One East Wacker Drive, Chicago, Illinois (Address of principal executive offices)	60601 (Zip Code)

(312) 661-4600
(Registrant’s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.10 par value per share	New York Stock Exchange
7.375% Subordinated Debentures due 2054	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller Reporting Company ¨

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

As of June 30, 2015, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was $2.0 billion based on the closing sale price as reported on the New York Stock Exchange. Solely for

purposes of this calculation, all executive officers and directors of the registrant are considered affiliates.
Registrant had 51,325,205 shares of common stock outstanding as of January 31, 2016.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on May 4, 2016 are incorporated by reference into Part III.

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Caution Regarding Forward-Looking Statements

This 2015 Annual Report on Form 10-K (the “2015 Annual Report”), including, but not limited to, the accompanying consolidated financial statements of Kemper Corporation (“Kemper”) and its subsidiaries (individually and collectively referred to herein as the “Company”) and the notes thereto appearing in Item 8 herein (the “Consolidated Financial Statements”), the Management’s Discussion and Analysis of Financial Condition and Results of Operations appearing in Item 7 herein (the “MD&A”) and the other Exhibits and Financial Statement Schedules filed as a part hereof or incorporated by reference herein, may contain or incorporate by reference information that includes or is based on forward-looking statements within the meaning of the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements give expectations or forecasts of future events. The reader can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as “believe(s),” “goal(s),” “target(s),”
“estimate(s),” “anticipate(s),” “forecast(s),” “project(s),” “plan(s),” “intend(s),” “expect(s),” “might,” “may,” “could” and othe
similar meaning. Forward-looking statements, in particular, include statements relating to future actions, prospective services or products, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, trends in operations and financial results.

Any or all forward-looking statements may turn out to be wrong, and, accordingly, Kemper cautions readers not to place undue reliance on such statements. Kemper bases these statements on current expectations and the current economic environment as of the date of this 2015 Annual Report. They involve a number of risks and uncertainties that are difficult to predict. These statements are not guarantees of future performance; actual results could differ materially from those expressed or implied in the forward-looking statements. Forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks and uncertainties that may be important in determining the Company’s actual future results and financial condition.

In addition to those factors discussed below under Item 1A., “Risk Factors,” in this 2015 Annual Report, the reader should consider the following list of general factors that, among others, could cause the Company’s actual results and financial condition to differ materially from estimated results and financial condition:

Factors related to the legal and regulatory environment in which Kemper and its subsidiaries operate

- Outcomes of state initiatives that could result in significant changes to, or interpretations of, unclaimed property laws or significant changes in claims handling practices with respect to life insurance policies, particularly any that involve retroactive application of new requirements to existing life insurance policy contracts;
- Adverse outcomes in litigation or other legal or regulatory proceedings involving Kemper or its subsidiaries or affiliates;
- Governmental actions, including, but not limited to, implementation of new federal and state laws and regulations, and court decisions interpreting existing laws and regulations or policy provisions;
- Uncertainties related to regulatory approval of insurance rates, policy forms, insurance products, license applications, dividends from insurance subsidiaries, acquisitions of businesses and other matters within the purview of state insurance regulators;

Factors relating to insurance claims and related reserves in the Company’s insurance businesses

- The incidence, frequency and severity of catastrophes occurring in any particular reporting period or geographic area, including natural disasters, pandemics and terrorist attacks or other man-made events;
- The number and severity of insurance claims (including those associated with catastrophe losses);
- Changes in facts and circumstances affecting assumptions used in determining loss and loss adjustment expenses (“LAE”) reserves, including, but not limited to, the number and severity of insurance claims and development patterns;
- The impact of inflation on insurance claims, including, but not limited to, the effects on personal injury claims of increasing medical costs and the effects on property claims attributed to scarcity of resources available to rebuild damaged structures, including labor and materials and the amount of salvage value recovered for damaged property;
- Developments related to insurance policy claims and coverage issues, including, but not limited to, interpretations or decisions by courts or regulators that may govern or influence losses incurred in connection with hurricanes and other catastrophes;

- Orders, interpretations or other actions by regulators that impact the reporting, adjustment and payment of claims;

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- Changes in the pricing or availability of reinsurance, or in the financial condition of reinsurers and amounts recoverable therefrom;

Factors related to the Company’s ability to compete

- Changes in the ratings by rating agencies of Kemper and/or its insurance company subsidiaries with regard to credit, financial strength, claims paying ability and other areas on which the Company is rated;
- The level of success and costs incurred in realizing or maintaining economies of scale, implementing significant business consolidations, reorganizations and technology initiatives and integrating acquired businesses;
- Absolute and relative performance of the Company’s products or services, including, but not limited to, the level of success achieved in designing and introducing new insurance products;
- The ability of the Company to maintain the availability of critical systems and manage technology initiatives cost-effectively to address insurance industry developments and regulatory requirements;
- Heightened competition, including, with respect to pricing, entry of new competitors and alternate distribution channels, introduction of new technologies, emergence of telematics, refinements of existing products and development of new products by current or future competitors;

Factors relating to the business environment in which Kemper and its subsidiaries operate

- Changes in general economic conditions, including, but not limited to, performance of financial markets, interest rates, inflation, unemployment rates and fluctuating values of particular investments held by the Company;
- Absolute and relative performance of investments held by the Company;
- Changes in insurance industry trends and significant industry developments;
- Changes in consumer trends and significant consumer or product developments;
- Changes in capital requirements, including the calculations thereof, used by regulators and rating agencies;
- Regulatory, accounting or tax changes that may affect the cost of, or demand for, the Company’s products or services or after-tax returns from the Company’s investments;
- The impact of required participation in windpools and joint underwriting associations, residual market assessments and assessments for insurance industry insolvencies;
- Changes in distribution channels, methods or costs resulting from changes in laws or regulations, lawsuits or market forces;
- Increased costs and risks related to cybersecurity and information technology, including, but not limited to, identity theft, data breaches and system disruptions affecting services and actions taken to minimize the risks thereof; and

Other risks and uncertainties described from time to time in Kemper’s filings with the U.S. Securities and Exchange Commission (“SEC”).

Kemper cannot provide any assurances that the results contemplated in any forward-looking statements will be achieved or will be achieved in any particular timetable or that future events or developments will not cause such statements to be inaccurate. Kemper assumes no obligation to correct or update any forward-looking statements publicly for any changes in events or developments or in the Company’s expectations or results subsequent to the date of this 2015 Annual Report. Kemper advises the reader, however, to consult any further disclosures Kemper makes on related subjects in its filings with the SEC.

PART I

Item 1. Business.

Kemper is a diversified insurance holding company, with subsidiaries that provide automobile, homeowners, life, health, and other insurance products to individuals and businesses. Kemper'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 Kemper's website, kemper.com, and as soon as reasonably practicable after such materials are filed with, or furnished to, the SEC.

(a) GENERAL DEVELOPMENT OF BUSINESS

Issuance of 2025 Senior Notes and Retirement of 2015 Senior Notes

On February 24, 2015, Kemper issued $250.0 million of its 4.35% senior notes due February 15, 2025 (the "2025 Senior Notes"). The net proceeds of the issuance were $247.3 million, net of discount and transaction costs, for an effective yield of 4.49%. The 2025 Senior Notes are unsecured and may be redeemed in whole at any time or in part from time to time at Kemper's option at specified redemption prices. Kemper used the net proceeds from the sale of the 2025 Senior Notes, together with available cash, to redeem in full the $250.0 million outstanding principal amount of its 6.00% Senior Notes due November 30, 2015.

Purchase of Alliance United Group

On April 30, 2015, Kemper acquired 100% of the outstanding common stock of Alliance United Group and its wholly-owned subsidiaries, Alliance United Insurance Company and Alliance United Insurance Services, (individually and collectively referred to herein as "Alliance United") in a cash transaction for a total purchase price of $71.0 million, of which $17.5 million is being held in escrow to secure the sellers' potential indemnification obligations under the purchase agreement. After completing the transaction, Kemper contributed $75.0 million to support the book of business acquired and commuted a quota share reinsurance agreement whereby Alliance United had ceded a portion of its business to an unaffiliated reinsurer. Alliance United is a provider of nonstandard personal automobile insurance in California. As a result of the acquisition, the Company increased its presence in the California nonstandard automobile insurance market by gaining access to additional brokers and gained expertise in serving the Hispanic market. See MD&A, "Property & Casualty Insurance," MD&A, "Liquidity and Capital Resources," and Note 3, "Acquisition of Business," to the Consolidated Financial Statements for additional information pertaining to the acquisition of Alliance United.

(b) BUSINESS SEGMENT FINANCIAL DATA

Financial information about Kemper's business segments for the years ended December 31, 2015, 2014 and 2013 is contained in the following sections of this 2015 Annual Report and is incorporated herein by reference: (i) Note 18, "Business Segments," to the Consolidated Financial Statements and (ii) MD&A.

(c) DESCRIPTION OF BUSINESS

Kemper is a diversified insurance holding company, with subsidiaries that provide automobile, homeowners, life, health, and other insurance products to individuals and businesses. The Company is engaged, through its subsidiaries, in the property and casualty insurance and life and health insurance businesses. The Company conducts its operations through two operating segments: Property & Casualty Insurance and Life & Health Insurance. The Company conducts its operations solely in the United States.

Kemper's subsidiaries employ approximately 5,600 full-time associates supporting their operations, of which approximately 1,850 are employed in the Property & Casualty Insurance segment, approximately 3,250 are employed in the Life & Health Insurance segment and the remainder are employed in various corporate and other staff and shared functions.

Property and Casualty Insurance Business

General

The Property & Casualty Insurance segment provides automobile, homeowners, renters, fire, umbrella and other types of property and casualty insurance to individuals and commercial automobile insurance to businesses. Property insurance indemnifies an insured with an interest in physical property for loss of, or damage to, such property. Casualty insurance primarily covers liability for damage to property of, or injury to, a person or entity other than the insured. In most cases, casualty insurance also obligates the insurance company to provide a defense for the insured in litigation arising out of events covered by the policy.

The Property & Casualty Insurance segment distributes its products primarily through independent agents and brokers who are paid commissions for their services. The Property & Casualty Insurance segment's direct-to-consumer operations, which were placed into run-off in 2012, accounted for approximately 6% of the Property & Casualty Insurance segment's earned premiums in 2015. In addition, the Life & Health Insurance segment's career agents also sell contents coverage for personal property to its customers.

Earned premiums from automobile insurance accounted for 54%, 48% and 50% of the Company's consolidated insurance premiums earned in 2015, 2014 and 2013, respectively. Revenues from automobile insurance accounted for 48%, 43% and 44% of Kemper's consolidated revenues from continuing operations in 2015, 2014 and 2013, respectively. Automobile insurance products include personal automobile insurance, ranging from preferred to nonstandard risks, and commercial automobile insurance. Nonstandard personal automobile insurance policyholders tend to have difficulty obtaining standard or preferred risk insurance, usually because of their driving records, claims experience or premium payment history. Homeowners insurance accounted for 14%, 17% and 16% of the Company's consolidated insurance premiums earned in 2015, 2014 and 2013, respectively. Homeowners insurance accounted for 13%, 15% and 14% of the Company's consolidated revenues from continuing operations in 2015, 2014 and 2013, respectively.

The Property & Casualty Insurance segment is headquartered in Chicago, Illinois, and conducts business in 47 states and the District of Columbia. The segment's insurance products are offered by approximately 18,000 independent insurance agents and brokers. As shown in the following table, five states provided 71% of the segment's premium revenues in 2015.

State	Percentage of Total Premiums	
California	39	%
Texas	12	
New York	11	
North Carolina	6	
Oregon	3	

Property and Casualty Loss and Loss Adjustment Expense Reserves
The Company's reserves for losses and LAE for property and casualty insurance ("Property and Casualty Insurance Reserves") are reported using the Company's estimate of its ultimate liability for losses and LAE for claims that occurred prior to the end of any given accounting period but have not yet been paid.
Property and Casualty Insurance Reserves by business segment at December 31, 2015 and 2014 were:

DOLLARS IN MILLIONS	2015	2014
Business Segments:		
Property & Casualty Insurance	$800.5	$651.1
Life & Health Insurance	5.2	4.5
Total Business Segments	805.7	655.6
Discontinued Operations	51.0	70.2
Unallocated Reserves	6.1	8.1
Total Property and Casualty Insurance Reserves	$862.8	$733.9

In estimating the Company's Property and Casualty Insurance Reserves, the Company's actuaries exercise professional judgment and must consider, and are influenced by, many variables that are difficult to quantify. Accordingly, the process of estimating and establishing the Company's Property and Casualty Insurance Reserves is inherently uncertain and the actual ultimate net cost of claims may vary materially from the estimated amounts reserved. The reserving process is particularly imprecise for claims involving asbestos, environmental matters, construction defect and other emerging and/or long-tailed exposures that may not be discovered or reported until years after the insurance policy period has ended. Property and Casualty Insurance Reserves related to the Company's Discontinued Operations are predominantly long-tailed exposures, of which $20.3 million was related to asbestos, environmental matters and construction defect exposures at December 31, 2015. See MD&A, "Critical Accounting Estimates," under the caption "Property and Casualty Insurance Reserves for Losses and Loss Adjustment Expenses" beginning on page 57 for a discussion of the Company's reserving process and the factors considered by the Company's actuaries in estimating the Company's Property and Casualty Insurance Reserves.
The Company's goal is to ensure that its total reserves for property and casualty insurance losses and LAE are adequate to cover all costs, while minimizing variation from the time reserves for losses and LAE are initially estimated until losses and LAE are fully developed. Changes in the Company's estimates of these losses and LAE, also referred to as "development," will occur over time and may be material. Favorable development is recognized and reported in the Consolidated Financial Statements when the Company decreases its previous estimate of ultimate losses and LAE and results in an increase in net income in the period recognized, whereas adverse development is recognized and reported in the Consolidated Financial Statements when the Company increases its previous estimate of ultimate losses and LAE and results in a decrease in net income.
Development of property and casualty insurance losses and LAE from prior accident years for each of the Company's continuing business segments and discontinued operations in 2015, 2014 and 2013 was:

DOLLARS IN MILLIONS	Favorable (Adverse) Development		
	2015	2014	2013
Continuing Operations:			
Property & Casualty Insurance	$12.9	$54.4	$58.0
Life & Health Insurance	(1.4)	(0.9)	1.8
Total Favorable Development from Continuing Operations, Net	11.5	53.5	59.8
Discontinued Operations	8.6	3.6	4.8
Total Favorable Development, Net	$20.1	$57.1	$64.6

See MD&A, "Loss and LAE Reserve Development," "Property & Casualty Insurance," and "Life & Health Insurance," for the impact of development on the results reported by the Company's business segments. Also see MD&A, "Critical Accounting Estimates," under the caption "Property and Casualty Insurance Reserves for Losses and Loss Adjustment Expenses" beginning on page 57 for additional information about the Company's reserving practices.
See Note 6, "Property and Casualty Insurance Reserves," to the Consolidated Financial Statements for a tabular reconciliation of the three most recent annual periods setting forth the Company's Property and Casualty Insurance Reserves as of the beginning of each year, incurred losses and LAE for insured events of the current year, changes in

incurred losses and LAE for insured events of prior years, payments of losses and LAE for insured events of the current year, payments of losses and LAE

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for insured events of prior years and the Company's Property and Casualty Insurance Reserves at the end of the year and additional information regarding the nature of adjustments to incurred losses and LAE for insured events of prior years.

Catastrophe Losses

Catastrophes and natural disasters are inherent risks of the property and casualty insurance business. These catastrophic events and natural disasters include, without limitation, hurricanes, tornadoes, earthquakes, hailstorms, wildfires, high winds and winter storms. Such events result in insured losses that are, and are expected to be, a material factor in the results of operations and financial position of Kemper's property and casualty insurance companies. Further, because the level of insured losses that could occur in any one year cannot be accurately predicted, these losses contribute to material year-to-year fluctuations in the results of operations and financial position of these companies. Specific types of catastrophic events are more likely to occur at certain times within the year than others. This factor adds an element of seasonality to property and casualty insurance claims. The occurrence and severity of catastrophic events cannot be accurately predicted in any year. However, some geographic locations are more susceptible to these events than others. The Company has endeavored to manage its direct insurance exposures in certain regions that are prone to naturally occurring catastrophic events through a combination of geographic diversification, restrictions on the amount and location of new business production in such regions, modifications of, and/or limitations to coverages and deductibles for certain perils in such regions and reinsurance.

The Company has adopted the industry-wide catastrophe classifications of storms and other events promulgated by Insurance Services Office, Inc. ("ISO") to track and report losses related to catastrophes. ISO classifies a disaster as a catastrophe when the event causes $25 million or more in direct insured losses to property and affects a significant number of policyholders and insurers. ISO-classified catastrophes are assigned a unique serial number recognized throughout the insurance industry. The discussions throughout this 2015 Annual Report utilize ISO's definition of catastrophes.

The process of estimating and establishing reserves for catastrophe losses is inherently uncertain and the actual ultimate cost of a claim, net of reinsurance recoveries, may vary materially from the estimated amount reserved. See Item 1A., "Risk Factors," under the caption "Catastrophe losses could materially and adversely affect the Company's results of operations, liquidity and/or financial condition" for a discussion of catastrophe risk. See Note 20, "Catastrophe Reinsurance," to the Consolidated Financial Statements for a discussion of the factors that influence the process of estimating and establishing reserves for catastrophes.

Reinsurance

The Company manages its exposure to catastrophes and other natural disasters through a combination of geographical diversification, restrictions on the amount and location of risks insured in certain regions and reinsurance. To limit its exposures to catastrophic events, the Company maintains a primary catastrophe reinsurance program for the Property & Casualty Insurance segment. Coverage for the primary catastrophe reinsurance program is provided in various layers and reinsurance contracts. The Property & Casualty Insurance segment and the Life & Health Insurance segment also purchase reinsurance from the Florida Hurricane Catastrophe Fund (the "FHCF") for hurricane losses in Florida at retentions lower than those described below for the Company's primary catastrophe reinsurance program.

Coverage for the Property & Casualty Insurance segment's primary catastrophe reinsurance program for 2016 is provided by two three-year reinsurance contracts. Each reinsurance contract provides coverage in two layers, which together provide coverage for losses on individual catastrophes of $300 million in excess of $50 million. The first reinsurance contract provides coverage over the three-year period of January 1, 2015 through December 31, 2017 (the "2015 Reinsurance Contract"). The percentage of coverage under the 2015 Reinsurance Contract in the first, second and third years is 95%, 63.3% and 31.7%, respectively. Under the 2015 Reinsurance Contract, the participation of each reinsurer decreases by one-third in the second year and another one-third in the third year. Accordingly, in order to maintain the same percentage of coverage for 2016 as provided in the initial year of the 2015 Reinsurance Contract, the Property & Casualty Insurance segment entered into a second reinsurance contract covering the three-year period of January 1, 2016 through December 31, 2018 (the "2016 Reinsurance Contract"). Under the 2016 Reinsurance Contract, the percentage of coverage is 31.7% for each year in the three-year period, and participation of each reinsurer remains the same over the entire three-year period. Coverage provided under the combined programs for 2016 (January 1, 2016 to December 31, 2016) is provided in various layers as presented below.

DOLLARS IN MILLIONS	Catastrophe Losses and LAE In Excess of	Up to	Percentage of Coverage
Retained	$—	$50.0	— %
1st Layer of Coverage	50.0	150.0	95.0
2nd Layer of Coverage	150.0	350.0	95.0

To maintain the same percentage of coverage in subsequent years as provided by the combined programs in 2016, the Property & Casualty Insurance segment will need to purchase additional reinsurance in the future.

The estimated aggregate annual premium in 2016 for the combined programs presented in the preceding table is $12.6 million. Premiums due to the reinsurers will decrease proportionately with the decline in their respective participations in the second and third years of the 2015 Reinsurance Contract. In the event that the Company's incurred catastrophe losses and LAE covered by its catastrophe reinsurance program exceed the retention for a particular layer, the combined programs require one reinstatement of such coverage. In such an instance, the Company is required to pay a reinstatement premium to the reinsurers to reinstate the full amount of reinsurance available under such layer. The reinstatement premium for the first layer of coverage is a percentage of the full original premium based on the ratio of the losses in excess of the Company's retention to the reinsurers' coverage limit. The reinstatement premium for the second layer of coverage is a percentage of half the original premium based on the ratio of the losses in excess of the Company's retention to the reinsurers' coverage limit.

The coverage presented in the preceding table differs from the coverage provided in 2014 and 2013. See Note 20, "Catastrophe Reinsurance," to the Consolidated Financial Statements for information pertaining to the primary catastrophe reinsurance programs for the Property & Casualty Insurance segment for 2014 and 2013.

In addition to the catastrophe loss exposures caused by natural events described above, Kemper's property and casualty insurance companies are exposed to losses from catastrophic events that are not the result of acts of nature, such as acts of terrorism, the nature, occurrence and severity of which in any period cannot be accurately predicted. The companies have reinsurance coverage to address certain exposures to potential future terrorist attacks. The reinsurance coverage for certified events, as designated by the federal government, is from the Terrorist Risk Insurance Act and the coverage for non-certified events is available in the catastrophe reinsurance program for Kemper's Property & Casualty Insurance segment. However, certain perils, such as biological, chemical, nuclear pollution or contamination, are excluded from the reinsurance coverage for non-certified events.

In addition to the catastrophe reinsurance programs described above, Kemper's property and casualty insurance companies utilize other reinsurance arrangements to limit their maximum loss, provide greater diversification of risk and minimize exposures on larger risks.

Under the various reinsurance arrangements, Kemper's property and casualty insurance companies are indemnified by reinsurers for certain losses incurred under insurance policies issued by the reinsurers. As indemnity reinsurance does not discharge an insurer from its direct obligations to policyholders on risks insured, Kemper's property and casualty insurance companies remain directly liable. However, provided that the reinsurers meet their obligations, the net liability for Kemper's property and casualty insurance companies is limited to the amount of risk that they retain. Kemper's property and casualty insurance companies purchase their reinsurance only from reinsurers rated "A-" or better by A. M. Best Co., Inc. ("A.M. Best"), at the time of purchase. A.M. Best is an organization that specializes in rating insurance and reinsurance companies.

For further discussion of the reinsurance programs, see Note 20, "Catastrophe Reinsurance," and Note 21, "Other Reinsurance," to the Consolidated Financial Statements.

Pricing

Pricing levels for property and casualty insurance products are influenced by many factors, including the frequency and severity of claims, state regulation and legislation, competition, general business and economic conditions, including market rates of interest, inflation, expense levels, and judicial decisions. In addition, many state regulators require consideration of investment income when approving or setting rates, which could reduce underwriting margins. See MD&A under the caption "Property & Casualty Insurance."

Competition

Based on the most recent annual data published by A.M. Best, as of the end of 2014, there were 1,242 property and casualty insurance groups in the United States. Kemper's property and casualty group was among the top 8% of property and casualty insurance groups in the United States as measured by net written premiums, policyholders' surplus and admitted assets in 2014. Among all personal lines automobile insurance writers, Kemper's property and casualty group was the 26th largest writer as measured by net written premiums in 2014.

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Rankings by admitted assets, net premiums written and capital and surplus were:

Measurement	Ordinal Rank	Percentile Rank	
Net Admitted Assets	89	92	%
Net Written Premiums	55	95	
Capital and Surplus	91	92	

In 2014, the U.S. property and casualty insurance industry's estimated net premiums written were $507 billion, of which nearly 80% were accounted for by the top 50 groups of property and casualty insurance companies. Kemper's property and casualty insurance companies wrote less than 1% of the industry's 2014 premium volume.

The property and casualty insurance industry is highly competitive, particularly with respect to personal automobile insurance. Kemper's property and casualty insurance companies compete on the basis of, among other measures, (i) using suitable pricing segmentation, (ii) maintaining underwriting discipline, (iii) settling claims timely and efficiently, (iv) offering products in selected markets or geographies, (v) utilizing technological innovations for the marketing and sale of insurance, (vi) controlling expenses, (vii) maintaining adequate ratings from A.M. Best and other ratings agencies and (viii) providing quality services to independent agents and policyholders. See Item 1A., "Risk Factors," under the caption "The insurance industry is highly competitive, making it difficult to grow profitability and within expectations of investors."

Life and Health Insurance Business

The Company's Life & Health Insurance segment consists of Kemper's wholly-owned subsidiaries, United Insurance Company of America ("United Insurance"), The Reliable Life Insurance Company ("Reliable"), Union National Life Insurance Company ("Union National Life"), Mutual Savings Life Insurance Company ("Mutual Savings Life"), United Casualty Insurance Company of America ("United Casualty"), Union National Fire Insurance Company ("Union National Fire"), Mutual Savings Fire Insurance Company ("Mutual Savings Fire") and Reserve National Insurance Company ("Reserve National"). As discussed below, United Insurance, Reliable, Union National Life, Mutual Savings Life, United Casualty, Union National Fire and Mutual Savings Fire (the "Kemper Home Service Companies") distribute their products through a network of employee, or "career," agents. Reserve National distributes its products through a network of independent agents and brokers. These career agents, independent agents and brokers are paid commissions for their services.

Earned premiums from life insurance accounted for 19%, 21% and 19% of the Company's consolidated insurance premiums earned in 2015, 2014 and 2013, respectively. Revenues from life insurance accounted for 25%, 27% and 24% of the Company's consolidated revenues from continuing operations in 2015, 2014 and 2013, respectively. As shown in the following table, five states provided 51% of the premium revenues in this segment in 2015.

State	Percentage of Total Premiums	
Texas	21	%
Louisiana	12	
Alabama	7	
Mississippi	6	
Florida	5	

Kemper Home Service Companies

The Kemper Home Service Companies, based in St. Louis, Missouri, focus on providing individual life and supplemental accident and health insurance products to customers of modest incomes who desire basic protection for themselves and their families. Their leading product is ordinary life insurance, including permanent and term insurance. Face amounts of these policies are lower than those of policies typically sold to higher income customers by other companies in the life insurance industry. Approximately 78% of the Life & Health Insurance segment's premium revenues are generated by the Kemper Home Service Companies.

The Kemper Home Service Companies employ nearly 2,200 career agents to distribute insurance products in 25 states and the District of Columbia. These career agents are full-time employees who call on customers in their homes to sell insurance products, provide services related to policies in force and collect premiums, typically monthly. Premiums average about $20 per

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policy per month with an average face value of $5,300. Permanent and term policies are offered primarily on a non-participating, guaranteed-cost basis. These career agents also distribute and/or service certain property insurance products for the Kemper Home Service Companies.

Reserve National

Reserve National, based in Oklahoma City, Oklahoma, is licensed in 48 states throughout the United States and has traditionally specialized in the sale of Medicare Supplement insurance and limited health insurance coverages, such as fixed indemnity and accident-only plans, primarily to individuals in rural areas who often do not have access to a broad array of accident and health insurance products tailored to meet their individual and family needs. Reserve National's traditional distribution channel consists of approximately 300 independent agents.

Reserve National began expanding its distribution channels during 2013 by launching two marketing channel initiatives —Kemper Senior Solutions and Kemper Benefits. Kemper Senior Solutions markets life insurance and home health care products focusing on the individual, senior-age demographic of the market place. Kemper Benefits sells voluntary products in the employer market place. Brokers and non-exclusive independent agents are utilized to market and distribute products in these new distribution channels. Reserve National has appointed approximately 22,000 independent agents in connection with these initiatives.

Reinsurance

Consistent with insurance industry practice, the Company's life and health insurance companies utilize reinsurance arrangements to limit their maximum loss, provide greater diversification of risk and minimize exposures on larger risks in its life and health insurance businesses. As the face amounts of its issued policies are relatively small, the ceded risks and corresponding premiums are also relatively small, particularly when compared to other companies in the industry. The segment is also exposed to losses from catastrophes arising from insurance policies distributed by career agents of the Kemper Home Service Companies. Over the last several years, the Kemper Home Service Companies have been intentionally reducing their exposure to catastrophic events through the run-off of their dwelling insurance business. Accordingly, except for reinsurance provided by the FHCF for catastrophe losses in Florida, the Kemper Home Service Companies have not carried catastrophe reinsurance since 2012.

Lapse Ratio

The lapse ratio is a measure of a life insurer's loss of in-force policies. For a given year, this ratio is commonly computed as the total face amount of individual life insurance policies lapsed, surrendered, expired and decreased during such year, less policies increased and revived during such year, divided by the total face amount of policies at the beginning of the year plus the face amount of policies issued and reinsurance assumed in the prior year. The Life & Health Insurance segment's lapse ratio for individual life insurance was 6%, 7% and 7% in 2015, 2014 and 2013, respectively.

The customer base served by the Kemper Home Service Companies and competing life insurance companies tends to have a higher incidence of lapse than other demographic segments of the population. Thus, to maintain or increase the level of its business, the Kemper Home Service Companies must write a high volume of new policies.

Pricing

Premiums for life and health insurance products are based on assumptions with respect to mortality, morbidity, investment yields, expenses, and lapses and are also affected by state laws and regulations, as well as competition. Pricing assumptions are based on the experience of Kemper's life and health insurance subsidiaries, as well as the industry in general, depending on the factor being considered. The actual profit or loss produced by a product will vary from the anticipated profit if the actual experience differs from the assumptions used in pricing the product.

Premiums for policies sold by the Kemper Home Service Companies are set at levels designed to cover the relatively high cost of "in-home" servicing of such policies. As a result, Kemper Home Service Companies' premiums have a higher load for expense than the life insurance industry average.

Premiums for Medicare supplement and other accident and health policies must take into account the rising costs of medical care. The annual rate of medical cost inflation has historically been higher than the general rate of inflation, necessitating frequent rate increases, most of which are subject to approval by state regulators.

Competition

Based on the most recent data published by A.M. Best, as of the end of 2014, there were 466 life and health insurance company groups in the United States. The Company's Life & Health Insurance segment ranked in the top 20% of life and health insurance company groups, as measured by admitted assets, net premiums written and capital and surplus. Rankings by admitted assets, net premiums written and capital and surplus were:

Measurement	Ordinal Rank	Percentile Rank	
Net Admitted Assets	87	81	%
Net Written Premiums	93	80	
Capital and Surplus	91	80	

Kemper's life and health insurance subsidiaries generally compete by using appropriate pricing, offering products to selected markets or geographies, controlling expenses, maintaining adequate ratings from A.M. Best and providing competitive services to agents and policyholders.

Investments

The quality, nature and amount of the various types of investments that can be made by insurance companies are regulated by state laws. Depending on the state, these laws permit investments in qualified assets, including, but not limited to, municipal, state and federal government obligations, corporate bonds, real estate, preferred and common stocks, investment partnerships, limited liability investment companies and limited partnerships. In addition, the quality, nature and amount of the various types of investments held by Kemper's insurance subsidiaries affect the amount of asset risk calculated by regulators and rating agencies in determining required capital. See "Regulation" immediately following this subsection and Item 1A., "Risk Factors," under the caption "The Company's investment portfolio is exposed to a variety of risks that may negatively impact net investment income and cause realized and unrealized losses."

The Company employs a total return investment strategy, with an emphasis on yield, while maintaining liquidity to meet both its short- and medium-term insurance obligations. See the discussions of the Company's investments under the headings "Investment Results," "Investment Quality and Concentrations," "Investments in Limited Liability Companies and Limited Partnerships," "Liquidity and Capital Resources" and "Critical Accounting Estimates," in the MD&A, "Quantitative and Qualitative Disclosures about Market Risk," in Item 7A and Note 4, "Investments," Note 13, "Income from Investments," and Note 22, "Fair Value Measurements," to the Consolidated Financial Statements.

Regulation

Overview of State Regulation

Kemper's insurance subsidiaries are subject to extensive regulation in the states in which they conduct business. Such regulation pertains to a variety of matters, including, but not limited to, policy forms, premium rate plans, licensing of agents, licenses to transact business, market conduct, trade practices, claims practices, transactions with affiliates, payment of dividends, investments and solvency. Insurance regulatory authorities perform periodic examinations of an insurer's financial condition, market conduct and other affairs.

Approval of Policy Rates and Forms

The majority of Kemper's insurance operations are in states requiring prior approval by regulators before proposed policy or coverage forms and rates for property, casualty, or health insurance policies may be implemented and used. However, provided that the policy form has been previously approved, rates proposed for life insurance generally become effective immediately upon filing with a state, even though the same state may require prior rate approval for other types of insurance.

Financial Reports and Standards

Insurance companies are required to report their financial condition and results of operation in accordance with statutory accounting principles prescribed or permitted by state insurance regulators in conjunction with the National Association of Insurance Commissioners ("NAIC"). State insurance regulators also prescribe the form and content of statutory financial statements, perform periodic financial examinations of insurers, set minimum reserve and loss ratio requirements and establish standards for the types and amounts of investments. In addition, state regulators require minimum capital and surplus levels and

incorporate risk-based capital ("RBC") standards promulgated by the NAIC. These RBC standards are intended to assess the level of risk inherent in an insurance company's business and consider items such as asset risk, credit risk, underwriting risk and other business risks relevant to its operations. In accordance with RBC formulas, a company's RBC requirements are calculated and compared to its total adjusted capital to determine whether regulatory intervention is warranted. At December 31, 2015, the total adjusted capital of each of Kemper's insurance subsidiaries exceeded the minimum levels required under applicable RBC rules.

Guaranty Funds and Risk Pools

Kemper's insurance subsidiaries are required to pay assessments up to prescribed limits to fund policyholder losses or liabilities of insolvent insurance companies under the guaranty fund laws of most states in which they transact business. Kemper's insurance subsidiaries are subject to certain fees imposed on health insurers by the Health Care Acts, including the Health Insurance Providers Fee, but not the fees associated with the Reinsurance, Risk Adjustment and Risk Corridor programs, as Kemper's insurance subsidiaries do not have any policies subject to those fees. Kemper's insurance subsidiaries are also required to participate in various involuntary pools or assigned risk pools, principally involving windstorms and high risk drivers. In most states, the involuntary pool participation of Kemper's insurance subsidiaries is set in proportion to their voluntary writings of related lines of business in such states. See Item 1A., "Risk Factors," under the caption "Catastrophe losses could materially and adversely affect the Company's results of operations, liquidity and/or financial condition" for a discussion of the impact of required participation in windstorm pools and joint underwriting associations on the ability of the Company to manage its exposure to catastrophic events.

Dividends and Other Transactions with Affiliates

Kemper and its insurance subsidiaries are also subject to the insurance holding company laws of a number of states. Certain dividends and distributions by an insurance subsidiary are subject to prior approval by the insurance regulators of its state of domicile. See Item 1A., "Risk Factors," under the caption "Kemper relies on receiving dividends from its subsidiaries to service its debt, to pay dividends to its shareholders and/or make repurchases of its stock." Other significant transactions between an insurance subsidiary and its holding company or other affiliates may require approval by insurance regulators in the state of domicile of each participating insurance subsidiary.

Holding Company Regulation, Including Enterprise Risk Management and Governance

A number of pending and recently approved legislative and regulatory measures may significantly affect the insurance business. In particular, nearly half of all states have already adopted extensive modifications to their holding company laws based on amendments to the Model Insurance Holding Company System Regulatory Act (the "Model Holding Company Act") adopted by the NAIC in December 2010. With varying effective dates beginning in 2014, these modifications impose new reporting requirements and substantially expand the oversight and examination powers of state insurance regulators with regulatory authority over an insurance company to assess enterprise risks within such company's entire holding company system that may arise from operations of its insurance and non-insurance affiliates. They also impose new reporting requirements on the ultimate controlling persons of such insurance companies in respect of, among other things, affiliated transactions and divestiture of controlling interests in the insurance companies.

In addition, a number of states have adopted the Risk Management and Own Risk and Solvency Assessment Model Act (the "Risk Management and Solvency Model Act") adopted by the NAIC in 2012. With varying effective dates beginning in 2015, the Risk Management and Solvency Model Act requires insurers to maintain an enterprise risk management ("ERM") framework, perform regular assessments of the adequacy of the ERM framework and the company's solvency and file an annual ERM assessment summary report. Similarly, the Corporate Governance Annual Disclosure Model Act (the "Model Governance Act") and Model Regulation adopted by the NAIC in 2014, requires, when adopted by an insurer's (or insurance group's) lead state, an insurer (or insurance group) to submit an annual disclosure with information about board structure, policies, meeting frequency and oversight of critical risk areas and practices. The Company anticipates that most states will adopt legislation based on the Model Holding Company Act, the Risk Management and Solvency Model Act and the Model Governance Act.

Additional regulation has also resulted from other measures in recent years including, among other things, tort reform, the Health Care Acts, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), consumer privacy and data security requirements, credit score regulation, producer compensation regulations, cybersecurity and financial services regulation initiatives. In late 2015, the NAIC adopted the Cybersecurity Bill of Rights, a set of directives aimed at protecting consumer data, for insurance companies to follow to the extent incorporated in NAIC model laws and regulations adopted by states. Also in late 2015, the NAIC adopted amendments to the information technology section of its handbook for examiners to strengthen and enhance the existing cybersecurity guidance. The Company anticipates a continuing focus on new regulatory and legislative proposals at the state and federal levels that further regulate practices regarding privacy and security of personal information.

Change in Control Requirements

State insurance laws also impose requirements that must be met prior to a change of control of an insurance company or insurance holding company based on the insurer's state of domicile and, in some cases, additional states in which it is deemed commercially domiciled due to the substantial amount of business it conducts therein. These requirements may include the advance filing of specific information with the state insurance regulators, a public hearing on the matter, and the review and approval of the change of control by such regulators. The Company has insurance subsidiaries domiciled or deemed commercially domiciled in Alabama, California, Illinois, Louisiana, Missouri, New York, Oklahoma, Oregon, Texas and Wisconsin. In these states, except Alabama, "control" generally is presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of an insurance company. Control is presumed to exist in Alabama with a 5% or more ownership interest in such securities. Any purchase of Kemper's shares that would result in the purchaser owning Kemper's voting securities in the foregoing percentages for the states indicated would be presumed to result in the acquisition of control of the Company's insurance subsidiaries in those states. Therefore, acquisitions subject to the 10% threshold generally would require the prior approval of insurance regulators in each state in which the Company's insurance subsidiaries are domiciled or deemed commercially domiciled, including those in Alabama, while acquisitions subject to the 5% threshold generally would require the prior approval of only Alabama regulators. Similarly, consistent with the Model Holding Company Act, several of the states in which the Company's insurance subsidiaries are domiciled have enacted legislation that requires either the divesting and/or acquiring company to notify regulators of, and in some cases to receive regulatory approval for, a change in control.

Many state statutes also require pre-acquisition notification to state insurance regulators of a change of control of an insurance company licensed in the state if specific market concentration thresholds would be triggered by the acquisition. Such statutes authorize the issuance of a cease and desist order with respect to the insurance company if certain conditions, such as undue market concentration, would result from the acquisition. These regulatory requirements may deter, delay or prevent transactions effecting control of Kemper or its insurance subsidiaries, or the ownership of Kemper's voting securities, including transactions that could be advantageous to Kemper's shareholders.

Federal Government Regulation

Kemper's health insurance subsidiaries are subject to additional regulation by the federal government. For example, the Health Care Acts, and the regulations promulgated thereunder, have established minimum loss ratios, rating restrictions, mandates for essential health benefit coverages, and restrictions or prohibitions on pre-existing condition exclusions and annual and lifetime policy limits for health insurance policies.

In addition, the Dodd-Frank Act, enacted in 2010, profoundly increases federal regulation of the financial services industry, of which the insurance industry is a part. Among other things, the Dodd-Frank Act formed a Federal Insurance Office ("FIO") charged with monitoring the insurance industry and conducting a study on methods to modernize and improve the insurance regulatory system in the United States. FIO's report, delivered to Congress in 2013, concluded that a hybrid approach to regulation, involving a combination of state and federal government action, could improve the U.S. insurance system by attaining uniformity, efficiency and consistency, particularly with respect to solvency and market conduct regulation. A hybrid approach was also recommended to address the perceived need for uniform supervision of insurance companies with national and global activities. FIO established the Federal Advisory Committee on Insurance ("FACI") whose mission is to provide recommendations to FIO on issues it monitors for Congress. While the NAIC continues to promote the strengths of the U.S. state-based insurance regulatory system, both FIO/FACI and international standard setting authorities such as the International Association of Insurance Supervisors are actively seeking a role in shaping the future of the U.S. insurance regulatory framework. It is not yet known whether or how these organizations' recommendations might result in changes to the current state-based system of insurance industry regulation or ultimately impact Kemper's operations.

Item 1A. Risk Factors.

Kemper is exposed to numerous risk factors that could cause actual results to differ materially from recent results or anticipated future results. The following discussion details the significant risk factors that are specific to the Company.

In addition to those described below, the Company's business, financial condition and results of operations could be materially affected by other factors not presently known by, or considered material to, the Company. Readers are advised to consider all of these factors along with the other information included in this 2015 Annual Report and to consult any further disclosures Kemper makes on related subjects in its filings with the SEC.

Changes in the application of state unclaimed property laws and related insurance claims handling practices could have a significant effect on (including an acceleration of) the payment and/or escheatment of life insurance death benefits and significantly increase claims handling costs relative to what is currently contemplated by Kemper (the "Unclaimed Property Risk Factor").

In recent years, many states have begun to aggressively expand the application of their unclaimed property laws as they relate to life insurance proceeds. The treasurers or controllers (collectively, "Treasurers") of a large majority of states have engaged private audit firms to examine the practices and procedures of life insurance companies with respect to the reporting and remittance of proceeds associated with life insurance policies, annuity contracts and retained asset accounts under state unclaimed property laws. Related measures are also being taken or considered by state insurance regulators, both individually and collectively through the auspices of the NAIC, and some state insurance regulators have initiated market conduct examinations focused on claims handling and unclaimed property practices of life insurers. Additionally, since 2012, a number of states have enacted legislation pertaining to unclaimed property.

As a result of these audits and examinations, a number of large life insurance groups have agreed to alter historic practices that were previously considered to be lawful and appropriate relative to claims handling and the reporting and remittance of life insurance policy proceeds under state unclaimed property laws. Based on published reports, at least twenty life insurance groups have entered into settlement agreements with state insurance regulators and twenty-four groups with Treasurers. Under the terms of these agreements, the settling companies typically agree to establish a practice of periodically searching for deceased insureds, even prior to the receipt of a claim, by comparing their in-force policy records against a database of reported deaths maintained by the Social Security Administration or a comparable database (collectively, a "Death Master File" or "DMF"). The settlements usually apply to policies that were in force at any time since January 1, 1992. In conducting these comparisons against a DMF, the insurers are required to use complex "fuzzy" matching criteria which in many cases result in a large volume of potential matches for any given insured. In such cases, the insurer must either assume a costly and administratively burdensome process of disproving any such ambiguous matches which may necessitate a review of older records that are not in electronic form, or accept such matches as valid and escheat the related policy benefits to the states if the beneficiaries cannot be found. All settlements to date with insurance regulators have involved payment of monetary penalties (ranging from about $1.2 million up to $40 million), while settlements with Treasurers have required payment of interest on sums remitted, calculated from the date of death of the insured (rather than from the insurer's first knowledge of death or receipt of a claim) and extending as far back as 1992. The amounts publicly reported by the settling companies to have been paid to beneficiaries and/or escheated to the states have been substantial. Kemper's life insurance subsidiaries (the "Life Companies") have thus far resisted attempts by certain state officials and their designated audit firms to effect changes to the Life Companies' claims handling and unclaimed property practices of the sort embodied in the foregoing settlements and have challenged through multiple legal proceedings the authority of such officials to require such changes. There can be no assurances that the Life Companies will ultimately be successful in resisting such attempts or any that may arise in the future.

Separately, the National Conference of Insurance Legislators ("NCOIL") has adopted model legislation which, if enacted, would require life insurance companies to compare their in-force life insurance policy records against a DMF for the purpose of identifying potentially deceased insureds with respect to whom the subject life insurance company has not yet received a claim, including due proof of death. Nineteen states have adopted versions of the NCOIL model legislation (the "DMF Statutes"). Nine of such states have enacted DMF Statutes that apply to in-force life insurance policies and if such statutes are construed to apply to life insurance policies in force on each respective statute's effective date, could have a significant effect on, including an acceleration of, the payment of life insurance benefits to beneficiaries or, in instances where beneficiaries cannot be located, the remittance of such benefits to the states under their unclaimed property laws. Four other states have enacted DMF Statutes that apply only prospectively to insurers, like the Life Companies, that have not previously used a DMF, and six additional states have enacted DMF Statutes that apply only to policies issued on or after their respective effective dates, without regard to prior DMF use. Additionally, in 2015, a drafting subgroup of the NAIC began work on possible model legislation that would also address unclaimed property in the life insurance context; while the future and final provisions of such NAIC model legislation are unclear, the adoption of such model could increase the likelihood that unfavorable legislation could be adopted in states in which the Life Companies operate. Kemper cannot presently predict whether any other states will enact similar legislation or, if enacted, exactly what form such legislation will take.

The Life Companies are the subject of an unclaimed property compliance audit (the “Treasurers’ Audit”) by a private audit firm retained by the Treasurers of more than thirty states (the “Audit Firm”). In July 2013, the California State Controller (the “CA Controller”) filed a complaint against the Life Companies in state court in California, seeking an order requiring the Life

Companies to produce their in-force insurance policy records to the Audit Firm to enable the firm to perform a comparison of such records against a DMF. The Life Companies have filed a cross-complaint against the CA Controller, adding the Audit Firm and California Insurance Commissioner as cross-defendants. In October 2015, certain of the Life Companies filed a complaint in state court in Illinois seeking a declaration that the Treasurer of the State of Illinois ("the IL Treasurer") lacks the authority to compel those Life Companies to produce all in-force policy records to the Audit Firm, which is also a named defendant. See Note 23, "Contingencies," to the Consolidated Financial Statements for further details on the legal proceedings with the CA Controller and IL Treasurer.

A market conduct examination of the Life Companies was initiated in 2012 by the Illinois Department of Insurance (the "IDOI"), focusing on the Life Companies' claim settlement and policy administration practices, and specifically compliance with unclaimed property statutes. Five additional states joined the examination in May 2013 (the "Multi-State Exam") and, shortly thereafter, the Life Companies received requests from the IDOI, as the Multi-State Exam's managing lead state, for a significant volume of information beyond that which the Life Companies had already produced, including all of the subject Life Companies' records of in-force policies and other information of the type requested by the Audit Firm as part of the Treasurers' Audit. This request prompted the Life Companies to file declaratory judgment actions against the insurance regulators of four states (Illinois, California, Pennsylvania and Florida) participating in the Multi-State Exam; these actions include the cross-complaint against the CA Controller described above. In December 2015, the Life Companies voluntarily dismissed the litigation against the IDOI after that department agreed to withdraw the request for records of all in-force policies and advised the Life Companies of the IDOI's intent to proceed with a single-state market conduct exam without use of a DMF. At least one or more of the states remaining in the Multi-State Exam are expected to continue with the exam, including the attempted use of a DMF. See Note 23, "Contingencies," to the Consolidated Financial Statements for further details on the litigation connected to the Multi-State Exam.

Should these various efforts by state officials succeed in retroactively imposing new claims handling and escheatment requirements with regard to previously issued life insurance policies, such requirements could have a material adverse effect on the Company's profitability, financial position and cash flows. The Company's stance in opposition to the aforementioned actions by state legislators, Treasurers and insurance regulators, including the Life Companies' initiation of the litigation described above and in Note 23, "Contingencies," to the Consolidated Financial Statements, also creates a risk of reputational damage to the Company among various constituencies (including its principal insurance regulators, rating agencies, investors, insurance agents, and current and prospective policyholders), particularly if the Company's position is not ultimately vindicated. Regardless of the outcome, the Company will incur significant attorneys' fees, direct litigation and examination costs, and substantial amounts of management time that would otherwise be spent on running the Company's operations.

See Note 23, "Contingencies," to the Consolidated Financial Statements and the sections of the MD&A entitled "Life & Health Insurance" and "Liquidity and Capital Resources" for additional information on the legal proceedings, including lawsuits, regulatory examinations and inquiries, and other matters described above.

Kemper's insurance subsidiaries are subject to significant regulation, and the evolving legal and regulatory landscape in which they operate could result in increased operating costs, reduced profitability and limited growth.

Kemper's insurance subsidiaries operate under an extensive insurance regulatory system. Current laws and regulations encompass a wide variety of matters, including policy forms, premium rates, licensing, market conduct, trade practices, claims practices, reserve and loss ratio requirements, investment standards, statutory capital and surplus requirements, restrictions on the payment of dividends, approvals of transactions involving a change in control of one or more insurance companies, restrictions on transactions among affiliates and consumer privacy. They also require the filing of annual and quarterly financial reports and holding company reports. Pre-approval requirements often restrict the companies from implementing premium rate changes for property, casualty and health insurance policies, introducing new, or making changes to existing, policy forms and many other actions. Insurance regulators conduct periodic examinations of Kemper's insurance subsidiaries and can suspend or delay their operations or licenses, require corrective actions, and impose penalties or other remedies available for compliance failures. For a more detailed discussion of the regulations applicable to Kemper's subsidiaries and these new developments, see "Regulation" in Item 1, beginning on page 10.

These laws and regulations, and their interpretation by the various regulators and courts, are undergoing continual revision and expansion. The legal and regulatory landscape within which Kemper’s insurance subsidiaries conduct their businesses is often unpredictable. As industry practices and regulatory, judicial, political, social and other conditions change, issues may emerge, whether intended or not. These emerging practices, conditions and issues could adversely affect Kemper’s insurance subsidiaries in a variety of ways, including, for example, by expansion of coverages beyond the underwriting intent, increasing the number or size of claims, accelerating the payment of claims or adding to operational costs. Industry practices that were once considered approved, compliant and reasonable may suddenly be deemed unacceptable by virtue of a court or regulatory ruling or changes in regulatory enforcement policies and practices. One example is the changing application of state unclaimed property laws and related claims handling practices discussed in the preceding risk factor. It is not possible for the Company to predict such shifts in legal or regulatory enforcement or to accurately estimate the impact they may have on the Company and its operations.

The financial services industry, including insurance companies and their holding company systems, remains under regulatory scrutiny. While it is not possible to predict how new laws or regulations or new interpretations of existing laws and regulations may impact the operations of Kemper's insurance subsidiaries, several developments have the potential to significantly impact such operations. This includes state adoption of extensive modifications to state holding company laws that substantially expand the oversight and examination powers of state insurance regulators beyond licensed insurance companies to their non-insurance affiliates and their organizations as a whole, particularly with respect to enterprise risk. In addition, the federal Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively the "Health Care Acts") have resulted in regulations affecting health insurers such as Reserve National, and potential changes to the state insurance regulatory system may result from the Dodd-Frank Act. See the discussion of the NAIC model act and the Dodd-Frank Act under "Regulation" in Item 1, beginning on page 10.

These new developments and significant changes in, or new interpretations of, existing laws and regulations could make it more expensive for Kemper's insurance subsidiaries to conduct and grow their businesses.

Legal and regulatory proceedings are unpredictable and could produce one or more unexpected verdicts against the Company that could materially and adversely affect the Company's financial results for any given period.

Kemper and its subsidiaries are from time to time involved in lawsuits, regulatory inquiries and other legal proceedings arising out of the ordinary course of their businesses. Some of these proceedings may involve matters particular to Kemper or one or more of its subsidiaries, while others may pertain to business practices in the industry in which Kemper and its subsidiaries operate. Some lawsuits may seek class action status that, if granted, could expose the Company to potentially significant liability by virtue of the size of the putative classes. These matters often raise difficult factual and legal issues and are subject to uncertainties and complexities. The outcomes of these matters are difficult to predict, and the amounts or ranges of potential loss at particular stages in the proceedings are in most cases difficult or impossible to ascertain. A further complication is that even where the possibility of an adverse outcome is deemed to be remote using traditional legal analysis, juries sometimes can and do substitute their subjective views in place of facts and established legal principles. Given the unpredictability of the legal and regulatory landscape in which the Company operates, there can be no assurance that one or more of these matters will not produce a result that could materially and adversely affect the Company's financial results for any given period. For information about the Company's pending legal proceedings, see Note 23, "Contingencies," to the Consolidated Financial Statements.

Catastrophe losses could materially and adversely affect the Company's results of operations, liquidity and/or financial condition.

Kemper's property and casualty insurance subsidiaries are subject to claims arising out of catastrophes that may have a significant effect on their results of operations, liquidity and financial condition. Catastrophes can be caused by various events, including, but not limited to, hurricanes, tornadoes, windstorms, earthquakes, hailstorms, explosions, severe winter weather and wildfires and may include man-made events, such as terrorist attacks and hazardous material spills. The incidence, frequency and severity of catastrophes are inherently unpredictable and may be impacted by the uncertain effects of climate change. The extent of the Company's losses from a catastrophe is a function of both the total amount of insured exposure in the geographic area affected by the event and the severity of the event. The Company could experience more than one severe catastrophic event in any given period.

Kemper's life and health insurance subsidiaries are particularly exposed to risks of catastrophic mortality, such as pandemic or other events that result in large numbers of deaths. In addition, the occurrence of such an event in a concentrated geographic area could have a severe disruptive effect on the Company's workforce and business operations. The likelihood and severity of such events cannot be predicted and are difficult to estimate.

The property and casualty insurance subsidiaries use catastrophe modeling tools developed by third parties to project their potential exposure to property damage resulting from catastrophic events under various scenarios. Such models are based on various assumptions and judgments which may turn out to be wrong. The actual impact of one or more catastrophic events could adversely and materially differ from these projections.

The availability and cost of catastrophe reinsurance and the ability of reinsurers to meet their obligations could result in Kemper's insurance subsidiaries retaining more risk and could adversely and materially affect the Company's results of operations, financial condition and/or liquidity.

Kemper's property and casualty insurance subsidiaries seek to reduce their exposure to catastrophe losses through the purchase of catastrophe reinsurance. Catastrophe reinsurance does not relieve such subsidiaries of their direct liability to their policyholders. As long as the reinsurers meet their obligations, the net liability for such subsidiaries is limited to the amount of risk that they retain. While such subsidiaries' principal reinsurers are each rated "A-" or better by A.M. Best at the time reinsurance is purchased, the Company cannot be certain that reinsurers will pay the amounts due from them either now, in the future, or on a timely basis. A reinsurer's insolvency or inability to make payments under the terms of its reinsurance agreement could materially and adversely affect the Company's financial position, results of operations and liquidity.

In addition, market conditions beyond the Company's control determine the availability of the reinsurance protection that Kemper's property and casualty insurance subsidiaries may purchase. A decrease in the amount of reinsurance protection that such subsidiaries purchase generally should increase their risk of a more severe loss. However, if the amount of available reinsurance is reduced, such subsidiaries may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect the ability of such subsidiaries to write future insurance policies or result in their retaining more risk with respect to such policies.

The extent to which Kemper's insurance subsidiaries can manage their catastrophe exposure through underwriting strategies may be limited by law or regulatory action and could adversely and materially affect the Company's results of operations, financial condition and/or liquidity.

Kemper's property and casualty insurance subsidiaries also manage their exposure to catastrophe losses through underwriting strategies such as reducing exposures in, or withdrawing from, catastrophe-prone areas, establishing appropriate guidelines for insurable structures, and setting appropriate rates, deductibles, exclusions and policy limits. The extent to which such subsidiaries can manage their exposure through such strategies may be limited by law or regulatory action. For example, laws and regulations may limit the rate or timing at which insurers may non-renew insurance policies in catastrophe-prone areas or require insurers to participate in wind pools and joint underwriting associations. Generally, an insurer's participation in such pools and associations are based on the insurer's market share determined on a state-wide basis. Accordingly, even though Kemper's property and casualty insurance subsidiaries may not incur a direct insured loss as a result of managing direct catastrophe exposures, they may incur indirect losses from required participation in pools and associations. Laws and regulations requiring prior approval of policy forms and premium rates may limit the ability of Kemper's property and casualty insurance subsidiaries to increase rates or deductibles on a timely basis, which may result in additional losses or lower returns than otherwise would have occurred in an unregulated market. See the risk factor above under the title "Kemper's insurance subsidiaries are subject to significant regulation, and the evolving legal and regulatory landscape in which they operate could result in increased operating costs, reduced profitability and limited growth."

A significant downgrade in the ratings of Kemper or its insurance subsidiaries could materially and adversely affect the Company.

Third-party rating agencies assess the financial strength and rate the claims-paying ability of insurance companies based on criteria established by the rating agencies. Third-party ratings are important competitive factors in the insurance industry. Financial strength ratings are used to assess the financial strength and quality of insurers. Ratings agencies may downgrade the ratings of Kemper and/or its insurance subsidiaries or require Kemper to retain more capital in its insurance businesses to maintain existing ratings following developments that they deem negative. This can include factors directly related to the Company, such as an increase in the catastrophic risk retained by Kemper's insurance subsidiaries, or developments in industry or general economic conditions. A significant downgrade by A.M. Best in the ratings of Kemper's insurance subsidiaries, particularly those operating in the preferred and standard market or offering homeowners insurance, could result in a substantial loss of business if independent agents and brokers or policyholders of such subsidiaries move to other companies with higher claims-paying and financial strength ratings. Any substantial loss of business could materially and adversely affect the financial condition and results of operations of such subsidiaries. A downgrade in Kemper's credit rating by Standard & Poor's ("S&P"), Moody's Investors Services

(“Moody’s”) or Fitch Ratings (“Fitch”) may reduce Kemper’s ability to access the capital markets or may increase the cost to refinance existing debt.

The insurance industry is highly competitive, making it difficult to grow profitability and within expectations of investors.

The Company's insurance businesses face significant competition, and their ability to compete is affected by a variety of issues relative to others in the industry, such as product pricing, service quality, financial strength and name recognition. Competitive success is based on many factors, including, but not limited to, the following:

- Competitiveness of prices charged for insurance policies;
- Sophistication of pricing segmentation;
- Design and introduction of insurance products to meet emerging consumer trends;
- Selection of agents and other business partners;
- Compensation paid to agents;
- Underwriting discipline;
- Selectiveness of sales markets;
- Effectiveness of marketing materials and name recognition;
- Product and technological innovation;
- Ability to settle claims timely and efficiently;
- Ability to detect and prevent fraudulent insurance claims;
- Effectiveness deployment and use of information technology across all aspects of operations;
- Ability to control operating expenses;
- Financial strength ratings; and
- Quality of services provided to, and ease of doing business with, independent agents and brokers or policyholders.

The inability to compete effectively in any of the Company's insurance businesses could materially reduce the Company's customer base and revenues and could materially and adversely affect the future results and financial condition of the Company.

See "Competition" in Item 1 of Part I beginning on page 7 and page 10, for more information on the competitive rankings in the property and casualty insurance markets and the life and health insurance markets, respectively, in the United States.

Failure to maintain the security of personal data may result in lost business, reputational harm, and legal costs and regulatory penalties.

Kemper's insurance subsidiaries obtain and store vast amounts of personal data that can present significant risks to the Company and its customers and employees. An increasing array of laws and regulations govern the use and storage of such data, including, for example, social security numbers, credit card data and personal health information. Despite the implementation of various security measures, the Company's data systems, or those of its third party administrators working on behalf of the Company, may be vulnerable to security breaches due to the increasing sophistication of cyber-attacks, viruses, malware, hackers and other external hazards, as well as equipment and system failures and inadvertent errors, negligence or intentional misconduct of employees and/or contractors. The Company also relies on the ability of its business partners to maintain secure systems and processes that comply with legal requirements and protect personal data. These increased risks and expanding regulatory requirements related to personal data security expose the Company to potential data loss and resulting damages, reputational risk and significant increases in compliance and litigation costs. Although Kemper maintains cyber risk insurance, there is no guarantee that it will be sufficient to cover all of the costs associated with a data breach.

In the event of non-compliance with the Payment Card Industry Data Security Standard, an information security framework for organizations that handle cardholder information for the major debit, credit, prepaid, e-purse, ATM and point-of-sale cards, such organizations could prevent Kemper's insurance subsidiaries from collecting premium payments from customers by way of such cards and impose significant fines on Kemper's insurance subsidiaries.

Failure to maintain the availability of critical systems may result in lost business, reputational harm, and legal costs and regulatory penalties.

The Company's business operations rely on the continuous availability of its computer systems, including computer systems used by third party administrators working on behalf of the Company. In addition to disruptions caused by cyber-attacks or other data breaches, such systems may be adversely affected by natural and man-made catastrophes.

The Company’s or its third party administrators’ failure to maintain business continuity in the wake of such events may prevent the timely completion of critical processes across its operations, including, for example, insurance policy administration, claims processing, billing, treasury and investment operations and payroll. These failures could result in significant loss of business, fines and litigation.

The Company's investment portfolio is exposed to a variety of risks that may negatively impact net investment income and cause realized and unrealized losses.

The Company maintains a diversified investment portfolio that is exposed to significant financial and capital market risks, including interest rate (risk-free and spread), equity price, and liquidity, as well as risks from changes in tax laws and regulations and other risks from changes in general economic conditions.

The interest rate environment has a significant impact on the Company's financial results and position. In recent years, rates have been at or near historic lows. A protracted low interest rate environment would continue to place pressure on net investment income, particularly related to fixed income securities, short-term investments and limited liability investment companies and limited partnerships accounted for under the equity method of accounting ("Equity Method Limited Liability Investments") that invest in distressed and mezzanine debt of other companies. A decline in interest rates would generally increase the carrying value of the Company's fixed income securities and its Equity Method Limited Liability Investments that exhibit debt-like characteristics, but it may adversely affect the Company's investment income as it invests cash in new investments that may yield less than the portfolio's average rate. In a declining interest rate environment, borrowers may seek to refinance their borrowings at lower rates and, accordingly, prepay or redeem securities the Company holds as investments more quickly than the Company initially expected. Such prepayment or redemption action may cause the Company to reinvest the redeemed proceeds in lower yielding investments. An increase in interest rates would generally reduce the carrying value of a substantial portion of the Company's investment portfolio, particularly fixed income securities and Equity Method Limited Liability Investments.

The Company invests a portion of its investment portfolio in equity securities, which generally have more volatile returns than fixed income securities and may experience sustained periods of depressed values. There are multiple factors that could negatively impact the performance of the Company's equity portfolio, including general economic conditions, industry or sector deterioration and issuer-specific concerns. A decline in equity values may result in a decrease in dividend income, realized losses upon sales of the securities, or other-than-temporary impairment charges on securities still held.

Interest rates and equity returns also have a significant impact on the Company's pension and other postretirement employee benefit plans. In addition to the impact on carrying values and yields of the underlying assets of the funded plans, interest rates also impact the discounting of the projected and accumulated benefit obligations of the plans. A decrease in interest rates may have a negative impact on the funded status of the plans.

The nature and cash flow needs of the Company and the insurance industry in general present certain liquidity risks that may impact the return of the investment portfolio. If the Company were to experience several significant catastrophic events over a relatively short period of time, investments may have to be sold in advance of their maturity dates to fund payments to claimants, which could result in realized losses. Additionally, increases in illiquidity in the financial markets may increase uncertainty in the valuations of the Company's investments. This increases the risk that the fair values reported in the Company's consolidated financial statements may differ from the actual price that may be obtained in an orderly sales transaction.

The Company has also benefited from certain tax laws related to its investment portfolio, including dividends received deductions and tax-exempt municipal securities. Changes in tax laws may have a detrimental effect on the after-tax return of the Company's investment portfolio.

The Company's entire investment portfolio is subject to broad risks inherent in the financial markets, including, but not limited to, inflation, regulatory changes, inactive capital markets, governmental and social stability, economic outlooks, unemployment and recession. Changes to these risks and how the market perceives them may impact the financial performance of the Company's investments.

Kemper and its insurance subsidiaries are subject to various capital adequacy measurements that are significantly impacted by various characteristics of their invested assets, including, but not limited to, asset type, class, duration and credit rating. The Company's insurance subsidiaries are also subject to various limitations on the amounts at which they can invest in individual assets or certain asset classes in the aggregate. Asset risk is one factor used by insurance regulators and rating agencies to determine required capital for Kemper's insurance subsidiaries. Accordingly, a deterioration in the quality of the investments held by Kemper's insurance subsidiaries or an increase in the investment risk inherent in their investment portfolios could increase capital requirements. See the risk factor below under the title “Kemper relies on receiving dividends from its subsidiaries to service its debt, to pay dividends to its shareholders and/or make repurchases of its stock.” These factors may inhibit the Company from shifting its investment mix to produce higher returns. The Company is also subject to concentration of investment risk to the extent that the portfolio is heavily invested, at any particular time, in specific asset types, classes, industries, sectors or collateral types, among other defining features. Developments and the market's perception thereof in any of these concentrations may exacerbate the negative effects on the Company's investment portfolio compared to other companies.

The determination of the fair values of the Company's investments and whether a decline in the fair value of an investment is other-than-temporary are based on management's judgment and may prove to be incorrect.

The Company holds a significant amount of assets without readily available, active, quoted market prices or for which fair value cannot be measured from actively quoted prices. These assets are generally deemed to require a higher degree of judgment used in measuring fair value. The assumptions used by management to measure fair values could turn out to be wrong and the actual amounts that may be realized in an orderly transaction with a willing market participant could be either lower or higher than the Company's estimates of fair value.

The Company reviews its investment portfolio for factors that may indicate that a decline in the fair value of an investment is other-than-temporary. This evaluation is based on subjective factors, assumptions and estimates and may prove to be materially incorrect, which may result in the Company recognizing additional losses in the future as new information emerges or recognizing losses currently that may never materialize in the future in an orderly transaction with a willing market participant.

Estimating losses and LAE for determining property and casualty insurance reserves, or determining premium rates, is inherently uncertain, and the Company's results of operations may be materially impacted if the Company's insurance reserves or premium rates are insufficient.

The Company establishes loss and LAE reserves to cover estimated liabilities, which remain unpaid as of the end of each accounting period, and to investigate and settle all claims incurred under the property and casualty insurance policies that it has issued. Loss and LAE reserves are established for claims that have been reported to the Company as of the end of the accounting period, as well as for claims that have occurred but have not yet been reported to the Company. The estimates of loss and LAE reserves are based on the Company's assessment of the facts and circumstances known to it at the time, as well as estimates of the impact of future trends in the severity of claims, the frequency of claims and other factors. See MD&A, "Critical Accounting Estimates," under the caption "Property and Casualty Insurance Reserves for Losses and Loss Adjustment Expenses" beginning on page 57 for a discussion of the Company's reserving process and the factors considered by the Company's actuaries in estimating the Company's Property and Casualty Insurance Reserves.

The process of estimating property and casualty insurance reserves is complex and imprecise. The reserves established by the Company are inherently uncertain estimates and could prove to be inadequate to cover its ultimate losses and expenses for insured events that have occurred. The estimate of the ultimate cost of claims for insured events that have occurred must take into consideration many factors that are dependent on the outcome of future events associated with the reporting, investigation and settlement of claims. The impacts on the Company's estimates of property and casualty insurance reserves from these factors are difficult to assess accurately. A change in any one or more of the factors is likely to result in a projected ultimate loss that is different than the previous projected ultimate loss and may have a material impact on the Company's estimate of the projected ultimate loss. Increases in the estimates of ultimate losses and LAE will decrease earnings, while decreases in such estimates will increase earnings, as reported by the Company in the results of its operations for the periods in which the changes to the estimates are made by the Company.

The Company's actuaries also consider trends in the severity and frequency of claims and other factors when determining the premium rates to charge for its property and casualty insurance products. An unanticipated change in any one or more of these factors or trends, as well as a change in competitive conditions, may also result in inadequate premium rates charged for insurance policies issued by Kemper's property and casualty insurance subsidiaries in the future. Such pricing inadequacies could have a material impact on the Company's operating results.

Kemper relies on receiving dividends from its subsidiaries to service its debt, to pay dividends to its shareholders and/or make repurchases of its stock.

As a holding company, Kemper depends on the dividend income that it receives from its subsidiaries as the primary source of funds to pay interest and principal on its outstanding debt obligations, to pay dividends to its shareholders and to make repurchases of its stock. Kemper's insurance subsidiaries are subject to significant regulatory restrictions under state insurance laws and regulations that limit their ability to declare and pay dividends. These laws and regulations impose minimum solvency and liquidity requirements on dividends between affiliated companies and require prior notice to, and may require approval from, state insurance regulators before dividends can be paid. In addition, third-party rating agencies monitor statutory capital and surplus levels for capital adequacy. Even though a dividend may be payable without regulatory approval, an insurance subsidiary may forgo paying a dividend to Kemper and retain the capital in its insurance subsidiaries to maintain or improve the ratings of Kemper's insurance subsidiaries, or to offset increases in required capital from increases in premium volume or investment risk. The inability of one or more of Kemper's insurance subsidiaries to pay sufficient dividends to Kemper may materially affect Kemper's ability to pay its debt obligations on time, to pay dividends to its shareholders or make repurchases of its stock.

Technology initiatives, particularly multi-year initiatives in the Company's Property & Casualty Insurance segment, to address business developments and regulatory requirements present significant economic and competitive challenges to the Company. Failure to complete and implement such initiatives in a timely manner could result in incurring internal use software development costs that may not be recoverable and the inability to meet emerging consumer and competitive needs which may result in the loss of business.

Data and analytics play an increasingly important role in the insurance industry. While technology developments can facilitate the use of data and analytics, streamline business processes and ultimately reduce the cost of operations, technology initiatives can present significant economic and organizational challenges to the Company and potential short-term cost and implementation risks. In addition, projections of expenses and implementation schedules may be inaccurate and can escalate over time, while the ultimate utility of a technology initiative could deteriorate over time. In 2015, the Company's Property & Casualty Insurance segment abandoned a multi-year computer software development project intended to replace its aging billing systems and recorded a charge of $11.1 million before taxes to write off the costs to develop such software. In 2014, the Company's Property & Casualty Insurance segment determined that that it was no longer probable that another multi-year computer software development project intended to replace its aging policy administration systems would be fully implemented and recorded a charge of $54.6 million before taxes to write off the costs to develop such software. The Company continues to believe that it is necessary to replace these systems to remain competitive. In addition, due to the highly-regulated nature of the financial services industry, the Company faces rising costs and competing time constraints in adapting technology to meet compliance requirements of new and proposed regulations. Accordingly, it is in the process of undertaking new multi-year projects to replace these systems.

The costs to develop and implement the replacement systems are expected to be material. Due to the complexities involved and the results of the Company's past attempts to replace these systems, there can be no assurances that the new multi-year projects will be successful and that the costs incurred to develop and implement the replacement systems will be recoverable. Furthermore, failure to implement the replacement systems in a timely manner could result in loss of business from the Company's inability to design and introduce new insurance products to meet emerging consumer and competitive trends.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

Owned Properties

Kemper’s subsidiaries together own and occupy seven buildings located in six states consisting of approximately 25,000 square feet in the aggregate. Kemper’s subsidiaries own four buildings totaling approximately 15,000 square feet which were vacant at December 31, 2015. Kemper’s subsidiaries hold additional properties that are not occupied by Kemper or its subsidiaries solely for investment purposes.

Leased Facilities

The Company leases five floors, or approximately 67,000 square feet, in a 41-story office building in Chicago for its corporate headquarters and Property & Casualty Insurance segment’s headquarters. The lease expires in September 2023. Kemper’s Property & Casualty Insurance segment leases facilities with an aggregate square footage of approximately 474,000 at 15 locations in nine states. The latest expiration date of the existing leases is in September 2023. Kemper’s Life & Health Insurance segment leases facilities with aggregate square footage of approximately 476,000 at 124 locations in 27 states. The latest expiration date of the existing leases is in January 2025. Kemper’s corporate data processing operation leases facilities with aggregate square footage of approximately 36,000 square feet at two locations in two states. The latest expiration date of the existing leases is in December 2018.

The properties described above are in good condition. The properties utilized in the Company’s operations consist of facilities suitable for general office space, call centers and data processing operations.

Item 3. Legal Proceedings.

Proceedings

Information concerning pending legal proceedings is incorporated herein by reference to Note 23, “Contingencies,” to the Consolidated Financial Statements.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Kemper's common stock is traded on the New York Stock Exchange (the "NYSE") under the symbol of "KMPR." Quarterly information pertaining to market prices of Kemper common stock in 2015 and 2014 is presented below.

	Three Months Ended				Year Ended
DOLLARS PER SHARE	Mar 31, 2015	Jun 30, 2015	Sep 30, 2015	Dec 31, 2015	Dec 31, 2015
Common Stock Market Prices:					
High	$40.13	$40.12	$40.28	$41.65	$41.65
Low	34.31	35.06	34.08	34.43	34.08
Close	38.96	38.55	35.37	37.25	37.25

	Three Months Ended				Year Ended
DOLLARS PER SHARE	Mar 31, 2014	Jun 30, 2014	Sep 30, 2014	Dec 31, 2014	Dec 31, 2014
Common Stock Market Prices:					
High	$40.99	$40.51	$37.57	$37.63	$40.99
Low	35.63	33.64	31.82	32.66	31.82
Close	39.17	36.86	34.15	36.11	36.11

Holders

As of January 22, 2016, the number of record holders of Kemper's common stock was 3,961.

Dividends

Quarterly information pertaining to payment of dividends on Kemper's common stock is presented below.

DOLLARS PER SHARE	Three Months Ended Mar 31, 2015	Jun 30, 2015	Sep 30, 2015	Dec 31, 2015	Year Ended Dec 31, 2015
Cash Dividends Paid to Shareholders (per share)	$0.24	$0.24	$0.24	$0.24	$0.96

DOLLARS PER SHARE	Three Months Ended Mar 31, 2014	Jun 30, 2014	Sep 30, 2014	Dec 31, 2014	Year Ended Dec 31, 2014
Cash Dividends Paid to Shareholders (per share)	$0.24	$0.24	$0.24	$0.24	$0.96

Kemper's insurance subsidiaries are subject to various state insurance laws that may restrict the ability of these insurance subsidiaries to pay dividends without prior regulatory approval. See MD&A, "Liquidity and Capital Resources" and Note 9, "Shareholders' Equity," to the Consolidated Financial Statements for information on Kemper's ability and intent to pay dividends.

Issuer Purchases of Equity Securities

Information pertaining to purchases of Kemper common stock for the three months ended December 31, 2015 follows.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (Dollars in Millions)
October 1 - October 31	63,998	$35.07	63,998	$247.5
November 1 - November 30	—	N/A	—	$247.5
December 1 - December 31	—	N/A	—	$247.5

(1) On August 6, 2014, Kemper's Board of Directors authorized the repurchase of up to $300 million of Kemper's common stock. The repurchase program has no expiration date. See MD&A, "Liquidity and Capital Resources."

Kemper Common Stock Performance Graph

The following graph assumes $100 invested on December 31, 2010 in (i) Kemper common stock, (ii) the S&P MidCap 400 Index and (iii) the S&P Supercomposite Insurance Index, in each case with dividends reinvested. Kemper is a constituent of each of these two indices.

The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of Kemper common stock.

Company / Index	2010	2011	2012	2013	2014	2015
Kemper Corporation	$100.00	$123.17	$128.49	$183.10	$166.06	$175.77
S&P MidCap 400 Index	100.00	98.27	115.83	154.64	169.74	166.05
S&P Supercomposite Insurance Index	100.00	93.09	110.89	161.61	175.70	182.09

Item 6. Selected Financial Data.

Selected financial information as of and for the years ended December 31, 2015, 2014, 2013, 2012 and 2011 is presented below.

DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS	2015	2014	2013	2012	2011
FOR THE YEAR					
Earned Premiums	$2,009.6	$1,862.2	$2,025.8	$2,107.1	$2,173.6
Net Investment Income	302.6	309.1	314.7	295.9	298.0
Other Income	3.7	1.4	0.8	0.8	1.0
Net Realized Gains on Sales of Investments	52.1	39.1	99.1	65.4	33.7
Net Impairment Losses Recognized in Earnings	(27.2)	(15.2)	(13.9)	(6.9)	(11.3)
Total Revenues	$2,340.8	$2,196.6	$2,426.5	$2,462.3	$2,495.0
Income from Continuing Operations	$80.2	$112.6	$214.5	$91.8	$61.7
Income from Discontinued Operations	5.5	1.9	3.2	11.6	12.8
Net Income	$85.7	$114.5	$217.7	$103.4	$74.5
Per Unrestricted Share:					
Income from Continuing Operations	$1.55	$2.08	$3.75	$1.55	$1.02
Income from Discontinued Operations	0.10	0.04	0.06	0.20	0.21
Net Income	$1.65	$2.12	$3.81	$1.75	$1.23
Per Unrestricted Share Assuming Dilution:					
Income from Continuing Operations	$1.55	$2.08	$3.74	$1.54	$1.02
Income from Discontinued Operations	0.10	0.04	0.06	0.20	0.21
Net Income	$1.65	$2.12	$3.80	$1.74	$1.23
Dividends Paid to Shareholders Per Share	$0.96	$0.96	$0.96	$0.96	$0.96
AT YEAR END					
Total Assets	$8,036.1	$7,833.4	$7,656.4	$8,009.1	$7,934.7
Insurance Reserves	$4,203.8	$4,007.6	$4,061.0	$4,132.2	$4,131.8
Unearned Premiums	613.1	536.9	598.9	650.9	666.2
Debt	750.6	752.1	606.9	611.4	610.6
All Other Liabilities	476.2	446.1	338.1	452.9	409.5
Total Liabilities	6,043.7	5,742.7	5,604.9	5,847.4	5,818.1
Shareholders’ Equity	1,992.4	2,090.7	2,051.5	2,161.7	2,116.6
Total Liabilities and Shareholders’ Equity	$8,036.1	$7,833.4	$7,656.4	$8,009.1	$7,934.7
Book Value Per Share	$38.82	$39.88	$36.86	$36.98	$35.13

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Index to
Management's Discussion and Analysis of
Financial Condition and Results of Operations

SUMMARY OF RESULTS

Net Income was $85.7 million ($1.65 per unrestricted common share) for the year ended December 31, 2015, compared to $114.5 million ($2.12 per unrestricted common share) for the year ended December 31, 2014. Income from Continuing Operations was $80.2 million ($1.55 per unrestricted common share) in 2015, compared to $112.6 million ($2.08 per unrestricted common share) in 2014.

A reconciliation of Segment Net Operating Income to Consolidated Net Operating Income (a non-GAAP financial measure) and to Net Income for the years ended December 31, 2015, 2014 and 2013 is presented below.

DOLLARS IN MILLIONS	2015	2014	Increase (Decrease) from 2014 to 2015	2013	Increase (Decrease) from 2013 to 2014
Segment Net Operating Income:					
Property & Casualty Insurance	$26.7	$24.9	$1.8	$100.6	$(75.7)
Life & Health Insurance	71.7	91.8	(20.1)	89.3	2.5
Total Segment Net Operating Income	98.4	116.7	(18.3)	189.9	(73.2)
Unallocated Net Operating Loss	(28.5)	(19.6)	(8.9)	(30.7)	11.1
Consolidated Net Operating Income	69.9	97.1	(27.2)	159.2	(62.1)
Net Income (Loss) From:					
Net Realized Gains on Sales of Investments	33.9	25.4	8.5	64.4	(39.0)
Net Impairment Losses Recognized in Earnings	(17.7)	(9.9)	(7.8)	(9.1)	(0.8)
Loss from Early Extinguishment of Debt	(5.9)	—	(5.9)	—	—
Income from Continuing Operations	80.2	112.6	(32.4)	214.5	(101.9)
Income from Discontinued Operations	5.5	1.9	3.6	3.2	(1.3)
Net Income	$85.7	$114.5	$(28.8)	$217.7	$(103.2)

The Company's net income decreased $28.8 million in 2015, compared to 2014. In the Property & Casualty Insurance segment, segment net operating income increased $1.8 million due primarily to a lower amount of write-offs of internal use software, lower insurance expenses as a percentage of earned premiums and lower incurred catastrophe losses and LAE (excluding reserve development), partially offset by higher underlying losses and LAE as a percentage of earned premiums and a lower level of favorable loss and LAE reserve development. See MD&A, "Property & Casualty Insurance," beginning on page 31 for additional discussion of the segment's results. See MD&A, "Write-offs of Long-lived Assets," beginning on page 51 for additional information related to the internal use software write-offs. In the Life & Health Insurance segment, segment net operating income decreased $20.1 million due primarily to a $13.9 million after-tax dividend in 2014 from an investment that had sold substantially all of its operations, an after-tax adjustment to earned premiums of $4.9 million recorded in the first quarter of 2015 to correct deferred premium reserves on certain limited pay life insurance policies, and higher policyholders' benefits on life insurance. See MD&A, "Life & Health Insurance," beginning on page 41 for additional discussion of the segment's results. The Company's results were also significantly and negatively impacted in 2015, compared to 2014, by higher net impairment losses recognized in earnings and a loss from early extinguishment of debt in 2015, partially offset by higher net realized gains on sales of investments. See MD&A, "Investment Results," beginning on page 44 and MD&A, "Liquidity and Capital Resources," beginning on page 52 for additional discussion.

Revenues

Earned Premiums were $2,009.6 million in 2015, compared to $1,862.2 million in 2014, an increase of $147.4 million. Earned Premiums increased by $165.7 million in the Property & Casualty Insurance segment and decreased by $18.3 million in the Life & Health Insurance segment. See MD&A, "Property & Casualty Insurance," beginning on page 31 and MD&A, “Life & Health Insurance,” beginning on page 41 for discussion the changes in each segment’s earned premiums.

Net Investment Income decreased by $6.5 million in 2015 due primarily to $27.5 million in lower net investment income from Dividends on Equity Securities, partially offset by $10.0 million of higher investment income on Equity Method Limited Liability Investments and $8.8 million of higher Interest and Dividends on Fixed Maturities. See MD&A, “Investment Results,” under the sub-caption “Net Investment Income” beginning on page 44 for additional discussion.

Net Realized Gains on Sales of Investments were $52.1 million in 2015, compared to $39.1 million in 2014. See MD&A, “Investment Results,” under the sub-caption “Net Realized Gains on Sales of Investments” beginning on page 45 for additional

SUMMARY OF RESULTS (Continued)

discussion. Net Impairment Losses Recognized in Earnings for the years ended December 31, 2015 and 2014 were $27.2 million and $15.2 million, respectively. See MD&A, "Investment Results," under the sub-caption "Net Impairment Losses Recognized in Earnings" beginning on page 46 for additional discussion. The Company cannot predict when or if similar investment gains or losses may occur in the future.

CATASTROPHES

Catastrophes and natural disasters are inherent risks of the property and casualty insurance business. These catastrophic events and natural disasters include, without limitation, hurricanes, tornadoes, earthquakes, hailstorms, wildfires, high winds and winter storms. Such events result in insured losses that are, and will continue to be, a material factor in the results of operations and financial position of the Company's property and casualty insurance companies. Further, because the level of these insured losses occurring in any one year cannot be accurately predicted, these losses may contribute to material year-to-year fluctuations in the results of operations and financial position of these companies. Specific types of catastrophic events are more likely to occur at certain times within the year than others. This factor adds an element of seasonality to property and casualty insurance claims. The Company has adopted the industry-wide catastrophe classifications of storms and other events promulgated by ISO to track and report losses related to catastrophes. ISO classifies a disaster as a catastrophe when the event causes $25.0 million or more in direct insured losses to property and affects a significant number of policyholders and insurers. ISO-classified catastrophes are assigned a unique serial number recognized throughout the insurance industry. The discussions that follow utilize ISO's definition of catastrophes.

The number of catastrophic events and catastrophe losses and LAE (excluding loss and LAE reserve development) by range of loss and business segment for the years ended December 31, 2015, 2014 and 2013 are presented below.

	Year Ended					
	Dec 31, 2015		Dec 31, 2014		Dec 31, 2013	
DOLLARS IN MILLIONS	Number of Events	Losses and LAE	Number of Events	Losses and LAE	Number of Events	Losses and LAE
Range of Losses and LAE Per Event:						
Below $5	37	$43.6	27	$31.1	27	$44.3
$5 - $10	3	24.7	3	20.4	1	6.4
$10 - $15	—	—	1	13.1	—	—
$15 - $20	—	—	—	—	—	—
$20 - $25	—	—	—	—	—	—
Greater Than $25	—	—	1	33.9	—	—
Total	40	$68.3	32	$98.5	28	$50.7
Property & Casualty Insurance		$64.5		$96.5		$47.1
Life & Health Insurance		3.8		2.0		3.6
Total Catastrophe Losses and LAE		$68.3		$98.5		$50.7

2015 Compared with 2014

As shown in the preceding table, catastrophe losses and LAE decreased for the year ended December 31, 2015, compared to 2014, due primarily to two significant catastrophe events in 2014 (one event with losses and LAE of $33.9 million and another event with losses and LAE of $13.1 million), compared to no such events exceeding $10 million in 2015, partially offset by higher frequency of events below $5 million of losses in 2015, compared to 2014. The event in the preceding table with $33.9 million in catastrophe losses and LAE in 2014 was incurred in multiple states, particularly Montana. The event in the preceding table with $13.1 million in catastrophe losses and LAE in

2014 was primarily related to hail in Texas.

2014 Compared with 2013

As shown in the preceding table, catastrophe losses and LAE increased for the year ended December 31, 2014, compared to 2013, due primarily to one catastrophe event that exceeded $25 million of losses and LAE and four other catastrophe events

CATASTROPHES (Continued)

that each exceeded $5 million of losses and LAE in 2014, compared to only one such event exceeding $5 million in 2013, partially offset by lower severity of losses below $5 million per event in 2014, compared to 2013.

Catastrophe Reinsurance

The Company primarily manages its exposure to catastrophes and other natural disasters through a combination of geographical diversification, management of the amount and location of risks insured in certain regions and a primary catastrophe reinsurance program for the Property & Casualty Insurance segment. Coverage for this segment's primary catastrophe reinsurance program is provided in various layers (see Note 20, "Catastrophe Reinsurance," to the Consolidated Financial Statements for further discussion of this program). In addition to this program, the Property & Casualty Insurance segment had a reinsurance treaty covering the three-year period that ended June 1, 2013 for catastrophe losses in North Carolina at retentions lower than its primary catastrophe reinsurance program ("the NC Program"). The Property & Casualty Insurance segment also purchases reinsurance from the FHCF for hurricane losses in Florida at retentions lower than its primary catastrophe reinsurance program. The Life & Health Insurance segment also purchases reinsurance from the FHCF for hurricane losses in Florida. Except for the coverage provided by the FHCF, the Life & Health Insurance segment has not carried any other catastrophe reinsurance since 2012, primarily due to actions taken by KHSC to reduce its exposures to catastrophes.

See the "Reinsurance" subsections of the "Property and Casualty Insurance Business" and "Life and Health Insurance Business" sections of Item 1(c), "Description of Business," and Note 20, "Catastrophe Reinsurance," to the Consolidated Financial Statements for additional information on the Company's reinsurance programs.

LOSS AND LAE RESERVE DEVELOPMENT

Increases (decreases) in the Company's property and casualty loss and LAE reserves for the years ended December 31, 2015, 2014 and 2013 to recognize adverse (favorable) loss and LAE reserve development from prior accident years in continuing operations, hereinafter also referred to as "reserve development" in the discussion of segment results, are presented below.

DOLLARS IN MILLIONS	2015	2014	2013
Property & Casualty Insurance:			
Non-catastrophe	$(5.0)	$(38.6)	$(45.5)
Catastrophe	(7.9)	(15.8)	(12.5)
Total	(12.9)	(54.4)	(58.0)
Life & Health Insurance:			
Non-catastrophe	1.3	(0.2)	0.2
Catastrophe	0.1	1.1	(2.0)
Total	1.4	0.9	(1.8)
Decrease in Total Loss and LAE Reserves Related to Prior Years:			
Non-catastrophe	(3.7)	(38.8)	(45.3)
Catastrophe	(7.8)	(14.7)	(14.5)
Decrease in Total Loss and LAE Reserves Related to Prior Years	$(11.5)	$(53.5)	$(59.8)

See MD&A, "Property & Casualty Insurance," MD&A, "Life & Health Insurance," and Note 6, "Property and Casualty Insurance Reserves," to the Consolidated Financial Statements for additional information on the Company's reserve development. See MD&A, "Critical Accounting Estimates," of this 2015 Annual Report for additional information pertaining to the Company's process of estimating property and casualty insurance reserves for losses and LAE, and the estimated variability thereof, development of property and casualty insurance losses and LAE, and a discussion of some of the variables that may impact them.

NON-GAAP FINANCIAL MEASURES

Pursuant to the rules and regulations of the SEC, the Company is required to file consolidated financial statements prepared in accordance with the accounting principles generally accepted in the United States ("GAAP"). The Company is permitted to include non-GAAP financial measures in its filings provided that they are defined along with an explanation of their usefulness to investors, are no more prominent than the comparable GAAP financial measures and are reconciled to such GAAP financial measures.

NON-GAAP FINANCIAL MEASURES (Continued)

These non-GAAP financial measures should not be considered a substitute for the comparable GAAP financial measures, as they do not fully recognize the overall profitability of the Company’s businesses.

Underlying Combined Ratio

The following discussions of segment results use the non-GAAP financial measures of (i) Underlying Losses and LAE and (ii) Underlying Combined Ratio. Underlying Losses and LAE (also referred to in the discussion as “Current Year Non-catastrophe Losses and LAE”) exclude the impact of catastrophe losses and loss and LAE reserve development from prior years from the Company’s Incurred Losses and LAE, which is the most directly comparable GAAP financial measure. The Underlying Combined Ratio is computed by adding the Current Year Non-catastrophe Losses and LAE Ratio with the Insurance Expense (including write-offs of long-lived assets) Ratio. The most directly comparable GAAP financial measure is the Combined Ratio, which is computed by adding total incurred losses and LAE, including the impact of catastrophe losses and loss and LAE reserve development from prior years, with the Insurance Expense (including write-offs of long-lived assets) Ratio. The Company believes Underlying Losses and LAE and the Underlying Combined Ratio are useful to investors and are used by management to reveal the trends in the Company’s Property & Casualty Insurance business that may be obscured by catastrophe losses and prior year reserve development. These catastrophe losses may cause the Company’s loss trends to vary significantly between periods as a result of their incidence of occurrence and magnitude, and can have a significant impact on incurred losses and LAE and the combined ratio. Prior-year reserve developments are caused by unexpected loss development on historical reserves. Because reserve development relates to the re-estimation of losses from earlier years, it has no bearing on the performance of the Company’s insurance products that were in force in the current period. The Company believes it is useful for investors to evaluate these components separately and in the aggregate when reviewing the Company’s underwriting performance.

Consolidated Net Operating Income

Consolidated Net Operating Income is an after-tax, non-GAAP financial measure and is computed by excluding from Income from Continuing Operations the after-tax impact of:

1) Net Realized Gains on Sales of Investments;
2) Net Impairment Losses Recognized in Earnings related to investments;
3) Loss from Early Extinguishment of Debt; and
4) Significant non-recurring or infrequent items that may not be indicative of ongoing operations.

Significant non-recurring items are excluded when (a) the nature of the charge or gain is such that it is reasonably unlikely to recur within two years, and (b) there has been no similar charge or gain within the prior two years. The most directly comparable GAAP financial measure is Income from Continuing Operations. There were no applicable significant non-recurring items that the Company excluded from the calculation of Consolidated Net Operating Income for the years ended December 31, 2015, 2014 and 2013.

The Company believes that Consolidated Net Operating Income provides investors with a valuable measure of its ongoing performance because it reveals underlying operational performance trends that otherwise might be less apparent if the items were not excluded. Net Realized Gains on Sales of Investments and Net Impairment Losses Recognized in Earnings related to investments included in the Company’s results may vary significantly between periods and are generally driven by business decisions and external economic developments such as capital market conditions that impact the values of the Company’s investments, the timing of which is unrelated to the insurance underwriting process. Loss from Early Extinguishment of Debt is driven by the Company’s financing and refinancing decisions and capital needs, as well as external economic developments such as debt market conditions, the timing of which is unrelated to the insurance underwriting process. Significant non-recurring items are excluded because, by their nature, they are not indicative of the Company’s business or economic trends.

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PROPERTY & CASUALTY INSURANCE

Selected financial information for the Property & Casualty Insurance segment is presented below.

DOLLARS IN MILLIONS	2015	2014	2013
Net Premiums Written	$1,406.2	$1,189.1	$1,342.2
Earned Premiums	$1,415.2	$1,249.5	$1,392.9
Net Investment Income	73.3	72.7	90.9
Other Income	0.6	0.5	0.5
Total Revenues	1,489.1	1,322.7	1,484.3
Incurred Losses and LAE related to:			
Current Year:			
Non-catastrophe Losses and LAE	1,034.6	845.2	980.2
Catastrophe Losses and LAE	64.5	96.5	47.1
Prior Years:			
Non-catastrophe Losses and LAE	(5.0)	(38.6)	(45.5)
Catastrophe Losses and LAE	(7.9)	(15.8)	(12.5)
Total Incurred Losses and LAE	1,086.2	887.3	969.3
Insurance Expenses, Excluding Write-offs of Long-lived Assets	368.1	353.7	375.4
Write-offs of Long-lived Assets	11.1	54.6	—
Operating Profit	23.7	27.1	139.6
Income Tax Benefit (Expense)	3.0	(2.2)	(39.0)
Segment Net Operating Income	$26.7	$24.9	$100.6

Ratios Based On Earned Premiums	2015	2014	2013
Current Year Non-catastrophe Losses and LAE Ratio	73.2%	67.7%	70.4%
Current Year Catastrophe Losses and LAE Ratio	4.6	7.7	3.4
Prior Years Non-catastrophe Losses and LAE Ratio	(0.4)	(3.1)	(3.3)
Prior Years Catastrophe Losses and LAE Ratio	(0.6)	(1.3)	(0.9)
Total Incurred Loss and LAE Ratio	76.8	71.0	69.6
Insurance Expense Ratio, Excluding Write-offs of Long-lived Assets	26.0	28.3	27.0
Impact on Ratio from Write-offs of Long-lived Assets	0.8	4.4	—