

KANSAS CITY LIFE INSURANCE CO

Form 10-Q

July 28, 2015

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2015 or

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

For the transition period from _____ to _____

Commission file number 1-33348

KANSAS CITY LIFE INSURANCE COMPANY
(Exact name of registrant as specified in its charter)

Missouri

44-0308260

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

3520 Broadway, Kansas City, Missouri

64111-2565

(Address of principal executive offices)

(Zip Code)

816-753-7000

Registrant's telephone number, including area code

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes

No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock: \$1.25 par

10,634,001 shares

Class

Outstanding June 30, 2015

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Part I. Financial Information

Item 1. Financial Statements

Amounts in thousands, except share data, or as otherwise noted

Kansas City Life Insurance Company

Consolidated Balance Sheets

	June 30 2015 (Unaudited)	December 31 2014
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	\$2,703,822	\$2,726,731
Equity securities available for sale, at fair value	24,804	24,881
Mortgage loans	550,724	541,180
Real estate	179,403	181,082
Policy loans	82,537	83,553
Short-term investments	23,508	39,107
Other investments	318	462
Total investments	3,565,116	3,596,996
Cash	9,238	11,011
Accrued investment income	34,213	33,078
Deferred acquisition costs	261,836	249,195
Reinsurance recoverables	189,598	194,425
Property and equipment	16,997	17,527
Other assets	57,923	63,134
Separate account assets	403,406	406,501
Total assets	\$4,538,327	\$4,571,867
LIABILITIES		
Future policy benefits	\$930,257	\$930,761
Policyholder account balances	2,063,783	2,072,041
Policy and contract claims	31,585	37,452
Other policyholder funds	171,174	165,062
Other liabilities	208,037	217,291
Separate account liabilities	403,406	406,501
Total liabilities	3,808,242	3,829,108
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	41,021	41,007
Retained earnings	850,369	838,508
Accumulated other comprehensive income	7,181	23,040
Treasury stock, at cost (2015 - 7,862,679 shares; 2014 - 7,671,475 shares)	(191,607)	(182,917)
Total stockholders' equity	730,085	742,759
Total liabilities and stockholders' equity	\$4,538,327	\$4,571,867
See accompanying Notes to Consolidated Financial Statements		

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Consolidated Statements of Comprehensive Income

	Quarter Ended		Six Months Ended	
	June 30		June 30	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
REVENUES				
Insurance revenues:				
Net premiums	\$39,842	\$41,334	\$80,818	\$83,121
Contract charges	26,443	30,834	54,835	59,632
Total insurance revenues	66,285	72,168	135,653	142,753
Investment revenues:				
Net investment income	40,206	41,351	79,898	82,042
Net realized investment gains, excluding other-than-temporary impairment losses	2,277	784	2,249	2,449
Net impairment losses recognized in earnings:				
Total other-than-temporary impairment losses	(1,770)	(243)	(1,770)	(456)
Portion of impairment losses recognized in other comprehensive income (loss)	(155)	136	(162)	187
Net other-than-temporary impairment losses recognized in earnings	(1,925)	(107)	(1,932)	(269)
Total investment revenues	40,558	42,028	80,215	84,222
Other revenues	2,030	2,343	3,810	4,676
Total revenues	108,873	116,539	219,678	231,651
BENEFITS AND EXPENSES				
Policyholder benefits	47,804	50,153	98,146	102,907
Interest credited to policyholder account balances	18,590	19,260	37,029	38,206
Amortization of deferred acquisition costs	1,958	12,529	10,342	21,357
Operating expenses	24,965	22,113	49,083	48,733
Total benefits and expenses	93,317	104,055	194,600	211,203
Income before income tax expense	15,556	12,484	25,078	20,448
Income tax expense	4,657	3,859	7,401	6,151
NET INCOME	\$10,899	\$8,625	\$17,677	\$14,297
COMPREHENSIVE INCOME (LOSS), NET OF TAXES				
Change in net unrealized gains on securities available for sale, net of DAC and VOBA	\$(33,178)	\$18,908	\$(17,158)	\$38,273
Change in future policy benefits	4,139	(2,929)	1,150	(6,562)
Change in policyholder account balances	247	(113)	149	(244)
Other comprehensive income (loss)	(28,792)	15,866	(15,859)	31,467
COMPREHENSIVE INCOME (LOSS)	\$(17,893)	\$24,491	\$1,818	\$45,764
Basic and diluted earnings per share:				

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Net income	\$1.01	\$0.78	\$1.64	\$1.30
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See accompanying Notes to Consolidated Financial Statements

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Consolidated Statement of Stockholders' Equity

	Six Months Ended June 30, 2015 (Unaudited)	
COMMON STOCK, beginning and end of period	\$23,121	
ADDITIONAL PAID IN CAPITAL		
Beginning of year	41,007	
Excess of proceeds over cost of treasury stock sold	14	
End of period	41,021	
RETAINED EARNINGS		
Beginning of year	838,508	
Net income	17,677	
Stockholder dividends of \$0.54 per share	(5,816))
End of period	850,369	
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Beginning of year	23,040	
Other comprehensive loss	(15,859))
End of period	7,181	
TREASURY STOCK, at cost		
Beginning of year	(182,917))
Cost of 190,734 shares acquired	(8,696))
Cost of 430 shares sold	6	
End of period	(191,607))
TOTAL STOCKHOLDERS' EQUITY	\$730,085	
See accompanying Notes to Consolidated Financial Statements		

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Consolidated Statements of Cash Flows

	Six Months Ended June 30	
	2015	2014
	(Unaudited)	
OPERATING ACTIVITIES		
Net income	\$17,677	\$14,297
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investment premium and discount	2,128	2,097
Depreciation	2,802	2,240
Acquisition costs capitalized	(18,185	) (17,761
Amortization of deferred acquisition costs	10,342	21,357
Realized investment gains	(317	) (2,180
Changes in assets and liabilities:		
Reinsurance recoverables	4,827	(2,710
Future policy benefits	1,265	6,202
Policyholder account balances	(10,253	) (8,135
Income taxes payable and deferred	5,401	152
Other, net	(3,697	) 305
Net cash provided	11,990	15,864
INVESTING ACTIVITIES		
Purchases:		
Fixed maturity securities	(144,176	) (194,874
Equity securities	(8	) (89
Mortgage loans	(62,099	) (9,592
Real estate	(1,214	) (4,120
Policy loans	(5,849	) (5,751
Sales or maturities, calls, and principal paydowns:		
Fixed maturity securities	133,357	115,230
Equity securities	3	15
Mortgage loans	52,153	65,985
Real estate	9	1,999
Policy loans	6,864	6,046
Other investments	365	5,000
Net sales of short-term investments	15,599	5,052
Acquisition of property and equipment	(293) (605
Net cash used	(5,289) (15,704

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Consolidated Statements of Cash Flows (Continued)

	Six Months Ended June 30	
	2015	2014
	(Unaudited)	
FINANCING ACTIVITIES		
Proceeds from borrowings	\$1,000	\$—
Repayment of borrowings	(1,000) —
Deposits on policyholder account balances	114,033	129,853
Withdrawals from policyholder account balances	(116,604	) (131,261
Net transfers from separate accounts	4,564	3,791
Change in other deposits	4,025	3,792
Cash dividends to stockholders	(5,816	) (5,924
Net change in treasury stock	(8,676	) (42
Net cash provided (used)	(8,474	) 209
Increase (decrease) in cash	(1,773	) 369
Cash at beginning of year	11,011	8,197
Cash at end of period	\$9,238	\$8,566
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	\$2,000	\$6,000
See accompanying Notes to Consolidated Financial Statements		

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited)

1. Nature of Operations and Significant Accounting Policies

Basis of Presentation

The unaudited interim consolidated financial statements and the accompanying notes include the accounts of the consolidated entity (the Company), which primarily consists of three life insurance companies. Kansas City Life Insurance Company (Kansas City Life) is the parent company. Sunset Life Insurance Company of America (Sunset Life) and Old American Insurance Company (Old American) are wholly-owned subsidiaries. The Company also has several non-insurance subsidiaries that individually and collectively are not material.

The unaudited interim consolidated financial statements have been prepared on the basis of U.S. generally accepted accounting principles (GAAP) for interim financial reporting, along with the instructions to Form 10-Q and Regulations S-K, S-X, and other applicable regulations. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. As such, these unaudited interim consolidated financial statements should be read in conjunction with the Company's 2014 Form 10-K, as amended. 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 and the results of 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 immaterial reclassifications have been made to prior period results to conform with the current period's presentation.

The preparation of the unaudited interim consolidated financial statements requires management of the Company to make estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the unaudited interim 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.

Significant Accounting Policies

For a full discussion of the Company's significant accounting policies, please refer to the Company's 2014 Form 10-K, as amended. No significant updates or changes to these policies occurred during the six months ended June 30, 2015.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements--(Continued) (Unaudited)

2. New Accounting Pronouncements

Accounting Pronouncements Issued, Not Yet Adopted

In May 2014, the FASB issued guidance regarding accounting for revenue recognition that identifies the accounting treatment for an entity's contracts with customers. Certain contracts, including insurance contracts, are specifically excluded from this guidance. However, certain other types of contracts may impact the financial statements of insurance providers. This guidance is effective for public entities for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently evaluating this guidance.

In August 2014, the FASB issued guidance that requires management to evaluate whether there are concerns or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued. Disclosures are required when certain criteria are met. This guidance is effective for annual periods ending after December 15, 2016. The Company is currently evaluating this guidance, but it does not believe that there will be a material impact to the consolidated financial statements.

In February 2015, the FASB issued guidance regarding the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. Under this guidance, previous consolidation conclusions may change and additional disclosures may be required. This guidance is effective for public entities for fiscal years and interim periods within those fiscal years beginning after December 15, 2015. The Company is currently evaluating this guidance.

In April 2015, the FASB issued guidance regarding a customer's accounting for fees paid in a cloud computing arrangement and whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, a customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, a customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer's accounting for service contracts. This guidance is effective for interim and annual reporting periods beginning after December 15, 2015. The Company is currently evaluating this guidance, but it does not believe that there will be a material impact to the consolidated financial statements.

In May 2015, the FASB issued guidance targeted to improve disclosures related to short-duration contracts. Additional disclosures will be required about insurance liabilities to provide information regarding the nature, amount, timing, and uncertainty of future cash flows related to insurance liabilities and the effect of those cash flows on the statement of comprehensive income. This guidance is effective for public entities for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. The Company is currently evaluating this guidance.

All other new accounting standards and updates of existing standards issued through the date of this filing were considered by management and did not relate to accounting policies and procedures pertinent to the Company at this time or were not expected to have a material impact to the consolidated financial statements.

3. Prior Year Adoption of Accounting Principle

On December 31, 2014, the Company retrospectively adopted FASB Accounting Standards Update (ASU) No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. Under ASU No. 2014-01, the Company elected to use the proportional amortization method, which requires an entity to amortize the initial cost of the investment in proportion to the tax credits and other tax benefits received and to recognize the net investment performance in the income statement as a component of income tax expense (benefit). As a result of the retrospective adoption, results previously reported in the Company's June 30, 2014 10-Q have been adjusted as follows. Income tax expense decreased \$0.2 million, net income increased \$0.2 million, and net income per share increased \$0.01 for the quarter ended June 30, 2014. Income tax expense decreased \$0.3 million, net income increased \$0.3 million, and net income per share increased \$0.03 for the six months ended June 30, 2014. The adoption did not impact net cash provided by operating activities for the quarter or six months ended June 30, 2014.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements--(Continued) (Unaudited)

4. Investments

Fixed Maturity and Equity Securities Available for Sale

Securities by Asset Class

The following table provides amortized cost and fair value of securities by asset class at June 30, 2015.

	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	\$ 154,514	\$ 8,285	\$ 195	\$ 162,604
Federal agencies ¹	19,775	1,850	—	21,625
Federal agency issued residential mortgage-backed securities ¹	39,117	4,317	2	43,432
Subtotal	213,406	14,452	197	227,661
Corporate obligations:				
Industrial	547,466	28,213	3,089	572,590
Energy	232,353	12,453	2,925	241,881
Communications and technology	243,231	13,665	1,401	255,495
Financial	235,642	16,000	1,017	250,625
Consumer	523,761	23,832	2,298	545,295
Public utilities	233,003	21,147	488	253,662
Subtotal	2,015,456	115,310	11,218	2,119,548
Corporate private-labeled residential mortgage-backed securities	81,548	3,870	8	85,410
Municipal securities	134,140	17,933	108	151,965
Other	100,737	3,446	2,209	101,974
Redeemable preferred stocks	17,455	262	453	17,264
Fixed maturity securities	2,562,742	155,273	14,193	2,703,822
Equity securities	23,527	1,664	387	24,804
Total	\$ 2,586,269	\$ 156,937	\$ 14,580	\$ 2,728,626

¹ Federal agency securities are not backed by the full faith and credit of the U.S. Government.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements--(Continued) (Unaudited)

The following table provides amortized cost and fair value of securities by asset class at December 31, 2014.

	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	\$ 154,937	\$ 9,939	\$ 83	\$ 164,793
Federal agencies ¹	19,769	2,182	—	21,951
Federal agency issued residential mortgage-backed securities ¹	44,287	4,457	2	48,742
Subtotal	218,993	16,578	85	235,486
Corporate obligations:				
Industrial	527,269	33,400	1,292	559,377
Energy	219,518	14,147	3,575	230,090
Communications and technology	226,442	16,705	242	242,905
Financial	276,586	18,826	1,083	294,329
Consumer	517,050	28,290	1,261	544,079
Public utilities	225,375	24,932	228	250,079
Subtotal	1,992,240	136,300	7,681	2,120,859
Corporate private-labeled residential mortgage-backed securities	90,819	4,463	—	95,282
Municipal securities	135,518	22,974	—	158,492
Other	98,373	3,818	2,718	99,473
Redeemable preferred stocks	17,473	379	713	17,139
Fixed maturity securities	2,553,416	184,512	11,197	2,726,731
Equity securities	23,576	1,895	590	24,881
Total	\$ 2,576,992	\$ 186,407	\$ 11,787	\$ 2,751,612

¹ Federal agency securities are not backed by the full faith and credit of the U.S. Government.

Contractual Maturities

The following table provides the distribution of maturities for fixed maturity securities available for sale. Expected maturities may differ from these contractual maturities since borrowers may have the right to call or prepay obligations.

	June 30, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 143,968	\$ 146,832	\$ 165,955	\$ 168,913
Due after one year through five years	701,709	759,769	694,809	757,397
Due after five years through ten years	1,136,128	1,168,557	1,045,557	1,087,891
Due after ten years	390,651	426,283	438,719	490,976
Securities with variable principal payments	172,831	185,117	190,903	204,415
Redeemable preferred stocks	17,455	17,264	17,473	17,139
Total	\$ 2,562,742	\$ 2,703,822	2,553,416	2,726,731

No material derivative financial instruments were held during the first six months 2015 or 2014.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements--(Continued) (Unaudited)

Unrealized Losses on Investments

At the end of each quarter, all securities are reviewed to determine whether impairments exist and whether other-than-temporary impairments should be recorded. This quarterly process includes an assessment of the credit quality of each investment in the entire securities portfolio. Additional reporting and review procedures are conducted for those securities where fair value is less than 90% of amortized cost. The Company prepares a formal review document no less often than quarterly of all investments where fair value is less than 80% of amortized cost for six months or more and selected investments that have changed significantly from a previous period and that have a decline in fair value greater than 10% of amortized cost. For additional information on the Company's process and considerations, as well as related accounting when other-than-temporary impairments are identified, please refer to Note 4 - Investments of the Company's 2014 Form 10-K, as amended.

The following table provides information regarding fixed maturity and equity security investments available for sale with unrealized losses by length of time at June 30, 2015.

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government	\$21,068	\$195	\$100	\$—	\$21,168	\$195
Federal agency issued residential mortgage-backed securities ¹	—	—	331	2	331	2
Subtotal	21,068	195	431	2	21,499	197
Corporate obligations:						
Industrial	108,470	2,658	5,607	431	114,077	3,089
Energy	64,309	1,962	21,117	963	85,426	2,925
Communications and technology	57,675	1,401	—	—	57,675	1,401
Financial	22,699	282	5,147	735	27,846	1,017
Consumer	85,376	1,889	8,123	409	93,499	2,298
Public utilities	16,250	282	3,790	206	20,040	488
Subtotal	354,779	8,474	43,784	2,744	398,563	11,218
Corporate private-labeled residential mortgage-backed securities	3,046	8	—	—	3,046	8
Municipal securities	3,092	108	—	—	3,092	108
Other	13,025	129	31,086	2,080	44,111	2,209
Redeemable preferred stocks	2,994	73	6,650	380	9,644	453
Fixed maturity securities	398,004	8,987	81,951	5,206	479,955	14,193
Equity securities	7,009	158	4,803	229	11,812	387
Total	\$405,013	\$9,145	\$86,754	\$5,435	\$491,767	\$14,580

¹ Federal agency securities are not backed by the full faith and credit of the U.S. Government.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements--(Continued) (Unaudited)

The following table provides information regarding fixed maturity and equity security investments available for sale with unrealized losses by length of time at December 31, 2014.

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government	\$468	\$—	\$4,944	\$83	\$5,412	\$83
Federal agency issued residential mortgage-backed securities ¹	60	2	281	—	341	2
Subtotal	528	2	5,225	83	5,753	85
Corporate obligations:						
Industrial	15,289	184	42,830	1,108	58,119	1,292
Energy	40,493	1,962	36,789	1,613	77,282	3,575
Communications and technology	5,061	33	9,676	209	14,737	242
Financial	14,831	165	4,963	918	19,794	1,083
Consumer	10,991	165	40,185	1,096	51,176	1,261
Public utilities	—	—	6,768	228	6,768	228
Subtotal	86,665	2,509	141,211	5,172	227,876	7,681
Other	12,567	396	30,210	2,322	42,777	2,718
Redeemable preferred stocks	—	—	9,404	713	9,404	713
Fixed maturity securities	99,760	2,907	186,050	8,290	285,810	11,197
Equity securities	—	—	11,515	590	11,515	590
Total	\$99,760	\$2,907	\$197,565	\$8,880	\$297,325	\$11,787

¹ Federal agency securities are not backed by the full faith and credit of the U.S. Government.

At June 30, 2015, the Company had 166 issues in its investment portfolio of fixed maturity and equity securities with unrealized losses. Included in this total, 139 security issues were below cost for less than one year; 22 security issues were below cost for one year or more and less than three years; and five security issues were below cost for three years or more. At December 31, 2014, the Company had 96 issues in its investment portfolio of fixed maturity and equity securities with unrealized losses. Included in this total, 40 security issues were below cost for less than one year; 50 security issues were below cost for one year or more and less than three years; and six security issues were below cost for three years or more.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements--(Continued) (Unaudited)

The following table summarizes the Company's investments in fixed maturity and equity securities available for sale with unrealized losses at June 30, 2015.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	\$497,002	\$482,804	\$14,198
Unrealized losses of 20% or less and greater than 10%	—	—	—
Subtotal	497,002	482,804	14,198
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	908	634	274
Total investment grade	908	634	274
Below investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	—	—	—
Total below investment grade	—	—	—
Unrealized losses greater than 20%	908	634	274
Subtotal	497,910	483,438	14,472
Securities owned with realized impairment:			
Unrealized losses of 10% or less	8,326	8,240	86
Unrealized losses of 20% or less and greater than 10%	110	89	21
Subtotal	8,436	8,329	107
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	—	—	—
Total investment grade	—	—	—
Below investment grade:			
Less than twelve months	1	—	1
Twelve months or greater	—	—	—
Total below investment grade	1	—	1
Unrealized losses greater than 20%	1	—	1
Subtotal	8,437	8,329	108
Total	\$506,347	\$491,767	\$14,580

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements--(Continued) (Unaudited)

The following table summarizes the Company's investments in securities available for sale with unrealized losses at December 31, 2014.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	\$295,543	\$286,130	\$9,413
Unrealized losses of 20% or less and greater than 10%	8,973	7,874	1,099
Subtotal	304,516	294,004	10,512
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	908	663	245
Total investment grade	908	663	245
Below investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	—	—	—
Total below investment grade	—	—	—
Unrealized losses greater than 20%	908	663	245
Subtotal	305,424	294,667	10,757
Securities owned with realized impairment:			
Unrealized losses of 10% or less	—	—	—
Unrealized losses of 20% or less and greater than 10%	—	—	—
Subtotal	—	—	—
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	3,688	2,658	1,030
Twelve months or greater	—	—	—
Total investment grade	3,688	2,658	1,030
Below investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	—	—	—
Total below investment grade	—	—	—
Unrealized losses greater than 20%	3,688	2,658	1,030
Subtotal	3,688	2,658	1,030
Total	\$309,112	\$297,325	\$11,787

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements--(Continued) (Unaudited)

The following table provides information on fixed maturity securities with gross unrealized losses by actual or equivalent Standard & Poor's rating at June 30, 2015.

	Fair Value	% of Total		Gross Unrealized Losses	% of Total	
AAA	\$16,908	4	%	\$263	2	%
AA	82,990	17	%	2,781	19	%
A	139,346	29	%	3,088	22	%
BBB	216,638	45	%	7,189	51	%
Total investment grade	455,882	95	%	13,321	94	%
BB	14,250	3	%	750	5	%
B and below	9,823	2	%	122	1	%
Total below investment grade	24,073	5	%	872	6	%
	\$479,955	100	%	\$14,193	100	%

The following table provides information on fixed maturity securities with gross unrealized losses by actual or equivalent Standard & Poor's rating at December 31, 2014.

	Fair Value	% of Total		Gross Unrealized Losses	% of Total	
AAA	\$7,953	3	%	\$47	—	%
AA	37,702	13	%	1,670	15	%
A	91,299	32	%	2,840	26	%
BBB	132,230	46	%	4,580	41	%
Total investment grade	269,184	94	%	9,137	82	%
BB	13,969	5	%	1,031	9	%
B and below	2,657	1	%	1,029	9	%
Total below investment grade	16,626	6	%	2,060	18	%
	\$285,810	100	%	\$11,197	100	%

The Company's residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities that were rated below investment grade were 40% of the below investment grade total at June 30, 2015 and December 31, 2014.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements--(Continued) (Unaudited)

The following table provides the distribution of maturities for fixed maturity securities available for sale with unrealized losses. Expected maturities may differ from these contractual maturities since borrowers may have the right to call or prepay obligations.

	June 30, 2015		December 31, 2014	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities available for sale:				
Due in one year or less	\$269	\$1	\$5,052	\$115
Due after one year through five years	35,995	315	21,033	960
Due after five years through ten years	362,055	10,109	202,240	5,772
Due after ten years	68,606	3,306	47,740	3,635
Total	466,925	13,731	276,065	10,482
Securities with variable principal payments	3,386	9	341	2
Redeemable preferred stocks	9,644	453	9,404	713
Total	\$479,955	\$14,193	\$285,810	\$11,197

The Company does not consider these unrealized losses to be credit-related. The unrealized losses at June 30, 2015 primarily relate to changes in interest rates and market spreads subsequent to purchase. A substantial portion of investment securities that have unrealized losses are either corporate debt issued with investment grade credit ratings or other investment securities. Other investment securities include residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities. The discounted future cash flow calculation typically becomes the primary determinant of whether any portion and to what extent an unrealized loss is due to credit on loan-backed and similar asset-backed securities with significant indications of potential other-than-temporary impairment. Such indications typically include below investment grade ratings and significant unrealized losses for an extended period of time, among other factors. The Company identified 22 non-U.S. agency mortgage-backed securities that were determined to have such indications at both June 30, 2015 and December 31, 2014. A discounted future cash flow analysis was performed for each of these securities to determine if any portion of the impairment was due to credit and deemed to be other-than-temporary. This amount is recognized as a realized loss in the Company's Consolidated Statements of Comprehensive Income and the carrying value of the security is written down by the same amount. The portion of an impairment that is determined not to be due to credit is recorded as a component of accumulated other comprehensive income in the Consolidated Balance Sheets. The discount rate used in calculating the present value of future cash flows was the investment yield at the time of purchase for each security. The initial default rates were assumed to remain constant or grade down over time, reflecting the Company's estimate of stabilized collateral performance in the future for such securities.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements--(Continued) (Unaudited)

The following tables present the range of significant assumptions used in projecting the future cash flows of the Company's residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities. The Company believes that the assumptions below are reasonable and they are based largely upon the actual historical results of the underlying security collateral.

June 30, 2015												
Vintage	Initial Default Rate			Initial Severity Rate			Prepayment Speed					
	Low		High	Low		High	Low		High			
2003	0.8	%	1.0	%	30	%	35	%	12.0	%	16.0	%
2004	0.8	%	7.0	%	35	%	68	%	8.0	%	16.0	%
2005	3.8	%	11.3	%	30	%	69	%	6.0	%	20.0	%
2006	6.4	%	8.8	%	35	%	85	%	8.0	%	16.0	%
2007	10.3	%	10.3	%	61	%	61	%	8.0	%	8.0	%

December 31, 2014												
Vintage	Initial Default Rate			Initial Severity Rate			Prepayment Speed					
	Low		High	Low		High	Low		High			
2003	0.8	%	1.0	%	30	%	35	%	12.0	%	16.0	%
2004	0.8	%	7.0	%	35	%	65	%	8.0	%	18.0	%
2005	4.8	%	12.6	%	35	%	71	%	6.0	%	18.0	%
2006	5.7	%	8.4	%	35	%	85	%	8.0	%	16.0	%
2007	11.0	%	11.0	%	59	%	59	%	8.0	%	8.0	%

Significant unrealized losses on securities can continue for extended periods of time, particularly for certain individual securities. While this can be an indication of potential credit impairments, it can also be an indication of illiquidity in a particular sector or security. In addition, the fair value of an individual security can be heavily influenced by the complexities of varying market sentiment or uncertainty regarding the prospects for an individual security. Based upon the process described above, the Company is best able to determine if and to what extent credit impairment may exist in these securities by performing present value calculations of projected future cash flows at the conclusion of each reporting period. By reviewing the most recent data available regarding the security and other relevant industry and market factors, the Company can modify assumptions used in the cash flow projections and determine the best estimate of the portion of any impairment that is due to credit at the conclusion of each period.

The Company closely monitors its investments in securities classified as subprime. Less than 1% of the Company's total investments were in these types of investments at June 30, 2015 and December 31, 2014.

The Company also monitors structured securities through a combination of an analysis of vintage, credit ratings, and other factors. Structured securities include asset-backed, residential mortgage-backed securities, along with collateralized debt obligations, and other collateralized obligations.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements--(Continued) (Unaudited)

The following tables divide these investment types among vintage and credit ratings.

	June 30, 2015		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Residential & non-agency MBS: ¹			
Investment Grade:			
Vintage 2003 and earlier	\$4,975	\$4,781	\$194
2004	5,998	5,739	259
Total investment grade	10,973	10,520	453
Below Investment Grade:			
Vintage 2003 and earlier	2,267	2,167	100
2004	26,601	25,432	1,169
2005	50,617	48,685	1,932
2006	2,454	1,375	1,079
2007	3,105	2,909	196
Total below investment grade	85,044	80,568	4,476
Other structured securities:			
Investment grade	60,172	60,294	(122)
Below investment grade	14,866	15,666	(800)
Total other	75,038	75,960	(922)
Total structured securities	\$171,055	\$167,048	\$4,007

¹ This table accounts for all vintages owned by the Company.

	December 31, 2014		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Residential & non-agency MBS: ¹			
Investment grade:			
Vintage 2003 and earlier	\$8,249	\$7,910	\$339
2004	6,459	6,177	282
Total investment grade	14,708	14,087	621
Below investment grade:			
2004	29,647	28,080	1,567
2005	55,806	53,741	2,065
2006	3,528	2,406	1,122
2007	3,386	3,164	222
Total below investment grade	92,367	87,391	4,976
Other structured securities:			
Investment grade	57,672	57,658	14
Below investment grade	14,728	16,073	(1,345)
Total other	72,400	73,731	(1,331)
Total structured securities	\$179,475	\$175,209	\$4,266

¹ This table accounts for all vintages owned by the Company.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements--(Continued) (Unaudited)

The Company recognized other-than-temporary impairments on corporate private-labeled residential mortgage-backed and other securities of \$0.4 million and \$0.1 million for the second quarters and \$0.4 million and \$0.3 million for the six months ended June 30, 2015 and 2014, respectively.

The following table provides a reconciliation of credit losses recognized in earnings on fixed maturity securities held by the Company for which a portion of the other-than-temporary impairment loss was recognized in other comprehensive income (loss).

	Quarter Ended		Six Months Ended	
	June 30		June 30	
	2015	2014	2015	2014
Credit losses on securities held at beginning of the period	\$17,891	\$16,532	\$17,889	\$16,375
Additions for credit losses not previously recognized in other-than-temporary impairment	—	—	—	4
Additions (reductions) for increases in the credit loss for which an other-than-temporary impairment was previously recognized when there was no intent to sell the security before recovery of its amortized cost basis	1,925	107	1,932	265
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	(5)	(5)	(10)	(10)
Credit losses on securities held at the end of the period	\$19,811	\$16,634	\$19,811	\$16,634

The Company reviews and evaluates information on securities previously impaired and still owned. The identification of additional information or further deteriorations could result in additional impairments in future periods.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements--(Continued) (Unaudited)

Realized Gains (Losses)

The following table provides detail concerning realized investment gains and losses.

	Quarter Ended		Six Months Ended	
	June 30		June 30	
	2015	2014	2015	2014
Gross gains resulting from:				
Sales of investment securities	\$36	\$433	\$36	\$611
Investment securities called and other	2,360	367	2,587	1,662
Real estate	3	—	3	339
Total gross gains	2,399	800	2,626	2,612
Gross losses resulting from:				
Investment securities called and other	(63)	(57)	(113)	(311)
Mortgage loans	(12)	(66)	(205)	(90)
Total gross losses	(75)	(123)	(318)	(401)
Change in allowance for loan losses	(29)	124	(38)	296
Amortization of DAC and VOBA	(18)	(17)	(21)	(58)
Net realized investment gains, excluding other-than-temporary impairment losses	2,277	784	2,249	2,449
Net impairment losses recognized in earnings:				
Other-than-temporary impairment losses on fixed maturity and equity securities	(1,770)	(243)	(1,770)	(456)
Portion of loss recognized in other comprehensive income (loss)	(155)	136	(162)	187
Net other-than-temporary impairment losses recognized in earnings	(1,925)	(107)	(1,932)	(269)
Net realized investment gains	\$352	\$677	\$317	\$2,180

Proceeds From Sales of Investment Securities

The table below details proceeds from the sale of fixed maturity and equity securities, excluding maturities and calls.

	Quarter Ended		Six Months Ended	
	June 30		June 30	
	2015	2014	2015	2014
Proceeds	\$1,039	\$8,269	\$1,039	\$12,643

Mortgage Loans

The Company invests in commercial mortgage loans that are secured by commercial real estate and are stated at cost, adjusted for amortization of premium and accrual of discount, less an allowance for loan losses. This allowance is maintained at a level believed by management to be adequate to absorb estimated credit losses and was \$2.0 million at June 30, 2015 and \$1.9 million at December 31, 2014. The Company had 15% of its total investments in commercial mortgage loans at both June 30, 2015 and December 31, 2014. In addition to the subject collateral underlying the mortgage, the Company typically requires some amount of recourse from borrowers as another potential source of repayment. The recourse requirement is determined as part of the underwriting requirements of each loan. The average loan to value ratio for the overall portfolio was 46% at both June 30, 2015 and December 31, 2014. These ratios are based upon the current balance of loans relative to the appraisal of value at the time the loan was originated or acquired.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements--(Continued) (Unaudited)

The following table identifies the gross mortgage loan principal outstanding and the allowance for loan losses.

	June 30 2015		December 31 2014
Principal outstanding	\$552,676		\$543,094
Allowance for loan losses	(1,952	)	(1,914
Carrying value	\$550,724		\$541,180

The following table summarizes the amount of mortgage loans held by the Company, segregated by year of origination. Purchased loans are shown in the year acquired by the Company, although the individual loans may have been initially originated in prior years.

	June 30 2015	%		December 31 2014	%	
		of Total			of Total	
Prior to 2006	\$37,121	8	%	\$47,843	9	%
2006	15,480	3	%	16,280	3	%
2007	18,314	3	%	19,991	4	%
2008	22,193	4	%	22,938	4	%
2009	13,804	2	%	20,754	4	%
2010	40,346	7	%	51,205	9	%
2011	87,260	16	%	91,943	17	%
2012	123,692	22	%	133,912	25	%
2013	71,950	13	%	77,784	14	%
2014	59,217	11	%	60,444	11	%