

KANSAS CITY LIFE INSURANCE CO

Form 10-Q

October 29, 2014

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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
^x 1934

For the quarterly period ended September 30, 2014 or

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

No o

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 x

No o

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 o Accelerated filer x

Non-accelerated filer o Smaller reporting company o

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

Yes o

No x

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

10,889,139 shares

Class

Outstanding September 30, 2014

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KANSAS CITY LIFE INSURANCE COMPANY

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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

	September 30 2014 (Unaudited)	December 31 2013
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	\$2,751,916	\$2,618,620
Equity securities available for sale, at fair value	24,726	23,116
Mortgage loans	570,486	629,256
Real estate	143,275	142,536
Policy loans	83,254	83,518
Short-term investments	19,807	40,712
Other investments	604	12,517
Total investments	3,594,068	3,550,275
Cash	8,406	8,197
Accrued investment income	37,033	33,795
Deferred acquisition costs	248,827	256,386
Reinsurance recoverables	192,119	191,055
Property and equipment	17,671	17,524
Other assets	65,837	64,018
Separate account assets	404,621	393,416
Total assets	\$4,568,582	\$4,514,666
LIABILITIES		
Future policy benefits	\$927,307	\$910,228
Policyholder account balances	2,082,347	2,096,212
Policy and contract claims	35,698	36,783
Other policyholder funds	161,859	160,421
Other liabilities	199,086	192,202
Separate account liabilities	404,621	393,416
Total liabilities	3,810,918	3,789,262
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	41,003	40,989
Retained earnings	836,274	823,408
Accumulated other comprehensive income	37,205	14,170
Treasury stock, at cost (2014 - 7,607,541 shares; 2013 - 7,527,841 shares)	(179,939)	(176,284)
Total stockholders' equity	757,664	725,404
Total liabilities and stockholders' equity	\$4,568,582	\$4,514,666
See accompanying Notes to Consolidated Financial Statements		

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Consolidated Statements of Comprehensive Income

	Quarter Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
REVENUES				
Insurance revenues:				
Net premiums	\$42,480	\$43,704	\$125,601	\$141,470
Contract charges	29,541	29,319	89,173	84,278
Total insurance revenues	72,021	73,023	214,774	225,748
Investment revenues:				
Net investment income	40,608	41,961	122,650	127,249
Net realized investment gains, excluding other-than-temporary impairment losses	981	1,956	3,430	4,134
Net impairment losses recognized in earnings:				
Total other-than-temporary impairment losses	(765	) (116	) (1,221	) (575
Portion of impairment losses recognized in other comprehensive income (loss)	433	21	620	120
Net other-than-temporary impairment losses recognized in earnings	(332	) (95	) (601	) (455
Total investment revenues	41,257	43,822	125,479	130,928
Other revenues	2,385	2,604	7,061	7,395
Total revenues	115,663	119,449	347,314	364,071
BENEFITS AND EXPENSES				
Policyholder benefits	49,675	50,814	152,582	159,547
Interest credited to policyholder account balances	18,999	19,922	57,205	59,450
Amortization of deferred acquisition costs	9,797	9,247	31,154	29,016
Operating expenses	25,588	28,660	74,321	81,668
Total benefits and expenses	104,059	108,643	315,262	329,681
Income before income tax expense	11,604	10,806	32,052	34,390
Income tax expense	3,814	3,696	10,303	11,241
NET INCOME	\$7,790	\$7,110	\$21,749	\$23,149
COMPREHENSIVE INCOME (LOSS), NET OF TAXES				
Change in net unrealized gains on securities available for sale	\$(9,096	) \$(7,155	) \$29,177	\$(51,030
Change in future policy benefits	623	268	(5,939	) 7,192
Change in policyholder account balances	41	28	(203	) 350
Change in benefit plan obligations	—	—	—	5,010
Other comprehensive income (loss)	(8,432) (6,859) 23,035	(38,478
COMPREHENSIVE INCOME (LOSS)	\$(642) \$251	\$44,784	\$(15,329

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Basic and diluted earnings per share:

Net income	\$0.71	\$0.65	\$1.98	\$2.10
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See accompanying Notes to Consolidated Financial Statements

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Consolidated Statement of Stockholders' Equity

	Nine Months Ended September 30, 2014 (Unaudited)	
COMMON STOCK, beginning and end of period	\$23,121	
ADDITIONAL PAID IN CAPITAL		
Beginning of year	40,989	
Excess of proceeds over cost of treasury stock sold	14	
End of period	41,003	
RETAINED EARNINGS		
Beginning of year	823,408	
Net income	21,749	
Stockholder dividends of \$0.81 per share	(8,883)
End of period	836,274	
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Beginning of year	14,170	
Other comprehensive income	23,035	
End of period	37,205	
TREASURY STOCK, at cost		
Beginning of year	(176,284)
Cost of 80,127 shares acquired	(3,661)
Cost of 427 shares sold	6	
End of period	(179,939)
TOTAL STOCKHOLDERS' EQUITY	\$757,664	
See accompanying Notes to Consolidated Financial Statements		

Table of ContentsKansas City Life Insurance Company
Consolidated Statements of Cash Flows

	Nine Months Ended September 30	
	2014	2013
	(Unaudited)	
OPERATING ACTIVITIES		
Net income	\$21,749	\$23,149
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investment premium and discount	3,299	3,047
Depreciation	3,474	3,190
Acquisition costs capitalized	(26,539	) (27,933
Amortization of deferred acquisition costs	31,154	29,016
Realized investment gains	(2,829	) (3,679
Changes in assets and liabilities:		
Reinsurance recoverables	(1,064	) (535
Future policy benefits	7,944	26,894
Policyholder account balances	(14,493	) (21,092
Income taxes payable and deferred	1,053	3,733
Other, net	(3,522	) 1,707
Net cash provided	20,226	37,497
INVESTING ACTIVITIES		
Purchases:		
Fixed maturity securities	(239,616	) (194,397
Equity securities	(89	) (13,165
Mortgage loans	(23,349	) (54,748
Real estate	(5,182	) (21,525
Policy loans	(8,181	) (8,352
Sales or maturities, calls, and principal paydowns:		
Fixed maturity securities	151,877	218,717
Equity securities	15	1,459
Mortgage loans	80,268	80,619
Real estate	2,538	370
Policy loans	8,446	10,829
Other investments	5,000	159
Net sales of short-term investments	20,905	6,813
Acquisition of property and equipment	(1,388) (733
Reinsurance transaction	—	(34,279
Net cash used	(8,756) (8,233

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Consolidated Statements of Cash Flows (Continued)

	Nine Months Ended September 30	
	2014	2013
	(Unaudited)	
FINANCING ACTIVITIES		
Deposits on policyholder account balances	\$187,724	\$177,203
Withdrawals from policyholder account balances	(194,432	) (198,168
Net transfers from (to) separate accounts	5,157	(3,899
Change in other deposits	2,814	7,811
Cash dividends to stockholders	(8,883	) (8,928
Net change in treasury stock	(3,641	) (2,061
Net cash used	(11,261	) (28,042
Increase in cash	209	1,222
Cash at beginning of year	8,197	7,026
Cash at end of period	\$8,406	\$8,248
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	\$9,250	\$7,872
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 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 2013 Form 10-K, as filed with the Securities and Exchange Commission on February 26, 2014. 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 September 30, 2014 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.

Reinsurance Transaction

In April 2013, the Company acquired a closed block of variable life insurance policies and variable annuity contracts through reinsurance and servicing agreements from American Family Life Insurance Company (American Family). Under the reinsurance agreement, the Company assumed 100% of the separate account liabilities on a modified coinsurance basis and 100% of the general account liabilities on a coinsurance basis. The transaction also involved an ongoing servicing arrangement with American Family whereby the Company will provide administrative services for these policies. This block is included as a component of the Individual Insurance segment. For additional information, please refer to the Company's 2013 Form 10-K.

Business Changes

On July 21, 2014, the Company filed a Form 8-K to announce the sale of certain assets of Sunset Financial Services, Inc. a wholly-owned subsidiary of the Company to Securities America Financial Corporation. The Company included this information as a Subsequent Event Footnote in its Second Quarter 2014 Form 10-Q Report. As a registered Broker Dealer, regulatory approval from FINRA is required to close the transaction, and such approval has not been granted. The Company has concluded that the sale does not meet the definition of a discontinued operation under ASC 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which the Company has adopted as described further in Note 2. The Company anticipates the transaction to close in the fourth quarter and a gain from the sale is expected to be realized in other revenues at the time of closing. While the exact amount of the gain is not determinable at this time, it is estimated to be up to \$1.8 million net of taxes and related transaction expenses or \$0.17 per share based on the number of shares outstanding as of September 30, 2014. This is a decrease from previously estimated amounts based on additional information gained since the Company's previous disclosure in its Second Quarter 2014 Form 10-Q Report. No material impact is expected to be realized in the Company's Consolidated Balance Sheet.

Significant Accounting Policies

For a full discussion of the Company's significant accounting policies, please refer to the Company's 2013 Form 10-K. No significant updates or changes to these policies occurred during the nine months ended September 30, 2014.

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Kansas City Life Insurance Company

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

2. New Accounting Pronouncements

Accounting Pronouncements Adopted During 2014

In April 2014, the FASB issued guidance regarding reporting discontinued operations and expanded disclosures for disposals of components of an entity. The new guidance changes the definition of discontinued operations by limiting discontinued operations reporting to significant disposals that represent strategic shifts that have, or will have, a major effect on an entity's operations and financial results. The guidance requires an entity to present the assets and liabilities of a disposal that qualifies as a discontinued operation to be reported separately in the asset and liability sections of the statement of financial position. Additional disclosures are required for discontinued operations and new disclosures are required for individually material disposal transactions that do not meet the definition of a discontinued operation. The guidance is effective for public business entities for annual periods beginning on or after December 15, 2014 and interim periods within those years, with early adoption permitted. The Company adopted this guidance regarding the proposed transaction during the third quarter of 2014 with no material impact to the consolidated financial statements.

Accounting Pronouncements Issued During 2014, Not Yet Adopted

In January 2014, the Financial Accounting Standards Board (FASB) issued guidance regarding accounting for investments in qualified affordable housing projects. The amendments modify the conditions that a reporting entity must meet to be eligible to use a method other than the equity or cost methods to account for qualified affordable housing project investments. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Company is currently evaluating this guidance and its materiality to the consolidated financial statements.

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. 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, but it does not believe that there will be a material impact to the consolidated financial statements.

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 and for annual periods and interim periods thereafter. The Company is currently evaluating this guidance, but it does not believe that there will be a material impact to the consolidated financial statements.

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.

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

3. 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 September 30, 2014.

	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	\$163,424	\$8,379	\$368	\$171,435
Federal agencies ¹	19,765	2,458	—	22,223
Federal agency issued residential mortgage-backed securities ¹	46,736	4,823	2	51,557
Subtotal	229,925	15,660	370	245,215
Corporate obligations:				
Industrial	529,296	32,223	2,374	559,145
Energy	225,524	16,083	2,210	239,397
Communications and technology	227,580	16,362	513	243,429
Financial	275,575	19,010	842	293,743
Consumer	512,689	27,705	2,093	538,301
Public utilities	238,974	26,376	320	265,030
Subtotal	2,009,638	137,759	8,352	2,139,045
Corporate private-labeled residential mortgage-backed securities	95,565	5,008	144	100,429
Municipal securities	135,118	19,064	4	154,178
Other	92,918	6,246	2,818	96,346
Redeemable preferred stocks	17,481	170	948	16,703
Fixed maturity securities	2,580,645	183,907	12,636	2,751,916
Equity securities	23,666	1,837	777	24,726
Total	\$2,604,311	\$185,744	\$13,413	\$2,776,642

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, 2013.

	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	\$ 134,198	\$ 6,653	\$ 1,831	\$ 139,020
Federal agencies ¹	19,756	2,312	—	22,068
Federal agency issued residential mortgage-backed securities ¹	56,738	5,392	2	62,128
Subtotal	210,692	14,357	1,833	223,216
Corporate obligations:				
Industrial	515,395	27,051	7,667	534,779
Energy	211,115	15,462	3,832	222,745
Communications and technology	222,277	12,938	1,672	233,543
Financial	266,693	18,824	2,040	283,477
Consumer	473,627	25,936	5,807	493,756
Public utilities	228,551	24,780	954	252,377
Subtotal	1,917,658	124,991	21,972	2,020,677
Corporate private-labeled residential mortgage-backed securities	114,219	3,179	916	116,482
Municipal securities	138,136	9,488	5	147,619
Other	97,769	4,422	4,317	97,874
Redeemable preferred stocks	15,144	—	2,392	12,752
Fixed maturity securities	2,493,618	156,437	31,435	2,618,620
Equity securities	23,691	1,871	2,446	23,116
Total	\$ 2,517,309	\$ 158,308	\$ 33,881	\$ 2,641,736

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 at September 30, 2014. Expected maturities may differ from these contractual maturities since borrowers may have the right to call or prepay obligations.

	Amortized Cost	Fair Value
Due in one year or less	\$ 130,310	\$ 132,753
Due after one year through five years	744,106	813,075
Due after five years through ten years	1,043,438	1,081,193
Due after ten years	439,637	488,244
Securities with variable principal payments	205,673	219,948
Redeemable preferred stocks	17,481	16,703
Total	\$ 2,580,645	\$ 2,751,916

No material derivative financial instruments were held during the first nine months of 2014 or 2013.

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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 2013 Form 10-K.

The following table provides information regarding fixed maturity and equity security investments available for sale with unrealized losses by length of time at September 30, 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	\$10,549	\$55	\$9,762	\$313	\$20,311	\$368
Federal agency issued residential mortgage-backed securities ¹	67	2	287	—	354	2
Subtotal	10,616	57	10,049	313	20,665	370
Corporate obligations:						
Industrial	26,336	99	49,956	2,275	76,292	2,374
Energy	25,432	867	37,074	1,343	62,506	2,210
Communications and technology	11,985	157	14,643	356	26,628	513
Financial	5,000	1	16,081	841	21,081	842
Consumer	43,604	491	39,686	1,602	83,290	2,093
Public utilities	6,473	13	6,689	307	13,162	320
Subtotal	118,830	1,628	164,129	6,724	282,959	8,352
Corporate private-labeled residential mortgage-backed securities	4,581	144	—	—	4,581	144
Municipal securities	3,030	4	—	—	3,030	4
Other	6,662	181	38,132	2,637	44,794	2,818
Redeemable preferred stocks	1,470	42	9,220	906	10,690	948
Fixed maturity securities	145,189	2,056	221,530	10,580	366,719	12,636
Equity securities	—	—	11,508	777	11,508	777
Total	\$145,189	\$2,056	\$233,038	\$11,357	\$378,227	\$13,413

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, 2013.

	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	\$44,951	\$ 1,795	\$749	\$36	\$45,700	\$ 1,831
Federal agency issued residential mortgage-backed securities ¹	37	—	288	2	325	2
Subtotal	44,988	1,795	1,037	38	46,025	1,833
Corporate obligations:						
Industrial	146,454	5,718	22,071	1,949	168,525	7,667
Energy	70,015	3,366	5,518	466	75,533	3,832
Communications and technology	43,477	1,672	—	—	43,477	1,672
Financial	25,300	866	4,680	1,174	29,980	2,040
Consumer	136,745	5,807	—	—	136,745	5,807
Public utilities	17,476	575	3,617	379	21,093	954
Subtotal	439,467	18,004	35,886	3,968	475,353	21,972
Corporate private-labeled residential mortgage-backed securities	33,179	916	—	—	33,179	916
Municipal securities	2,044	5	—	—	2,044	5
Other	16,691	726	39,900	3,591	56,591	4,317
Redeemable preferred stocks	12,752	2,392	—	—	12,752	2,392
Fixed maturity securities	549,121	23,838	76,823	7,597	625,944	31,435
Equity securities	9,731	2,404	131	42	9,862	2,446
Total	\$558,852	\$26,242	\$76,954	\$7,639	\$635,806	\$33,881

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

The Company also considers as part of its monitoring and evaluation process the length of time the fair value of a security is below amortized cost. At September 30, 2014, the Company had 125 positions in its investment portfolio of fixed maturity and equity securities with unrealized losses. Included in this total, 57 security positions were below cost for less than one year; 58 security positions were below cost for one year or more and less than three years; and ten security positions were below cost for three years or more. At December 31, 2013, the Company had 195 positions in its investment portfolio of fixed maturity and equity securities with unrealized losses. Included in this total, 173 security positions were below cost for less than one year; twelve security positions were below cost for one year or more and less than three years; and ten security positions were below cost for three years or more. The securities having unrealized losses for three years or more include mortgage-backed securities, where discounted future cash flow calculations are the primary determinant of impairment; asset-backed securities, which continue to perform as expected but are not actively traded and market values are discounted significantly due to illiquidity; and variable-rate securities, where interest rates and spreads to indices are significant factors in market pricing.

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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 at September 30, 2014 and December 31, 2013. Expected maturities may differ from these contractual maturities since borrowers may have the right to call or prepay obligations.

	September 30, 2014		December 31, 2013	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities available for sale:				
Due in one year or less	\$5,292	\$1	\$—	\$—
Due after one year through five years	16,116	580	29,812	268
Due after five years through ten years	264,400	7,325	417,859	20,118
Due after ten years	64,995	3,633	132,018	7,740
Total	350,803	11,539	579,689	28,126
Securities with variable principal payments	5,226	149	33,503	917
Redeemable preferred stocks	10,690	948	12,752	2,392
Total	\$366,719	\$12,636	\$625,944	\$31,435

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 loss was recognized in other comprehensive income (loss).

	Quarter Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Credit losses on securities held at beginning of the period in accumulated other comprehensive income	\$16,634	\$15,611	\$16,375	\$15,260
Additions for credit losses not previously recognized in other-than-temporary impairment	20	—	24	27
Additions 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	312	95	577	428
Reductions for securities sold during the period	—	—	—	—
Reductions for securities previously recognized in other comprehensive income (loss) because of intent to sell the security before recovery of its amortized cost basis	—	—	—	—
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	(4)	(5)	(14)	(14)
Credit losses on securities held at the end of the period in accumulated other comprehensive income	\$16,962	\$15,701	\$16,962	\$15,701

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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 for the third quarters and nine months ended September 30, 2014 and 2013.

	Quarter Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Gross gains resulting from:				
Sales of investment securities	\$61	\$—	\$672	\$118
Investment securities called and other	179	2,276	1,841	4,791
Real estate	495	—	834	20
Total gross gains	735	2,276	3,347	4,929
Gross losses resulting from:				
Sales of investment securities	(15	) —	(15) —
Investment securities called and other	(46	) (164	) (357	) (524
Sale of real estate and joint venture	(60	) —	(60	) (89
Mortgage loans	(266	) (8	) (356	) (44
Total gross losses	(387	) (172	) (788	) (657
Change in allowance for potential future losses on mortgage loans	630	(85	) 926	(47
Amortization of DAC and VOBA	3	(63	) (55	) (91
Net realized investment gains, excluding other-than-temporary impairment losses	981	1,956	3,430	4,134
Net impairment losses recognized in earnings:				
Other-than-temporary impairment losses on fixed maturity and equity securities	(765	) (116	) (1,221	) (575
Portion of loss recognized in other comprehensive income (loss)	433	21	620	120
Net other-than-temporary impairment losses recognized in earnings	(332	) (95	) (601	) (455
Net realized investment gains	\$649	\$1,861	\$2,829	\$3,679

Proceeds From Sales of Investment Securities

The table below details proceeds from the sale of fixed maturity and equity securities, excluding maturities and calls, for the third quarters and nine months ended September 30, 2014 and 2013.

	Quarter Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Proceeds	\$9,492	\$—	\$22,135	\$9,130

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 potential future losses. This allowance is maintained at a level believed by management to be adequate to absorb estimated credit losses and was \$2.3 million at September 30, 2014 and \$3.3 million at December 31, 2013. The Company had 16% of its total investments in commercial mortgage loans at September 30, 2014, down from 18% at December 31, 2013. 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

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Kansas City Life Insurance Company

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

September 30, 2014, compared to 47% at December 31, 2013. 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.

The following table identifies the gross mortgage loan principal outstanding and the allowance for potential future losses at September 30, 2014 and December 31, 2013.

	September 30 2014	December 31 2013
Principal outstanding	\$572,811	\$632,507
Allowance for potential future losses	(2,325	(3,251
Carrying value	\$570,486	\$629,256

The following table summarizes the amount of mortgage loans held by the Company at September 30, 2014 and December 31, 2013, 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.

	September 30 2014	% of Total	December 31 2013	% of Total
Prior to 2005	\$31,473	5 %	\$41,324	6 %
2005	25,035	4 %	28,111	4 %
2006	19,629	3 %	24,744	4 %
2007	20,471	4 %	27,009	4 %
2008	23,422	4 %	28,051	4 %
2009	22,808	4 %	37,723	6 %
2010	56,579	10 %	61,236	10 %
2011	94,203	16 %	118,459	19 %
2012	165,565	30 %	184,749	29 %
2013	78,744	14 %	81,101	14 %
2014	34,882	6 %	—	— %
Total	\$572,811	100 %	\$632,507	100 %

The following table identifies mortgage loans by geographic location at September 30, 2014 and December 31, 2013.

	September 30 2014	% of Total	December 31 2013	% of Total
Pacific	\$162,401	29 %	\$181,690	29 %
West north central	81,991	14 %	91,687	14 %
West south central	93,435	16 %	101,019	16 %
Mountain	69,412	12 %	78,116	12 %
South Atlantic	63,610	11 %	66,686	11 %
Middle Atlantic	22,241	4 %	31,495	5 %
East north central	54,838	10 %	57,395	9 %
East south central	24,883	4 %	24,419	4 %
Total	\$572,811	100 %	\$632,507	100 %

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Kansas City Life Insurance Company

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

The following table identifies the concentration of mortgage loans by state greater than 5% of total at September 30, 2014 and December 31, 2013.

	September 30 2014	% of Total	December 31 2013
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