KANSAS CITY LIFE INSURANCE COMPANY

A Missouri Corporation

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Kansas City, MO 64111

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QUARTERLY REPORT

FOR THE QUARTER ENDED MARCH 31, 2019

ISSUER'S EQUITY SECURITIES

Common Stock
Par Value $1.25 per Share
36,000,000 Shares Authorized
9,683,414 Shares Outstanding as of March 31, 2019

Kansas City Life Insurance Company is responsible for the content of this Quarterly Report. The securities described in this document are not registered with, and the information contained in this report has not been filed with, or approved by, the U.S. Securities and Exchange Commission.

KANSAS CITY LIFE INSURANCE COMPANY
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Statement on Forward-Looking Information

This report reviews the consolidated financial condition and results of operations of Kansas City Life Insurance Company. 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.” 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 with 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 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 and changes in consumer behavior, which may affect our ability to sell our products and retain business;
- Increasing competition in the recruitment and retention of general agents and agents;
- 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 our products;
- Changes in assumptions related to deferred acquisition costs (DAC), value of business acquired (VOBA), and deferred revenue liability (DRL);
- Regulatory, accounting, or tax changes that may affect the cost of, or the demand for, our products or services;
- Unanticipated changes in industry trends and ratings assigned by nationally recognized rating organizations; and
- The ability to integrate acquisitions and to achieve anticipated operating efficiencies and the ability to preserve goodwill that results from acquisitions.

No assurances can be given 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.

Item 1. The Exact Name of the Issuer and Address and Telephone Number of Issuer's Principal Office

Issuer's Exact Name:	Kansas City Life Insurance Company
Issuer's Address:	3520 Broadway Kansas City, Missouri 64111
Issuer's Telephone:	Telephone: (816) 753-7000 Fax: (816) 753-4902
Issuer's Website:	*www.kclife.com*
Investor Relations:	A. Craig Mason Jr. Secretary Telephone: (816) 753-7000 ext. 8308 Email: Communications@*kclife.com*

Item 2. Shares Outstanding

Common Stock

	March 31, 2019
Number of Shares Authorized	36,000,000
Number of Shares Outstanding	9,683,414
Freely Tradable Shares (Public Float)	2,507,212
Total Number of Shareholders of Record	150

We have more than 100 beneficial shareholders of record owning at least 100 shares.

Item 3. Interim Consolidated Financial Statements

The interim consolidated financial statements of Kansas City Life Insurance Company as of March 31, 2019 are attached hereto as Exhibit 3.1 and are hereby incorporated by reference into this Quarterly Report, including:

- Consolidated Balance Sheets
- Consolidated Statements of Comprehensive Income
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements

The interim consolidated financial statements and the accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The interim consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results. These adjustments are generally of a normal recurring nature. As permitted under GAAP, certain footnotes or other financial disclosures are condensed or omitted in the interim consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our 2018 Annual Report, which is available on the OTCQX website (*www.otcmarkets.com/stock/KCLI/filings*). The interim consolidated financial statements and the accompanying notes for the quarters ended March 31, 2019 and 2018 are unaudited. Operating results for the interim period are not necessarily indicative of the results that may be expected or achieved for the year ending December 31, 2019.

Item 4. Management's Discussion and Analysis of Financial Condition and Results of Operations

Amounts are stated in thousands, except share data, or as otherwise noted.

Management's Discussion and Analysis of Financial Condition and Results of Operations provides, in narrative form, the perspective of the management of Kansas City Life Insurance Company on its financial condition, results of operations, liquidity, and certain other factors that may affect its future results. The terms "the Company," "we," "us," and "our" are used to refer to Kansas City Life Insurance Company and its subsidiaries. Kansas City Life Insurance Company (Kansas City Life) is the parent company. Sunset Life Insurance Company of America (Sunset Life), Old American Insurance Company (Old American), and Grange Life Insurance Company (Grange Life) are wholly-owned subsidiaries. We also have non-insurance subsidiaries that individually and collectively are not material.

The following is a discussion and analysis of the results of operations for the quarters ended March 31, 2019 and 2018 and our financial condition at March 31, 2019. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes included in this document, as well as our 2018 Annual Report.

Overview

Our profitability depends on many factors, which include but are not limited to:

- The sale of traditional and interest sensitive life, annuity, and accident and health products;
- The rate of mortality, lapse, and surrender of future policy benefits and policyholder account balances;
- The rate of morbidity, disability, and incurrence of other policyholder benefits;
- Interest rates credited to policyholders;
- The availability of reinsurance opportunities and the effectiveness of reinsurance programs;
- The amount of investment assets under management;
- The ability to maximize investment returns and manage risks such as interest rate risk, credit risk, and equity risk;
- Timely and cost-effective access to liquidity;
- Management of distribution costs and operating expenses;
- Management of the operations of our affiliates and the management of blocks of business acquired through reinsurance assumption transactions; and
- The ability to integrate acquisitions and to achieve anticipated operating efficiencies.

General economic conditions may affect future results. Market fluctuations, which often can be extreme in nature, can significantly impact the financial markets and our investments, revenues, and policyholder benefits. The sustained low interest rate environment and volatile equity markets have presented significant challenges to the financial markets as a whole and specifically to companies invested in fixed maturity securities and other fixed income investments. These conditions may persist into the future, affecting our financial position and financial statements.

Consolidated Results of Operations

Summary of Results

We earned net income of $4.0 million in the first quarter of 2019 compared to $1.5 million in the first quarter of 2018. Net income per share was $0.42 in the first quarter of 2019 versus $0.15 in the same period in the prior year.

The following table presents condensed consolidated results of operations for the quarters ended March 31, 2019 and 2018.

	Quarter Ended March 31		
	2019	2018	% Change
Revenues:			
Insurance and other revenues	$ 90,455	$ 74,550	21 %
Net investment income	36,969	34,866	6 %
Net investment gains	2,679	95	2,720 %
Benefits and expenses:			
Policyholder benefits and interest credited to policyholder account balances	87,247	71,913	21 %
Amortization of deferred acquisition costs	8,722	10,123	(14)%
Operating expenses	29,185	25,732	13 %
Income tax expense	914	281	225 %
Net income	$ 4,035	$ 1,462	176 %

The Company acquired Grange Life on October 1, 2018. Grange Life is domiciled in the state of Ohio and is licensed in 15 states to sell traditional life insurance, universal life products, and fixed annuities. The acquisition of Grange Life is expected to expand our existing block of business and also to expand our insurance sales through access to a wider distribution network of independent agents. The results of Grange Life operations for the first quarter of 2019 are included in our Consolidated Statements of Comprehensive Income for the quarter ended March 31, 2019.

Insurance Revenues

Insurance revenues consist of premiums, net of reinsurance, from the sale of traditional individual and group life insurance products, immediate annuities, and accident and health products, as well as contract charges from interest sensitive and deposit-type products. Insurance revenues are impacted by the level of new sales, the type of products sold, the persistency of policies, general economic conditions, and competitive forces.

The following table presents gross premiums on new and renewal business, less reinsurance ceded. New premiums are also detailed by product.

	Quarter Ended March 31		
	2019	2018	% Change
New premiums:			
Traditional life insurance	$ 7,374	$ 5,068	46 %
Immediate annuities	10,006	5,346	87 %
Group life insurance	753	709	6 %
Group accident and health insurance	2,701	2,992	(10)%
Total new premiums	20,834	14,115	48 %
Renewal premiums	63,252	44,759	41 %
Total premiums	84,086	58,874	43 %
Reinsurance ceded	(25,926)	(14,462)	79 %
Net premiums	$ 58,160	$ 44,412	31 %

Consolidated total premiums increased $25.2 million or 43% in the first quarter of 2019 compared with the first quarter of 2018, as new premiums increased $6.7 million or 48% and renewal premiums increased $18.5 million or 41%. The largest factor in the improvement in new premiums was a $4.7 million or 87% increase in new immediate annuity premiums. Immediate annuity receipts can have sizeable fluctuations, as receipts from policyholders largely result from one-time premiums. In addition, new traditional life insurance premiums increased $2.3 million or 46%. This increase primarily resulted from the addition of Grange Life's sales of traditional life insurance. The increase in renewal premiums reflected an $18.0 million or 60% increase in renewal traditional life insurance premiums. This improvement resulted from $17.0 million in renewal traditional life insurance premiums from the Grange Life portfolio of existing business. In addition, renewal traditional life insurance premiums from Old American increased $0.8 million or 4% compared to the same period in the prior year, reflecting continued sales growth over the past several years. Also, renewal group accident and health insurance premiums increased $0.3 million or 2% compared to the same period in the prior year, largely from the disability lines, and renewal group life insurance premiums increased $0.3 million or 8%.

Deposits related to interest sensitive life (universal life, indexed universal life, and variable universal life), fixed annuity contracts, and variable annuities are not recorded as revenue. Revenues from such contracts consist of amounts assessed on policyholder account balances for mortality, policy administration, and surrender charges, and are recognized as contract charges in the Consolidated Statements of Comprehensive Income. The following table provides detail by new and renewal deposits. New deposits are also detailed by product.

	Quarter Ended March 31		
	2019	2018	% Change
New deposits:			
Interest sensitive life	$ 2,870	$ 1,878	53 %
Fixed annuities	16,082	12,728	26 %
Variable annuities	2,704	5,214	(48)%
Total new deposits	21,656	19,820	9 %
Renewal deposits	38,720	34,240	13 %
Total deposits	$ 60,376	$ 54,060	12 %

General economic conditions and interest rates available in the marketplace influence new deposits on interest sensitive products. In addition, fluctuations in the equity markets can influence the variable life and variable annuity products. Generally, low interest rate environments present significant challenges to products such as these, and potential sizeable fluctuations in new sales can result between periods.

Total new deposits increased $1.8 million or 9% in the first quarter of 2019 compared with the first quarter of 2018, as new fixed annuity deposits increased $3.4 million or 26% and new interest sensitive life deposits increased $1.0 million or 53%. Partially offsetting these, new variable annuity deposits decreased $2.5 million or 48%. The results for new interest sensitive life deposits included a $0.6 million or 113% increase in new universal life deposits and a $0.3 million or 26% increase in new indexed universal life deposits. Total renewal deposits increased $4.5 million or 13% in the first quarter of 2019 compared to the prior year. Renewal interest sensitive life deposits increased $4.9 million or 18% and renewal fixed annuity deposits increased $0.9 million or 21%. Partially offsetting these, renewal variable annuity deposits declined $1.3 million or 44%. The results for new interest sensitive life deposits included a $3.1 million or 16% increase in renewal universal life deposits and a $2.1 million or 153% increase in renewal indexed universal life deposits. These improvements were partially offset by a $0.3 million or 5% decline in renewal variable universal life deposits. The addition of the Grange Life portfolio contributed $4.1 million of renewal universal life deposits. Excluding Grange Life, renewal universal life deposits decreased $1.0 million or 5%.

Contract charges result from charges and fees on interest-sensitive and deposit-type products. Contract charges consist of cost of insurance, expense loads, the amortization of unearned revenues, and surrender charges on policyholder account balances. We maintain both open blocks and closed blocks of business. The closed blocks of business reflect products and entities that have been purchased and for which we are not actively pursuing marketing efforts to generate new sales. We continue to service these policies to support customers and to meet long-term profit objectives as these blocks of business decline over time.

Total contract charges increased $2.3 million or 8% in the first quarter of 2019 compared to one year earlier. This increase reflected the addition of the Grange Life portfolio. The Grange Life interest sensitive block of business is considered a closed block. Contract charges on open blocks decreased $0.4 million or 2%, largely due to lower amortization of unearned revenues. Contract charges on closed blocks increased $2.7 million or 25%. Excluding Grange Life, contract charges on closed blocks decreased $0.7 million or 6%, reflecting the runoff of the blocks of business. Total contract charges on closed blocks equaled 44% of total consolidated contract charges during the first quarter of 2019, up from 38% during the first quarter of 2018.

Investment Revenues
Gross investment income increased $2.1 million or 5% in the first quarter of 2019 compared with the same period in 2018. This increase resulted from higher average invested assets, primarily from the addition of the Grange Life portfolio of investments. Partially offsetting this were lower overall yields earned and available on certain investments.

Fixed maturity securities provide a majority of our investment income. Fixed maturity securities comprised 75% of total investments at March 31, 2019, up from 73% at December 31, 2018. Income from these investments increased $2.4 million or 10% in the first quarter of 2019 compared to the prior year. This improvement was due to higher average investments, primarily from the addition of the Grange Life portfolio.

Investment income from commercial mortgage loans decreased $0.1 million or 2% in the first quarter of 2019 compared to the same period one year earlier. This result reflected lower average mortgage balances outstanding and lower prepayment fees.

Investment income from real estate decreased $0.5 million or 8% in the first quarter of 2019 compared to the prior year, largely due to lower occupancy levels at certain rental properties.

Net investment gains for the first quarter of 2019 totaled $2.7 million compared to $0.1 million in the first quarter of 2018. The net investment gains in the first quarter of 2019 reflected a $0.7 million change in the fair value of equity securities and a $1.1 million change in the fair value of derivative instruments. In addition, the Company sold a real estate investment property that generated a gain of approximately $0.7 million in the first quarter of 2019.

Policyholder Benefits
Policyholder benefits, net of reinsurance, consist of death benefits, immediate annuity benefits, accident and health benefits, surrenders, other benefits, and the associated increase or decrease in reserves for future policy benefits and policyholder account balances. The largest component of policyholder benefits was death benefits for the periods presented. Death benefits reflect mortality results, after consideration of the impact of reinsurance.

Policyholder benefits increased $14.3 million or 27% in the first quarter of 2019 compared to the prior year, largely due to the acquisition of Grange Life. Excluding Grange Life, policyholder benefits rose $5.0 million or 9%. This result was largely due to an increase in benefit and contract reserves. This increase was largely due to higher supplementary contract considerations, which result in an increase to the change in reserves on an equal and offsetting basis. In addition, changes in the fair value of the GMWB rider and derivative instruments increased benefit and contract reserves. Partially offsetting these, death benefits, net of reinsurance, decreased in the first quarter of 2019 compared to the same period one year earlier.

Amortization of DAC
The amortization of DAC decreased $1.4 million or 14% in the first quarter of 2019 compared to the prior year. This decrease primarily resulted from improved investment performance in the separate accounts and lower mortality.

Operating Expenses
Operating expenses consist of incurred commission expense from the sale of insurance products, net of the deferral of certain commissions and certain expenses directly associated with the successful acquisition of new business, expenses from operations, the amortization of VOBA and intangibles, and other expenses. In total, operating expenses increased $3.5 million or 13% in the first quarter of 2019 compared to the first quarter of 2018. This increase reflected higher depreciation of fixed assets and increases in expenses resulting from our acquisition of Grange Life including compensation costs, agent-related expenses, and professional fees.

Income Taxes
We recorded income tax expense of $0.9 million or 18% of income before tax in the first quarter of 2019, compared to income tax expense of $0.3 million or 16% of income before tax in the first quarter of 2018. The increase in the effective tax rate was primarily due to permanent differences, including the dividends-received deduction, having less impact on the effective tax rate due to an increase in pre-tax income. The first quarter 2019 statutory rate versus effective rate differences were larger than usual due to the variance in actual versus assumed pretax results.

The effective income tax rate was lower than the prevailing corporate federal income tax rate of 21% for the first quarters of 2019 and 2018. The lower effective income tax rates were primarily due to tax credits from affordable housing investments and permanent differences, which includes the dividends-received deduction. For additional information, please see Note 10 - Income Taxes.

Analysis of Investments

This analysis of investments should be read in conjunction with Note 3 - Investments included in Exhibit 3.1.

The following table provides asset class detail of the investment portfolio.

	March 31 2019	% of Total	December 31 2018	% of Total
Fixed maturity securities	$ 2,823,262	75%	$ 2,704,079	73%
Equity securities	15,165	—%	14,424	1%
Mortgage loans	629,640	17%	639,559	17%
Real estate	185,865	5%	186,994	5%
Policy loans	88,060	2%	88,066	2%
Short-term investments	48,483	1%	58,712	2%
Other investments	6,869	—	5,355	—
Total	$ 3,797,344	100%	$ 3,697,189	100%

Fixed maturity securities were the largest component of total investments at March 31, 2019 and December 31, 2018. The largest categories of fixed maturity securities at March 31, 2019 consisted of 76% in corporate obligations, 9% in municipal securities, and 7% in U.S. Treasury securities and other obligations of the U.S. Government. At December 31, 2018, the largest categories of fixed maturity securities consisted of 75% in corporate obligations, 10% in municipal securities, and 7% in U.S. Treasury securities and other obligations of the U.S. Government.

We use actual or equivalent Standard & Poor's ratings to determine the investment grading of fixed maturity securities. Our fixed maturity securities that were rated investment grade represented 98% of total securities at March 31, 2019 and 99% at December 31, 2018.

The fair value of fixed maturity securities with unrealized losses was $660.9 million at March 31, 2019 compared with $1.3 billion at December 31, 2018. This decrease primarily reflected changes in interest rates and market spreads during 2019. At March 31, 2019, 98% of security investments with an unrealized loss were investment grade and accounted for 94% of the total unrealized losses. At December 31, 2018, 99% of securities with an unrealized loss were investment grade and accounted for 95% of the total unrealized losses.

At March 31, 2019, we had $96.4 million in gross unrealized gains on fixed maturity securities that offset gross unrealized losses of $14.4 million. At December 31, 2018, we had $59.0 million in gross unrealized gains on fixed maturity securities that offset $48.8 million in gross unrealized losses. At March 31, 2019, 77% of the fixed maturity securities portfolio had unrealized gains, an increase from 52% at December 31, 2018. We had a decrease in gross unrealized losses in most categories from December 31, 2018 to March 31, 2019 due to decreases in interest rates and market spreads during 2019. Gross unrealized losses on fixed maturity securities for less than 12 months accounted for $0.1 million or 3% of the security values in a gross unrealized loss position at March 31, 2019 compared to $9.8 million and 40% of the security values in a gross unrealized loss position at December 31, 2018. Gross unrealized losses on fixed maturity security investments of 12 months or longer decreased from $39.0 million at December 31, 2018 to $14.3 million at March 31, 2019.

Residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities that were rated below investment grade were 13% of the total mortgage-backed and asset-backed securities at both March 31, 2019 and December 31, 2018.

We have written down certain investments in previous periods. Fixed maturity securities written down and still owned at March 31, 2019 and December 31, 2018 were not material. Additional information identified or further deteriorations could result in impairments in future periods.

We evaluated the current status of all investments previously written down to determine whether we believe that these investments remained credit-impaired to the extent previously recorded. Our evaluation process is similar to our impairment evaluation process. If evidence exists that we will receive the contractual cash flows from securities previously written down, the accretion of income is adjusted. We did not change our evaluation of any investments under this process during 2019 or 2018.

Investments in mortgage loans totaled $629.6 million at March 31, 2019, down from $639.6 million at December 31, 2018. The commercial mortgage loan portfolio decreased $9.9 million during the first quarter of 2019, as regularly scheduled payments and the volume of prepaid loans exceeded new loan originations. Mortgage loan fundings decreased $2.2 million in the first quarter of 2019 compared to the prior year. The decrease in new mortgage loans was largely the result of maintaining strict underwriting standards to support our portfolio credit quality and competition from other lenders. Our mortgage loans are secured by commercial real estate. These loans are stated at the outstanding principal balance, adjusted for amortization of premium and accretion of discount, less an allowance for loan losses. We believe this allowance is at a level adequate to absorb estimated credit losses and was $3.1 million at both March 31, 2019 and December 31, 2018.

Investments in real estate totaled $185.9 million at March 31, 2019 and $187.0 million at December 31, 2018. This decrease largely resulted from the sale of one property in the first quarter of 2019.

Liquidity and Capital Resources

Liquidity

Statements made in our 2018 Annual Report remain pertinent, as our liquidity position is materially unchanged from year-end 2018.

Net cash used from operating activities was $0.1 million for the quarter ended March 31, 2019. The primary sources of cash from operating activities in the first quarter of 2019 were premium receipts and net investment income. The primary uses of cash from operating activities in the first quarter of 2019 were for the payment of policyholder benefits and operating expenses. Net cash used from investing activities was $24.9 million. The primary sources of cash from investing activities were sales, maturities, calls, and principal paydowns of investments totaling $52.5 million. Investment purchases, including new fixed maturities and mortgage loans, totaled $89.0 million. In addition, net sales of short-term investments totaled $10.2 million. Net cash provided from financing activities was $6.9 million, including $1.5 million of net transfers from separate accounts and $7.7 million of deposits, net of withdrawals, on policyholder account balances. These were partially offset by the payment of $2.6 million of stockholder dividends.

Capital Resources

We believe existing capital resources provide adequate support for the current level of business activities, as identified in the following table.

	March 31 2019	December 31 2018
Total assets, excluding separate accounts	$ 4,676,611	$ 4,597,752
Total stockholders' equity	738,531	691,706
Ratio of stockholders' equity to assets, excluding separate accounts	16%	15%

Stockholders’ equity increased $46.8 million from year-end 2018, primarily due to an increase in net unrealized gains. This increase largely reflected fluctuations in the fair value of investments that resulted from falling interest rates and tighter corporate bond spreads. Stockholders’ equity per share, or book value, equaled $76.27 at March 31, 2019, an increase from $71.43 at year-end 2018.

Net unrealized gains on available for sale securities, which are included as part of accumulated other comprehensive loss and as a component of stockholders’ equity (net of unrealized losses on investments, related taxes, policyholder account balances, future policy benefits, DAC, VOBA, and DRL), totaled $48.2 million at March 31, 2019, a $45.4 million increase from net unrealized gains on available securities of $2.8 million at December 31, 2018.

Our statutory equity exceeds the minimum capital deemed necessary to support our insurance business, as determined by the risk-based capital calculations and guidelines established by the National Association of Insurance Commissioners. We believe these statutory limitations impose no practical restrictions on future dividend payment plans.

In January 2019, the Board of Directors authorized the purchase of up to one million of our shares on the open market through January 2020. No shares were purchased under this authorization during the first quarter of 2019.

On April 22, 2019, the Board of Directors declared a quarterly dividend of $0.27 per share payable on May 8, 2019 to stockholders of record on May 2, 2019.

Item 5. Legal Proceedings

There are no current, past, pending or threatened legal proceedings or administrative actions either by or against Kansas City Life Insurance Company that could be expected to have a material effect on our business, financial condition or operations. Our securities are not subject to any past or pending trading suspensions by a securities regulator. Please see the section entitled “Contingent Liabilities, Guarantees, and Indemnifications” in Note 16 of the financial statements shown in Exhibit 3.1.

Item 6. Defaults upon Senior Securities

None

Item 7. Other Information

None

Item 8. Exhibits

3.1 Interim Consolidated Financial Statements

Item 9. Issuer's Certifications

I, R. Philip Bixby, certify that:

1. I have reviewed this quarterly disclosure statement of Kansas City Life Insurance Company;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in the light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: May 1, 2019

/s/ R. Philip Bixby
R. Philip Bixby
President, Chief Executive Officer,
and Chairman of the Board

I, Philip A. Williams, certify that:

1. I have reviewed this quarterly disclosure statement of Kansas City Life Insurance Company;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in the light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: May 1, 2019

/s/ Philip A. Williams
Philip A. Williams
Senior Vice President, Finance

Exhibit 3.1 Interim Consolidated Financial Statements

Amounts in thousands, except share data, security counts, or as otherwise noted.

Kansas City Life Insurance Company
Consolidated Balance Sheets

	March 31 2019 (Unaudited)	December 31 2018
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	$ 2,823,262	$ 2,704,079
Equity securities, at fair value	15,165	14,424
Mortgage loans	629,640	639,559
Real estate	185,865	186,994
Policy loans	88,060	88,066
Short-term investments	48,483	58,712
Other investments	6,869	5,355
Total investments	3,797,344	3,697,189
Cash	13,640	31,689
Accrued investment income	33,825	31,535
Deferred acquisition costs	286,564	291,168
Reinsurance recoverables	368,360	366,196
Other assets	176,878	179,975
Separate account assets	406,548	373,734
Total assets	$ 5,083,159	$ 4,971,486
LIABILITIES		
Future policy benefits	$ 1,297,486	$ 1,279,034
Policyholder account balances	2,258,738	2,261,860
Policy and contract claims	46,347	47,274
Other policyholder funds	174,034	174,984
Other liabilities	161,475	142,894
Separate account liabilities	406,548	373,734
Total liabilities	4,344,628	4,279,780
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	41,025	41,025
Retained earnings	915,831	914,411
Accumulated other comprehensive loss	(145)	(45,550)
Treasury stock, at cost (2019 and 2018 - 8,813,266 shares)	(241,301)	(241,301)
Total stockholders' equity	738,531	691,706
Total liabilities and stockholders' equity	$ 5,083,159	$ 4,971,486

See accompanying Notes to Consolidated Financial Statements (Unaudited)

Kansas City Life Insurance Company
Consolidated Statements of Comprehensive Income

	Quarter Ended March 31	
	2019	2018
	(Unaudited)	
REVENUES		
Insurance revenues:		
Net premiums	$ 58,160	$ 44,412
Contract charges	30,824	28,565
Total insurance revenues	88,984	72,977
Investment revenues:		
Net investment income	36,969	34,866
Net investment gains	2,679	95
Total investment revenues	39,648	34,961
Other revenues	1,471	1,573
Total revenues	130,103	109,511
BENEFITS AND EXPENSES		
Policyholder benefits	68,178	53,841
Interest credited to policyholder account balances	19,069	18,072
Amortization of deferred acquisition costs	8,722	10,123
Operating expenses	29,185	25,732
Total benefits and expenses	125,154	107,768
Income before income tax expense	4,949	1,743
Income tax expense	914	281
NET INCOME	$ 4,035	$ 1,462
COMPREHENSIVE INCOME (LOSS), NET OF TAXES		
Changes in:		
Net unrealized gains (losses) on securities available for sale	$ 56,701	$ (45,431)
Effect on deferred acquisition costs, value of business acquired, and deferred revenue liabilities	(5,378)	5,598
Future policy benefits	(5,846)	6,907
Policyholder account balances	(72)	78
Other comprehensive income (loss)	45,405	(32,848)
COMPREHENSIVE INCOME (LOSS)	$ 49,440	$ (31,386)
Basic and diluted earnings per share:		
Net income	$ 0.42	$ 0.15

See accompanying Notes to Consolidated Financial Statements (Unaudited)

Kansas City Life Insurance Company
Consolidated Statements of Cash Flows

	Quarter Ended March 31	
	2019	2018
	(Unaudited)	
OPERATING ACTIVITIES		
Net income	$ 4,035	$ 1,462
Adjustments to reconcile net income to net cash used from operating activities:		
Amortization of investment premium and discount	923	825
Depreciation and amortization	2,003	1,247
Acquisition costs capitalized	(11,677)	(9,951)
Amortization of deferred acquisition costs	8,722	10,123
Net investment gains	(2,679)	(95)
Changes in assets and liabilities:		
Reinsurance recoverables	(2,166)	(2,227)
Future policy benefits	11,053	2,211
Policyholder account balances	(12,803)	(6,951)
Income taxes payable and deferred	868	285
Other, net	1,635	(5,462)
Net cash used	(86)	(8,533)
INVESTING ACTIVITIES		
Purchases:		
Fixed maturity securities	(79,535)	(69,361)
Mortgage loans	(5,850)	(8,008)
Real estate	(532)	(2,592)
Policy loans	(2,538)	(12,730)
Other investments	(530)	(420)
Sales or maturities, calls, and principal paydowns:		
Fixed maturity securities	33,057	61,720
Equity securities	—	34
Mortgage loans	15,810	17,912
Real estate	999	—
Policy loans	2,544	13,446
Other investments	108	698
Net sales of short-term investments	10,229	12,387
Acquisition of property and equipment	(458)	(718)
Adjustments to purchase price of Grange Life	1,818	—
Net cash provided (used)	(24,878)	12,368

Kansas City Life Insurance Company
Consolidated Statements of Cash Flows (Continued)

	Quarter Ended March 31	
	2019	2018
	(Unaudited)	
FINANCING ACTIVITIES		
Deposits on policyholder account balances	$ 60,376	$ 54,060
Withdrawals from policyholder account balances	(52,680)	(53,311)
Net transfers from separate accounts	1,493	1,223
Change in other deposits	341	1,038
Cash dividends to stockholders	(2,615)	(2,615)
Net cash provided	6,915	395
Increase (decrease) in cash	(18,049)	4,230
Cash at beginning of year	31,689	9,504
Cash at end of period	$ 13,640	$ 13,734

See accompanying Notes to Consolidated Financial Statements (Unaudited)

1. Nature of Operations and Significant Accounting Policies

Basis of Presentation
The interim consolidated financial statements and the accompanying notes include the accounts of the consolidated entity (the Company), which primarily consists of four life insurance companies. Kansas City Life Insurance Company (Kansas City Life) is the parent company. Sunset Life Insurance Company of America (Sunset Life), Old American Insurance Company (Old American), and Grange Life Insurance Company (Grange Life) are wholly-owned subsidiaries. The Company also has non-insurance subsidiaries that individually and collectively are not material. The terms "the Company," "we," "us," and "our" are used in these consolidated financial statements to refer to Kansas City Life Insurance Company and its subsidiaries.

We have three reportable business segments, which are defined based on the nature of the products and services offered: Individual Insurance, Group Insurance, and Old American. For additional information on our segments, please see Note 15 - Segment Information.

The interim consolidated financial statements were prepared on the basis of GAAP for interim financial reporting. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. As such, these interim consolidated financial statements should be read in conjunction with our 2018 Annual Report, which is available on the OTCQX website. The interim consolidated financial statements and the accompanying notes for the quarters ended March 31, 2019 and 2018 are unaudited. Management believes that the disclosures included herein are adequate to make the information presented not misleading, and include all adjustments necessary to present fairly the financial position and the results of operations for all periods presented. The results of operations for any interim period are not necessarily indicative of 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 interim consolidated financial statements include estimates and assumptions relating to the reported amounts of certain assets and liabilities, the disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements, and the reported amounts of certain revenue and expenses during the period. These estimates are inherently subject to change and actual results could differ from these estimates.

Acquisition
In the fourth quarter of 2018 the Company acquired all of the issued and outstanding stock of Grange Life Insurance Company. The purchase price was reduced $1.8 million during the first quarter of 2019 to settle certain items under the terms of the agreement. The fair value of the acquired assets and liabilities acquired is subject to change during the provisional period, which may last up to twelve months subsequent to the acquisition date. Additionally, the agreement provides for performance-related contingent consideration based on certain future revenues of both Grange Life and the Company over a three year period from the closing date. As of March 31, 2019, management was still developing its estimate and therefore an amount is not reflected in the total consideration transferred. Future adjustments to the purchase price allocation could be significant as valuations for certain intangible assets and contingent liabilities are finalized. Adjustments to refine the valuation of the acquired assets, liabilities, and recorded fair value will be applied prospectively and could have a material impact to our consolidated financial statements.

Goodwill resulting from the acquisition totaled $41.2 million at March 31, 2019. Goodwill was reduced $1.8 million during the first quarter of 2019 as a result of the reduced purchase price referred to above. The acquisition also included an intangible asset valued at $20.8 million at March 31, 2019. Amortization of the intangible asset totaled $0.4 million in the first quarter of 2019 and is included in Operating Expenses in the Consolidated Statements of Comprehensive Income. The intangible asset is periodically assessed for impairment. Goodwill and the intangible asset are included in Other Assets in the Consolidated Balance Sheets.

Significant Accounting Policies
Please refer to our 2018 Annual Report for a full discussion of our significant accounting policies. No significant updates or changes to these policies occurred during the quarter ended March 31, 2019.

2. New Accounting Pronouncements

Accounting Pronouncements Adopted During 2019

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02 Leases (Topic 842). Topic 842 includes a lessee model that requires most leases to be reported on the balance sheet. This guidance, including subsequently issued amendments, is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. We adopted this guidance effective January 1, 2019 with no material impact to our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04 Simplifying the Test for Goodwill Impairment. This update simplified the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. This update also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. This guidance is effective for fiscal years beginning after December 15, 2020, with early adoption allowed. We early-adopted this guidance effective January 1, 2019 with no material impact to our consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08 Premium Amortization on Purchased Callable Debt Securities. The amortization period for premiums is being shortened to the earliest call date. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. We adopted this guidance effective January 1, 2019 with no material impact to our consolidated financial statements.

Accounting Pronouncements Issued, Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13 Measurement of Credit Losses on Financial Instruments. Under this guidance, the incurred loss impairment methodology currently used for loans and other financial instruments will be replaced by a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information concerning our credit loss estimates. The measurement of expected credit losses will be based on current, historical, and forecasted information that impacts the collectability of the reported amount. Any credit losses related to available for sale debt securities will be recorded through a valuation allowance that is established and adjusted over time. The valuation allowance will be based on the probability of loss over the life of the instrument. Our investments subject to this guidance include, but are not limited to, fixed maturity securities available for sale, mortgage loans, and reinsurance recoverables. Additional disclosures will be required to provide information regarding significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. This guidance is effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. We are currently evaluating this guidance.

In August 2018, the FASB issued ASU No. 2018-12 Targeted Improvements to the Accounting for Long-Duration Contracts. This update modifies the existing recognition, measurement, presentation, and disclosure requirements in ASC 944 Financial Services - Insurance (Topic 944). It focuses on improving the timeliness of recognizing changes in the liability for future policy benefits and requires that the discount rate assumption be updated at each reporting date. It simplifies the accounting for certain market-based options or guarantees associated with deposit contracts by requiring insurance entities to measure them at fair value. It also simplifies the amortization of deferred acquisition costs by requiring amortization on a constant level basis over the expected term of the related contracts. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. We are currently evaluating this guidance.

In August 2018, the FASB issued ASU No. 2018-13 Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This update modifies the disclosure requirements for fair value measurements in ASC Topic 820 Fair Value Measurement. Specific fair value measurement disclosure requirements are removed, modified, or added. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. We are currently evaluating this guidance. However, it will not impact our earnings or financial position as the modifications only impact disclosures.

In August 2018, the FASB issued ASU No. 2018-14 Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans. This update modifies the disclosure requirements in ASC Subtopic 715-20 Compensation - Retirement Benefits - Defined Benefit Plans for employers that sponsor defined benefit pension or other postretirement plans. Specific fair value measurement disclosure requirements are removed, added, or clarified. This guidance is effective for fiscal years ending after December 15, 2020. We are currently evaluating this guidance. However, it will not impact our earnings or financial position as the modifications only impact disclosures.

In October 2018, the FASB issued ASU No. 2018-17 Targeted Improvements to Related Party Guidance for Variable Interest Entities. This update clarifies that indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. This guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. We are 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 us at this time or were not expected to have a material impact to the consolidated financial statements.

3. Investments

Fixed Maturity Securities

Securities by Asset Class
The following table provides amortized cost and fair value of fixed maturity securities by asset class at March 31, 2019.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 181,430	$ 6,776	$ 161	$ 188,045
Federal agencies [1]	2,331	102	—	2,433
Federal agency issued residential mortgage-backed securities [1]	107,528	6,173	51	113,650
Subtotal	291,289	13,051	212	304,128
Corporate obligations:				
Industrial	469,983	12,290	1,616	480,657
Energy	167,942	7,265	1,082	174,125
Communications and technology	239,514	9,637	582	248,569
Financial	314,564	8,470	1,935	321,099
Consumer	630,312	11,998	4,443	637,867
Public utilities	271,656	9,528	2,571	278,613
Subtotal	2,093,971	59,188	12,229	2,140,930
Corporate private-labeled residential mortgage-backed securities	26,168	2,286	—	28,454
Municipal securities	245,548	21,206	296	266,458
Other	69,794	439	1,636	68,597
Redeemable preferred stocks	14,500	195	—	14,695
Total	$ 2,741,270	$ 96,365	$ 14,373	$ 2,823,262

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

The following table provides amortized cost and fair value of fixed maturity securities by asset class at December 31, 2018.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 179,208	$ 4,320	$ 382	$ 183,146
Federal agencies [1]	2,326	64	—	2,390
Federal agency issued residential mortgage-backed securities [1]	108,943	4,120	146	112,917
Subtotal	290,477	8,504	528	298,453
Corporate obligations:				
Industrial	479,823	6,978	7,110	479,691
Energy	166,231	4,461	4,362	166,330
Communications and technology	247,487	5,655	3,810	249,332
Financial	293,089	3,731	7,446	289,374
Consumer	594,892	4,717	13,963	585,646
Public utilities	266,358	6,265	6,728	265,895
Subtotal	2,047,880	31,807	43,419	2,036,268
Corporate private-labeled residential mortgage-backed securities	26,849	1,993	—	28,842
Municipal securities	246,815	16,557	1,693	261,679
Other	67,338	169	2,080	65,427
Redeemable preferred stocks	14,501	—	1,091	13,410
Total	$ 2,693,860	$ 59,030	$ 48,811	$ 2,704,079

[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 issuers or borrowers may have the right to call or prepay obligations.

	March 31, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 135,488	$ 136,373	$ 118,311	$ 119,083
Due after one year through five years	810,799	826,489	777,498	779,903
Due after five years through ten years	1,063,119	1,090,087	1,088,868	1,080,109
Due after ten years	515,266	542,231	493,252	502,078
Securities with variable principal payments	202,098	213,387	201,430	209,496
Redeemable preferred stocks	14,500	14,695	14,501	13,410
Total	$ 2,741,270	$ 2,823,262	$ 2,693,860	$ 2,704,079

No material derivative financial instruments were held as of March 31, 2019 or December 31, 2018. However, the change in fair value resulted in a realized gain of $1.1 million in the first quarter of 2019 and a realized loss of $0.2 million in the first quarter of 2018.

Unrealized Losses on Investments

At the end of each quarter, all fixed maturity 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. A formal review document is prepared 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. Additional information on our process and considerations, as well as related accounting when other-than-temporary impairments are identified, is provided in Note 3 - Investments of our 2018 Annual Report.

The following table provides information regarding fixed maturity securities available for sale with unrealized losses by asset class and by length of time that individual securities have been in a continuous unrealized loss position at March 31, 2019.

	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	$ 9,993	$ —	$ 18,210	$ 161	$ 28,203	$ 161
Federal agency issued residential mortgage-backed securities [1]	280	2	3,586	49	3,866	51
Subtotal	10,273	2	21,796	210	32,069	212
Corporate obligations:						
Industrial	4,661	6	91,278	1,610	95,939	1,616
Energy	—	—	50,554	1,082	50,554	1,082
Communications and technology	—	—	37,680	582	37,680	582
Financial	2,471	30	109,175	1,905	111,646	1,935
Consumer	—	—	179,270	4,443	179,270	4,443
Public utilities	1,022	84	95,147	2,487	96,169	2,571
Subtotal	8,154	120	563,104	12,109	571,258	12,229
Municipal securities	1,039	—	14,036	296	15,075	296
Other	—	—	42,528	1,636	42,528	1,636
Total	$ 19,466	$ 122	$ 641,464	$ 14,251	$ 660,930	$ 14,373

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

The following table provides information regarding fixed maturity securities available for sale with unrealized losses by asset class and by length of time that individual securities have been in a continuous unrealized loss position at December 31, 2018.

	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	$ 14,705	$ 32	$ 27,854	$ 350	$ 42,559	$ 382
Federal agency issued residential mortgage-backed securities [1]	922	5	7,135	141	8,057	146
Subtotal	15,627	37	34,989	491	50,616	528
Corporate obligations:						
Industrial	111,282	2,274	120,592	4,836	231,874	7,110
Energy	45,514	815	60,229	3,547	105,743	4,362
Communications and technology	65,157	1,057	51,688	2,753	116,845	3,810
Financial	59,036	1,122	115,355	6,324	174,391	7,446
Consumer	157,293	2,723	200,584	11,240	357,877	13,963
Public utilities	39,772	1,289	96,603	5,439	136,375	6,728
Subtotal	478,054	9,280	645,051	34,139	1,123,105	43,419
Municipal securities	9,329	78	46,655	1,615	55,984	1,693
Other	10,908	110	38,856	1,970	49,764	2,080
Redeemable preferred stocks	7,202	299	6,208	792	13,410	1,091
Total	$ 521,120	$ 9,804	$ 771,759	$ 39,007	$ 1,292,879	$ 48,811

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

The following table provides information regarding the number of fixed maturity securities with unrealized losses at March 31, 2019.

Below cost for less than one year	8
Below cost for one year or more and less than three years	236
Below cost for three years or more	13
Total	257

The following table provides information regarding the number of fixed maturity securities with unrealized losses at December 31, 2018.

Below cost for less than one year	258
Below cost for one year or more and less than three years	287
Below cost for three years or more	13
Total	558

We do not consider the unrealized losses related to these securities to be credit-related. The unrealized losses at both March 31, 2019 and December 31, 2018 primarily related 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. Included in other investment securities are commercial mortgage-backed securities and asset-backed securities.

The following table summarizes investments in fixed maturity securities available for sale with unrealized losses at March 31, 2019.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	$ 665,932	$ 652,706	$ 13,226
Unrealized losses of 20% or less and greater than 10%	7,260	6,347	913
Subtotal	673,192	659,053	14,139
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	908	708	200
Twelve months or greater	—	—	—
Total investment grade	908	708	200
Below investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	—	—	—
Total below investment grade	—	—	—
Unrealized losses greater than 20%	908	708	200
Subtotal	674,100	659,761	14,339
Securities owned with realized impairment:			
Unrealized losses of 10% or less	1,203	1,169	34
Unrealized losses of 20% or less and greater than 10%	—	—	—
Unrealized losses greater than 20%	—	—	—
Subtotal	1,203	1,169	34
Total	$ 675,303	$ 660,930	$ 14,373

The following table summarizes investments in fixed maturity securities available for sale with unrealized losses at December 31, 2018.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	$ 1,287,248	$ 1,245,754	$ 41,494
Unrealized losses of 20% or less and greater than 10%	48,260	42,248	6,012
Subtotal	1,335,508	1,288,002	47,506
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	908	678	230
Twelve months or greater	—	—	—
Total investment grade	908	678	230
Below investment grade:			
Less than twelve months	3,987	2,960	1,027
Twelve months or greater	—	—	—
Total below investment grade	3,987	2,960	1,027
Unrealized losses greater than 20%	4,895	3,638	1,257
Subtotal	1,340,403	1,291,640	48,763
Securities owned with realized impairment:			
Unrealized losses of 10% or less	1,287	1,239	48
Unrealized losses of 20% or less and greater than 10%	—	—	—
Unrealized losses greater than 20%	—	—	—
Subtotal	1,287	1,239	48
Total	$ 1,341,690	$ 1,292,879	$ 48,811

The following table provides information on fixed maturity securities available for sale with unrealized losses by actual or equivalent Standard & Poor's rating at March 31, 2019.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	$ 28,130	4%	$ 545	4%
AA	97,920	15%	2,298	16%
A	237,903	36%	4,319	30%
BBB	286,629	43%	6,371	44%
Total investment grade	650,582	98%	13,533	94%
BB	4,854	1%	144	1%
B and below	5,494	1%	696	5%
Total below investment grade	10,348	2%	840	6%
	$ 660,930	100%	$ 14,373	100%

The following table provides information on fixed maturity securities available for sale with unrealized losses by actual or equivalent Standard & Poor's rating at December 31, 2018.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	$ 66,034	5%	$ 1,929	4%
AA	189,896	15%	5,885	12%
A	484,822	38%	18,201	37%
BBB	536,458	41%	20,696	42%
Total investment grade	1,277,210	99%	46,711	95%
BB	6,263	—%	733	2%
B and below	9,406	1%	1,367	3%
Total below investment grade	15,669	1%	2,100	5%
	$ 1,292,879	100%	$ 48,811	100%

Our residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities that were rated below investment grade represented 57% of the fair value of the total below investment grade securities at March 31, 2019, down from 61% at December 31, 2018.

We monitor structured securities through a combination of an analysis of vintage, credit ratings, and other factors. Structured securities include asset-backed, residential mortgage-backed securities, collateralized debt obligations, and other collateralized obligations.

The following tables identify structured securities by credit ratings for all vintages owned.

	March 31, 2019		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Corporate Private-Labeled Residential MBS:			
Investment grade	$ 1,748	$ 1,714	$ 34
Below investment grade	26,706	24,454	2,252
Total residential & non-agency MBS	28,454	26,168	2,286
Other structured securities:			
Investment grade	67,428	68,591	(1,163)
Below investment grade	1,169	1,203	(34)
Total other structured securities	68,597	69,794	(1,197)
Total structured securities	$ 97,051	$ 95,962	$ 1,089

	December 31, 2018		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Corporate Private-Labeled Residential MBS:			
Investment grade	$ 1,707	$ 1,704	$ 3
Below investment grade	27,135	25,145	1,990
Total residential & non-agency MBS	28,842	26,849	1,993
Other structured securities:			
Investment grade	64,188	66,052	(1,864)
Below investment grade	1,239	1,286	(47)
Total other structured securities	65,427	67,338	(1,911)
Total structured securities	$ 94,269	$ 94,187	$ 82

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

	Quarter Ended March 31	
	2019	2018
Credit losses on securities held at beginning of the period	$ 4,381	$ 4,399
Additions for increases (decreases) 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	4	—
Reductions for securities sold	—	(18)
Credit losses on securities held at the end of the period	$ 4,385	$ 4,381

Investment Gains (Losses)

The following tables provide detail concerning investment gains and losses.

	Quarter Ended March 31 2019	Quarter Ended March 31 2018
Gross gains resulting from:		
Sales of investment securities	$ —	$ 61
Investment securities called and other	103	238
Real estate	694	—
Total gross gains	797	299
Change in allowance for loan losses	53	44
Change in fair value:		
Equity securities	741	(37)
Derivative instruments	1,092	(211)
Total change in fair value	1,833	(248)
Net realized investment gains, excluding other-than-temporary impairment losses	2,683	95
Net impairment losses recognized in earnings:		
Other-than-temporary impairment losses on fixed maturity securities	—	—
Portion of loss recognized in other comprehensive income (loss)	(4)	—
Net other-than-temporary impairment losses recognized in earnings	(4)	—
Net investment gains	$ 2,679	$ 95

The portion of loss recognized in other comprehensive income (loss) represents the non-credit portion of current or prior other-than-temporary impairment. Corporate private-labeled residential mortgage-backed and other securities had impairments recorded in earnings of less than $0.1 million during the quarter ended March 31, 2019. No other-than-temporary impairments were recorded in earnings during the quarter ended March 31, 2018.

Proceeds from Sales of Investment Securities

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

	Quarter Ended March 31 2019	Quarter Ended March 31 2018
Proceeds	$ —	$ 7,412

Mortgage Loans

Investments in mortgage loans totaled $629.6 million at March 31, 2019, compared to $639.6 million at December 31, 2018. Our mortgage loans are secured by commercial real estate and are stated at cost, adjusted for premium amortization and discount accretion, less an allowance for loan losses. We believe this allowance is at a level adequate to absorb estimated credit losses and was $3.1 million at both March 31, 2019 and December 31, 2018. We had 17% of our total investments in commercial mortgage loans at both March 31, 2019 and December 31, 2018. In addition to the subject collateral underlying the mortgage, we may require some amount of recourse from borrowers as another potential source of repayment should the loan default. Any recourse requirement deemed necessary is determined as part of the underwriting requirements of each loan. The average loan-to-value ratio for the overall portfolio was 45% at both March 31, 2019 and December 31, 2018. This ratio is based upon the current balance of loans relative to the appraisal of value at the time the loan was originated or acquired. Additionally, we may receive fees when borrowers prepay their mortgage loans. For additional information on mortgage loans, please see Note 5 - Financing Receivables.

We may refinance commercial mortgage loans prior to contractual maturity as a means of retaining loans that meet our underwriting and pricing parameters. We did not refinance any loans during the quarters ended March 31, 2019 or 2018.

In the normal course of business, we commit to fund commercial mortgage loans generally up to 120 days in advance. These commitments typically have fixed expiration dates. A small percentage of commitments expire due to the borrower's failure to deliver the requirements of the commitment by the expiration date. In these cases, the commitment fee is retained. For additional information, please see Note 16 - Commitments, Contingent Liabilities, Guarantees, and Indemnifications.

4. Fair Value Measurements

Under GAAP, fair value represents the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. We maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements.

We follow the fair value hierarchy under existing GAAP requirements. No changes were made to our categories as disclosed in our Annual Report. Please refer to our 2018 Annual Report for a full discussion of the fair value hierarchy and our policies regarding fair value measurements.

The following tables present the fair value hierarchy for those assets and liabilities reported at fair value on a recurring basis.

	March 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 25,358	$ 162,687	$ —	$ 188,045
Federal agencies [1]	—	2,433	—	2,433
Federal agency issued residential mortgage-backed securities [1]	—	113,650	—	113,650
Subtotal	25,358	278,770	—	304,128
Corporate obligations:				
Industrial	—	480,657	—	480,657
Energy	—	174,125	—	174,125
Communications and technology	—	248,569	—	248,569
Financial	—	321,099	—	321,099
Consumer	—	637,867	—	637,867
Public utilities	—	278,613	—	278,613
Subtotal	—	2,140,930	—	2,140,930
Corporate private-labeled residential mortgage-backed securities	—	28,454	—	28,454
Municipal securities	—	266,458	—	266,458
Other	—	68,597	—	68,597
Redeemable preferred stocks	—	14,695	—	14,695
Fixed maturity securities	25,358	2,797,904	—	2,823,262
Equity securities	4,617	10,548	—	15,165
Short-term investments	48,483	—	—	48,483
Separate account assets	—	406,548	—	406,548
Total	$ 78,458	$ 3,215,000	$ —	$ 3,293,458
Percent of total	2%	98%	—%	100%
Liabilities:				
Other policyholder funds:				
Guaranteed minimum withdrawal benefits	$ —	$ —	$ (3,168)	$ (3,168)
Separate account liabilities	—	406,548	—	406,548
Total	$ —	$ 406,548	$ (3,168)	$ 403,380

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

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 25,251	$ 157,895	$ —	$ 183,146
Federal agencies [1]	—	2,390	—	2,390
Federal agency issued residential mortgage-backed securities [1]	—	112,917	—	112,917
Subtotal	25,251	273,202	—	298,453
Corporate obligations:				
Industrial	—	479,691	—	479,691
Energy	—	166,330	—	166,330
Communications and technology	—	249,332	—	249,332
Financial	—	289,374	—	289,374
Consumer	—	585,646	—	585,646
Public utilities	—	265,895	—	265,895
Subtotal	—	2,036,268	—	2,036,268
Corporate private-labeled residential mortgage-backed securities	—	28,842	—	28,842
Municipal securities	—	261,679	—	261,679
Other	—	65,427	—	65,427
Redeemable preferred stocks	—	13,410	—	13,410
Fixed maturity securities	25,251	2,678,828	—	2,704,079
Equity securities	4,264	10,160	—	14,424
Short-term investments	58,712	—	—	58,712
Separate account assets	—	373,734	—	373,734
Total	$ 88,227	$ 3,062,722	$ —	$ 3,150,949
Percent of total	3%	97%	—%	100%
Liabilities:				
Other policyholder funds:				
Guaranteed minimum withdrawal benefits	$ —	$ —	$ (3,648)	$ (3,648)
Separate account liabilities	—	373,734	—	373,734
Total	$ —	$ 373,734	$ (3,648)	$ 370,086

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

The changes in the Level 3 guaranteed minimum withdrawal benefits (GMWB) liability measured at fair value on a recurring basis are summarized below:

	Quarter Ended March 31	
	2019	2018
Beginning balance	$ (3,648)	$ (3,252)
Included in earnings	135	(780)
Included in other comprehensive income (loss)	—	—
Purchases, issuances, sales and other dispositions:		
Purchases	—	—
Issuances	120	56
Sales	—	—
Other dispositions	225	56
Ending balance	$ (3,168)	$ (3,920)

We did not have any transfers between any levels at March 31, 2019 or March 31, 2018.

The GMWB liability is sensitive to changes in observable and unobservable inputs. Observable inputs include risk-free rates, index returns, volatilities, and correlations. Increases in risk-free rates and equity returns reduce the liability, while increases in volatilities increase the liability. Unobservable inputs include mortality, lapse, benefit utilization, and nonperformance risk adjustments. Increases in mortality, lapses, and credit spreads used for nonperformance risk reduce the liability, while increases in benefit utilization increase the liability. Please refer to the 2018 Annual Report for information regarding the valuation method for the GMWB liability and the unobservable inputs and ranges used in the valuation of those financial instruments. The valuation method, unobservable inputs, and ranges used had not materially changed at March 31, 2019.

Following are estimates of the impact from changes in unobservable inputs on the GMWB liability.

	March 31 2019	December 31 2018
	Increase/(Decrease) in millions	
A 10% increase in the mortality assumption	$ (0.1)	$ (0.1)
A 10% decrease in the lapse assumption	0.1	—
A 10% increase in the benefit utilization	0.9	—
A 10 basis point increase in the credit spreads used for non-performance	(0.3)	(0.3)

The following tables present a summary of fair value estimates for financial instruments. Assets and liabilities that are not financial instruments are not included in this disclosure. The total of the fair value calculations presented below may not be indicative of the value that can be obtained.

	March 31, 2019				
	Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Fixed maturity securities available for sale	$ 25,358	$ 2,797,904	$ —	$ 2,823,262	$ 2,823,262
Equity securities	4,617	10,548	—	15,165	15,165
Mortgage loans	—	—	639,787	639,787	629,640
Policy loans	—	—	88,060	88,060	88,060
Short-term investments	48,483	—	—	48,483	48,483
Separate account assets	—	406,548	—	406,548	406,548
Liabilities:					
Individual and group annuities	—	—	1,047,200	1,047,200	1,066,882
Supplementary contracts and annuities without life contingencies	—	—	50,952	50,952	52,484
Separate account liabilities	—	406,548	—	406,548	406,548
Other policyholder funds - GMWB	—	—	(3,168)	(3,168)	(3,168)

	December 31, 2018				
	Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Fixed maturity securities available for sale	$ 25,251	$ 2,678,828	$ —	$ 2,704,079	$ 2,704,079
Equity securities	4,264	10,160	—	14,424	14,424
Mortgage loans	—	—	640,796	640,796	639,559
Policy loans	—	—	88,066	88,066	88,066
Short-term investments	58,712	—	—	58,712	58,712
Separate account assets	—	373,734	—	373,734	373,734
Liabilities:					
Individual and group annuities	—	—	1,049,195	1,049,195	1,068,577
Supplementary contracts and annuities without life contingencies	—	—	50,805	50,805	52,798
Separate account liabilities	—	373,734	—	373,734	373,734
Other policyholder funds - GMWB	—	—	(3,648)	(3,648)	(3,648)

5. Financing Receivables

We have financing receivables with specific maturity dates that are recognized as assets in the Consolidated Balance Sheets.

The following table identifies financing receivables by classification amount.

	March 31 2019	December 31 2018
Receivables:		
Agent receivables, net (allowance $1,498; 2018 - $1,496)	$ 2,282	$ 2,078
Investment-related financing receivables:		
Mortgage loans, net (allowance $3,076; 2018 - $3,129)	629,640	639,559
Total financing receivables	$ 631,922	$ 641,637

Agent Receivables

We have certain agent receivables that are classified as financing receivables. These receivables from agents are long-term in nature and are specifically assessed for collectibility and are reduced by an allowance for doubtful accounts.

The following table details the gross receivables, allowance, and net receivables for the two types of agent receivables.

	March 31, 2019			December 31, 2018		
	Gross Receivables	Allowance	Net Receivables	Gross Receivables	Allowance	Net Receivables
Agent specific loans	$ 1,230	$ 600	$ 630	$ 1,210	$ 600	$ 610
Other agent receivables	2,550	898	1,652	2,364	896	1,468
Total	$ 3,780	$ 1,498	$ 2,282	$ 3,574	$ 1,496	$ 2,078

The following table details the activity within the allowance for doubtful accounts on agent receivables. Any recoveries are included as deductions.

	March 31 2019	December 31 2018
Beginning of year	$ 1,496	$ 817
Additions	23	812
Deductions	(21)	(133)
End of period	$ 1,498	$ 1,496

Mortgage Loans

We classify our mortgage loan portfolio as long-term financing receivables.

The following table details the mortgage loan portfolio as collectively or individually evaluated for impairment.

	March 31 2019	December 31 2018
Mortgage loans collectively evaluated for impairment	$ 559,086	$ 568,521
Mortgage loans individually evaluated for impairment	73,630	74,167
Allowance for loan losses	(3,076)	(3,129)
Carrying value	$ 629,640	$ 639,559

There were no mortgage loans that were over 30 days past due at March 31, 2019 or December 31, 2018. We had no troubled loans that were restructured or modified during the quarters ended March 31, 2019 or 2018.

The following table details the activity within the allowance for mortgage loan losses. Any recoveries are reflected as deductions.

	March 31 2019	December 31 2018
Beginning of year	$ 3,129	$ 4,079
Provision	—	—
Deductions	(53)	(950)
End of period	$ 3,076	$ 3,129

Please refer to our 2018 Annual Report for additional information regarding our mortgage loans.

6. Variable Interest Entities (VIEs)

We invest in certain affordable housing and real estate joint ventures. These VIEs are included in Real Estate in the Consolidated Balance Sheets. Please refer to our 2018 Annual Report for a full discussion of our VIEs.

We amortize the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognize the net investment performance in the Consolidated Statements of Comprehensive Income as a component of income tax expense. The tax credits reduce tax expense while the amortization increases tax expense.

The following table provides information regarding our VIEs that generate tax credits and related amortization.

	Quarter Ended March 31	
	2019	2018
Federal income tax credits realized	$ (652)	$ (688)
Amortization	375	361

Investments in the affordable housing and real estate joint ventures are interests that absorb portions of the VIE's expected losses. These investments also receive portions of expected residual returns of the VIE's net assets exclusive of variable interests. We make an assessment of whether we are the primary beneficiary of a VIE at the time of the initial investment and on an ongoing basis thereafter.

The following table presents the carrying amount and maximum exposure to loss relating to VIEs for which we hold a variable interest, but are not the primary beneficiary, and which had not been consolidated at March 31, 2019 and December 31, 2018. The table includes investments in five real estate joint ventures and 16 affordable housing real estate joint ventures at both March 31, 2019 and December 31, 2018.

	March 31 2019		December 31 2018	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Real estate joint ventures	$ 21,393	$ 21,393	$ 21,689	$ 21,689
Affordable housing real estate joint ventures	5,268	29,148	5,643	30,950
Total	$ 26,661	$ 50,541	$ 27,332	$ 52,639

The maximum exposure to loss relating to the real estate joint ventures and affordable housing real estate joint ventures is equal to the carrying amounts plus any unfunded equity commitments, exposure to potential recapture of tax credits, guarantees of debt, or other obligations of the VIE with recourse. Unfunded equity and loan commitments typically require financial or operating performance by other parties and have not yet become due or payable but which may become due in the future.

At March 31, 2019 and December 31, 2018, we had no equity commitments outstanding to the real estate joint venture VIEs. We have contingent commitments to fund additional equity contributions for operating support to certain real estate joint venture VIEs, which could result in additional exposure to loss. However, we are unable to quantify the amount of these contingent commitments.

In addition, the maximum exposure to loss on affordable housing joint ventures at March 31, 2019 included $18.6 million of losses which could be realized if the tax credits received by the VIEs were recaptured, compared to $19.7 million at December 31, 2018. Recapture events would cause us to reverse some or all of the benefit previously recognized by us or third parties to whom the tax credit interests were transferred. A recapture event can occur at any time during a 15-year required compliance period. The principal causes of recapture include financial default and non-compliance with affordable housing program requirements by the properties controlled by the VIE. Guarantees from the managing member or managing partner in the VIE, insurance contracts, or changes in the residual value accruing to our interests in the VIE may mitigate the potential exposure due to recapture.

7. Separate Accounts

Separate account assets and liabilities arise from the sale of variable universal life insurance and variable annuity products. The separate account represents funds segregated for the benefit of certain policyholders who bear the investment risk. The assets are legally segregated and are not subject to claims which may arise from any other business of the Company. The separate account assets and liabilities, which are equal, are recorded at fair value based upon the net asset value (NAV) of the underlying investment holdings as derived from closing prices on a national exchange or as provided by the issuer. Policyholder account deposits and withdrawals, investment income, and realized investment gains and losses are excluded from the amounts reported in the Consolidated Statements of Comprehensive Income. Revenues from separate accounts consist principally of contract charges, which include maintenance charges, administrative fees, and mortality and expense charges.

We offer a GMWB rider that can be added to new or existing variable annuity contracts. The value of the separate accounts with the GMWB rider was recorded at fair value of $120.5 million at March 31, 2019. The fair value of the separate accounts with the GMWB rider was $115.2 million at December 31, 2018. The GMWB guarantee liability was $(3.2) million at March 31, 2019 and $(3.6) million December 31, 2018. The change in this value is included in Policyholder Benefits in the Consolidated Statements of Comprehensive Income. The value of variable annuity separate accounts with the GMWB rider is recorded in Separate Account Liabilities, and the value of the rider is included in Other Policyholder Funds in the Consolidated Balance Sheets.

We have two blocks of variable universal life policies and variable annuity contracts from which fees are received. The fees are based upon both specific transactions and the fund value of the blocks of policies. We have a direct block of ongoing business identified in the Consolidated Balance Sheets as separate account assets, totaling $406.5 million at March 31, 2019 and $373.7 million at December 31, 2018, and corresponding separate account liabilities of an equal amount. The fixed-rate funds for these policies are included in our general account as Future Policy Benefits. The Future Policy Benefits for the direct block approximated $0.5 million at both March 31, 2019 and December 31, 2018.

In addition, we have an assumed closed block of variable universal life and variable annuity business that totaled $308.3 million at March 31, 2019 and $285.6 million at December 31, 2018. As required under modified coinsurance transaction accounting, the assumed separate account fund balances are not recorded as separate accounts on our consolidated financial statements. Rather, the assumed fixed-rate funds for these policies of $30.8 million at March 31, 2019 and $30.6 million at December 31, 2018 are included in our general account as Future Policy Benefits. The Future Policy Benefits for the assumed block approximated $0.6 million at both March 31, 2019 and December 31, 2018.

8. Unpaid Claims Liability and Short-Duration Contracts

The liability for unpaid claims is included with Policy and Contract Claims and Future Policy Benefits in the Consolidated Balance Sheets. Claim adjustment expenditures are expensed as incurred and were not material in any period presented.

The following tables present activity in the accident and health portion of the unpaid claims liability for the consolidated entity and the Group Insurance segment. The activity for the Individual Insurance and the Old American segments was not material for any period presented. Classified as policy and contract claims, but excluded from these tables due to immateriality, are amounts recorded for group life, individual life, and deferred annuities.

	Consolidated	
	Quarter Ended March 31	
	2019	2018
Gross liability at beginning of the period	$ 36,453	$ 34,040
Less reinsurance recoverable	(28,739)	(26,949)
Net liability at beginning of the period	7,714	7,091
Incurred benefits related to:		
Current year	7,064	6,945
Prior years [1]	392	(260)
Total incurred benefits	7,456	6,685
Paid benefits related to:		
Current year	4,085	4,458
Prior years	2,400	2,234
Total paid benefits	6,485	6,692
Net liability at end of the period	8,685	7,084
Reinsurance recoverable	29,547	26,010
Gross liability at end of the period	$ 38,232	$ 33,094

[1] The incurred benefits related to prior years' unpaid accident and health claims reflect the change in these liabilities.

	Group Insurance Segment	
	Quarter Ended	
	March 31	
	2019	2018
Gross liability at beginning of the period	$ 31,188	$ 27,945
Less reinsurance recoverable	(23,796)	(21,231)
Net liability at beginning of the period	7,392	6,714
Incurred benefits related to:		
Current year	7,048	6,915
Prior years [1]	447	(231)
Total incurred benefits	7,495	6,684
Paid benefits related to:		
Current year	4,080	4,458
Prior years	2,368	2,201
Total paid benefits	6,448	6,659
Net liability at end of the period	8,439	6,739
Reinsurance recoverable	24,316	20,608
Gross liability at end of the period	$ 32,755	$ 27,347

[1] The incurred benefits related to prior years' unpaid accident and health claims reflect the change in these liabilities.

The following table presents the reconciliation of amounts in the above tables to Policy and Contract Claims and claim reserves that are included in Future Policy Benefits as presented in the Consolidated Balance Sheets.

	Quarter Ended	
	March 31	
	2019	2018
Individual Insurance Segment:		
Individual accident and health	$ 700	$ 621
Individual life	24,801	22,736
Deferred annuity	4,868	3,217
Subtotal	30,369	26,574
Group Insurance Segment:		
Group accident and health	32,755	27,347
Group life	1,957	2,032
Subtotal	34,712	29,379
Old American Segment:		
Individual accident and health	4,777	5,126
Individual life	7,207	6,413
Subtotal	11,984	11,539
Total	$ 77,065	$ 67,492

For short-duration contracts, incurred-but-not-reported liabilities for the group long-term disability product that were included in the liability for unpaid claims and claim adjustment expenses, net of reinsurance, totaled $0.8 million at March 31, 2019 and $0.7 million at December 31, 2018.

9. Debt

We had no notes payable outstanding at March 31, 2019 or December 31, 2018.

As a member of the Federal Home Loan Bank of Des Moines (FHLB) with a capital investment of $4.8 million at March 31, 2019, we have the ability to borrow on a collateralized basis from the FHLB. We received an insignificant amount of dividends on the capital investment in both the quarters ended March 31, 2019 and 2018.

We have unsecured revolving lines of credit with two major commercial banks that totaled $70.0 million at March 31, 2019 and December 31, 2018, with no balances outstanding. The lines of credit are at variable interest rates based upon short-term indices and will mature in June of 2019. We anticipate renewing these lines of credit as they come due. One line of credit includes a $10.0 million portion that can be unconditionally canceled by the lending institution at its discretion at any time.

10. Income Taxes

The following table provides a reconciliation of the federal income tax rate to our effective income tax rate.

	Quarter Ended March 31	
	2019	2018
Federal income tax rate	21 %	21 %
Tax credits, net of equity adjustment	(7)%	(21)%
Permanent differences and other	4 %	16 %
Effective income tax rate	18 %	16 %

The following table provides information about taxes paid.

	Quarter Ended March 31	
	2019	2018
Cash paid for income taxes	$ (12)	$ —

We had no material uncertain tax positions at March 31, 2019 or December 31, 2018.

At March 31, 2019, we had a current tax asset of $3.8 million and a $34.4 million net deferred tax liability, compared to a $4.3 million current tax asset and a $22.4 million net deferred tax liability at December 31, 2018.

11. Pensions and Other Postemployment Benefits (OPEB)

The following table provides the components of net periodic benefit cost.

	Pension Benefits		OPEB	
	Quarter Ended March 31		Quarter Ended March 31	
	2019	2018	2019	2018
Service cost	$ —	$ —	$ 42	$ 56
Interest cost	1,154	1,069	166	158
Expected return on plan assets	(2,306)	(2,544)	—	—
Amortization of:				
Unrecognized actuarial net (gain) loss	718	599	(364)	(323)
Unrecognized prior service credit	(16)	(18)	—	(25)
Net periodic benefit credit	$ (450)	$ (894)	$ (156)	$ (134)

12. Share-Based Payment

The Kansas City Life Insurance Company Omnibus Incentive Plan (long-term incentive plan) includes a long-term incentive benefit for senior management. The long-term incentive plan design includes a cash award to participants that may be paid, in part, based on the increase in the share price of our common stock through units (phantom shares) assigned by the Board of Directors. Please refer to our 2018 Annual Report for additional information regarding this plan.

The long-term incentive plan did not make a cash payment during the first quarter of 2019 for the three-year interval ended December 31, 2018. During the first quarter of 2018, the long-term incentive plan made cash payments totaling $0.2 million for the three-year interval ended December 31, 2017.

At each reporting period, an estimate of the share-based compensation expense is accrued, utilizing the share price at the period end. The cost of share-based compensation accrued as operating expense in the first quarter of 2019 was less than $0.1 million, net of tax. The change in accrual for share-based compensation, net of tax, that reduced operating expense in the first quarter of 2018 was $0.1 million.

13. 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 reclassifications for realized investment gains or losses), net of adjustments to DAC, VOBA, DRL, future policy benefits, and policyholder account balances. In addition, other comprehensive income (loss) includes the change in the liability for benefit plan obligations. Other comprehensive income (loss) reflects these items net of tax.

The following tables provide information about comprehensive income (loss).

	Quarter Ended March 31, 2019		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized gains arising during the period:			
Fixed maturity securities	$ 71,872	$ 15,093	$ 56,779
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	103	22	81
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive income	(4)	(1)	(3)
Net unrealized gains excluding impairment losses	71,773	15,072	56,701
Effect on DAC, VOBA, and DRL	(6,808)	(1,430)	(5,378)
Change in future policy benefits	(7,400)	(1,554)	(5,846)
Change in policyholder account balances	(91)	(19)	(72)
Other comprehensive income	$ 57,474	$ 12,069	$ 45,405
Net income			4,035
Comprehensive income			$ 49,440

	Quarter Ended March 31, 2018		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized losses arising during the period:			
Fixed maturity securities	$ (57,249)	$ (12,022)	$ (45,227)
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	259	55	204
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive loss	—	—	—
Net unrealized losses excluding impairment losses	(57,508)	(12,077)	(45,431)
Effect on DAC, VOBA, and DRL	7,086	1,488	5,598
Change in future policy benefits	8,743	1,836	6,907
Change in policyholder account balances	98	20	78
Other comprehensive loss	$ (41,581)	$ (8,733)	$ (32,848)
Net income			1,462
Comprehensive loss			$ (31,386)

The following table provides accumulated balances related to each component of accumulated other comprehensive income (loss) at March 31, 2019, net of tax.

	Unrealized Gain (Loss) on Non-Impaired Securities	Unrealized Gain on Impaired Securities	Benefit Plan Obligations	DAC/ VOBA/ DRL Impact	Future Policy Benefits	Policyholder Account Balances	Total
Beginning of year	$ 6,555	$ 1,517	$ (48,372)	$ (1,107)	$ (3,996)	$ (147)	$ (45,550)
Other comprehensive income before reclassification	56,566	213	—	(5,378)	(5,846)	(72)	45,483
Amounts reclassified from accumulated other comprehensive income (loss)	(81)	3	—	—	—	—	(78)
Net current-period other comprehensive income (loss)	56,485	216	—	(5,378)	(5,846)	(72)	45,405
End of period	$ 63,040	$ 1,733	$ (48,372)	$ (6,485)	$ (9,842)	$ (219)	$ (145)

The following table provides accumulated balances related to each component of accumulated other comprehensive income (loss) at December 31, 2018, net of tax.

	Unrealized Gain on Non-Impaired Securities	Unrealized Gain on Impaired Securities	Benefit Plan Obligations	DAC/ VOBA/ DRL Impact	Future Policy Benefits	Policyholder Account Balances	Total
Beginning of year	$ 72,172	$ 2,174	$ (42,549)	$ (10,012)	$ (15,206)	$ (291)	$ 6,288
Cumulative effect of adoption of new accounting principle (ASU No. 2016-01)	(1,212)	—	—	38	—	—	(1,174)
Adjusted beginning of year	70,960	2,174	(42,549)	(9,974)	(15,206)	(291)	5,114
Other comprehensive income (loss) before reclassification	(64,695)	(657)	(5,823)	8,867	11,210	144	(50,954)
Amounts reclassified from accumulated other comprehensive income (loss)	290	—	—	—	—	—	290
Net current-period other comprehensive income (loss)	(64,405)	(657)	(5,823)	8,867	11,210	144	(50,664)
End of period	$ 6,555	$ 1,517	$ (48,372)	$ (1,107)	$ (3,996)	$ (147)	$ (45,550)

The following table presents the pre-tax and the related income tax benefit (expense) components of the amounts reclassified from accumulated other comprehensive loss to the Consolidated Statements of Comprehensive Income.

	Quarter Ended March 31	
	2019	2018
Reclassification adjustments related to unrealized gains (losses) on investment securities:		
Net realized investment gains, excluding impairment losses[1]	$ 103	$ 259
Income tax expense [2]	(22)	(55)
Net of taxes	81	204
Other-than-temporary impairment losses[1]	(4)	—
Income tax benefit [2]	1	—
Net of taxes	(3)	—
Reclassification adjustment related to DAC, VOBA, and DRL [1]	—	(7)
Income tax benefit [2]	—	1
Net of taxes	—	(6)
Total pre-tax reclassifications	99	252
Total income tax expense	(21)	(54)
Total reclassification, net taxes	$ 78	$ 198

[1] (Increases) decreases net realized investment gains (losses) on the Consolidated Statements of Comprehensive Income.

[2] (Increases) decreases income tax expense on the Consolidated Statements of Comprehensive Income.

14. Earnings Per Share

Due to our 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 average number of shares outstanding for both the first quarters ended March 31, 2019 and 2018 was 9,683,414. The number of shares outstanding at both March 31, 2019 and December 31, 2018 was 9,683,414.

15. Segment Information

The following tables provide selected financial statement items for each of our operating segments. Intercompany transactions have been eliminated to arrive at Consolidated Statements of Comprehensive Income.

	Quarter Ended March 31, 2019			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 50,102	$ 15,316	$ 23,566	$ 88,984
Interest credited to policyholder account balances	19,069	—	—	19,069
Amortization of deferred acquisition costs	3,513	—	5,209	8,722
Income tax expense (benefit)	1,240	(46)	(280)	914
Net income (loss)	5,256	(176)	(1,045)	4,035

	Quarter Ended March 31, 2018			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 35,268	$ 15,047	$ 22,662	$ 72,977
Interest credited to policyholder account balances	18,072	—	—	18,072
Amortization of deferred acquisition costs	5,020	—	5,103	10,123
Income tax expense (benefit)	546	150	(415)	281
Net income (loss)	2,462	566	(1,566)	1,462

16. Commitments, Contingent Liabilities, Guarantees, and Indemnifications

Commitments
In the normal course of business, we have open purchase and sale commitments. At March 31, 2019, we had purchase commitments to fund mortgage loans of $5.4 million.

Subsequent to March 31, 2019, we entered into commitments to fund additional mortgage loans of $4.9 million.

Contingent Liabilities, Guarantees, and Indemnifications
On March 1, 2019, the Delaware Department of Insurance requested Scottish Re (US) be placed in rehabilitation. Kansas City Life has ceded some of its business to Scottish Re (US), a subsidiary of Scottish Re Group. Based on the information currently available, the Company does not have sufficient information to make an assessment of the likelihood of any loss related to this matter. The Company will continue to closely monitor developments related to the rehabilitation proceeding.

Please refer to our 2018 Annual Report for additional information regarding our contingent liabilities, guarantees, and indemnifications.

17. Subsequent Events

We evaluated events that occurred subsequent to March 31, 2019 through May 1, 2019, the date the consolidated financial statements were issued, and have identified the following subsequent events.

On April 22, 2019, the Kansas City Life Board of Directors declared a quarterly dividend of $0.27 per share, payable on May 8, 2019 to stockholders of record on May 2, 2019.

On April 22, 2019, the Kansas City Life Board of Directors elected Thomas M. Hoenig to serve on its Board of Directors. Mr. Hoenig will fill the unexpired term that was created by the passing of Richard L. Finn in February 2019. The unexpired term of the vacancy expires in April 2022. Mr. Hoenig will also serve on the Company's Audit Committee.

There have been no other subsequent events that occurred during such period that require disclosure in, or adjustment to, the consolidated financial statements as of and for the quarter ended March 31, 2019.