

KANSAS CITY LIFE INSURANCE CO

Form 10-Q

August 08, 2005

Edgar Filing: KANSAS CITY LIFE INSURANCE CO - Form 10-Q

United States

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

Quarterly Report Under Section 13 or 15 (d) of the

Securities Exchange Act of 1934

For the Quarter ended June 30, 2005

Commission File No. 2-40764

Kansas City Life Insurance Company

3520 Broadway

Kansas City, Missouri 64111-2565

Phone: (816) 753-7000

IRS Number: 44-0308260

Incorporated in the State of Missouri

The Registrant (1) has filed all reports required to be filed by section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Edgar Filing: KANSAS CITY LIFE INSURANCE CO - Form 10-Q

Yes

No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the most recent date available.

Class
Common Stock, \$1.25 par value

Outstanding July 18, 2005
11,920,819 shares

KANSAS CITY LIFE INSURANCE COMPANY

TABLE OF CONTENTS

Part I. Financial Information.....	3
Item 1. Financial Statements.....	3
Consolidated Balance Sheets.....	3
Consolidated Statements of Income.....	4
Consolidated Statements of Cash Flows.....	5
Notes to Consolidated Financial Statements.....	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	14
Item 3. Quantitative and Qualitative Disclosures About Market Risk.....	29
Item 4. Controls and Procedures.....	30
Part II. Other Information.....	31
Item 1. Legal Proceedings.....	31
Item 5. Other Information.....	32
Item 6. Exhibits.....	34
Signatures.....	35

Part I Financial Information**Item 1. Financial Statements****KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS**

(amounts in thousands, except share data)

	June 30 2005 <u>(Unaudited)</u>	December 31 2004
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 2,976,315	\$ 2,962,114
Equity securities available for sale, at fair value	59,319	63,099
Mortgage loans	461,821	430,632
Real estate	92,266	91,519
Policy loans	105,153	108,546
Short-term investments	18,740	67,980
Other investments	1,669	2,081
Total investments	3,715,283	3,725,971
Cash	13,037	4,147
Accrued investment income	40,571	39,928
Deferred acquisition costs	226,299	229,712
Value of business acquired	91,975	96,853
Reinsurance receivables	161,275	156,839
Property and equipment	30,724	31,595
Other assets	24,620	27,118
Separate account assets	353,195	353,983
Total assets	\$ 4,656,979	\$ 4,666,146
LIABILITIES		
Future policy benefits	\$ 856,967	\$ 859,890
Policyholder account balances	2,296,112	2,299,647
Policy and contract claims	35,097	34,200
Other policyholder funds	95,709	96,853
Notes payable	67,897	92,220
Income taxes	57,461	53,703
Other liabilities	181,949	182,754
Separate account liabilities	353,195	353,983
Total liabilities	3,944,387	3,973,250
STOCKHOLDERS' EQUITY		
Common stock, par value \$1.25 per share		
Authorized 36,000,000 shares,		
issued 18,496,680 shares	23,121	23,121
Additional paid in capital	24,720	24,279
Retained earnings	743,444	733,499
Accumulated other comprehensive income	37,211	26,231
Less treasury stock, at cost (2005 - 6,575,861 shares; 2004 - 6,550,287 shares)	(115,904)	(114,234)
Total stockholders' equity	712,592	692,896
Total liabilities and stockholders' equity	\$ 4,656,979	\$ 4,666,146

See accompanying Notes to Consolidated Financial Statements.

KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(amounts in thousands, except share data)

	Quarter ended June 30		Six Months ended June 30	
	2005	2004	2005	2004
REVENUES				
Insurance revenues:				
Premiums	\$ 46,036	\$ 47,319	\$ 92,461	\$ 94,370
Contract charges	28,135	29,381	56,897	58,530
Reinsurance ceded	(14,090)	(14,342)	(27,699)	(26,860)
Total insurance revenues	60,081	62,358	121,659	126,040
Investment revenues:				
Net investment income	46,861	48,391	95,651	99,118
Realized investment gains (losses)	(378)	724	957	1,527
Other revenues	2,649	1,734	5,216	4,268
Total revenues	109,213	113,207	223,483	230,953
BENEFITS AND EXPENSES				
Policyholder benefits	43,711	45,490	89,435	95,958
Interest credited to policyholder account balances	22,698	23,038	45,908	47,347
Amortization of deferred acquisition costs and value of business acquired	8,640	10,612	19,305	20,460
Operating expenses	22,508	23,872	46,286	49,611
Total benefits and expenses	97,557	103,012	200,934	213,376
Income before income tax expense	11,656	10,195	22,549	17,577
Income tax expense	3,231	2,673	6,164	4,460
NET INCOME	\$ 8,425	\$ 7,522	\$ 16,385	\$ 13,117
Basic and diluted earnings per share:				
Net income	\$ 0.71	\$ 0.63	\$ 1.37	\$ 1.10

See accompanying Notes to Consolidated Financial Statements.

KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(amounts in thousands)

	Six Months ended June 30	
	2005	2004
OPERATING ACTIVITIES		
Net cash provided	\$ 23,287	\$ 38,744
INVESTING ACTIVITIES		
Purchases of investments:		
Fixed maturity securities	(302,895)	(475,685)
Equity securities	(1,433)	(2,077)
Mortgage loans	(64,943)	(26,252)
Real estate	(7,119)	(6,158)
Other investment assets	(383,549)	(398,673)
Sales of investments:		
Fixed maturity securities	89,312	80,424
Equity securities	5,226	2,476
Real estate	5,845	9,356
Other investment assets	436,594	436,985
Maturities and principal paydowns of investments:		
Fixed maturity securities	204,964	247,509
Mortgage loans	34,804	56,507
Net additions to property and equipment	(433)	(712)
Net cash provided (used)	16,373	(76,300)
FINANCING ACTIVITIES		
Proceeds from borrowings	22,264	1,306
Repayment of borrowings	(46,587)	(5,759)
Deposits on policyholder account balances	126,008	139,090
Withdrawals from policyholder account balances	(119,253)	(103,294)
Net transfers to separate accounts	318	(7,805)
Change in other deposits	(5,851)	2,093
Cash dividends to stockholders	(6,439)	(6,545)
Net disposition (acquisition) of treasury stock	(1,230)	139
Net cash provided (used)	(30,770)	19,225
Increase (decrease) in cash	8,890	(18,331)
Cash at beginning of year	4,147	20,029
Cash at end of period	\$ 13,037	\$ 1,698

See accompanying Notes to Consolidated Financial Statements.

Kansas City Life Insurance Company

Notes to Consolidated Financial Statements

(amounts in thousands, except share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited consolidated financial statements, the accompanying notes to these financial statements and Management's Discussion and Analysis of Operations of Kansas City Life Insurance Company include the accounts of the Company and its subsidiaries, principally Sunset Life Insurance Company of America (Sunset Life), and Old American Insurance Company (Old American). On June 30, 2003, the Company acquired all of the issued and outstanding stock of GuideOne Life Insurance Company (GuideOne) from GuideOne Financial Group, Inc. and GuideOne Mutual Company. As of October 1, 2003, GuideOne was merged into Kansas City Life Insurance Company.

The unaudited consolidated financial statements have been prepared in accordance with U. S. generally accepted accounting principles (GAAP) for interim financial reporting and with the instructions to Form 10-Q of Regulation S-X. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements and as such, these unaudited interim financial statements should be read in conjunction with the Company's 2004 Form 10-K and the 2004 Annual Report to Stockholders. Management believes that the disclosures are adequate to make the information presented not misleading, and all normal and recurring adjustments necessary to present fairly the financial position at June 30, 2005 and the results of its operations for all periods presented have been made. The results of operations for any interim period are not necessarily indicative of the Company's operating results for a full year.

Significant intercompany transactions have been eliminated in consolidation and certain reclassifications have been made to the prior year results to conform with the current year's presentation.

Business Changes

On October 25, 2004, the Company entered into a definitive agreement to sell its bank subsidiary, Generations Bank, for \$10.1 million to Generations Bancorp, with an expected gain on the sale of approximately \$1.9 million. This transaction has been approved by the Office of Thrift Supervision and is expected to close in the third quarter of 2005. The bank subsidiary and the results of its operations are not material to the financial statements of the Company and are not disclosed separately.

On December 14, 2004, the Company signed an asset purchase agreement to sell its administrative claims paying services contracts as a defined block of business to The Epoch Group, L. C. for \$0.2 million on January 1, 2005. The administrative claims paying services, marketed as KCL Benefit Solutions, are part of the Group Insurance business segment. One-half of the purchase price was received in February 2005. The other half is due in subsequent years, subject to certain persistency requirements. This block of business and the results of operations are not material to the financial statements of the Company and are not disclosed separately.

Significant Accounting Policies

These significant accounting policies should be read in conjunction with statements and disclosures made in the Company's 2004 Form 10-K as filed with the United States Securities and Exchange Commission.

The preparation of the consolidated financial statements requires management of the Company to make estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period. These estimates are inherently subject to change and actual results could differ from these estimates.

Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Continued)

The Company maintains a diversified securities portfolio. The Company's securities available for sale are carried at fair value in the Company's balance sheet. The Company receives fair values for its securities portfolio from a variety of external sources. Various measures have been taken to manage the portfolio's credit and interest rate risks, as discussed in the Company's 2004 Form 10-K and the 2004 Annual Report to Stockholders. The Company performs a review of its securities' fair values on an ongoing basis to determine changes in the value of the portfolio. Several factors are analyzed in evaluating these securities, including an analysis of the issuing company, its industry, valuation levels and subsequent developments. Based upon these inputs, the Company establishes its securities values in accordance with GAAP.

Deferred acquisition costs (DAC), principally agent commissions and other selling, selection and issue costs, which vary with and are directly related to the production of new business, are capitalized as incurred. These deferred costs are then amortized in proportion to future premium revenues or the expected future profits of the business, depending upon the type of product. Profit expectations are based upon assumptions of future interest spreads, mortality margins, expense margins and policy and premium persistency experience. These assumptions involve judgment and are compared to actual experience on an ongoing basis. If it is determined that the assumptions related to the profit expectations for interest sensitive and variable insurance products should be revised, the impact of the change is reported in the current period's income as an unlocking adjustment.

When a new block of business is acquired, a portion of the purchase price is allocated to a separately identifiable intangible asset, called the value of business acquired (VOBA). VOBA is established as the actuarially determined present value of future gross profits of the business acquired and is amortized in proportion to future premium revenues or the expected future profits, depending on the type of business acquired. Similar to DAC, the assumptions regarding future experience can affect the carrying value of VOBA, including interest spreads, mortality, expense margins and policy and premium persistency experience. Significant changes in these assumptions can impact the carrying balance of VOBA and produce changes that are reflected in the current period's income as an unlocking adjustment.

Premiums for traditional life insurance products are reported as revenue when due. Premiums on accident and health, disability and dental insurance are reported as earned ratably over the contract period in proportion to the amount of insurance protection provided. A reserve is provided for the portion of premiums written which relate to unexpired terms of coverage.

Deposits related to universal life, fixed deferred annuity contracts and investment-type products are credited to policyholder account balances. Revenues from such contracts consist of amounts assessed against policyholder account balances for mortality, policy administration and surrender charges, and are recognized in the period in which the services are provided.

The Company establishes liabilities for amounts payable under insurance policies, including traditional life insurance, annuities and accident and health insurance. Generally, amounts are payable over an extended period of time and the profitability of the products is dependent on the assumptions used in the pricing of the products. Principal assumptions used in pricing policies and in the establishment of liabilities for future policy benefits are mortality, morbidity, expenses, persistency, investment returns and inflation. Differences between actual experience and assumptions used in the pricing of these policies and in the establishment of liabilities may result in variability of net income.

Edgar Filing: KANSAS CITY LIFE INSURANCE CO - Form 10-Q

Policyholder account balances include universal life insurance, fixed deferred annuity contracts and investment-type contracts. The account balances for universal life contracts are equal to cumulative premiums, less contract charges, plus interest credited. The account balances for fixed deferred annuities and investment contracts are equal to the cumulative deposits less any applicable contract charges plus interest credited. The profitability of these products is also dependent on principal assumptions similar to traditional insurance products, and differences between actual experience and pricing assumptions may result in variability of net income.

-7-

Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Continued)

In the normal course of business, the Company cedes risks to other insurers primarily to protect the Company against adverse fluctuations in mortality experience. The Company also assumes risks ceded by other companies. Reinsurance is effected on individual risks and through various pooling arrangements. Business is reinsured primarily through yearly renewable term and coinsurance agreements. Under yearly renewable term insurance, the Company pays annual premiums and the reinsurer reimburses claims paid related to this coverage. Under coinsurance, the reinsurer receives a proportionate share of the premiums less applicable commissions and is liable for a corresponding share of policy benefits. The Company remains contingently liable if the reinsurer should be unable to meet obligations assumed under the reinsurance contract.

Reinsurance receivables includes amounts related to paid benefits and estimated amounts related to unpaid policy and contract claims, future policy benefits and policyholder account balances. The cost of reinsurance is accounted for over the terms of the underlying reinsured policies using assumptions consistent with those used to account for the policies.

New Accounting Pronouncements

In March 2004, the Emerging Issues Task Force reached further consensus on Issue No. 03-1 The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (EITF 03-1). EITF 03-1 provides guidance for determining the meaning of other-than-temporarily impaired and its application to certain debt and equity securities within the scope of Statement of Financial Accounting Standards No. 115 Accounting for Certain Investments in Debt and Equity Securities (SFAS 115) and investments accounted for under the cost method. The guidance requires that investments which have declined in value due to credit concerns or solely due to changes in interest rates must be recorded as other-than-temporarily impaired unless the Corporation can assert and demonstrate its intention to hold the security for a period of time sufficient to allow for a recovery of fair value up to or beyond the cost of the investment, which might mean maturity. This issue also requires disclosures assessing the ability and intent to hold investments in instances in which an investor determines that an investment with a fair value less than cost is not other-than-temporarily impaired.

The guidance in EITF 03-1 was effective for other-than-temporary impairment evaluations made in reporting periods beginning after June 15, 2004. However, the guidance contained in paragraphs 10-20 of this Issue in EITF Abstracts has been delayed by FASB Staff Position (FSP) EITF Issue 03-1-1, The Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, posted on September 30, 2004. At the November 2004 meeting, the FASB staff indicated that the Board is expected to undertake a comprehensive reconsideration of the guidance in EITF 03-1 and that the measurement and recognition guidance in paragraphs 10-20 of that Issue continue to be deferred by FSP EITF Issue 03-1-1. However, other provisions of EITF 03-1, including its disclosure requirements, have not been deferred. The disclosure requirements continue to be effective in annual financial statements for fiscal years ending after December 15, 2003, for investments accounted for under FASB Statements of Financial Accounting Standards 115 and 124. For all other investments within the scope of this Issue, the disclosures continue to be effective in annual financial statements for fiscal years ending after June 15, 2004.

In June 2005, the Financial Accounting Standards Board (FASB) decided not to provide additional guidance on the meaning of other-than-temporary impairment, but directed the staff to issue proposed FSP EITF 03-1-a, Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, as final. The final FSP will supersede EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, and EITF Topic No. D-44, Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value. The final FSP (retitled FSP FAS 115-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments) will replace the guidance set forth in paragraphs 10-18 of Issue 03-1 with references to

Edgar Filing: KANSAS CITY LIFE INSURANCE CO - Form 10-Q

existing other-than-temporary impairment guidance, such as FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, SEC Staff Accounting Bulletin No. 59, Accounting for Noncurrent Marketable Equity Securities, and APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. FSP FAS 115-1 will codify the guidance

-8-

Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Continued)

set forth in EITF Topic D-44 and clarify that an investor should recognize an impairment loss no later than when the impairment is deemed other than temporary, even if a decision to sell has not been made. The FASB decided that FSP FAS 115-1 would be effective for other-than-temporary impairment analysis conducted in periods beginning after September 15, 2005. The FASB directed the staff to proceed to a draft of a final FSP for vote by written ballot.

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004) "Accounting for Stock-Based Compensation" (FAS 123R). This statement requires recognition in the financial statements of the fair-value-based measurement method of stock-based compensation issued to employees. FAS 123R is effective January 1, 2006. Historically the Company has expensed all stock-based compensation using a fair-value-based measurement method. However, the Company is currently evaluating FAS 123R but does not believe this new standard will have a material impact in the financial statements.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154 Accounting Changes and Error Corrections (FAS 154). The Statement replaces APB Opinion No. 20 and FAS 3. FAS 154 requires retrospective application to prior periods financial statements of changes in accounting principle, unless it is impracticable to determine the effects, then other rules apply. FAS 154 is effective January 1, 2006. Currently the Company is not aware of any circumstances that require the application of FAS 154, and thus there is no anticipated impact in the financial statements.

All other Standards and Interpretations of those Standards issued during 2005 did not relate to accounting policies and procedures pertinent to the Company at this time.

Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net income and other comprehensive income (loss). Other comprehensive income (loss) includes the unrealized investment gains or losses on securities available for sale (net of reclassification adjustments for realized investment gains or losses) net of deferred acquisition costs, and the change in the additional minimum pension liability. Other comprehensive income (loss) includes deferred income taxes on these items.

For the second quarter of 2005, comprehensive income was \$41.9 million, which consisted of net income of \$8.4 million and other comprehensive income of \$33.4 million. For the second quarter of 2004, comprehensive loss was \$49.0 million, which consisted of net income of \$7.5 million and other comprehensive loss of \$56.5 million.

For the six months ended 2005, comprehensive income was \$27.4 million, which consisted of net income of \$16.4 million and other comprehensive income of \$11.0 million. For the six months ended 2004, comprehensive loss was \$17.5 million, which consisted of net income of \$13.1 million and other comprehensive loss of \$30.6 million.

Income Per Share

Due to the Company's capital structure and the absence of other potentially dilutive securities, there is no difference between basic and diluted earnings per common share for any of the periods reported. The weighted average number of shares outstanding were 11,925,998 and 11,926,817 for the six months ended 2005 and 2004, respectively.

Income Taxes

The second quarter income tax expense was \$3.2 million or 28% of income before tax for 2005, versus \$2.7 million or 26% of income before tax for the prior year period. The six months ended income tax expense was \$6.2 million or 27% of income before tax for 2005, versus \$4.5 million or 25% of income before tax for the prior year period.

The income tax rate in both years was reduced by tax credits generated from the Company's investments in affordable housing. The effect of the affordable housing credits on the effective tax rate was a benefit of \$0.8

-9-

Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Continued)

million or 7% of income before tax for the second quarter of 2005, and a benefit of \$1.0 million or 10% of income before tax for the second quarter 2004. The effect of the affordable housing credits on the effective tax rate was a benefit of \$1.5 million or 7% of income before tax for the six months ended 2005, and a benefit of \$2.0 million or 11% of income before tax for the six months ended 2004.

2. SEGMENT INFORMATION

Company operations have been classified and summarized into four reportable segments. The segments, while generally classified along Company lines, are based upon distribution method, product portfolio and target market. The Parent Company is divided into two segments. The Kansas City Life Individual Insurance segment consists of sales of variable life and annuities, interest sensitive products and traditional life insurance products through a nationwide sales force of independent general agents. GuideOne is included in the Kansas City Life Individual Insurance segment. The Kansas City Life - Group Insurance segment consists of sales of group life, disability, stop loss and dental products. Also, this segment offered administrative claims paying services, marketed as KCL Benefit Solutions, through year-end 2004. Group Insurance segment products and services are marketed by a nationwide sales force of independent general agents and group brokers, along with third party marketing arrangements. The Sunset Life segment consists of sales of interest sensitive and traditional products through a nationwide sales force of independent general agents. Effective June 30, 2005, the Sunset Life segment will no longer sell new term life insurance and the Sunset Life agents will be encouraged to become licensed to sell Kansas City Life individual insurance and annuity products. The Old American segment sells final expense insurance products nationwide through its general agency system with exclusive territories, using direct response marketing to supply agents with leads.

Separate investment portfolios are maintained for each of the companies. However, investments are allocated to the Group Insurance segment based upon its cash flows. Its investment income is modeled using the year of investment method. Home office functions are fully integrated for the three companies in order to maximize economies of scale. Therefore, operating expenses are allocated to the segments based upon internal cost studies, which are consistent with industry cost methodologies.

Inter-segment revenues are not material. The Company operates solely in the United States and no individual customer accounts for 10% or more of the Company's revenue.

Kansas City Life Insurance Company**Notes to Consolidated Financial Statements (Continued)**

The following schedule provides, in thousands, the financial performance of each of the four reportable operating segments of the Company.

		Kansas City Life		Sunset	Old	Total
		<u>Individual</u>	<u>Group</u>	<u>Life</u>	<u>American</u>	
Insurance revenues:						
Second quarter:	2005	\$ 30,319	\$ 10,028	\$ 3,195	\$ 16,539	\$ 60,081
	2004	31,532	10,597	3,279	16,950	62,358
Six months:	2005	\$ 61,596	\$ 19,932	\$ 6,912	\$ 33,219	\$ 121,659
	2004	63,178	21,621	7,229	34,012	126,040
Net investment income:						
Second quarter:	2005	\$ 36,752	\$ 55	\$ 6,846	\$ 3,208	\$ 46,861
	2004	37,833	69	7,222	3,267	48,391
Six months:	2005	\$ 75,644	\$ 120	\$ 13,489	\$ 6,398	\$ 95,651
	2004	78,238	149	14,186	6,545	99,118
Net income (loss):						
Second quarter:	2005	\$ 6,048	\$ (729)	\$ 1,565	\$ 1,541	\$ 8,425
	2004	4,369	(1,040)	2,562	1,631	7,522
Six months:	2005	\$ 13,050	\$ (1,477)	\$ 2,940	\$ 1,872	\$ 16,385
	2004	8,318	(1,350)	3,912	2,237	13,117

3. PENSIONS AND OTHER POSTRETIREMENT BENEFITS

Components of net periodic benefit cost:

	Pension Benefits		Other Benefits	
	Quarter ended		Quarter ended	
	June 30		June 30	
	2005	2004	2005	2004
Service cost	\$ 610	\$ 587	\$ 87	\$ 189
Interest cost	2,007	1,814	213	351
Expected return on plan assets	(2,046)	(1,620)	(16)	(19)
Amortization of:				
Unrecognized actuarial loss (gain)	790	835	(23)	6
Unrecognized prior service cost	(178)	(162)	-	-
Net periodic benefits cost	\$ 1,183	\$ 1,454	\$ 261	\$ 527

Kansas City Life Insurance Company**Notes to Consolidated Financial Statements (Continued)**

	Pension Benefits		Other Benefits	
	Six Months ended		Six Months ended	
	June 30		June 30	
	2005	2004	2005	2004
Service cost	\$ 1,164	\$ 1,171	\$ 280	\$ 378
Interest cost	3,828	3,618	588	703
Expected return on plan assets	(3,902)	(3,230)	(33)	(38)
Amortization of:				
Unrecognized actuarial loss	1,508	1,665	-	13
Unrecognized prior service cost	(340)	(324)	-	-
Net periodic benefits cost	\$ 2,258	\$ 2,900	\$ 835	\$ 1,056

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act (the Act) was signed into law. The Act includes a federal subsidy to sponsors of retiree health plans that provide a prescription drug benefit that is at least actuarially equivalent to the benefit to be provided under Medicare Part D. As of December 31, 2004, the Company evaluated the provisions of the Act and determined that the benefits provided by the Company's postretirement benefit plans were actuarially equivalent thereto, and estimated the accumulated postretirement benefit obligation (APBO) to incorporate the impact of the Act. As of December 31, 2004, the estimated reduction to the APBO was \$7.1 million, and this change did not have a material impact on the net periodic postretirement benefit cost for the year ended December 31, 2004.

On June 17, 2005, the Company amended the Kansas City Life Insurance Company Employee Benefits Plan and the Kansas City Life Insurance Company Agent and General Agent Health and Dental Plan (the Plans), to eliminate prescription drug coverage as of January 1, 2006. Since prescription drug coverage to retirees will become available under the Act on January 1, 2006, participants of the Plans will be able to obtain coverage under the Medicare Prescription Drug Plan as of this date.

Although a re-measurement of the APBO has not been calculated, it is estimated that the amendment to the Plans resulted in an additional reduction of the APBO of \$11.0 million. It is also estimated that the change from this amendment to the Plans did not have a material impact on the net periodic postretirement benefit cost for the period ended June 30, 2005.

4. COMMITMENTS

In the normal course of business the Company has open purchase and sale commitments. At June 30, 2005, the Company had purchase commitments of \$12.1 million and sales commitments of \$3.2 million. Subsequent to June 30, 2005, the Company entered into purchase commitments of \$0.5 million. Typically, these purchase and sales commitments are for mortgage loans, real estate and affordable housing investments. On July 1, 2005, one of the sale commitments for commercial real estate was settled with net proceeds of \$2.3 million and resulted in a realized gain of \$0.7 million.

5. CONTINGENT LIABILITIES

The life insurance industry, including the Company, has been subject to an increase in litigation in recent years. Such litigation has been pursued on behalf of purported classes of policyholders and other claims and legal actions in jurisdictions where juries often award punitive damages, which are grossly disproportionate to actual damages.

-12-

Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Continued)

Although no assurances can be given and no determinations can be made at this time, management believes that the ultimate liability, if any, with respect to these claims and actions, would have no material effect on the Company's business, results of operations or financial position.

6. GUARANTEES AND INDEMNIFICATIONS

The Company is subject to various indemnification obligations issued in conjunction with certain transactions, primarily assumption reinsurance agreements, stock purchase agreements, mortgage servicing agreements and borrowing agreements whose terms range in duration and often are not explicitly defined. Generally, a maximum obligation is not explicitly stated; therefore, the overall maximum amount of the obligation under the indemnifications cannot be reasonably estimated. While we are unable to estimate with certainty the ultimate legal and financial liability with respect to these indemnifications, we believe the likelihood is remote that material payments would be required under such indemnifications, and therefore such indemnifications would not result in a material adverse effect on our business, financial position or results of operations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement on Forward-Looking Information

This report reviews the Company's financial condition and results of operations, and historical information is presented and discussed. Where appropriate, factors that may affect future financial performance are also identified and discussed. Certain statements made in this report include forward-looking statements that fall within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include any statement that may predict, forecast, indicate or imply future results, performance or achievements rather than historical facts and may contain words like believe, expect, estimate, project, forecast, anticipate, plan, will, shall, and other words, phrases or expressions of similar meaning.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those contemplated by the forward-looking statements. Factors that could cause the Company's future results to differ materially from expected results include, but are not limited to:

Changes in general economic conditions, including the performance of financial markets and interest rates;

Increasing competition, which may affect the Company's ability to sell its products;

Customer and agent response to new products, distribution channels and marketing initiatives;

Fluctuations in experience regarding current mortality, morbidity, persistency and interest rates relative to expected amounts used in pricing the Company's products;

Changes in assumptions related to deferred acquisition costs and the value of business acquired;

Regulatory, accounting or tax changes that may affect the cost of, or the demand for, the Company's products or services;

Unanticipated changes in industry trends and ratings assigned by nationally recognized rating organizations.

The Company cannot give assurances that such statements will prove to be correct. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Consolidated Results of Operations

In the second quarter of 2005, the Company's net income increased \$0.9 million versus the prior year quarter, to a total of \$8.4 million. Net income per share increased to \$0.71 per share versus \$0.63 per share in last year's second quarter. For the first six months of 2005, net income increased \$3.3 million to equal \$16.4 million, and net income per share increased to \$1.37 per share versus \$1.10 per share for the prior year period. This improvement resulted primarily from reduced benefits and expenses, which more than offset declines in revenues. Policyholder benefits decreased, largely due to reduced individual life benefits and group accident and health benefits. Interest credited decreased, resulting from lower crediting rates. Amortization of deferred acquisition costs also decreased due to an unlocking of assumptions in the second quarter of 2005. Finally, operating expenses decreased, primarily due to cost savings resulting from the integration of GuideOne operations into the home office. These reductions in benefits and expenses were partially offset by a decrease in contract charges. Accident and health premiums decreased, primarily from the group dental line. Net investment income declined 3% for both the second quarter and six months due to reduced

investment yields and increased investment expense associated with real estate.

Sales

The Company measures sales in terms of new premiums and deposits. Premiums are included in insurance revenues in the Consolidated Statements of Income, while deposits are shown in the Consolidated Statements of Cash Flows. The first set of tables below reconciles premiums included in insurance revenues and provides detail by new and renewal business. New premiums are also detailed by product. The second set of tables reconciles deposits with the Consolidated Statements of Cash Flows and provides detail by new and renewal deposits. New deposits are also detailed by product.

-14-

Edgar Filing: KANSAS CITY LIFE INSURANCE CO - Form 10-Q

For the second quarter, a 15% increase in immediate annuity premium was partially offset by a 9% decrease in new individual life premium sales. For the six months, new individual life sales declined by 2% while immediate annuity premium sales increased 34%. For the second quarter, new group life premium sales decreased 21% and new group accident and health premiums declined 32%. For the six months, new group life premium sales decreased 15% and new group accident and health premiums declined 34%. The loss of a sizeable group dental case at mid-year 2004 contributed to this decline. Renewal premiums declined 2% for the second quarter and 1% for the six months.

	Quarter ended June 30			
	2005	%	2004	%
New premiums:				
Individual life insurance	\$ 3,172	(9)	\$ 3,488	23
Immediate annuities	3,932	15	3,429	(75)
Group life insurance	311	(21)	394	61
Group accident and health insurance	2,268	(32)	3,351	28
Individual accident and health insurance	-	-	(334)	-
Total new premiums	9,683	(6)	10,328	(46)
Renewal premiums	36,353	(2)	36,991	6
Total premiums	\$ 46,036	(3)	\$ 47,319	(13)

	Six Months ended June 30			
	2005	%	2004	%
New premiums:				
Individual life insurance	\$ 6,054	(2)	\$ 6,196	16
Immediate annuities	8,470	34	6,307	(69)
Group life insurance	687	(15)	811	54
Group accident and health insurance	4,729	(34)	7,171	47
Individual accident and health insurance	-	-	308	-
Total new premiums	19,940	(4)	20,793	(33)
Renewal premiums	72,521	(1)	73,577	4
Total premiums	\$ 92,461	(2)	\$ 94,370	(7)

Total new deposits declined 27% in the second quarter and 26% in the six months. Fixed deferred annuities decreased 27% in the second quarter and 32% in the six months. The Company has focused its distribution efforts on agencies that write a balanced mix of life and annuity products, resulting in a lower volume of deposit sales of fixed deferred annuities. New deposits on variable universal life decreased 54% in the second quarter and 37% in the six months. New deposits on universal life products decreased 24% in the second quarter and 16% in the six months. Renewal deposits were flat in the second quarter and increased 4% in the six months, largely due to increased renewal deposits from fixed deferred annuities and variable annuities. In total, deposits declined 12% in the second quarter and 9% in the six months.

	Quarter ended June 30			
	2005	%	2004	%
New deposits:				
Universal life insurance	\$ 2,504	(24)	\$ 3,306	60
Variable universal life insurance	615	(54)	1,350	117
Fixed deferred annuities	13,346	(27)	18,223	(45)
Variable annuities	6,710	(26)	9,008	17
Total new deposits	23,175	(27)	31,887	(27)
Renewal deposits	39,018	-	38,860	13
Total deposits	\$ 62,193	(12)	\$ 70,747	(9)

	Six Months ended June 30			
	2005	%	2004	%
New deposits:				
Universal life insurance	\$ 4,686	(16)	\$ 5,547	29
Variable universal life insurance	1,248	(37)	1,981	12
Fixed deferred annuities	25,492	(32)	37,605	(40)
Variable annuities	13,899	(14)	16,202	12
Total new deposits	45,325	(26)	61,335	(27)
Renewal deposits	80,683	4	77,755	14
Total deposits	\$ 126,008	(9)	\$ 139,090	(8)

Insurance Revenues

Insurance revenues consist of premiums and contract charges, less reinsurance ceded. Insurance revenues decreased 4% in the second quarter and 3% for the first six months. Increases in immediate annuity premiums were more than offset by a decline in life premiums and accident and health premiums. Immediate annuity premiums increased 14% in the second quarter, while life insurance premiums declined 1%. Life insurance premiums declined 2% in the six months, while immediate annuity premiums increased 35% over last year. The Company made some changes to its immediate annuity product line in 2004, which resulted in lower sales during the year. However, immediate annuity sales have increased in 2005, largely due to an increase in average premium per policy. Accident and health premiums decreased 11% for the second quarter and 12% for the six months. This decline was largely the result of the Company's group accident and health sales, which declined 10% for the second quarter or \$1.0 million and 9% in the six months or \$2.0 million. A major factor in this decline was the loss of a large dental case at mid-year 2004. Consolidated total premiums decreased 3% or \$1.3 million, in the second quarter of 2005 and 2% or \$1.9 million in the first six months.

Contract charges decreased 4% for the second quarter and 3% for the six months. Specifically, contract charges decreased \$1.0 million in the second quarter of 2005 as a result of an unlocking adjustment. Certain contract charges for universal life insurance are not recognized in income immediately but are deferred as unearned revenues and are amortized into income in a manner similar to the amortization of deferred acquisition costs or DAC. These contract charges, which are recorded as unearned revenues, are recognized into income in proportion to the expected future gross profits of the business. In the same manner as DAC, profit expectations are based upon assumptions of future interest spreads, mortality margins, expense margins and policy and premium persistency experience. At least annually, a review is performed of the assumptions related to profit expectations. If it is determined the assumptions should be revised the impact is recorded as a change in the revenue reported in the current period as an unlocking adjustment.

Reinsurance ceded decreased 2% in the second quarter but increased 3% for the six months. The increase for the year was largely due to new and renewal sales on individual life products, and sales on certain group long-term disability and stop loss products where the Company reinsurers 80% or more of its sales.

Insurance revenues are affected by the level of new sales, the type of products sold, and the persistency of policyholders, all of which may be influenced by economic conditions, as well as competitive forces. Consumers continue to desire a broad portfolio of products with safety and competitive return objectives, which the Company strives to provide. The Company's full range of products, including its variable insurance products, allow policyholders to participate in both the equity and fixed income markets; and, interest sensitive and traditional insurance products combine safety of principal with competitive interest returns.

Investment Revenues

Net investment income declined 3% for both the second quarter and six months. The lower investment income was due to reduced investment yields and increased investment expense of \$1.1 million, including \$1.9 million associated with real estate. The overall investment markets continue to be a challenging environment for companies whose primary assets are in fixed maturity securities.

The Company recorded realized investment losses for the second quarter of \$0.4 million versus realized investment gains of \$0.7 million in last year's second quarter. The Company recorded realized investment gains for the six months of \$1.0 million compared to \$1.5 million a year ago. The following table provides detail concerning realized investment gains and losses for the second quarter and six month periods of 2005 and 2004.

	Quarter ended		Six Months ended	
	June 30		June 30	
Realized Investment Gains and Losses	2005	2004	2005	2004
Gross gains resulting from:				
Sales of investment securities	\$ 404	\$ 1,894	\$ 1,298	\$ 4,659
Investment securities called	-	41	804	349
Sales of real estate	281	1,304	291	1,590
Other investment gains	525	-	1,050	-
Total gross gains	1,210	3,239	3,443	6,598
Gross losses resulting from:				
Sales of investment securities	(1,461)	(2,075)	(2,279)	(3,781)
Write-downs of investment securities	-	(555)	-	(555)
Investment securities called	(87)	(94)	(136)	(1,009)
Total gross losses	(1,548)	(2,724)	(2,415)	(5,345)
Amortization of deferred acquisition costs	(40)	209	(71)	274
Realized investment gains (losses)	\$ (378)	\$ 724	\$ 957	\$ 1,527

The Company regularly evaluates the quality of its investment portfolio. Occasionally, in a diversified portfolio, certain investments may suffer market price deterioration due to a wide variety of factors. Distressed securities are placed onto watch lists that are then further analyzed to identify any specific securities that the Company believes may have experienced other than temporary declines in fair value. To the extent that the Company believes these fluctuations represent an other than temporary decline in value, the value of the investment is adjusted by a charge to income as a realized investment loss. The Company's analysis identified no securities with other than temporary impairment in the second quarter of 2005 and for the six months ended 2005.

As of June 30, 2005, the Company had investments with unrealized losses of \$18.2 million on investments with a fair value of \$0.9 billion. As of December 31, 2004, the Company had investments with unrealized losses of \$19.3 million on investments with a fair value of \$1.0 billion.

Policyholder Benefits

Policyholder benefits consist of death benefits (mortality), annuity benefits, accident and health benefits, and surrenders. These benefits are shown net of reinsurance and the corresponding change in the reserve liability for future policy benefits. Policyholder benefits decreased 4% or \$1.8 million in the second quarter and 7% or \$6.5 million in the six months.

-17-

The decline in these benefits largely resulted from declines in death benefits and accident and health benefits. The decline in death benefits reflects favorable mortality experience. Benefits paid on accident and health business declined primarily due to a decline in the group dental product line which was the result of the mid-year 2004 loss of a sizable dental group.

Interest Credited to Policyholder Account Balances

Interest was credited to policyholder account balances for universal life, fixed deferred annuities and other investment-type products. Interest credited to policyholder account balances decreased 1% in the second quarter and 3% in the six months, due to lower crediting rates which were primarily the result of reduced investment yields.

Amortization of Deferred Acquisition Costs (DAC) and Value of Business Acquired (VOBA)

For the second quarter of 2005, the amortization of DAC was \$6.9 million compared with \$8.9 million for 2004. DAC amortization for the six months totaled \$15.9 million versus \$16.8 million in 2004. In the second quarter of 2005, the amortization of DAC decreased by \$2.2 million due to an unlocking adjustment.

For certain life insurance and annuity products, DAC is amortized in proportion to the expected future gross profits of the business. Profit expectations are based upon assumptions of future interest spreads, mortality margins, expense margins and policy and premium persistency experience. At least annually, a review is performed of the assumptions related to profit expectations. If it is determined the assumptions should be revised, the impact of the change is recorded as a change in DAC amortization in the current period due to an unlocking adjustment.

The amortization of VOBA was \$1.7 million in both the second quarter of 2005 and 2004. VOBA amortization for the six months was \$3.4 million in 2005 and \$3.6 million in 2004.

Operating Expenses

Operating expenses consist of commissions and production allowances, the capitalization of commissions and production allowances on certain products, expenses associated with operations, insurance related taxes and other expenses. Operating expenses decreased 6% in the second quarter of 2005 and 7% for the six months. Commissions and production allowances declined \$1.3 million for the second quarter and \$1.6 million for the six months in relation to sales results. These changes were partially offset by a decline in the capitalization of these costs. Expense savings, as expected, are being achieved through the integration of GuideOne Life's operations into the home office which was completed in late 2004. Thus far in 2005, the Company has realized \$1.7 million in reduced expenses associated with the integration of GuideOne operations.

Income Taxes

The second quarter income tax expense was \$3.2 million or 28% of income before tax for 2005, versus \$2.7 million or 26% of income before tax for the prior year period. The six months ended income tax expense was \$6.2 million or 27% of income before tax for 2005, versus \$4.5 million or 25% of income before tax for the prior year period.

The income tax rate in both years was reduced by tax credits generated from the Company's investments in affordable housing. The effect of the affordable housing credits on the effective tax rate was a benefit of \$0.8 million or 7% of income before tax for the second quarter of 2005, and a

Edgar Filing: KANSAS CITY LIFE INSURANCE CO - Form 10-Q

benefit of \$1.0 million or 10% of income before tax for the second quarter of 2004. The effect of the affordable housing credits on the effective tax rate was a benefit of \$1.5 million or 7% of income before tax for the six months ended 2005, and a benefit of \$2.0 million or 11% of income before tax for the six months ended 2004.

Operating Results by Segment

The Company manages its performance through four business segments: the Individual Insurance business of Kansas City Life in the parent company, the Group Insurance operation in the parent company, and its two life insurance subsidiaries: Sunset Life and Old American. The following describes and analyzes the financial performance of each of these four segments. Refer to Note 2 - Segment Information in the Notes to the Consolidated Financial Statements.

-18-

Edgar Filing: KANSAS CITY LIFE INSURANCE CO - Form 10-Q

Kansas City Life Insurance Company Individual Insurance

The following table presents financial data of the Kansas City Life Insurance Company Individual Insurance business segment for the second quarters and first six months of 2005 and 2004 and are reconciled to the financial statements contained herein (in thousands):

	Quarter ended		Six Months ended	
	June 30		June 30	
	2005	2004	2005	2004
Insurance revenues:				
Premiums	\$ 14,160	\$ 14,000	\$ 28,459	\$ 27,696
Contract charges	22,418	23,641	45,668	47,068
Reinsurance ceded	(6,259)	(6,109)	(12,531)	(11,586)
Total insurance revenues	30,319	31,532	61,596	63,178
Investment revenues:				
Net investment income	36,752	37,833	75,644	78,238
Realized investment gains (losses)	(248)	565	669	1,333
Other revenues	2,504	1,081	4,770	2,510
Total revenues	69,327	71,011	142,679	145,259
Policyholder benefits	25,635	25,858	50,218	54,966
Interest credited to policyholder account balances	18,531	18,972	37,672	39,043
Amortization of deferred acquisition costs and value of business acquired	4,490	5,795	10,025	10,599
Operating expenses	12,550	14,600	27,101	29,879
Total benefits and expenses	61,206	65,225	125,016	134,487
Income before income tax expense	8,121	5,786	17,663	10,772
Income tax expense	2,073	1,417	4,613	2,454
Net income	\$ 6,048	\$ 4,369	\$ 13,050	\$ 8,318

Premium information is provided in the table below.

	Quarter ended June 30			
	2005	%	2004	%
New premiums:				
Individual life insurance	\$ 1,283	(12)	\$ 1,460	82
Immediate annuities	3,859	13	3,429	(75)
Individual accident and health insurance	-	-	(334)	-
Total new premiums	5,142	13	4,555	(68)
Renewal premiums	9,018	(5)	9,445	47
Total premiums	\$ 14,160	1	\$ 14,000	(33)

Edgar Filing: KANSAS CITY LIFE INSURANCE CO - Form 10-Q

	Six Months ended June 30			
	2005	<u>%</u>	2004	<u>%</u>
New premiums:				
Individual life insurance	\$ 2,636	4	\$ 2,525	46
Immediate annuities	8,294	33	6,245	(69)
Individual accident and health insurance	-	-	308	-
Total new premiums	10,930	20	9,078	(59)
Renewal premiums	17,529	(6)	18,618	47
Total premiums	\$ 28,459	3	\$ 27,696	(20)

Deposit information is provided in the table below.

	Quarter ended June 30			
	2005	<u>%</u>	2004	<u>%</u>
New deposits:				
Universal life insurance	\$ 2,356	(11)	\$ 2,639	82
Variable universal life insurance	615	(54)	1,350	117
Fixed deferred annuities	12,629	(28)	17,548	(43)
Variable annuities	6,710	(26)	9,008	17
Total new deposits	22,310	(27)	30,545	(25)
Renewal deposits	31,690	3	30,766	16
Total deposits	\$ 54,000	(12)	\$ 61,311	(8)

	Six Months ended June 30			
	2005	<u>%</u>	2004	<u>%</u>
New deposits:				
Universal life insurance	\$ 4,418	(5)	\$ 4,644	57
Variable universal life insurance	1,248	(37)	1,981	12
Fixed deferred annuities	24,272	(33)	36,094	(34)
Variable annuities	13,899	(14)	16,202	12
Total new deposits	43,837	(26)	58,921	(20)
Renewal deposits	66,391	8	61,511	15
Total deposits	\$ 110,228	(8)	\$ 120,432	(5)

Net income for this segment in the second quarter was \$6.0 million, an increase of \$1.7 million from 2004. In addition, net income was \$13.1 million for the six months, which was an increase of \$4.7 million from 2004. These improvements were largely due to lower policyholder benefits, reduced interest crediting to policyholders, reduced amortization of DAC and expense reductions associated with the integration of GuideOne into the home office. This segment contributed 72% of consolidated net income for the second quarter 2005, up from 58% in 2004, and contributed 80% for the six months of 2005, up from 63% in 2004. This segment also contributed 63% of consolidated revenues for the second quarter and 64% for the six months.

Edgar Filing: KANSAS CITY LIFE INSURANCE CO - Form 10-Q

Insurance revenues for this segment decreased 4% in the second quarter and 3% in the six months. Contract charges decreased 5% in the second quarter and 3% in the six months, contributing to the decline in insurance revenues. The decline in contract charges was largely due to the unlocking adjustment of \$1.0 million previously discussed.

In the second quarter, the 13% increase in immediate annuity premium sales was offset by a 12% decrease in individual life premium sales. For the six months, new premiums increased 20% compared to 2004, due to the 33%

-20-

increase in new immediate annuity premiums. New deposits decreased 27% for the second quarter and 26% for the six months of 2005 when compared to the same periods of 2004, primarily reflecting a decrease in fixed deferred and variable annuities.

Net investment income for this segment declined 3% for both the second quarter and six months. Although invested assets increased over the six month period, investment income decreased due to reduced investment yields and increased investment expense of \$1.1 million, including \$1.9 million associated with real estate. This segment experienced realized investment losses of \$0.2 million for the second quarter versus a realized gain of \$0.6 million a year ago. For the six months, realized investment gains totaled \$0.7 million, down from the \$1.3 million realized investment gains of 2004.

Policyholder benefits decreased 1% in the second quarter relative to 2004 and decreased 9% for the six months. Death benefits increased for the second quarter but declined for the six months. Other benefits decreased primarily due to a decline in individual accident and health benefits. In 2004, this segment experienced benefit payments on a terminated block of business. In 2005, virtually no benefit payments were necessary from this block.

Interest credited to policyholder account balances decreased 2% in the second quarter and 4% in the six months. This decrease was due to lower crediting rates, which were primarily the result of reduced investment yields.

The amortization of DAC and VOBA decreased 23% in the second quarter compared with 2004 and 5% in the six months. The decrease was largely the result of a \$1.8 million unlocking adjustment, as previously discussed.

Operating expenses consist of commissions and production allowances, the capitalization of commissions and production allowances on certain products, expenses associated with operations, and insurance related taxes and other expenses. Operating expenses decreased for the second quarter and six months, compared with the same periods of 2004. The expense savings have resulted from the integration of GuideOne into the home office. In late 2004, the Company completed the integration of the insurance operations of GuideOne, formerly located in Des Moines, Iowa. These insurance operations included the administrative functions of customer services, premium collection, new business, underwriting and the associated accounting and information systems services. Thus far in 2005, approximately \$1.7 million in expense savings have been realized.

Kansas City Life Insurance Company Group Insurance

The following table presents financial data of the Kansas City Life Insurance Company Group Insurance business segment for the second quarters and first six months of 2005 and 2004 and are reconciled to the financial statements contained herein (in thousands):

	Quarter ended		Six Months ended	
	June 30 2005	2004	June 30 2005	2004
Insurance revenues:				
Premiums	\$ 12,554	\$ 13,364	\$ 25,191	\$ 26,753
Reinsurance ceded	(2,526)	(2,767)	(5,259)	(5,132)
Total insurance revenues	10,028	10,597	19,932	21,621
Investment revenues:				
Net investment income	55	69	120	149
Other revenues	123	585	364	1,272
Total revenues	10,206	11,251	20,416	23,042
Policyholder benefits	6,608	7,838	13,378	15,193
Operating expenses	4,640	4,899	9,148	9,778
Total benefits and expenses	11,248	12,737	22,526	24,971
Loss before income tax benefit	(1,042)	(1,486)	(2,110)	(1,929)
Income tax benefit	(313)	(446)	(633)	(579)
Net loss	\$ (729)	\$ (1,040)	\$ (1,477)	\$ (1,350)

Premium information is provided in the table below.

	Quarter ended June 30			
	2005	%	2004	%
New premiums:				
Group life insurance	\$ 311	(21)	\$ 394	61
Group dental insurance	835	(53)	1,790	(21)
Group disability insurance	539	(30)	766	154
Group stop loss	841	12	753	-
Other group insurance	53	26	42	(9)
Total new premiums	2,579	(31)	3,745	31
Renewal premiums	9,975	4	9,619	(4)
Total group premiums	12,554	(6)	13,364	3
Other revenues	123	(79)	585	(19)
Total direct revenues	12,677	(9)	13,949	2
Reinsurance ceded	(2,526)	(9)	(2,767)	120
Total insurance and other revenues	\$ 10,151	(9)	\$ 11,182	(10)

Edgar Filing: KANSAS CITY LIFE INSURANCE CO - Form 10-Q

	Six Months ended June 30			
	2005	<u>%</u>	2004	<u>%</u>
New premiums:				
Group life insurance	\$ 687	(15)	\$ 811	54
Group dental insurance	1,836	(50)	3,696	(13)
Group disability insurance	1,113	(45)	2,009	273
Group stop loss	1,680	21	1,384	-
Other group insurance	100	22	82	(14)
Total new premiums	5,416	(32)	7,982	47
Renewal premiums	19,775	5	18,771	(7)
Total group premiums	25,191	(6)	26,753	4
Other revenues	364	(71)	1,272	(16)
Total direct revenues	25,555	(9)	28,025	3
Reinsurance ceded	(5,259)	2	(5,132)	102
Total insurance and other revenues	\$ 20,296	(11)	\$ 22,893	(7)

Insurance revenues for the Group Insurance segment decreased \$0.6 million or 5% in the second quarter, and \$1.7 million or 8% in the six months. This decrease was largely attributable to lower premiums in the dental line. Group customers will occasionally change their insurance company providers due to their search for changes in service, product features or reduced costs. This was the situation at mid-year 2004 as this business segment lost a large dental case, which had provided annual premiums of approximately \$3.1 million. However, the premium receipts from all other product lines experienced improved results over the second quarter and six month period of 2004. The most significant premium increases in the second quarter were in the weekly disability line which increased 27%, long-term disability which increased 21%, and stop loss which increased 12%. The weekly disability, long-term disability lines, and stop loss also accounted for the largest premium increases for the comparative six months, increasing 19%, 13%, and 16%, respectively. The Company has used reinsurance in several of its group product lines to achieve improved profitability by mitigating risk. Although reinsurance on premiums decreased 9% in the second quarter versus 2004, an increase of 2% was experienced in the six months.

On January 1, 2005, the Company sold its administrative claims paying services, which generated other revenues in prior periods for this segment. Accordingly, other revenues in the second quarter of 2005 declined 79% versus the prior year period, and 71% in the six months.

Policyholder benefits decreased 16% in this segment in the second quarter of 2005, and 12% in the six months. This decrease was primarily due to reduced dental benefits, which declined 21% or \$1.2 million in the second quarter, and 27% or \$3.2 million in the six months. These declines were due to the loss of the previously mentioned large case. Group life benefits decreased 2% in the second quarter, but increased \$1.2 million or 61% for the six months. This increase was primarily the result of a decrease in reinsurance ceded benefits of \$1.2 million in the six months over last year. Overall, the claims ratio (total policyholder benefits divided by total insurance revenues) for this segment improved versus last year, falling from 70% in 2004 to 67% in 2005.

Operating expenses, consist of commissions, expenses and taxes on operations and other expenses. Operating expenses declined 5% in the second quarter and 6% for the six months. This decrease was due to reduced commissions on new sales and reductions in staffing from the sale of the administrative claims paying services.

The net loss for this segment totaled \$0.7 million for the second quarter of 2005, compared with \$1.0 million in 2004. The net loss totaled \$1.5 million for the six months of 2005, compared with \$1.4 million in 2004.

Sunset Life Insurance Company of America

The following table presents financial data of the Sunset Life Insurance Company of America business segment for the second quarters and the six months of 2005 and 2004 and are reconciled to the financial statements contained herein (in thousands):

-23-

Edgar Filing: KANSAS CITY LIFE INSURANCE CO - Form 10-Q

	Quarter ended		Six Months ended	
	June 30		June 30	
	2005	2004	2005	2004
Insurance revenues:				
Premiums	\$ 1,363	\$ 1,398	\$ 2,901	\$ 2,910
Contract charges	5,717	5,740	11,229	11,462
Reinsurance ceded	(3,885)	(3,859)	(7,218)	(7,143)
Total insurance revenues	3,195	3,279	6,912	7,229
Investment revenues:				
Net investment income	6,846	7,222	13,489	14,186
Realized investment gains (losses)	(60)	557	211	412
Other revenues	15	26	75	424
Total revenues	9,996	11,084	20,687	22,251
Policyholder benefits	851	828	2,660	2,816
Interest credited to policyholder account balances	4,167	4,066	8,236	8,304
Amortization of deferred acquisition costs				
and value of business acquired	1,003	1,570	2,390	2,909
Operating expenses	1,595	549	2,937	2,297
Total benefits and expenses	7,616	7,013	16,223	16,326
Income before income tax expense	2,380	4,071	4,464	5,925
Income tax expense	815	1,509	1,524	2,013
Net income	\$ 1,565	\$ 2,562	\$ 2,940	\$ 3,912

Premium and deposit information is provided in the tables below.

	Quarter ended June 30			
	2005	<u>%</u>	2004	<u>%</u>
New premiums:				
Individual life insurance	\$ 64	23	\$ 52	(63)
Immediate annuities	73	-	-	-
Total new premiums	137	163	52	(75)
Renewal premiums	1,226	(9)	1,346	1
Total premiums	\$ 1,363	(3)	\$ 1,398	(9)

	Six Months ended June 30			
	2005	<u>%</u>	2004	<u>%</u>
New premiums:				
Individual life insurance	\$ 90	(40)	\$ 151	(37)
Immediate annuities	176	184	62	(72)
Total new premiums	266	25	213	(54)
Renewal premiums	2,635	(2)	2,697	(2)
Total premiums	\$ 2,901	-	\$ 2,910	(10)

	Quarter ended June 30			
	2005	<u>%</u>	2004	<u>%</u>
New deposits:				
Universal life insurance	\$ 148	(78)	\$ 667	8
Fixed deferred annuities	717	6	675	(71)
Total new deposits	865	(36)	1,342	(55)
Renewal deposits	7,328	(9)	8,094	2
Total deposits	\$ 8,193	(13)	\$ 9,436	(14)

	Six Months ended June 30			
	2005	<u>%</u>	2004	<u>%</u>
New deposits:				
Universal life insurance	\$ 268	(70)	\$ 903	(32)
Fixed deferred annuities	1,220	(19)	1,511	(82)
Total new deposits	1,488	(38)	2,414	(75)
Renewal deposits	14,292	(12)	16,244	10
Total deposits	\$ 15,780	(15)	\$ 18,658	(24)

Net income for this segment was \$1.6 million in the second quarter of 2005 and \$2.9 million for the six months. This represents a 39% decline in the quarter compared with 2004 and a 25% decline in the six months. An increase in operating expenses and decreases in insurance revenues, investment income and realized investment gains contributed to this decline. Partially offsetting these declines was a decrease in the amortization of DAC. This segment contributed 18% of consolidated net income for the six months in 2005, compared with 30% in 2004. This segment also contributed 9% of consolidated revenues for the second quarter and six months in 2005, versus 10% for both periods in 2004.

Insurance revenues for this segment decreased 3% in the second quarter compared with 2004 and 4% in the six months, primarily due to lower contract charges. Reinsurance ceded increased slightly in both the second quarter and six months. Total premiums decreased 3% for the second quarter and were flat for the six months.

Net investment income declined 5% in the second quarter compared with 2004 and 5% in the six months. Although invested assets increased over the six month period, investment income decreased because of reduced investment yields. The Company recorded a realized investment loss in the second quarter of 2005 versus a realized investment gain in 2004, resulting in a decline of \$0.6 million versus the prior year and \$0.2 million for the six months.

Operating expenses include commission and production allowances, the capitalization of certain commission and production allowances, and expenses from operations. Operating expenses increased 191% or \$1.0 million in the second quarter as compared to 2004 and 28% or \$0.6 million for the six months. Expenses in 2004 were lower by \$0.6 million because of a reduction in legal reserves.

Contributing to net income was a decrease in the amortization of deferred acquisition costs. Amortization of DAC declined 36% in the second quarter and 18% year-to-date compared with 2004. The decline in the amortization of DAC was primarily due to an unlocking adjustment of \$0.4 million.

Death benefits increased but were offset by releases of reserves and reinsurance benefits on these claims. Mortality results remained within expectations for the Company for both the quarter and six months.

-25-

Old American Insurance Company

The following table presents financial data of the Old American Insurance Company business segment for the second quarters and the six months of 2005 and 2004 and are reconciled to the financial statements contained herein (in thousands):

	Quarter ended		Six Months ended	
	June 30		June 30	
	2005	2004	2005	2004
Insurance revenues:				
Premiums	\$ 17,959	\$ 18,557	\$ 35,910	\$ 37,011
Reinsurance ceded	(1,420)	(1,607)	(2,691)	(2,999)
Total insurance revenues	16,539	16,950	33,219	34,012
Investment revenues:				
Net investment income	3,208	3,267	6,398	6,545
Realized investment gains	(70)	(398)	77	(218)
Other revenues	7	42	7	62
Total revenues	19,684	19,861	39,701	40,401
Policyholder benefits	10,617	10,966	23,179	22,983
Amortization of deferred acquisition costs and value of business acquired	3,147	3,247	6,890	6,952
Operating expenses	3,723	3,824	7,100	7,657
Total benefits and expenses	17,487	18,037	37,169	37,592
Income before income tax expense	2,197	1,824	2,532	2,809
Income tax expense	656	193	660	572
Net income	\$ 1,541	\$ 1,631	\$ 1,872	\$ 2,237

Premium information is provided in the table below.

	Quarter ended June 30			
	2005	%	2004	%
New premiums	\$ 1,825	(8)	\$ 1,976	5
Renewal premiums	16,134	(3)	16,581	(4)
Total premiums	\$ 17,959	(3)	\$ 18,557	(3)

	Six Months ended June 30			
	2005	%	2004	%
New premiums	\$ 3,328	(5)	\$ 3,520	5
Renewal premiums	32,582	(3)	33,491	(4)
Total premiums	\$ 35,910	(3)	\$ 37,011	(3)

Net income for this segment was \$1.5 million in the second quarter of 2005, a decrease of 6% from the prior year. For the six months of 2005, net income for this segment was \$1.9 million, a decrease of 16% from the prior year. The decrease was a result of a decline in insurance revenues and an increase in policyholder benefits. Partially offsetting this decline were favorable results in operating expenses. This segment contributed 18% of consolidated net income for the second quarter versus 22% in 2004, and 11% of consolidated net income for the six months versus 17% a year ago. This segment also contributed 18% of consolidated revenues for the quarter and six months, which was the same as last year.

Insurance revenues decreased 2% in the second quarter and for the six months of 2005, as both new and renewal life premiums decreased 3% in the second quarter and for the six months. Policyholder benefits decreased 3% in the second quarter of 2005. However policyholder benefits increased 1% for the six months.

Net investment income declined 2% in the second quarter compared with 2004 and 2% for the six months, due to an increase in investment expense. Invested assets and investment yields were consistent with 2004.

Operating expenses include commission and production allowances, the capitalization of certain commission and production allowances, and expenses from operations. These expenses declined 3% for the second quarter and 7% for the six months. This decrease was primarily due to a decrease in lead production expense.

Income tax expense increased for the second quarter and six months primarily due to lower affordable housing tax credits.

Liquidity and Capital Resources

Liquidity

Statements made in the Company's 2004 Form 10-K and the 2004 Annual Report to Stockholders remain pertinent, as the Company's liquidity position is materially unchanged from year-end.

The Company and each insurance subsidiary meet liquidity requirements primarily through positive cash flows from operations. The Company has sufficient sources of liquidity to satisfy operational requirements. Primary sources of cash flow are premiums, other insurance considerations and deposits, receipts for policyholder accounts, investment sales and maturities, investment income and access to credit from other financial institutions. The principal uses of cash are for the insurance operations, including the purchase of investments, payments of insurance benefits, operating expenses, withdrawals from policyholder accounts, costs related to acquiring new business, dividends and income taxes.

Cash provided from operations totaled \$23.3 million for the six months ended June 30, 2005, down from \$38.7 million a year ago. This decrease is primarily due to two factors. First, net cash premium receipts for the first six months of 2005 declined \$9.8 million versus the same period of 2004. Second, federal income tax payments increased \$5.8 million for the six month period of 2005 relative to 2004.

Edgar Filing: KANSAS CITY LIFE INSURANCE CO - Form 10-Q

Net cash provided from investing activities was \$16.4 million for the six months, compared with net cash used of \$76.3 million in 2004. Cash generated from investment maturities and principal paydowns decreased \$64.2 million but sales of investments increased \$7.7 million and purchases of investments declined \$148.9 million.

Net cash used from financing activities was \$30.8 million for the six months in 2005, versus net cash provided of \$19.2 million in 2004. This change is partially the result of the Company reducing its net outstanding borrowings by \$19.9 million versus 2004. In addition, the Company had a reduction in the net proceeds from policyholder account balances of \$29.0 million versus 2004.

This information excludes net proceeds from variable insurance products. These proceeds are segregated into separate accounts and are not held in the Company's general investments because the policyholders, rather than the Company, assume the underlying investment risks.

Debt and Short-term Borrowing

The Company and certain subsidiaries have access to borrowing capacity through their membership affiliation with the Federal Home Loan Bank. At June 30, 2005, outstanding balances under this agreement totaled \$66.1 million in maturities of less than one year. The primary purpose for these borrowings is to ensure access to liquidity. This is accomplished through the purchase of highly liquid, marketable securities from the proceeds of these borrowings.

Outstanding borrowings of \$1.3 million are related to real estate ownership, and the Company has one construction loan totaling \$0.5 million.

Borrowings totaled \$67.9 million at June 30, 2005, down \$24.3 million from year-end. The Company has unsecured revolving lines of credit of \$60.0 million with two major commercial banks with no balances outstanding.

Capital Resources

The Company considers existing capital resources to be more than adequate to support the current level of business activities.

The following table shows the capital adequacy for the Company.

	June 30 2005	December 31 2004
Total assets less separate accounts	\$ 4,303,784	\$ 4,312,163
Total stockholders' equity	712,592	692,896
Ratio of stockholders' equity to assets less separate accounts	17%	16%

The ratio of equity to assets less separate accounts has remained relatively constant, as identified above. Unrealized investment gains on available for sale securities, which are included as a part of stockholders' equity, totaled \$63.1 million at June 30, 2005 (net of related taxes, policyholder account balances and deferred acquisition costs). This represents an increase of \$11.0 million from year-end 2004.

Stockholders' equity increased \$19.7 million from year-end. This increase was largely the result of net income and an increase in accumulated other comprehensive income, reflecting the increased unrealized investment gains discussed above. Consolidated book value per share equaled \$59.78 at June 30, 2005, a 3% increase from year-end 2004.

During the first half of 2005, the Company did not purchase any of its shares under the stock repurchase program. Under this program, the Company may purchase up to one million shares on the open market during 2005.

Edgar Filing: KANSAS CITY LIFE INSURANCE CO - Form 10-Q

On August 8, 2005, the Board of Directors declared a quarterly dividend of \$0.27 per share, unchanged from the prior year, that will be paid August 23, 2005 to stockholders of record as of August 18, 2005.

Current legislative activities are not expected to have a significant impact on the ongoing operations of the Company.

-28-

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Statements made in the Company's 2004 Form 10-K and the 2004 Annual Report to Stockholders regarding the market and interest rate risk analysis remain pertinent.

The Company holds a diversified portfolio of investments that includes cash, bonds, preferred stocks, mortgage-backed securities, commercial mortgages and real estate. Each of these investments is subject, in varying degree, to market risks that can affect their return and their fair value. A majority of these assets are debt instruments of corporations or U.S. Government Sponsored Enterprises (GSE) and are considered fixed income investments. Thus, the primary market risks affecting the Company's portfolio are interest rate risk, credit risk and liquidity risk.

Interest rate risk arises from the price sensitivity of investments to changes in interest rates. Coupon and dividend income represent the greatest portion of an investment's total return for most fixed income instruments in stable interest rate environments. The changes in the fair market price of such investments are inversely related to changes in market interest rates. As interest rates fall, the coupon and dividend streams of existing fixed rate investments become more valuable and market values rise. As interest rates rise, the opposite effect occurs. Due to the complex nature of interest rate movements and their uneven effects on the value of fixed income investments, the Company uses sophisticated computer programs to help consider potential changes in the value of the portfolio.

Market changes rarely follow a linear pattern in one direction for any length of time. Within any diversified portfolio, an investor will likely find embedded options, both puts and calls, that change the structure of the cash flow stream. Mortgage-backed securities are particularly sensitive to interest rate changes. As long-term interest rates fall, homeowners become more likely to refinance their mortgage or move up to a larger home, causing a prepayment of the outstanding mortgage principal, which must then be reinvested at a lower rate. Should interest rates rise suddenly, prepayments expected by investors may decrease, extending the duration of a mortgage pool. This represents a further interest rate risk to investors.

As interest rates rise, policyholders may become more likely to surrender policies or to borrow against cash values, often to meet sudden needs in an inflationary environment or to invest in higher yielding opportunities elsewhere. This risk of disintermediation may force the Company to liquidate parts of its portfolio at a time when the fair market value of fixed income investments is falling. If interest rates fall, the Company may also be forced to invest new cash receipts at levels below the minimum guaranteed rates payable to policyholders, eroding profit margins. The Company can usually adapt to small sudden changes in interest rates, or even large changes that occur over longer periods of time. However, cash flow may increase or decrease over the course of the business cycle. Therefore, the Company takes steps to ensure that adequate liquidity is available to meet obligations in a timely manner. To this end, the Company utilizes an asset/liability management program, and the Company maintains lines of credit with commercial banks and other short-term borrowing arrangements with financial institutions.

The majority of the Company's investments are exposed to varying degrees of credit risk. Credit risk is the risk that the value of the investment may decline due to deterioration in the financial strength of the issuer and that the timely or ultimate payment of principal or interest might not occur. A default by a rated issuer usually involves some loss of principal to the investor. Losses can be mitigated by timely sales of affected securities or by active involvement in a restructuring process. However, there can be no assurance that the efforts of an investor will lead to favorable outcomes in a bankruptcy or restructuring.

Edgar Filing: KANSAS CITY LIFE INSURANCE CO - Form 10-Q

The Company mitigates credit risk by diversifying the investment portfolio across a broad range of issuers, investment sectors and security types, and by limiting the amount invested in any particular entity. With the exception of certain GSE s, there is no exposure to any single issuer greater than one percent of assets on a book value basis. The Company also invests in securities carrying a lien against physical assets. These securities can improve the likelihood of payment according to contractual terms and increase recovery amounts in the case of bankruptcy or restructuring.

Asset/Liability Management

Kansas City Life s asset/liability management programs and procedures involve the monitoring of asset and liability durations for various product lines, cash flow testing under various interest rate scenarios to evaluate the potential

-29-

sensitivity of assets and liabilities to interest rate movements, and the continuous rebalancing of assets and liabilities with respect to yield, risk, and cash flow characteristics.

Kansas City Life believes its asset/liability management programs and procedures, along with certain product features, provide protection for the Company against the effects of changes in interest rates under various scenarios.

Cash flows and effective durations of the asset and liability portfolios are measured at points in time and are affected by changes in the level and term structure of interest rates, as well as changes in policyholder behavior. Further, durations are managed on an individual product level, as well as an aggregate portfolio basis. As a result, differences typically exist between the duration, cash flows and yields of assets versus liabilities on an individual portfolio and aggregate basis. The Company's asset/liability management programs and procedures enable management to monitor the changes, which have both positive and negative correlations among certain portfolios, and to make adjustments to asset mix, liability crediting rates and product terms so as to manage risk and profitability over time.

The Company performs cash flow scenario testing through models of its in-force business. These models reflect specific product characteristics and include assumptions based on current and anticipated experience regarding the relationships between short-term and long-term interest rates (i.e., the slope of the yield curve), credit spreads, market liquidity and other factors, including policyholder behavior in certain market conditions. In addition, these models include asset cash flow projections, reflecting interest payments, sinking fund payments, principal payments, bond calls and mortgage prepayments.

The Company has a risk that the asset or liability portfolio performance may differ from forecasted results as a result of unforeseen economic circumstances, estimates or assumptions that prove incorrect, unanticipated policyholder behavior or other factors. The result of such deviation of actual versus expected performance could include excess or insufficient liquidity in future periods. Excess liquidity, in turn, could result in reduced profitability on one or more product lines. Insufficient liquidity could result in the need to generate liquidity through borrowing, asset sales or other means. The Company believes that adherence to its asset/liability management programs will provide sufficient liquidity to enable it to fulfill its obligation to pay benefits under its various insurance and deposit contracts. On a historical basis, the Company has not needed to liquidate assets to ensure sufficient cash flows. Borrowing lines on a secured and unsecured basis are maintained to provide additional liquidity, if needed.

The Company markets certain variable products. The policyholder assumes essentially all the investment earnings risk for the portion of the account balance invested in the separate accounts. However, the Company assesses certain charges based on the policy account values and changes to the account values can affect the Company's earnings. The portion of the policyholder's account balance invested in the fixed general account, if any, is affected by many factors, including the absolute level of interest rates, relative performance of the fixed income and equity markets, and the spreads between interest yields on investments and rates credited to the policyholder's accounts.

Item 4. Controls and Procedures

As required by Exchange Act Rule 13a-15(b), Kansas City Life Insurance Company management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation as of the end of the period covered by this report, of the effectiveness of the Company's disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. As required by Exchange Act 13a-15(d), Kansas City Life Insurance Company management, including the Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of the Company's internal control over financial reporting to determine whether any changes occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect the

Edgar Filing: KANSAS CITY LIFE INSURANCE CO - Form 10-Q

Company's internal control over financial reporting. Based on that evaluation, there has been no such change during the period covered by this report.

-30-

Part II: Other Information

Item 1. Legal Proceedings

The life insurance industry, including the Company and its subsidiaries, has been subject to an increase in litigation in recent years. Such litigation has been pursued on behalf of purported classes of insurance purchasers, often questioning the conduct of insurers in the marketing of their products.

In addition to the above, the Company and its subsidiaries are defendants in, or subject to other claims or legal actions. Some of these claims and legal actions are in jurisdictions where juries are given substantial latitude in assessing damages, including punitive damages. Although no assurances can be given and no determinations can be made at this time, management believes that the ultimate liability, if any, with respect to these other claims and legal actions would have no material effect on the Company's business, results of operations or financial position.

Item 5. Other Information

3520 Broadway, Kansas City, MO 64111

Contact: Tracy W. Knapp, Chief Financial Officer,
(816) 753-7299, Extension 8216

For Immediate Release: August 8, 2005, press release reporting financial results for the second quarter of 2005.

Kansas City Life Announces Second Quarter 2005 Results

Kansas City Life Insurance Company recorded second quarter net income of \$8.4 million or \$0.71 per share, a 12% improvement from the prior year's \$7.5 million or \$0.63 per share. The increase was primarily the result of a \$5.5 million reduction in benefits and expenses, although these improvements were partially offset by declines in insurance revenues.

Net income for the six months ended June 30, 2005 was \$16.4 million or \$1.37 per share. This represents a 25% increase from earnings of \$13.1 million or \$1.10 per share for the same period last year.

Insurance revenues declined 4% for the second quarter and 3% for the six month period, primarily due to lower premiums and contract charges. New sale premiums declined 6% for the second quarter and 4% for the six month period. Premiums from immediate annuities increased 15% for the second quarter and 34% for the six months.

Net investment income declined 3% for both the second quarter and six month period. Although the yield earned on the Company's investment portfolio has been negatively affected by the low interest rate environment in prior periods and expenses related to real estate investments have increased, gross investment income has remained stable during the first two quarters of the year.

The largest factor in the second quarter reduction in benefits and expenses was a decline in the amortization of deferred acquisition costs. This change was due to a change in estimates, which reduced both contract charges and the amortization of deferred acquisition costs, and resulted in an additional \$1.3 million in income before tax. Other favorable changes in benefits and expenses included reduced policyholder benefits, primarily due to improved mortality and lower benefits on group accident and health products. The lower interest rate environment resulted in reduced interest credited to policyholder account balances for both the quarter and six month periods. Finally, operating expenses declined \$1.4 million in the second quarter and \$3.3 million for the six month period, primarily due to efficiencies gained through the consolidation of GuideOne operating activities.

The Company is resolute in its pursuit of growth through improved new sales production from its existing network of agencies and agents, as well as the expansion of this network through recruitment of new, additional agencies and agents. We are truly excited about the growth opportunities that are present in our core business of providing life insurance and we look forward to reporting upon these growth opportunities in the future.

Edgar Filing: KANSAS CITY LIFE INSURANCE CO - Form 10-Q

The Company is also pleased to announce that its Board of Directors has approved a quarterly dividend of \$0.27 per share to be paid August 23, 2005 to shareholders of record as of August 18, 2005.

Kansas City Life Insurance Company (NASDAQ: KCLI) was established in 1895 and is based in Kansas City, Missouri. The Company's primary business is providing financial protection through the sale of life insurance and annuities. The Company's revenues were \$502 million in 2004, and assets and life insurance in force were \$4.7 billion and \$31.0 billion, respectively, as of December 31, 2004. The Company operates in 48 states and the District of Columbia. For further information please refer to the Company's Form 10-Q at www.kclife.com.

(Continued on next page)

-32-

Kansas City Life Announces

Second Quarter 2005 Results

August 8, 2005; Page Two

KANSAS CITY LIFE INSURANCE COMPANY
CONDENSED CONSOLIDATED INCOME STATEMENT (Unaudited)
(amounts in thousands, except share data)

	Quarter ended		Six months ended	
	June 30 2005	2004	June 30 2005	2004
Revenues	\$ 109,213	\$ 113,207	\$ 223,483	\$ 230,953
Net income	\$ 8,425	\$ 7,522	\$ 16,385	\$ 13,117
Net income per share, basic and diluted	\$ 0.71	\$ 0.63	\$ 1.37	\$ 1.10
Dividends paid	\$ 0.27	\$ 0.27	\$ 0.54	\$ 0.54
Average number of shares outstanding	11,921,993	11,928,419	11,925,998	11,926,817

Item 6. Exhibits.

(a) Exhibits:

31(a) Section 302 Certification.

31(b) Section 302 Certification.

32(a) Section 906 Certification.

-34-

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KANSAS CITY LIFE INSURANCE COMPANY

/s/R. Philip Bixby

R. Philip Bixby

President, Chief Executive Officer

and Chairman of the Board

/s/Tracy W. Knapp

Tracy W. Knapp

Senior Vice President, Finance

Date: August 8, 2005