** Special update for Kemper retirees & employees **

May 2004

We recognize that Kemper retirees and employees on leaves of absence are understandably concerned about developments at the company in recent months. As a result, we wanted to provide you with an update about the company's current situation.

The financial picture

As you know, late in 2002 and early in 2003 Kemper experienced a series of rating agency downgrades of the company's financial strength. As a result, the company voluntarily embarked on a process called "run off," under which it virtually ceased writing insurance business in 2003. Kemper currently is subject to informal oversight by the Illinois Department of Insurance due to the company's deteriorating financial condition.

As shown in the columns below, Kemper's total assets and surplus declined from year-end 2003 through March 2004. Surplus declined from $212.4 million on Dec. 31, 2003 to $163.8 million on March 31, 2004, a reduction of about $48.6 million. More detailed exhibits of Kemper's 2003 financials are available at **www.kemperinsurance.com** and at **www.kemperretirees.com.**

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COMBINED BALANCE SHEET (LMC & AMM)

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	March 31, 2004	Dec. 31, 2003
Assets		
Cash & invested assets	$ 3,627,122	$ 4,084,397
Other	1,206,169	1,254,798
Total assets	$ 4,833,291	$ 5,339,195
Liabilities		
Loss & LAE reserves	$ 3,573,426	3,871,662
Other	1,096,077	1,255,107
Total liabilities	$ 4,669,503	$ 5,126,769
Surplus	163,788	212,426
Total liabilities & surplus	$ 4,833,291	$ 5,339,195

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While Kemper's surplus on Dec. 31, 2003 was $212.4 million, this was achieved with accounting allowances of more than $1 billion approved by the Illinois Insurance Department. These allowances were in addition to a previous allowance that permitted Kemper to discount its reserves by $487 million. In lieu of these allowances, Kemper's surplus would have been negative by more than $1.4 billion at Dec. 31, 2003.

Given our financial condition, the Illinois Insurance Department could have placed Kemper in a formal insolvency proceeding. While that remains an option that the Department can choose to exercise at any time, we were given the opportunity to file a run-off plan with the Department under which the company would operate outside a formal liquidation. We filed the plan on March 19 and expect to receive a decision from the Insurance Department by the end of May. A so-called "commercial run off," even if for only a few years, avoids the costly process of having a statutory liquidator operating the company, facilitates the collection of reinsurance and provides the state guaranty funds with a much needed reprieve. It is clearly the preferred alternative for our policyholders and other Kemper constituents. But to carry out a commercial run off, Kemper must remain liquid and have positive surplus.

Successfully achieving this objective will be difficult. At this time, Kemper has little revenue (about $90 million estimated for 2004 and very little thereafter) and the investment income that is being generated is offset by the expenses related to the accounting for the reserve discount. If we do nothing, the current financial trends would render the company formally insolvent in the first few months of 2005. It is through initiatives such as a policy buyback effort and aggressive expense reductions that we intend to remain solvent. The run-off plan we have filed with the state projects the company will create approximately $200 million in surplus through our various initiatives and will reduce operating expenses by another $30 million. If successful, Kemper is projected to have a nominal amount of surplus and liquidity remaining as of Dec. 31, 2006. While we are considering several creative strategies for beyond 2006, at this point it is impossible to project where the company might go if it manages to remain in a commercial run off through 2006.

The specific areas of concern affecting retirees are the retirement plan benefits and retiree health and life benefits. Below is a summary of the status of each area and a discussion of how the benefits would be handled in different scenarios. While it is our objective to be successful in executing the run-off plan, there are many difficult decisions to make and little or no margin for error. Retirees and others need to be aware of the potential impacts of an insolvency on Kemper's benefit programs.

Retirement plan

As of Dec. 31, 2003, the retirement plan had approximately $530 million of assets. The estimated liability for all benefits using a 6.55 percent interest rate is $741 million, meaning that the plan is underfunded by $211 million. It is important to realize that because of the long-term nature of the retirement plan liabilities a small change in the interest rate assumption can dramatically ease the amount of the underfunding. For example, if the interest rate assumption is changed to 8.5 percent, the underfunding becomes only $59 million.

The run-off plan contemplates the company making a total of $111 million in contributions through Dec. 31, 2006. As with many aspects of the run-off plan, making the projected contributions will be challenging. In 2005 and 2006, the total contribution to the retirement plan represents in excess of 50 percent of the company's total operating expense. Our success in executing the initiatives in the run-off plan has a direct bearing on our ability to make the required fundings to the retirement plan.

Your retirement benefits are insured through the Pension Benefit Guaranty Corporation (PBGC). In the event Kemper determines that it is unable to make the required fundings into the retirement plan, or is placed into formal receivership, the PBGC would assume control of the plan. There are limits to the amount of each individual benefit the PBGC will insure. The guaranteed benefit for 2004 is $44,386 annually as an age 65 life annuity. This limit is adjusted using actuarial factors if you are receiving benefits and are under age 65 or elected a joint and survivor or other payment election other than a life annuity.

For most, but not all, of the retirement plan participants, their current monthly benefit is less than the maximum amount the PBGC will pay, so their monthly retirement plan benefit will not change. At this time, we do not have a precise calculation by participant of the potential impact of a PBGC takeover of the retirement plan, so please do not contact us seeking that information. If you want additional information, please go to the PBGC website at **www.pbgc.gov.**

For those retirees and employees participating in the Supplemental Retirement Plan (SRP), the run-off plan contemplates those payments being made. Unfortunately, the supplemental benefit is not insured by the PBGC. In the event of an insolvency of the company, the benefits paid from the SRP will immediately cease. SRP participants would have a claim against the company as a general, unsecured creditor, but would fall below other priorities, such as policyholders and claimants, making it unlikely that the benefits would ever be paid.

Savings and profit sharing plan

If you maintained your account in the Savings and Profit Sharing Plan, it is not "at risk" in the event of an insolvency of the company. The run-off plan contemplates that the company will continue the administration of the 401(k) plan and the investment alternatives for retirees and the approximately 400 remaining active employees expected as of July 1, 2004. If the asset base falls below certain levels, the investment fees charged by the manager and offset against the income earned may increase.

Retiree medical benefits

The run-off plan contemplates that retiree medical coverage will be offered in 2005. The recent passage of the Medicare bill has created new products and additional options which we are currently exploring. The objective is to provide retirees with several options, including a high deductible or catastrophic-type coverage. While a final decision has not been made, it is likely that the company's contribution toward the monthly cost of any form of retiree medical will be nominal in 2005 and beyond under the run-off plan. In insolvency, the statutory liquidator would have the authority and discretion to determine whether the benefit would be continued and the amount, if any, the company would pay toward that coverage.

Life insurance

Unfortunately, with the insurer's latest rating increase, this benefit has become too costly for the company to continue beyond June 30, 2004. As of that date, all life benefits for retirees and individuals on a leave of absence will cease. Information will be provided about replacement alternatives available in the market.

The road ahead

Like you, all of us associated with the Kemper organization are saddened by the present situation. It is difficult to see this once great company approach the brink of insolvency. Yet we remain focused on doing everything we can do to maintain Kemper's long tradition of meeting its obligations to policyholders in a timely and dependable manner.

We will continue to keep you informed about major developments at Kemper. We thank you for your patience and understanding as we work together to meet the challenges facing the organization in the months and years ahead.