

KEMPER Corp
Form DEF 14A
March 24, 2017

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

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)

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

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under 240.14a-12

Kemper Corporation
(Name of registrant as specified in its charter)

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

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(3) Filing Party:

(4) Date Filed:

Notice of 2017 Annual Meeting & Proxy Statement

Kemper Corporation
One East Wacker Drive
Chicago, Illinois 60601
kemper.com

Notice of 2017 Annual Meeting of Shareholders to Be Held May 3, 2017

The 2017 Annual Meeting of the Shareholders (“Annual Meeting”) of Kemper Corporation (“Company” or “Kemper”) will be held at 8:00 a.m., Central Daylight Time, on Wednesday, May 3, 2017, at The Kemper Building, One East Wacker Drive, Chicago, Illinois 60601. Attendees providing proper identification will be directed to the meeting room located on the 20th floor. The purpose of the Annual Meeting will be to:

1. Elect a Board of Directors;
2. Consider and vote on an advisory proposal on the ratification of the selection of Deloitte & Touche LLP as the Company’s independent registered public accountant for 2017;
3. Consider and vote on an advisory proposal on the compensation of the Company’s Named Executive Officers, as disclosed in this Proxy Statement;
4. Consider and vote on an advisory proposal on the frequency of future advisory proposals on the compensation of the Company’s Named Executive Officers; and
5. Consider and act upon such other business as may be properly brought before the meeting.

The Board of Directors of Kemper has fixed March 9, 2017 as the record date (“Record Date”) for determining shareholders entitled to receive this notice and to vote at the 2017 Annual Meeting or any adjournments or postponements of the meeting. Only shareholders of record at the close of business on the Record Date will be entitled to notice of, and to vote at, the Annual Meeting. A list of registered shareholders as of the close of business on March 9, 2017 will be available for inspection at the Annual Meeting and for a period of ten days prior to May 3, 2017 during ordinary business hours at the Company’s executive offices located at One East Wacker Drive, Chicago, Illinois 60601.

By Order of the Board of Directors,

C. Thomas Evans, Jr.
Secretary
Chicago, Illinois
March 24, 2017

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held on May 3, 2017: The Company’s 2017 Proxy Statement and 2016 Annual Report to Shareholders are available at proxyvote.com.

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

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Proxy Statement Summary

Proxy Statement Summary

The Kemper Board of Directors (“Board of Directors” or “Board”) is furnishing you with this Proxy Statement to solicit your proxy to be voted at Kemper’s Annual Meeting. This Proxy Statement Summary highlights information contained elsewhere in this Proxy Statement. Please read the entire Proxy Statement carefully before voting.

Annual Meeting of Shareholders

Date: Wednesday, May 3, 2017
 Time: 8:00 a.m. Central Daylight Time
 Location: The Kemper Building
 One East Wacker Drive
 Chicago, Illinois 60601
 Record Date: March 9, 2017

Voting Matters and Board Recommendations

Matter	Board Recommendation	Page Reference
1. Election of Directors;	FOR	<u>10</u>
2. Consider and vote on an advisory proposal on the ratification of independent registered public accountant;	FOR	<u>17</u>
3. Consider and vote on an advisory proposal on the compensation of the Company’s Named Executive Officers, as disclosed in this Proxy Statement; and	FOR	<u>56</u>
4. Consider and vote on an advisory proposal on the frequency of future advisory proposals on the compensation of the Company’s Named Executive Officers.	FOR ONE YEAR FREQUENCY	<u>57</u>

How to Cast Your Vote

The mailing address of our principal executive office is One East Wacker Drive, Chicago, Illinois 60601. We began sending these proxy materials on or about March 24, 2017 to all shareholders entitled to vote at the Annual Meeting. All properly executed proxy cards, and all properly completed proxies submitted by telephone or through the Internet, that are delivered in response to this solicitation will be voted at the Annual Meeting in accordance with the directions given in the proxy, unless the proxy is revoked before the meeting. For more information, please refer to the Frequently Asked Questions section under the heading Voting and Record Date on page 61. The proxies may also be voted at any adjournments or postponements of the Annual Meeting.

Board and Corporate Governance

Board and Corporate Governance

Meetings and Committees of the Board of Directors

There are four principal Board committees : (1) Audit Committee; (2) Compensation Committee; (3) Investment Committee; and (4) Nominating & Corporate Governance (“NCG”) Committee. The Board has adopted written charters for each of the committees. These documents are available on the Company’s website at kemper.com under Governance and/or by mail at no cost upon request to the Company at One East Wacker Drive, Chicago, Illinois 60601, Attention: Investor Relations.

Under the Company’s Corporate Governance Guidelines and Policy on Director Attendance at Annual Meetings, directors are expected to attend the following types of meetings: (1) annual shareholder meetings; (2) Board meetings; and (3) Board committee meetings for the committees on which they serve, unless unavoidable obligations or other circumstances prevent their attendance. Each incumbent director attended at least 83 percent of the 2016 meetings of the Board and Board committees on which he or she served. The non-employee and independent members of the Board meet regularly in executive sessions. In addition, each of the directors who was a member of the Board on the date of the 2016 Annual Meeting attended such meeting.

The following table shows the number of 2016 Board and Board committee meetings held and actions taken by unanimous written consent in lieu of meetings:

	Board	Audit Committee	Compensation Committee	Investment Committee	NCG Committee
Meetings Held	5	5	6	3	5
Actions Taken By Written Consent	—	—	4	—	—

The following table shows the current membership and Chair of the Board and its four principal Board committees:
= Chair = Member

Name	Board	Audit Committee	Compensation Committee	Investment Committee	NCG Committee
George N. Cochran					
Kathleen M. Cronin					
Douglas G. Geoga					
Thomas M. Goldstein					
Lacy M. Johnson					
Robert J. Joyce					
Joseph P. Lacher, Jr.					
Christopher B. Sarofim					
David P. Storch					

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

Audit Committee

The Audit Committee assists the Board in fulfilling its oversight responsibilities with respect to the:

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

Board and Corporate Governance

The Audit Committee is a standing committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (“Exchange Act”). Under its charter, the Audit Committee is responsible for the appointment, compensation, retention and oversight of the Company’s independent registered public accountant, including prior approval of the audit engagement fees and terms. The Audit Committee is also responsible for, among other matters, reviewing and discussing with management the Company’s financial statements and disclosures, internal controls, internal audit function, and major risk exposures and steps taken by management to monitor and control such exposures, including its enterprise risk management (“ERM”) structure and program.

The Board has determined that each member of the Audit Committee is independent and financially literate in accordance with the New York Stock Exchange (“NYSE”) Listed Company Manual (“NYSE Listing Standards”) and meets the independence requirements for audit committee membership under the rules of the Securities and Exchange Commission (“SEC”). In addition, the Board has determined that Messrs. Cochran and Joyce, the Audit Committee’s current and former chairs, are qualified as audit committee financial experts under the SEC rules.

Compensation Committee

The Compensation Committee assists the Board in fulfilling its responsibilities relating to:

reviewing and approving corporate goals and objectives relevant to the compensation of the Company’s Chief Executive Officer (“CEO”) and evaluating the CEO’s performance and compensation in light of such goals and objectives;

overseeing the compensation of the Company’s executive officers and other members of senior management as may be designated by the committee from time to time;

reviewing and approving the Company’s incentive compensation and equity-based compensation plans;

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

reviewing and making recommendations to the Board on non-employee director compensation.

The Board of Directors has determined that each member of the Compensation Committee is independent in accordance with the NYSE Listing Standards. Additional information about the Compensation Committee’s governance is provided below in the section entitled Executive Compensation beginning on page 18.

Investment Committee

The Investment Committee oversees the Company’s investment objectives and policies and reviews the performance of the Company’s investment portfolio on a consolidated basis. The Investment Committee is also responsible for reviewing and approving the policies and objectives for the Company’s investment activities that are established and maintained by the Company’s Chief Investment Officer.

NCG Committee

The NCG Committee assists the Board in fulfilling its responsibilities with respect to:

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

developing and assessing principles and guidelines for corporate governance, executive succession, business conduct and ethics;

leading the Board in its annual review of the performance of the Board and Board committees; and

recommending to the Board director nominees, chairs for each Board committee and a Board member to serve as Chair.

The Board has determined that each member of the NCG Committee is independent in accordance with the NYSE Listing Standards.

Board and Corporate Governance

Corporate Governance

The Corporate Governance Guidelines, Code of Business Conduct and Ethics, charters for Board committees and other corporate governance information can be found on the Company's website at kemper.com under Governance. Copies of these documents may also be obtained free of charge by request to the Company at One East Wacker Drive, Chicago, Illinois 60601, Attention: Investor Relations.

Selection of Board Nominees

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

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

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

- The highest ethical standards and integrity;
- Willingness and ability to devote sufficient time to the work of the Board;
- Willingness and ability to represent the interests of shareholders as a whole rather than those of special interest groups;
- No conflicts of interest that would interfere with performance as a director;
- A reputation for working constructively with others;
- A history of achievement at a high level in business or the professions that reflects superior standards; and
- Qualities that contribute to the Board's diversity.

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

Related Person Transactions

The Board has adopted a written policy ("Policy on Related Person Transactions") for review, approval and ratification of transactions involving the Company and "related persons" (directors, executive officers, shareholders owning 5 percent or more of Kemper common stock ("Common Stock"), or immediate family members of any of the foregoing). The Policy on Related Person Transactions covers any related person transaction unless it involves: (a) a transaction generally available to all employees of the Company; (b) less than \$120,000 in the aggregate; or (c) a relationship as an insurance policyholder entered and maintained in the ordinary course of business of a subsidiary of the Company on terms no more favorable to

Board and Corporate Governance

the related person than those applicable to non-affiliated third parties or those generally available to employees of the Company. Covered related person transactions must be approved or ratified by the NCG Committee. In addition, approval under the Policy on Related Person Transactions is required before the Company can make charitable contributions exceeding \$120,000 in the aggregate in any fiscal year to a charitable organization for which a related person serves as an executive officer, director, trustee or in a similar capacity.

Upon learning of a proposed or existing related person transaction requiring review under the Policy on Related Person Transactions, management is required to submit the matter for consideration to the NCG Committee, which will review the transaction and make a determination as to whether it is consistent with the best interests of the Company and its shareholders. In its review, the NCG Committee considers the facts and circumstances it deems significant and relevant to the particular transaction, including such factors as the related person's relationship to the Company and interest in the transaction, the value of the transaction and any reasonable alternatives, and the potential impact of the transaction on the Company, the related person and other applicable parties. No director who is on the NCG Committee will participate in the review or approval under the Policy on Related Person Transactions of a transaction involving such director or a member of his or her immediate family.

In accordance with the Policy on Related Person Transactions, the NCG Committee has reviewed certain transactions with the Company involving Fayez Sarofim & Co. ("FS&C"), a registered investment advisory firm. Christopher Sarofim is Vice Chairman and a member of the board of directors of FS&C. Faye Sarofim, Chairman of the Board, Chief Executive Officer, a director and the majority shareholder of FS&C, was a member of Kemper's Board until his retirement on May 1, 2013, and is the beneficial owner of more than 5 percent of the Company's stock. Pursuant to an agreement entered into between FS&C and the Company's tax-qualified defined benefit pension plan ("Pension Plan"), FS&C provides investment management services with respect to certain Pension Plan funds. At December 31, 2016, the Pension Plan had \$148.4 million in assets managed by FS&C. Under the agreement, FS&C is entitled to fees calculated and payable quarterly based on the fair market value of the assets under management. During 2016, the Pension Plan incurred investment expenses of \$0.8 million under the agreement. The agreement governing these services may be terminated by either party at any time on 30 days advance written notice. The Company believes that the services described above have been provided on terms no less favorable to the Company than could have been negotiated with non-affiliated third parties.

Director Independence

The Board has adopted categorical standards ("Director Independence Standards") to assist in its determination of director independence as required by Section 303A of the NYSE Listing Standards and applicable SEC rules. The Director Independence Standards are posted under Governance on the Company's website at kemper.com. Under the Director Independence Standards, a director is not independent for purposes of his or her service on the Board or a particular Board committee unless the director and his or her immediate family members meet all independence requirements applicable to such service under the NYSE Listing Standards and SEC rules. The Director Independence Standards incorporate by reference certain relationships listed in the NYSE and SEC independence rules. In addition, the Director Independence Standards define four specific types of relationships as categorically immaterial. Two of these types of relationships involve an organization or entity that either received charitable contributions from the Company or engaged in transactions with the Company, in either case to the extent the annual amounts involved did not exceed \$120,000. The other two types of relationships are: (a) status as an insurance policyholder of a Company subsidiary in the ordinary course of business of the subsidiary on terms no more favorable to the director than those applicable to policies with unaffiliated third parties or those generally available to Company employees; and (b) the receipt by a director of administrative support or retirement compensation for prior service from a former employer of such director that has a business relationship with the Company. The Board believes that these specified types of relationships would not affect or influence the Company's business relationships or create a direct or indirect material interest in the Company's business transactions on the part of a director.

In connection with its annual independence assessment of the individuals recommended by the NCG Committee as nominees for election to the Board at the 2017 Annual Meeting, the Board considered the applicable independence rules and the factual information derived from the questionnaires and affirmations completed by the individual directors and other available information. The Board affirmatively determined that, under the NYSE Listing

Standards, applicable SEC rules and the Director Independence Standards, Ms. Cronin and Messrs. Cochran, Geoga, Goldstein, Johnson, Joyce and

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Board and Corporate Governance

Storch are each independent directors with no material relationships with the Company, and as a result, that a majority of the members of the Board are independent.

Compensation Committee Interlocks and Insider Participation

The Board has determined that each member of the Compensation Committee is independent in accordance with the NYSE Listing Standards. The Compensation Committee consists of Ms. Cronin and Messrs. Geoga, Goldstein, Johnson and Storch. None of these individuals is a current or former officer or employee of the Company or any of its subsidiaries, and none of these individuals had a relationship with the Company during 2016 that required disclosure by the Company under the SEC rules on transactions with related persons. Related person transactions and the independence of the non-employee members of the Company's Board are discussed in more detail under the two preceding headings, Related Person Transactions and Director Independence. No executive officer of the Company has served as a director or member of the compensation committee or other board committee of another entity that had an executive officer who served on the Company's Compensation Committee or Board.

Board Leadership and Role in Risk Oversight

Board's Leadership Structure

The current Board structure includes a Chairman of the Board and four principal board committees. The Audit Committee, Compensation Committee and NCG Committee are comprised entirely of independent directors; the Investment Committee is comprised of two independent directors, another non-employee director and the CEO. The Board has no set policy on whether the offices of Chairman and CEO should be held by the same person and believes the combination or separation of these offices should be determined by the circumstances of the Company and the composition of the Board. Until November 2015, the Chairman and CEO positions were held by the same individual, a structure that served the Company well under its leadership at the time. The Chairman of the Board now serves as the primary liaison between non-employee directors and the CEO, although all non-employee directors are encouraged to communicate freely with the CEO and other members of management at any time. In addition, the Chairman sets agendas for, and presides over, Board meetings and the executive sessions of non-employee directors. The Company believes that its leadership structure is appropriate for the Company given the role of the Chairman and current membership of the Board. In addition to the leadership provided by the Chairman and general oversight of the Company provided by the full Board, all non-employee and independent directors meet regularly in executive session, and significant functions are provided by the key Board committees and the independent outside advisors those committees utilize in their discretion.

Board's Role in Risk Oversight

The Board plays an active role in the oversight of risk assessment and management at various levels of the Board's leadership structure. Board and Board committee meetings provide the directors with regular opportunities to discuss key matters and raise questions with management, auditors and any consultants retained by the Board or its committees. The Board is regularly informed by members of the Company's executive and operational management about a wide range of matters that could pose significant risks to the Company. These include, for example, strategic plans, corporate transactions, and significant operational projects and developments. In addition, Board committees have the opportunity to evaluate areas of potential risk on issues pertinent to their particular functional responsibilities. The Audit Committee has oversight responsibilities pertaining to a number of matters that involve potential risk to the Company, most notably, the Company's financial reporting and internal controls, ERM functions, the internal audit function, matters reported through the Company's Corporate Responsibility Hotline, guidelines and policies regarding financial risk assessment and management, and the performance of the Company's independent auditors. In carrying out these responsibilities, the Audit Committee reviews, for example, the Company's quarterly and annual financial statements and related SEC disclosures and auditor's reports and communications, ERM structure and program, major risk exposures (including risks associated with catastrophe losses) and management assessments and controls, and internal audit plans and significant findings. The Compensation Committee has oversight responsibilities pertaining to the Company's executive

Board and Corporate Governance

compensation and equity-based compensation programs. In carrying out these responsibilities, the Compensation Committee reviews performance goals and metrics under the Company's cash incentive and equity-based compensation plans, compensation risk assessments and levels of ownership of the Company's Common Stock by its executives.

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Director Compensation

Director Compensation

2016 Annual Non-Employee Director Compensation Program

The following table shows the 2016 non-employee director compensation program:

Board/Committee/Position	Annual Chair Retainer(\$)	Annual Non-Chair Retainer(\$)	Meeting Attendance Fee (\$)	Deferred Stock Unit Award (\$)
Board of Directors	130,000	35,000	1,500	75,000 (1)
Audit Committee	27,000	12,000	2,000	(2)—
Compensation Committee	15,000	8,000	—	—
Investment Committee	15,000	10,000	3,000	(2)—
Nominating & Corporate Governance Committee	15,000	5,000	—	—

An annual deferred stock unit (“DSU”) award covering shares of Common Stock with a grant date value of \$75,000 (1) is automatically granted at the conclusion of each Annual Meeting to each non-employee director under the Company’s 2011 Omnibus Equity Plan (“Omnibus Plan”).

(2) Meeting attendance fee is for each Committee meeting attended on a day other than a day when the Board of Directors meets.

The non-employee directors are eligible to defer up to 100 percent of the fees earned for service on the Board and Board committees under the Kemper Corporation Nonqualified Deferred Compensation Plan (“Deferred Compensation Plan”). For more information about the Deferred Compensation Plan, see the narrative discussion in the Executive Officer Compensation and Benefits section on page 49 under the heading Deferred Compensation Plan.

The DSUs granted to non-employee directors give the holder the right to receive one share of Common Stock for each DSU issued and are fully vested on the date of grant. Holders of DSUs are entitled to receive dividend equivalents in cash in the amount and at the time that dividends would have been payable if the DSUs were shares of Common Stock. Conversion of the DSUs into shares of Common Stock is deferred until the date the holder’s service on the Board terminates.

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

Changes Made to Non-Employee Director Compensation for 2017

The Board revised certain components of the annual non-employee director compensation program, effective in the second quarter of 2017, to more closely align the structure and amounts with industry peers. Meeting attendance fees were eliminated. In addition, the grant date value of the equity component was increased to \$110,000, and annual retainers for certain positions were increased to the following amounts: Chairman of the Board - \$155,000; Non-Chair Members - \$60,000; Audit Committee Chair - \$33,000; Audit Committee Members - \$15,000; and NCG Committee Members - \$7,000.

Director Compensation

Director Compensation Table

The following table shows the compensation earned in 2016 based on the annual non-employee director compensation program in effect for 2016. The specific amount of fees earned and awards granted differs for individual directors based on the particular committees on which they sit, the dates they joined or departed from the Board and specific committees, and the variable fee structure for each committee and committee chairs versus non-chair members as shown in the table above on page 8.

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash\$(1)	Deferred Stock Unit Awards\$(2)	All Other Compensation\$(3)	Total(\$)
George N. Cochran	98,500	75,000	2,222	175,722
Kathleen M. Cronin	82,115	75,000	2,222	159,337
Douglas G. Geoga	74,885	75,000	3,182	153,067
Thomas M. Goldstein	34,671	—	—	34,671
Lacy M. Johnson	24,196	—	—	24,196
Robert J. Joyce	164,500	75,000	3,182	242,682
Christopher B. Sarofim	65,000	75,000	3,182	143,182
David P. Storch	64,000	75,000	3,182	142,182

(1) Fees shown were earned for service on the Board and/or Board committees and include any amounts deferred at the election of an individual Board member under the Deferred Compensation Plan. For more information about the Deferred Compensation Plan, see the narrative discussion in the Executive Officer Compensation and Benefits section under the heading Deferred Compensation Plan on page 49.

(2) The amounts shown represent the aggregate grant date fair values of the annual DSU awards granted to the designated directors on May 4, 2016. Messrs. Goldstein and Johnson were not members of the Board until August 2016 and will not receive equity awards until May 2017. The grant date fair values for the annual DSU awards were based on the grant date closing price (\$31.00) per share of Common Stock. For a discussion of valuation assumptions, see Note 10, Long-term Equity-based Compensation, to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K ("Annual Report") for the year ended December 31, 2016.

Additional information about non-employee director DSU awards is provided in the narrative preceding this table. For each non-employee director, the following table shows the total number of outstanding stock option shares and DSUs held as of December 31, 2016:

Name	Outstanding Option Shares as of 12/31/16(#)	Outstanding Deferred Stock Units as of 12/31/16(#)
George N. Cochran	9,179	2,920
Kathleen M. Cronin	8,000	2,920
Douglas G. Geoga	37,965	3,920
Thomas M. Goldstein	—	—
Lacy M. Johnson	—	—
Robert J. Joyce	17,179	3,920
Christopher B. Sarofim	16,000	3,920
David P. Storch	29,179	3,920

(3) The amounts shown represent the amounts paid as dividend equivalents in connection with outstanding DSUs.

Proposal 1

Proposal 1: Election of Directors

Overview

Shareholders are being asked to elect nine directors. Directors serve for a term of one year or until the election of their successors, or as otherwise provided under the Bylaws. If any of the director nominees for election to the Board at the Annual Meeting (“Nominees”) named below declines or is unable to serve as a director (which is not anticipated), the individuals designated as proxies on the proxy card reserve full discretion to vote for any or all other persons who may be nominated. A director Nominee will be elected if the number of votes cast “for” exceeds the number of votes cast “against” his or her election.

Business Experience of Nominees

The NCG Committee considers and recommends candidates for the Board. Each of the individuals selected to serve as a Nominee meets the standards for Board nominees as described above under the heading Selection of Board Nominees on page 4. The NCG Committee and the Board believe that each Nominee has demonstrated significant business achievements, ethical principles and commitment to serve the Company and its shareholders, and that the specific experience, qualifications, attributes and skills of each Nominee add to the collective ability of the Board to perform its duties and discharge its responsibilities with competence, professionalism and expertise.

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

George N. Cochran

Mr. Cochran served as Chairman in the Global Financial Institutions Group at Macquarie Capital until his retirement in December 2014. Previously, he was the Chairman of Fox-Pitt Kelton Cochran Caronia Waller (“FPKCCW”) and a co-founder of its predecessor firm, Cochran Caronia Waller (“CCW”). FPKCCW was acquired by Macquarie Capital in November 2009. Prior to co-founding CCW, Mr. Cochran was an investment banker at Kidder Peabody & Co., where he headed the firm’s Insurance M&A and Financing

Age: 62 Practice. He also served as Managing Director and Insurance Industry Head of Coopers & Lybrand
Director Securities, LLC.

since: Mr. Cochran brings considerable insurance industry expertise to the Board, as well as substantial merger
2015 and acquisition knowledge specific to the industry. His experience in top leadership roles at several investment banking firms provides the Board with additional expertise in the areas of executive development and operational management. In addition, Mr. Cochran is a National Association of Corporate Directors (“NACD”) Governance Fellow and Board Leadership Fellow. He has demonstrated his commitment to boardroom excellence by completing NACD’s comprehensive program of study for directors and corporate governance professionals.

Proposal 1

Kathleen M. Cronin

Ms. Cronin is Senior Managing Director, General Counsel and Corporate Secretary for CME Group Inc. (“CME Group”), the world’s leading and most diverse derivatives marketplace. Before joining CME Group in November 2002, Ms. Cronin was in private practice at the law firm of Skadden, Arps, Slate, Meagher and Flom, where she was employed for more than ten years and focused her practice on corporate, securities offerings and transactional matters. From 1995 to 1997, Ms. Cronin served as Chief Counsel/Corporate Finance for Sara Lee Corporation.

Age: 53
Director since: 2015

Ms. Cronin’s role overseeing audit, compliance, regulatory and risk management functions at CME Group, and her experience in the areas of information security, corporate governance, corporate law and corporate finance, provide the Board with important knowledge and perspective on the challenges of doing business in a highly-regulated industry. Her background in these areas also makes her particularly well-suited to serve on the Audit and NCG Committees.

Douglas G. Geoga

Mr. Geoga is President and Chief Executive Officer of Salt Creek Hospitality, LLC, a privately-held firm engaged in making investments in the hospitality industry and providing related advisory services. Since 2013, Mr. Geoga has also served as the non-executive Chairman of the Board of Directors of Extended Stay America, Inc., the owner/operator of the Extended Stay America® Hotel chain, and ESH Hospitality, Inc., a related real estate investment trust, the common stock of which are traded together as paired shares. From October 2010 until the completion of an initial public offering of these two companies in November 2013, Mr. Geoga served as non-executive Chairman of the owner of the Extended Stay America Hotel chain. From October 2014 until October 2016, Mr. Geoga served as Chairman of Atlantica Investment Holdings Limited, which through affiliated companies is the second largest manager of hotels in Brazil. From October 2012 until September 2015, Mr. Geoga also served as Executive Chairman of Foundations Recovery Network, LLC, an owner and operator of residential and outpatient substance abuse treatment centers. From July 2006 until December 2009, Mr. Geoga’s primary occupation was serving as principal of Geoga Group, LLC, an investment and advisory consulting firm focused primarily on the hospitality industry. Until July 2006, Mr. Geoga served as the President of Global Hyatt Corporation, Hyatt Corporation and AIC Holding Co., which collectively operated the Hyatt chain of hotels throughout the world. From 2000 through 2005, Mr. Geoga served as the President of Hospitality Investment Fund, L.L.C., a privately-held firm which was engaged in making investments in lodging and hospitality companies and projects.

Age: 61
Director since: 2000

Mr. Geoga’s leadership roles at Extended Stay Hotels and Hyatt, both prominent companies in their industry, as well as his extensive experience in private business investment, brings to the Board the perspective of both an operating executive and one who is sophisticated in corporate investments and finance.

Proposal 1

Thomas M. Goldstein

Mr. Goldstein served as Senior Vice President, Chief Financial Officer, Protection Division of Allstate Corporation from April 2011 to June 2014. From 2009 to 2011, he served as a consultant to the financial services industry and pursued community bank acquisitions with The GRG Group LLC. Prior to that, he served as Managing Director and Chief Financial Officer for Madison Dearborn Partners from 2007 to 2009. From 1998 to 2007, Mr. Goldstein served in a number of executive and finance positions for LaSalle Bank Corporation, including Chairman, Chief Executive Officer, and President of ABN AMRO Mortgage Group and as Chief Financial Officer of LaSalle Bank Corporation. Before LaSalle Bank, he held a variety of positions with Morgan Stanley Dean Witter. Mr. Goldstein is also a director of Federal Home Loan Mortgage Corporation (Freddie Mac) and a member of the Board of Trustees of the Columbia Acorn Trust and the Wanger Advisors Trust.

Age: 58
Director
since:
2016

Mr. Goldstein offers extensive experience in the financial services industry to the Board. His prior roles as a chief financial officer and manager of acquisitions provides the Board with additional insight into these critical corporate areas.

Lacy M. Johnson

Mr. Johnson is a partner with the Ice Miller LLP law firm, where he has practiced since January 1993. His primary practice areas focus on public affairs services and he serves as co-chair to the firm's Public Affairs and Gaming Group. Before joining Ice Miller, Mr. Johnson served as Attorney, Government Relations Services, Sagamore-Bainbridge, Inc., Director of Security for the Indiana State Lottery, liaison with the Indiana General Assembly, and Lt. Colonel and deputy superintendent for Support Services for the Indiana State Police. Mr. Johnson is a Democratic National Committeeman and former Lt. Commander of the United States Naval Intelligence Reserves.

Age: 64
Director
since:
2016

Mr. Johnson's background in public affairs and government relations brings unique perspective to the Board. In addition, Mr. Johnson provides the Board with legal acumen gained over his twenty years of legal practice in a private law firm.

Robert J. Joyce

Mr. Joyce has served as Chairman of the Board of Directors of the Company since November 2015. Mr. Joyce served as Chairman and Chief Executive Officer of Westfield Group from July 2003 to January 2011, and as Executive Chair of Westfield's Board from January 2011 until his retirement in March 2012. Westfield Group is privately-held and provides a broad portfolio of insurance and financial services. Mr. Joyce also served as Chairman of Westfield Bank from December 2001 to April 2010. Prior to joining Westfield in 1996, Mr. Joyce held various senior leadership positions with Reliance Insurance Group, and previously worked as a certified public accountant. Mr. Joyce served as a U.S. Navy Captain and is a veteran of Desert Storm and Desert Shield. Mr. Joyce brings substantial leadership experience and insurance industry expertise to the Board. Mr. Joyce also gained valuable acumen and skills for his role as Chairman of the Company's Board through his years of service as Chairman of the Board at Westfield. In addition, Mr. Joyce served on the Board of Governors of the Property Casualty Insurers Association of America and is a past chair of that organization. He also served as a Trustee of the Griffith Insurance Education Foundation and on the Board of the National Association of Independent Insurers.

Age: 68
Director
since:
2012

Proposal 1

Joseph P. Lacher, Jr.

Mr. Lacher has served as President and Chief Executive Officer of the Company since November 2015. Mr. Lacher previously served in other senior executive roles in the insurance industry. From November 2009 to July 2011, Mr. Lacher was President of Allstate Protection, a unit of Allstate Corporation, where he led the company's property and casualty offerings serving more than seventeen million American households. Prior to Allstate, Mr. Lacher spent eighteen years at The Travelers Companies, Inc., most recently serving as Executive Vice President - Personal Insurance from 2002 to 2009 and additionally as Executive Vice President - Select Accounts from 2006 to 2009.

Age: 47
Director
since:
2015

Mr. Lacher's senior executive experience in the insurance industry brings valued expertise and perspective to the Board. In his role as the Company's Chief Executive Officer, he fills a critical role as liaison between the Board and the members of the Company's executive and operational teams. His strong industry background and insights complement the broad business backgrounds and skills of the other members of the Board.

Christopher B. Sarofim

Mr. Sarofim is the Vice Chairman and a member of the Board of Directors of Fayeze Sarofim & Co., a registered investment advisory firm. Mr. Sarofim joined the firm in 1988 and has been a member of its Board since August 2014. He is a member of the firm's Executive, Finance and Investment Committees, and is also the President of the firm's foreign advisory business, Sarofim International Management Company.

Mr. Sarofim shares portfolio management responsibilities for numerous separate accounts advised by the firm, as well as several Dreyfus Corporation mutual funds. Prior to joining Fayeze Sarofim & Co., he was employed with Goldman, Sachs & Co. in corporate finance.

Age: 53
Director
since:
2013

Mr. Sarofim offers the Board extensive experience in the investment world, gained with one of the nation's premier investment advisory firms. With his financial background and investment advisory experience, Mr. Sarofim is particularly well-suited to serve on the Investment Committee and provides the Board financial market and securities analysis expertise, key aspects in the management of the Company's investment portfolio.

David P. Storch

Mr. Storch is currently Chairman of the Board, President and Chief Executive Officer of AAR Corp., a leading provider of aviation services to the worldwide commercial aerospace and government/defense industries. Mr. Storch has served as AAR's Chairman of the Board and Chief Executive Officer since October 2005, and additionally as President since July 2015. He previously served various terms as AAR's President, Chief Executive Officer and Chief Operating Officer between 1989 and 2007. Mr. Storch is also a director of KapStone Paper and Packaging Corporation, a leading North American producer of unbleached kraft paper and corrugated packaging products. Mr. Storch served as Lead Director of the Company's Board from August 2012 to November 2015.

Age: 64
Director
since:
2010

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

Proposal 1

Required Vote

Under the Company's Bylaws, if a quorum is present, each Nominee will be elected by the affirmative vote of a majority of the votes cast, meaning that the number of shares voted "FOR" a Nominee exceeds the number of shares voted "AGAINST" such Nominee. "Abstentions" and "broker non-votes" are not considered votes cast "FOR" or "AGAINST" the foregoing purpose, and will have no effect on the election of Nominees. If a Nominee who is an incumbent director receives a greater number of votes "AGAINST" his or her election than votes "FOR" such election, the Company's Bylaws require that such director must promptly tender his or her resignation to the Board following certification of the vote.

Recommendation of the Board of Directors

The Board of Directors recommends that you vote "For" the Election of all Nominees for Director in Proposal 1.

Audit Matters

Audit Matters

Audit Committee Report

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

In this context, the Audit Committee has reviewed and discussed the Company's audited financial statements and the effectiveness of the Company's internal control over financial reporting with management and Deloitte & Touche LLP ("Deloitte & Touche"), the Company's independent registered public accountant for the fiscal year ended December 31, 2016. The Audit Committee has also discussed with Deloitte & Touche, the matters required to be discussed by Public Company Accounting Oversight Board ("PCAOB") Auditing Standard No. 16, Communications with Audit Committees. The Audit Committee has received from, and discussed with, Deloitte & Touche its written disclosures and letter regarding its independence required by applicable requirements of the PCAOB regarding the independent registered public accountant's communications with the Audit Committee regarding independence and has discussed with Deloitte & Touche its independence.

In reliance on these reviews and discussions, and the report of Deloitte & Touche as the Company's independent registered public accountant, the Audit Committee recommended to the Board that the Company's audited financial statements for the year ended December 31, 2016 be included in the Company's Annual Report on Form 10-K for that year for filing with the SEC.

Audit Committee of the Board of Directors of Kemper Corporation

George N. Cochran, Chair
Kathleen M. Cronin
Douglas G. Geoga
Thomas M. Goldstein
Robert J. Joyce

Audit Matters

Independent Registered Public Accountant

Independent Registered Public Accountant Fees for 2016 and 2015

Deloitte & Touche, a registered public accountant with the PCAOB, served as the Company's independent registered public accountant for and during the years ended December 31, 2016 and 2015. The following table provides information regarding the fees for professional services provided by Deloitte & Touche for 2016 and 2015:

Fee Type	2016	2015
Audit Fees	\$3,997,234	\$4,484,132
Audit-Related Fees	40,900	31,900
Tax Fees	—	—
All Other Fees	—	—
Total Fees	\$4,038,134	\$4,516,032

Audit Fees in 2016 and 2015 included fees for: (a) the audit of the Company's annual financial statements and to provide an opinion on the effectiveness of the Company's internal control over financial reporting; (b) the review of the financial statements included in the Company's quarterly reports on Form 10-Q; and (c) other services normally provided by the independent registered public accountant, including services in connection with regulatory filings by the Company and its subsidiaries for the 2016 and 2015 fiscal years. Audit-Related Fees in 2016 and 2015 relate to fees for the audit of one of the Company's employee benefit plans.

Pre-Approval of Services by Independent Registered Public Accountant

Under its charter, the Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the Company's independent registered public accountant, including the pre-approval of audit engagements and all permitted non-audit engagements of the independent registered public accountant. Pre-approval of non-audit services may be delegated to the Chair of the Audit Committee. All services provided to the Company by Deloitte & Touche in 2016 and 2015 were pre-approved by the Audit Committee.

Proposal 2

Proposal 2: Advisory Vote to Ratify Selection of the Independent Registered Public Accountant

Overview

The Audit Committee considered the performance and qualifications of Deloitte & Touche and has reappointed Deloitte & Touche to serve as the Company's independent registered public accountant for the fiscal year 2017, and the Board is asking shareholders to ratify that selection. Under applicable laws, rules and regulations, the Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the Company's independent registered public accountant. The Board believes that shareholder ratification of the appointment of the independent registered public accountant, while not legally required, represents good governance practice in light of the significance of the independent registered public accountant's role in the process of ensuring the integrity of the Company's financial statements.

The vote is advisory, which means that the vote is not binding on the Company, the Board or the Audit Committee. The affirmative vote of a majority of the votes cast with respect to the proposal is required to ratify the selection of Deloitte & Touche as the Company's independent registered public accountant for the 2017 fiscal year. In the event that the appointment is not ratified, the Audit Committee will consider whether the appointment of a different independent registered public accountant would better serve the interests of the Company and its shareholders. Despite shareholder ratification, the Audit Committee may appoint a new independent registered public accountant at any time if it determines in its sole discretion that such appointment is appropriate and in the best interests of the Company and its shareholders.

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

Required Vote

If a quorum is present, the selection of Deloitte and Touche as the Company's independent registered public accountant for 2017 will be ratified by the affirmative vote of the majority of votes cast, meaning that the number of shares voted "FOR" the proposal exceeds the number of shares voted "AGAINST" the proposal. "Abstentions" and "broker non-votes" are not considered votes cast "FOR" or "AGAINST" the proposal and will have no effect on the proposal.

Recommendation of the Board of Directors

The Board of Directors recommends that you vote "For" Proposal 2.

Executive Compensation

Executive Compensation

Executive Officers

The following narratives summarize the business experience over at least the last five years of the Company's current executive officers, other than Mr. Lacher, whose business experience was described above in the Business Experience of Nominees section on page 13. The positions described below as being with the Company may have been held with Kemper or one or more of its subsidiaries. The executive officers serve at the pleasure of the Board.

John M. Boschelli, Senior Vice President and Chief Investment Officer, 48

Mr. Boschelli assumed his current position with the Company in May 2015. Mr. Boschelli served as Vice President and Chief Investment Officer of the Company from May 2009 to May 2015. Mr. Boschelli served as the Company's Treasurer from February 2002 to May 2009, as Assistant Treasurer from December 1999 to February 2002 and in various other positions from December 1997 to April 1999.

Charles T. Brooks, Senior Vice President, Operations & Systems, 50

Mr. Brooks joined the Company in May 2016 as Senior Vice President & Chief Information Officer and assumed his current position in March 2017. Prior to joining the Company, Mr. Brooks served as the Global Operations and Technology Officer for ACE Limited (now Chubb), a position he held from August 2011 to December 2015. From February 2009 to August 2011, Mr. Brooks served as Senior Vice President/Head, Member and Plan Sponsor Services for Aetna. Mr. Brooks previously served as Senior Vice President, Operations and Chief Information Officer, Personal Lines for Travelers from December 2003 to February 2009 and as Partner, Financial Services - Insurance Practice at Accenture from June 1998 to December 2003.

George "Chip" D. Dufala, Jr., Senior Vice President and President, Property & Casualty Division, 45

Mr. Dufala joined the Company in July 2016. Prior to joining the Company, Mr. Dufala served as Executive Vice President, Services at Erie Insurance Group, a position he held from September 2010 to July 2016. Mr. Dufala previously served as a Senior Vice President and held various other management positions during his tenure with Erie Insurance Group that began in 1993.

Mark A. Green, Senior Vice President and President, Life & Health Division, 49

Mr. Green joined the Company in May 2016. Prior to joining the Company, Mr. Green held various executive positions with Allstate Corporation, from March 2009 to May 2016, and most recently served as President-Encompass Insurance Company from August 2015 to May 2016. During his tenure with Allstate, he also served as President-Allstate Dealer Services, President-Ivantage and Senior Vice President-Allstate Financial. Prior to Allstate, Mr. Green served as Chief Risk Officer/Executive Vice President with AIX Group from July 2005 to March 2009. He previously served as Vice President-Wells Fargo Insurance Services from July 2003 to July 2005, Vice President of Chubb Financial Solutions from July 2002 to July 2003 and served in various management roles at Swiss Re from July 1995 to July 2002.

C. Thomas Evans, Jr., Senior Vice President, Secretary and General Counsel, 58

C. Thomas Evans, Jr., assumed his current position with the Company in May 2016. Mr. Evans served as the Company's Vice President, General Counsel and Secretary from May 2015 to May 2016 and as Secretary and Associate General Counsel from May 2011 to May 2015. Mr. Evans served as the Company's Assistant General Counsel from May 2002 to May 2011 and as Counsel from April 1992 to May 2002. Before joining the Company in 1992, Mr. Evans was in private practice with the law firm of Winston & Strawn, where his practice focused on commercial litigation.

James J. McKinney, Senior Vice President and Chief Financial Officer, 37

Mr. McKinney joined the Company in November 2016. Prior to joining the Company, Mr. McKinney served as Executive Vice President, Chief Financial Officer for Banc of California from November 2015 to November 2016 and as Executive Vice President, Chief Accounting Officer from September 2015 to November 2015. From November 2012 to July 2015, Mr. McKinney held senior executive positions with International Lease Finance Corporation, a unit of AerCap Holdings N.V.,

Executive Compensation

where he served most recently as Vice President, Controller and previously as Vice President, Principal Accounting Officer and Global Corporate Controller. Mr. McKinney previously held several senior financial positions with RBS Citizens Asset Finance from June 2004 to November 2012, most recently as Vice President, Head of Balance Sheet Management, Operations & Strategy.

Christine F. Mullins, Senior Vice President and Chief Human Resources Officer, 58

Ms. Mullins joined the Company in November 2016. Prior to joining the Company, Ms. Mullins served as a Partner at CEO.works from January 2015 to October 2016. From April 2008 to December 2014, Ms. Mullins served in a number of executive human resource positions at Zurich Insurance Group, most recently as Head of HR Strategy and Global Services from November 2012 to December 2014. She previously served as Human Resource Chief Operating Officer and Director of Human Resources Transformation for Zurich from June 2011 to November 2012. Prior to joining Zurich, Ms. Mullins held various executive and management positions with Motorola, Inc. from 1979 to 2008.

Richard Roeske, Vice President and Chief Accounting Officer, 56

Mr. Roeske assumed his current position with the Company in January 2001 and has served as the Company's Chief Accounting Officer since August 1999. Additionally, for portions of 2010 and 2016, Mr. Roeske served as the Company's Interim Chief Financial Officer. Mr. Roeske also held various accounting positions within the Company from January 1990 to August 1999.

Discussion of Compensation Committee Governance

Compensation Committee Authority and Delegation

The scope and authority of the Compensation Committee is described in the Corporate Governance section above and is set forth in the committee's charter, which is posted under Governance on the Company's website at kemper.com. The Compensation Committee has authority to retain outside compensation, legal, accounting or other advisors to assist the committee in its evaluation of executive compensation, and to approve the fees and other terms of retention of such advisors. Under the terms of its charter, the Compensation Committee may delegate to subcommittees such power and authority as it deems appropriate, except where delegation is inconsistent with applicable legal requirements. However, the Compensation Committee does not presently have any subcommittees and no such delegations have been made.

The Compensation Committee has delegated authority to the Company's CEO to grant a limited number of awards under the Omnibus Plan, designate the recipients of such awards, and determine the size, terms and conditions of such awards. The delegated authority covers only new hire, promotional and retention awards to employees other than the Company's officers who are required to file reports of their beneficial ownership of shares of Common Stock under Section 16 of the Exchange Act. The delegated authority has been used sparingly and is regularly monitored by the Compensation Committee; more information about this authority and awards thereunder is included below under the heading Delegated Authority in the Compensation Discussion and Analysis section ("CD&A") on page 36.

Compensation Committee Process Overview

The Compensation Committee performs an annual review of the Company's executive compensation policies, practices and programs, and of the compensation paid to the Company's executive officers and directors. Annual reviews have historically started at the Compensation Committee meeting held in the last quarter of each year, with compensation determinations for the Company's executive officers approved at its first quarter meeting of the following year. At or prior to its first quarter meeting, the Compensation Committee makes decisions on:

- annual compensation of the Company's executive officers;

Executive Compensation

determination of the amounts of any annual cash incentives payable for the prior year, including validation of performance results for determining any payouts under performance-based cash and equity-based compensation awards granted in prior years;

any changes to the Company's executive compensation plans and programs;

determinations as to the current-year base salary and equity-based compensation awards; and

selection and weighting of specific performance criteria applicable to current-year annual cash incentive awards.

Also at its first quarter meeting each year, the Compensation Committee generally approves recommendations to the Board for any changes to the non-employee director compensation program.

The Role of Compensation Consultants

The Compensation Committee has engaged the services of independent compensation consultants in connection with its annual executive compensation review and for such additional services as it has deemed necessary from time to time. The Compensation Committee engaged Exequity LLP ("Exequity") as its independent compensation consultant for its deliberations on 2016 executive officer and non-employee director compensation, as well as its determinations related to incentive awards payable to the executive officers for 2015 performance. The Compensation Committee directed Exequity to provide the committee with benchmarking data based on comparable companies in the insurance industry for certain executive officer positions, data and practices with respect to non-employee director compensation, and advice on current trends and developments related to executive compensation matters in the context of annual shareholder meetings and proxy disclosures. The involvement of Exequity in the 2016 executive compensation decision-making process is described in more detail below in the discussion under the heading Benchmarking Analysis in the CD&A.

In August 2016, the Compensation Committee retained Pay Governance LLC ("Pay Governance") as its new independent compensation consultant in connection with 2017 executive officer and director compensation.

Accordingly, Pay Governance provided the committee with benchmarking data for its reference in making decisions on 2017 executive officer and non-employee director compensation, as well as guidance related to the committee's determinations of incentive awards payable to the executive officers for 2016 performance.

Before retaining Exequity and Pay Governance as its consultants, the Compensation Committee considered each firm's independence and concluded that no factors existed with either firm that presented any independence issues or conflicts of interest under applicable rules of the NYSE or SEC.

The Role of Executive Officers

The CEO plays an important role in the decision-making process with regard to annual compensation for the other executive officers by providing performance assessments and making compensation recommendations to the Compensation Committee. The CEO provides annual recommendations on:

salary changes;

amount of any annual cash incentives;

amount and components of equity-based compensation awards to the other members of senior management; and

specific performance criteria applicable to awards under the Company's cash incentive and equity-based compensation programs.

Executive Compensation

The Compensation Committee considers these recommendations and meets with the CEO to discuss their rationale and strategy. The Compensation Committee views its role with regard to the compensation of the other executive officers as collaborative, giving due consideration to the CEO's knowledge and judgment in making compensation recommendations.

Historically, the Chief Financial Officer has also been involved in the annual compensation decision-making process for any executive officer who reports directly to him by providing performance assessments and making compensation recommendations to the CEO for consideration by the Compensation Committee. Additionally, at the request of the Compensation Committee, the Company's management provides data to the committee's compensation consultant about the Company's cash and equity-based compensation programs, employee benefit and retirement plans and the compensation and stock holdings of the Company's executive officers.

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

Compensation Discussion and Analysis

Executive Summary

Background

In November 2015, the Board of Directors hired Mr. Lacher as the Company's President and CEO with a mandate to assess the Company's business and strategy to position the Company for long-term success, improve the financial performance of the Company and drive cultural changes necessary to accomplish these objectives. Over the course of 2016, working collaboratively with the Board, Mr. Lacher assessed the capabilities of the senior management team in light of his mandate, resulting in the following changes that are reflected in this CD&A and the accompanying tables:

- The recruitment of a number of new senior executives from outside of the Company, along with the exiting of several senior Kemper executives; and

- The retention of several long-term Kemper executives as part of the new management team.

In addition, the Compensation Committee and the new management team undertook a re-evaluation of the executive incentive programs in place at Kemper to ensure the programs supported the necessary cultural change within the Company and also incentivized improved Company performance. The new incentive programs have the following major characteristics:

The annual performance-based cash incentive program ("Annual Incentive Program") for 2016 provides annual cash awards to participants based on achievements of a number of key financial metrics, both corporate and business unit focused, with significant awards for high achievement and low or no awards for lower or under achievement of goals and objectives. The Annual Incentive Program compares with prior-year plans as follows:

The Annual Incentive Program has a higher allocation of incentive compensation to the highest performing and most impactful participants than in prior years.

The performance incentive program in place in prior years relied on a formulaic determination of performance and provided payouts across a narrower range than the Annual Incentive Program, with less differentiation between high and low performers.

The Annual Incentive Program and similar incentive programs the Company intends to use in 2017 and beyond will convey the level of performance expectations in those years and set a cultural tone for performance intended to

motivate improved Company performance.

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Executive Compensation

The multi-year cash incentive program in place in prior years was eliminated, with the funds used to provide additional resources for annual cash incentives while controlling total compensation expenses.

The 2016 equity-based compensation program was revised from past years, and while continuing to be entirely performance-based, is focused on key objectives as follows:

Performance-based restricted stock units (“RSUs”) are used to motivate achievement measured by:

Kemper’s relative total shareholder return versus a peer group of insurance companies over a three-year performance period (“Relative TSR”), an important measure for shareholders; and

Adjusted return on equity (“ROE”) achievement, also over a three-year performance period (“Three-Year Adjusted ROE”), which will be a key measure of the overall success of efforts to improve Kemper’s financial performance.

Stock options continue to be used to motivate the achievement of absolute gains in share price, thereby aligning interests of employees with shareholders.

Each of the current incentive programs is discussed in more detail in this CD&A, along with legacy programs granted in past years. Any earnings under cash incentive awards granted prior to 2016 will be determined by the end of 2017 and paid out in early 2018.

2016 Executive Pay Decisions

As discussed below, 2016 represented a transitional year in terms of significant executive personnel changes, various management actions to resolve outstanding legacy issues, and investments and other steps intended to result in improved performance in future years. Management and the Compensation Committee gave due consideration to these transitional factors in making incentive compensation decisions with respect to 2016. These transitional factors included the following:

• The executive team changeover, with some executives exiting and others joining the Company:

The executives exiting Kemper received severance pay; and

The incoming executives were provided with compensation designed to attract them to Kemper, including equity-based awards upon joining the Company and, in some cases, cash payments and/or guaranteed incentives for specific timeframes.

• Partial work years for the newly-recruited executives.

• Recognition that 2016 was a year of transition in which certain actions were taken to address prior-year issues, including the important steps taken toward resolving certain significant legal and regulatory matters confronting the Company’s life insurance business.

• Outstanding multi-year cash incentive awards held by continuing executives, which were determined in accordance with formulas established prior to the Company’s change in leadership.

Recent Executive Officer Changes

As noted above, there were significant changes to the executive management team in 2016 as the Company hired the following individuals to lead the Company’s two business segments and to run the Company’s information technology, human resources and financial operations:

Charles Brooks joined in May 2016 as Senior Vice President & Chief Information Officer;

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Executive Compensation

Mark Green joined in May 2016 as President of the Company's Life & Health Division;

Chip Dufala joined in July 2016 as President of the Company's Property & Casualty Division;

Christine Mullins joined in October 2016 as Senior Vice President & Chief Human Resources Officer; and

James McKinney joined in November 2016 as Senior Vice President & Chief Financial Officer.

In addition to performing his duties as Chief Accounting Officer, Richard Roeske served as Interim Chief Financial Officer for the Company starting in September 2016 in place of Frank Sodaro and ending when Mr. McKinney joined the Company in November.

Executive Compensation Program Features

Important features of the executive compensation program and related Company policies continue to include:

Incentive plans with significant at-risk compensation based on a mix of short-term and long-term goals:

Performance-based cash incentives;

Equity-based compensation program with stock options and three-year performance-based RSUs;

Grant agreements with executive officers that include:

Clawback clauses for the recoupment or forfeiture of compensation in the event of certain accounting restatements or as otherwise required by applicable law or Company policy;

A double-trigger standard in the event of termination in connection with a change in control;

No excise tax gross-ups; and

Policies prohibiting directors and employees who receive equity-based compensation awards from participating in:

Hedging transactions limiting risks from decreases in the price of the Company's Common Stock; and

Pledging arrangements involving Company securities.

Allocation of Specific Elements of Compensation

The basic objective of the Company's executive compensation program is to attract, retain and motivate the performance of the Company's executives by providing compensation packages that include reasonable and competitive direct compensation structured to reward its executives for increasing shareholder value. The Company's executive officers receive a few perquisites and are eligible to participate in employee health and welfare benefits and retirement plans offered by the Company.

Appropriately calibrated salaries are important in achieving the Company's objective of attracting and retaining superior executive talent. The executives' responsibilities and experience are taken into account in determining their salaries, as is compensation paid by competitors for similar positions, as is the Company's emphasis on performance-based incentive compensation. The Annual Incentive Program furthers the fundamental principle of linking compensation to Company performance and the creation of shareholder value.

Equity-based compensation is considered another key source of contingent compensation intended to further align management incentives with shareholder interests. The Compensation Committee strongly believes that equity-based incentives, including stock options and performance-based RSUs, provide an effective means of motivating shareholder-focused behavior by key executives. In addition, time-based RSUs have been granted to certain executives upon their joining the Company.

Executive Compensation

Compensation Strategy and Analysis

General Strategy

In its deliberations on executive compensation, the Compensation Committee considers cash and equity-based compensation in light of their consistency with the Company's underlying principles and objectives, the total value to individual executives and the cost to the Company. In addition, the committee endeavors to align executive compensation with long-term shareholder interests. Executive compensation decisions incorporate the following approach by the Compensation Committee:

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