



ANNUAL REPORT

of company performance for

2014





Stephen R. Lang
Chairman, President and CEO



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THE RELIABLE CHOICE

Since 1906, Homesteaders has offered our customers long-term security and peace of mind for their pre-funded advance funeral plans. In 2014, we continued our commitment to strength, reliability and prosperity, introducing new product and service offerings to better serve our customers, honing our leadership team and staff efficiency and continuing to focus on long-term growth and security.

We launched a large slate of initiatives in the past year, including the introduction of a new product feature, Security Option Plus, to address the industry-wide concern over the potential gap between today's funeral cost and the policy benefit. The third quarter also marked the successful release of our pilot Child/Grandchild Rider program, which provides additional protection for families at no additional cost.

The strength of Homesteaders' executive management is another indication of our company's position as a leader in the pre-need marketplace. Veteran industry leader Steve Shaffer joined Homesteaders as Chief Operating Officer, a position I vacated upon succeeding Graham Cook as Chairman, President and CEO. Homesteaders also completed the final steps in our succession plan and honored Graham Cook upon his official retirement in February.

Our leadership team's efforts to expand our product and service offerings while ensuring our long-term security were once again recognized by A.M. Best Company, which affirmed Homesteaders' financial strength rating of A- (Excellent).

We have always believed that we are in two businesses – funeral service and insurance. We want a management team whose skills and experiences reflect that reality. We may come from very diverse backgrounds, but we share the common goal of providing you with the best possible funeral funding products and services. In the following pages, you'll hear from some of these unique voices as they share with you their own highlights from the past year.

Our continued success is the direct result of mutually beneficial relationships with our stakeholders, and I want to take this opportunity to thank all of you who support Homesteaders every day through your efforts. We continue to be the reliable choice for you and the families you serve.

Stephen R. Lang, Chairman, President and CEO

BOARD UPDATE



Members of the Homesteaders Board of Directors are elected by policy owners and provide strategic direction to ensure the long-term security of policy owners, funeral home customers and employees.

Pictured here, from left to right, are Dave Watson, Mary K. Roth, John Paule, Peter A. Brown, Dr. William H. Newland, Homesteaders Chairman, President and CEO Stephen R. Lang, Don Peschke and Graham J. Cook.

The Homesteaders Board of Directors is pleased with the company's 2014 results and very confident in its management team. Building on a strong national brand and positive trends in financial growth, Homesteaders is investing time and resources to remain well-positioned to expand its leadership role in the marketplace.

The Board's focus is on long-term strategy, enterprise risk management, governance and management oversight. All this is to ensure the long-term security of Homesteaders' stakeholders. However, success cannot be achieved without good execution. The Board provides the framework within which management can execute successfully. By operating within sound governance principles and reporting disciplines, the Board is able to give management the freedom of action needed to respond to the ever-changing business conditions and to our customers' needs. This open interaction between the Board of Directors and management, sharing a common purpose, is an essential ingredient to our continued success.

“Doing business with Homesteaders is just a seamless transaction all the way. I really like the ability to see my block of pre-need business online through the myHomesteaders dashboard. It puts things into perspective and allows me to measure our efforts at any time.”

—Dave Moore
Hogan Bremer Moore Colonial Chapels
Mason City, IA



A passion for the community—and for providing its families with high-quality, consistent funeral service—motivates Dave Moore of Hogan Bremer

Moore Colonial Chapels and drives the success of his business.

The Mason City, IA native owns and operates the firm in his hometown, where he began his career as a funeral director. Dave and his family—which includes his wife, Janey and their two children—are strongly connected to their community. “I love what I do and I’m very fortunate to work in this community,” Dave says. “I think that every day.”

Dave purchased the business in 2001. In addition to its main location, Hogan Bremer Moore Colonial Chapel in Mason City, the firm also operates Memorial Park Cemetery, Crematory & Funeral Home (also in Mason City), plus four other locations in nearby communities.

The fact that the firm can handle all details of final arrangements, including cemetery monuments and columbaria, is a major benefit to clients. “I think that makes us very unique because we understand not only funeral and cremation services, but also cemetery service,” he says.

Pre-need funeral planning plays a vital role in the firm's business. Dave has daily contact with his pre-need staff, which consists of three full-time pre-need counselors and one part-time pre-need counselor. “I personally regard my business as 50/50,” Dave says. “Half of my business is at-need, and half is pre-need. It's that important.”

Dave says Homesteaders' long history in pre-need funeral funding and A.M. Best financial strength rating of A- (Excellent) are important traits to convey to his client families. “It's just a seamless transaction all the way,” Dave says of doing business with Homesteaders. “I really like the ability to see my block of pre-need business online (through the my-Homesteaders dashboard). It puts things into perspective and allows me to measure our efforts at any time.”

For the full story, go to homesteadersite.com, click on the “For Funeral Professionals” tab and then “Featured Funeral Homes.”



Steve Shaffer
Chief Operating Officer



[Click here to learn more about Steve's role on the Homesteaders Executive Team.](#)

EXECUTIVE PERSPECTIVES: OPERATIONS

For over a century, Homesteaders has honed a disciplined approach to all of our business operations, including the management of our long-term financial security in even the most challenging economic times. Homesteaders continues to embody a holistic approach to financial success, is true to its word and highly values both its customers and employees. To further that end, we have worked tirelessly to invest in state-of-the-art resources which have a direct impact on our ability to respond quickly and efficiently to our customers' constantly changing technology needs.

In 2014, we enhanced our online enrollment feature to provide faster service while still maintaining our prompt payment standards. We reached another major milestone by completing the main phases of our myHomesteaders online business services portal project. Since the launch of the agent dashboard in July, more than 90 percent of Homesteaders' top-producing agents have been logging into the system each month. Following the success of both these initiatives, we are looking forward to more technological advancements in the coming year.

In addition to these exciting new efforts, we continue to provide top-quality service and business support to our customers, seeking ways to enhance our service, uphold our strong reputation and ensure clients' success. We continue working hard every day to help our customers keep promises to the families they serve while building a strong and successful funeral home.

Our commitment to customer success, promoting the value of funeral service and establishing long-term financial security continues to prove highly valuable to our customers. In 2014, Homesteaders boasted a 99% customer satisfaction rating, a key indicator that our funeral home partners continue to trust in our commitment to their success*.

We're proud to be chosen by thousands of funeral professionals who know they can depend on Homesteaders to help grow their business, secure their long-term financial success and offer the safe, secure pre-need insurance funding their families demand and deserve.

*According to the 2014 Homesteaders customer satisfaction survey.



“Homesteaders shares our willingness and desire to go above and beyond. It’s a pleasure to work with the caring and committed people at Homesteaders, and Homesteaders exceeds all of the financial expectations our profession requires in the short and long-term.”

–Jimmy Altmeyer
Altmeyer Funeral Homes & Crematory
Wheeling, WV



“Homesteaders is a first-class company. Our pre-need counselor said he’s never had such great customer service. Homesteaders is selling a quality product and pays attention to details. I’m totally sold.”

–Mike Turnbull
Roberts-Blue-Barnett Funeral Home
Emporia, KS

For Mike Turnbull of Roberts-Blue-Barnett Funeral Home in Emporia, KS, one of the most rewarding aspects of funeral service is the opportunity to inspire

a passion for the profession in others. The firm’s owner has hired several part-time night attendants who, despite having no previous interest in funeral service, decided to attend mortuary school.

“I take a great amount of pride in mentoring,” Mike said. “When students come to work here, it’s just a job. But after seeing how well-run our firm is, the dedication of my staff and how much we enjoy our careers, they take an interest in the funeral business. That is probably my proudest accomplishment.”

Mike’s interest in funeral service began while growing up in Eskridge, KS. He secured jobs mowing cemeteries and digging graves when he was a teenager, and at age 16, he began making plans to attend mortuary school.

After graduating from the University of Minnesota School of Mortuary Science in 1972, Mike chose to do his internship at Roberts-Blue-

Barnett Funeral Home. Five years later, he purchased the firm, which has a long history in the Emporia community.

In 1998, Roberts-Blue-Barnett Funeral Home joined with Homesteaders to provide insurance funding for the firm’s pre-need program. Pre-need has been very beneficial for the firm, and Homesteaders offers the simple forms, fast payment and high-quality service they need.

“Homesteaders is a first-class company,” Mike said. “Our pre-need counselor, Larry Gambolan, said he’s never had such great customer service (before working with Homesteaders).”

“Homesteaders is selling a quality product and pays attention to details,” he added. “I’m totally sold.”

Through the years, the firm has adapted to meet requests for unique services that offer families the best possible environment to honor their loved ones. Providing this individualized attention requires a staff that’s dedicated to upholding the firm’s reputation for excellence.



Steve W. Pick
Executive VP-CFO

EXECUTIVE PERSPECTIVES: FINANCE

We're pleased that 2014 was another strong year for Homesteaders. We take very seriously the long-term promises we make to our customers and policy owners every day, and our current financial strength is continued evidence that we are well-positioned to honor those promises today, tomorrow and well into the future.

Our 2014 highlights include the continued growth and strengthening of our balance sheet, with assets and capital having grown 5% and 8%,

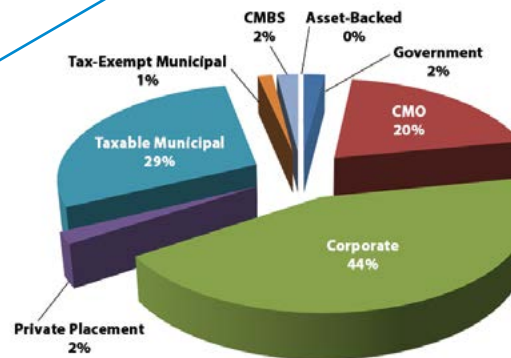
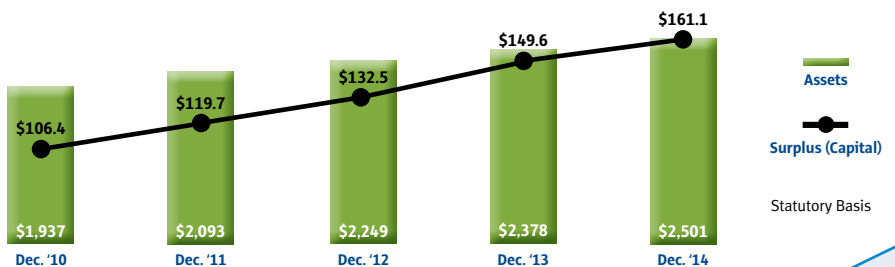
respectively. We also experienced increased sales production in 2014, further demonstrating our leadership in the industry. Overall, our financial performance was in line with the overarching goal we have as an organization – that is, maintaining the long-term financial strength to continue honoring the promises we make to our customers and policy owners.

Steve W. Pick



[Click here to learn more about Steve's role on the Homesteaders Executive Team.](#)

Five-Year Capital & Assets Growth (in millions)

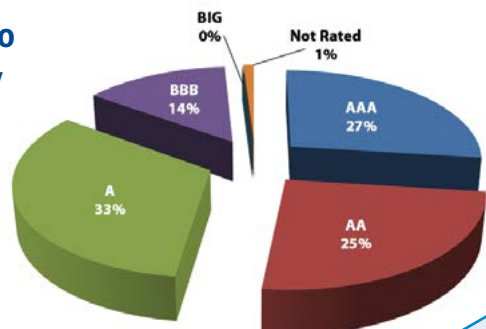


Bond Portfolio Diversification

The \$2.3 billion fixed income bond portfolio is well-diversified across multiple sectors.

Bond Portfolio Credit Quality

The average portfolio credit rating is AA-. The portfolio has very limited exposure to below investment-grade securities or bonds with subprime borrowers as collateral.



YEAR-END HIGHLIGHTS AT-A-GLANCE

Homesteaders achieves what it sets out to do every year: enhance the company's financial strength. Some of the highlights from 2014 include:

- ▶ 5.2% increase in Assets
- ▶ 7.7% increase in Surplus
- ▶ After-tax income of \$12.4 million
- ▶ 1.9% increase in Surplus/Liability Ratio
- ▶ Named to Ward's Top 50 Health & Life Insurers
- ▶ A.M. Best rating of A- (Excellent) affirmed in 2014



Homesteaders realized more than \$515 million in revenue in 2014. We used 57% of that revenue to pay policy benefits and 22% to establish reserves for payments of future policy benefits. We carefully manage our expenses to ensure the long-term security of our funeral home customers and policy owners. One hundred percent of all after-tax earnings were contributed to surplus.

“Pre-need plays a major role in our business and Homesteaders provides the support we need to be successful. We need to work with a company that provides a solid commission and also one with solid growth. Homesteaders provides the best of both worlds, as well as the fact that they're focused exclusively on pre-need.”

—Chris Grubbs
Chambers & Grubbs Funeral Homes
Independence, KY





Jim Koher
Executive VP-Chief Actuary

At Homesteaders, we are committed to serving the interests of our policy owners, funeral home customers and employees by providing the best possible products, services and overall benefits. We do this with a focus on remaining financially strong, so we can persist in keeping our promises to our stakeholders long into the future.

Homesteaders will continue to carefully monitor our crediting rates and make the appropriate adjustments to maintain the target spread. We do so to maintain our financial strength, and we believe our disciplined approach to spread management will protect the stakeholders who place their trust in us to fulfill our financial obligations.

FINANCIAL POSITION AS OF DECEMBER 31, 2014

| ASSETS | 2014 | 2013 |
|--------------|--------------------|--------------------|
| Bonds | 2,327,556 | 2,194,478 |
| Mortgages | 81,845 | 95,500 |
| Real Estate | 10,654 | 10,903 |
| Policy Loans | 1,824 | 1,906 |
| Cash | 13,508 | 13,314 |
| Other | 65,369 | 61,963 |
| TOTAL | \$2,500,756 | \$2,378,064 |

Amounts listed in thousands; Statutory Basis.

| LIABILITIES | 2014 | 2013 |
|--------------------------|--------------------|--------------------|
| Policy Reserves | 2,275,140 | 2,162,491 |
| Other Policy Liabilities | 29,996 | 30,562 |
| Accrued Expenses | 5,724 | 4,770 |
| Asset Reserves | 16,467 | 19,336 |
| Other | 12,296 | 11,264 |
| TOTAL | \$2,339,623 | \$2,228,423 |
| Surplus | 161,133 | 149,641 |
| TOTAL | \$2,500,756 | \$2,378,064 |

Amounts listed in thousands; Statutory Basis.

Projections under various economic scenarios indicate that Homesteaders' reserve funds are sufficient to meet future policy liabilities. These projections also demonstrate that assets and policy liabilities are well matched.

Income

| INCOME | 2014 | 2013 |
|--------------|------------------|------------------|
| Premium | 399,768 | 396,718 |
| Investment | 114,809 | 111,608 |
| Other Income | 861 | 940 |
| TOTAL | \$515,438 | \$509,266 |

Amounts listed in thousands; Statutory Basis.

Expenses

| EXPENSES | 2014 | 2013 |
|-----------------------------|------------------|------------------|
| Policy Benefits | 293,906 | 288,524 |
| Policy Reserves | 113,245 | 112,947 |
| Commissions | 54,349 | 52,840 |
| Expenses | 28,273 | 26,864 |
| Premium Tax | 7,172 | 6,793 |
| TOTAL | \$496,945 | \$487,968 |
| Before Tax Gain | 18,493 | 21,298 |
| Federal Taxes | (5,935) | (7,710) |
| Operating Gain/(Loss) | 12,558 | 13,588 |
| Realized Gain (Loss) | (158) | (1,010) |
| Surplus Contribution | \$12,400 | \$12,578 |

Amounts listed in thousands; Statutory Basis.



“Our account executive is willing to make sure we have everything we need, and I can call her any time. Homesteaders has the same attitude we have: that no matter what it takes, they will take care of it.”

–Todd Hitzeman
Hitzeman Funeral Home & Cremation Services
Brookfield, IL

“Homesteaders offers good services and pays the claims quickly. We have the choice of any company, and we’ve chosen Homesteaders.”

–Bill Chancellor
Chancellor Funeral Home
Florence, MS

My Homesteaders
SEPTEMBER 2014

Chancellor Funeral Home
775

A Community-Focused Funeral Home

Bill and Sandra Chancellor opened their Mississippi firm with a vision of providing a comforting, convenient place for their community to gather and

support one another during the most difficult times. This mission has driven all of the most important aspects of their business – from the staff’s family-oriented culture to the spacious, modern appearance of their funeral homes.

“We wanted our funeral homes to be places where people in the communities can come together and hold each other up,” Bill said. The couple now owns and operates locations in Florence and Byram, MS, as well as the Garden of Memories Perpetual Care Park Cemetery. Bill, who has decades of experience as a funeral director and funeral home manager, said opening the firm in 2002 allowed him to take a more hands-on role in serving families. Sandra is also a licensed funeral director and is the firm’s office administrator.

By providing top-quality service, the Chancellors have grown their firm’s reputation for excellence. Staff members at Chancellor Funeral Home

share a vision of caring for people – an essential quality in a profession that can sometimes bring long hours and tough-to-handle situations. The firm’s grief-need program is another key part of their success. Bill cited responsive account executives, prompt customer service and the Aurora Casket Alliance as benefits of joining with Homesteaders.

“Homesteaders offers good services and pays the claims quickly,” he said. “We have the choice of any company, and we’ve chosen Homesteaders.”

At the heart of the firm’s success is its community-focused culture. Although Chancellor Funeral Home serves a large area, its two locations are just 17 miles apart. It’s an ideal situation for Bill, who enjoys the opportunity to personally serve families.

“We have built a rapport through serving our community and taking care of families,” Bill said. “These word-of-mouth referrals are the best



Marla Lacey
Executive VP-General Counsel



[Click here to learn more about Marla's role on the Homesteaders Executive Team.](#)

EXECUTIVE PERSPECTIVES: LEGAL & COMPLIANCE

Our mission is to provide legal and compliance services for the company and our customers that help everyone achieve their objectives while minimizing their legal risk. While we oversee all corporate legal matters and provide legal support to the business units within the company, a great deal of our time is spent on legislative and regulatory affairs. We participate in lobbying efforts on our own and through participation in a wide variety of coalitions to protect and promote the insurance and funeral industries.

Lobbying Efforts

The most high-profile effort in the past two years has been our ongoing work with regulators and trade associations involving insurance and unclaimed property as it relates to the pre-need industry. As part of this effort, we have been deeply involved at the state and national level regarding the National Conference of Insurance Legislators' (NCOIL) Model Unclaimed Life Insurance Benefits Act, updates to the Model and its adoption in numerous states.

Other government relations efforts in 2014 included advocating for agent limited licenses for pre-need insurance sales. We have also

participated in coalition lobbying efforts to protect the industry from proposed legislation that would change the nature of pre-need contractual relationships in ways we believe would negatively impact funeral home customers.

Important Partnerships

We constantly monitor proposed legislation for changes in statutes and regulations that would affect the funeral and insurance industries. We are proactive in our involvement with trade associations and coalitions in an effort to keep ahead of industry trends. Homesteaders belongs to the NALC (National Association of Life Companies) Small Policy Committee and the ACLI (American Council of Life Insurers) Market Conduct Committee. Our participation in these national groups helps ensure that pre-need gets a seat at the table when important discussions are being held that may affect our company and our customers.

We achieved great success in our government relations efforts in 2014 and will continue to promote legislation that positively affects our customers and the company.



Judy Ralston-Hansen
Executive VP-Human Resources



[Click here to learn more about Judy's role on the Homesteaders Executive Team.](#)

EXECUTIVE PERSPECTIVES: HUMAN RESOURCES

Homesteaders has all of the energy and advantages of a growing company. Part of this growth came from a series of exciting new initiatives we implemented in 2014 with our ongoing efforts to add value for both our customers and our employees.

Homesteaders' Core Values

In 2014, we introduced our company-wide set of core values to serve as a compass heading for the approach, development and implementation of our corporate goals. These values reflect who we are and have become a foundation for how we act as a company.

The New Employee Portal

Last year also saw increased efforts to improve our company's communication systems through a new online Employee Portal. At its core, the Portal is a way to reach out to our employees to help them to feel connected to and supported by our company, unifying everyone around our core values and company goals.

An All-Employee Incentive Program

In 2014, we introduced a new all-employee incentive program to reward our staff for meeting corporate goals. The program helps us recognize everyone's contribution to our

success, promoting a feeling of family, teamwork and support that keeps everyone focused on corporate goal achievement.

The New Successful Sales Strategies Course

Last year, we took our commitment to lifelong learning to a new level and introduced the *Successful Sales Strategies for Pre-need Professionals* course. This three-day class provides an additional level of training for our pre-need sales partners and is offered at no cost. The course is just one more way we can demonstrate our commitment to customer success.

Homesteaders has faced a number of changes over the last few years, including the recent leadership succession. We have hired several excellent leaders to join our existing executive team and have been successful in integrating these new faces with our more tenured team to make our company's leadership even stronger. Homesteaders' management continues to reflect our core values in our decision-making, the accomplishment of corporate objectives and in how we run the day-to-day business of the company.

“Homesteaders is well-known and well-respected in the funeral industry as a secure company with excellent customer service skills. When you call them for any reason, they will take care of it as professionally and promptly as possible.”

—Brad Hawn
Warner Funeral Home
Spencer, IA



(L-R) Brad Hawn, Diane Sparks, Jeff Swank, Kris Bondar, Casey Vaughan and Joel Rice

*We are committed to honoring
the financial promises we make to
our policy holders, while sustaining
a culture of integrity and mutually
beneficial long-term relationships
with key stakeholders.*



P.O. Box 1756, Des Moines, IA 50306-1756
homesteaderslife.com

Learn how Homesteaders' products, services and resources can help you promote the value of funeral service and grow your funeral home's pre-need program.

**CLICK HERE TO CONTACT
YOUR ACCOUNT EXECUTIVE**