KANSAS CITY LIFE INSURANCE COMPANY

A Missouri Corporation

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Kansas City, MO 64111-2565
Telephone: (816) 753-7000

www.kclife.com

Investor Relations: Craig.Mason@kclife.com

SIC Code: 6311

QUARTERLY REPORT

For the Period Ending June 30, 2022
(the "Reporting Period")

The number of shares outstanding of our Common Stock was 9,683,414 as of June 30, 2022 (the end of reporting period)

The number of shares outstanding of our Common Stock was 9,683,414 as of March 31, 2022 (the end of previous reporting period)

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: ☐ No: ☒

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: ☐ No: ☒

Indicate by check mark whether a Change in Control of the company has occurred over this reporting period:

Yes: ☐ No: ☒

KANSAS CITY LIFE INSURANCE COMPANY

TABLE OF CONTENTS

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 economic conditions, including the performance of financial markets, inflation, and interest rates;
- Competition and changes in consumer behavior, which may affect our ability to sell our products and retain business;
- Competition in the recruitment and retention of general agents, agents, and employees;
- 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;
- The ability to integrate acquisitions and achieve anticipated operating efficiencies and the ability to preserve goodwill that results from acquisitions;
- The availability and effectiveness of reinsurance arrangements;
- Results of litigation we may be involved in; and
- The extent of the impacts resulting from catastrophic events such as natural disasters, pandemics, terrorist attacks, international conflicts, and wars.

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:	(816) 753-7000
Issuer's Website:	*www.kclife.com*
Investor Relations:	A. Craig Mason Jr. Senior Vice President, General Counsel & Secretary Kansas City Life Insurance Company Post Office Box 219139 Kansas City, Missouri 64121-9139 Telephone: (816) 753-7000 ext. 8763 E-mail: Craig.Mason@kclife.com

Item 2. Shares Outstanding

Common Stock

	June 30, 2022
Number of Shares Authorized	36,000,000
Number of Shares Outstanding	9,683,414
Freely Tradable Shares (Public Float)	2,563,564
Total Number of Shareholders of Record	124

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

Item 3. Interim Consolidated Financial Statements

The interim consolidated financial statements of Kansas City Life Insurance Company as of and for the period ending June 30, 2022 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. 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 audited consolidated financial statements and related notes included in our 2021 Annual Report, which is available on the OTC Markets Group website (*www.otcmarkets.com/stock/KCLI/filings*). The interim consolidated financial statements and the accompanying notes for the quarters and six months ended June 30, 2022 and 2021 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, 2022.

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 Kansas City Life Insurance Company management 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. Old American Insurance Company (Old American) and Grange Life Insurance Company (Grange Life) are wholly-owned insurance subsidiaries. Sunset Life Insurance Company of America (Sunset Life) is an insurance subsidiary that was wholly-owned by the Company until it was sold on November 1, 2021. We also have non-insurance subsidiaries that individually and collectively are not material.

On May 25, 2022, retroactive to April 1, 2022, we entered into a reinsurance arrangement whereby we reinsured a sizeable block of fixed annuity contracts to a certified reinsurer. This closed block of contracts reflected business issued prior to 2015 and consisted entirely of higher guaranteed interest rate products. We are accounting for this transaction as a deposit-type contract. The contract reinsures $516.2 million in policyholder account balance liabilities in exchange for fixed maturity securities, cash, less deferred revenue. We immediately recognized $11.6 million of certain non-refundable premiums associated with the transaction in investment income. The remaining deferred revenue will be amortized in future periods. The net consideration transferred to the reinsurer was $493.9 million. This resulted in recognizing a deposit asset on reinsurance of $516.2 million at April 1, 2022. The related pre-tax net realized investment loss from the sale of the fixed maturity securities associated with the transaction was $12.3 million. We will continue to administer this business on an ongoing basis, and we will receive an ongoing expense allowance associated with these efforts. For additional information on this reinsurance arrangement, please see Note 13 - Deposit Asset on Reinsurance.

The following is a discussion and analysis of the results of operations for the quarters and six months ended June 30, 2022 and 2021 and our financial condition at June 30, 2022. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes included in this document, as well as our 2021 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, equity risk, and inflation risk;
- Timely and cost-effective access to liquidity;
- Management of distribution costs and operating expenses;
- Management of the operations of our affiliates;
- Management of blocks of business associated with reinsurance transactions; and
- The ability to integrate acquisitions and to achieve anticipated operating efficiencies.

General economic conditions may affect future results. Financial market volatility can significantly impact our investments, revenues, and policyholder benefits. The low interest rate environment, increased inflationary 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. In addition, the COVID-19 pandemic and other events have caused increased economic uncertainty, financial market volatility, significant stress to businesses, supply chain shortages, decreased consumer confidence, and increased labor shortages. These conditions may persist into the future, affecting our financial position and financial statements. However, future conditions are highly uncertain and difficult to predict.

Consolidated Results of Operations

Summary of Results

Net income for the second quarter of 2022 was $4.5 million compared to net income of $4.3 million in the second quarter of 2021. Net income per share was $0.46 in the second quarter of 2022 compared to net income per share of $0.44 for the same period in the prior year. We incurred a net loss of $3.2 million in the first six months of 2022 compared to net income of $3.6 million in the first six months of 2021. Net loss per share was $0.33 in the first six months of 2022 compared to net income per share of $0.37 one year earlier.

The following table presents condensed consolidated results of operations for the quarters and six months ended June 30, 2022 and 2021.

	Quarter Ended June 30,			Six Months Ended June 30,		
	2022	2021	% Change	2022	2021	% Change
Revenues:						
Insurance and other revenues	$ 85,052	$ 85,239	— %	$ 170,211	$ 169,893	— %
Net investment income	46,074	36,196	27 %	80,092	72,101	11 %
Net investment gains (losses)	(16,547)	3,369	(591)%	(16,493)	5,141	(421)%
Benefits and expenses:						
Policyholder benefits and interest credited to policyholder account balances	75,792	86,165	(12)%	167,081	174,437	(4)%
Amortization of deferred acquisition costs	12,477	8,120	54 %	22,111	16,259	36 %
Operating expenses	21,269	25,252	(16)%	49,011	51,815	(5)%
Income tax expense (benefit)	556	981	(43)%	(1,202)	1,006	(219)%
Net income (loss)	$ 4,485	$ 4,286	5 %	$ (3,191)	$ 3,618	(188)%

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 Company uses a sales approach which generally involves personal interaction with our clients. The COVID-19 pandemic has resulted in many challenges and disruptions for our sales approach. The environment continues to evolve as the pandemic lengthens and in many ways has still not returned to historical levels. We continue to make strides to minimize the effects of this challenging environment by implementing more remote styles of client interaction, creating electronic applications, and streamlining medical examination requirements for underwriting. In addition, we review, update, and enhance our products on an ongoing basis to ensure that they remain within compliance under statutory regulatory requirements, that they remain profitable, and that they continue to fulfill the needs of our clients. We also periodically discontinue sales and reprice certain products that become outdated, unprofitable, or that cannot support our business and client needs.

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

	Quarter Ended June 30,			Six Months Ended June 30,		
	2022	2021	% Change	2022	2021	% Change
New premiums:						
Traditional life insurance	$ 5,013	$ 5,448	(8)%	$ 9,971	$ 10,763	(7)%
Immediate annuities	5,608	2,843	97 %	10,012	5,676	76 %
Group life insurance	636	620	3 %	1,281	1,285	— %
Group accident and health insurance	2,205	1,835	20 %	4,346	3,781	15 %
Total new premiums	13,462	10,746	25 %	25,610	21,505	19 %
Renewal premiums	68,195	68,159	— %	136,264	135,783	— %
Total premiums	81,657	78,905	3 %	161,874	157,288	3 %
Reinsurance ceded	(29,674)	(27,267)	9 %	(57,287)	(53,130)	8 %
Net premiums	$ 51,983	$ 51,638	1 %	$ 104,587	$ 104,158	— %

Consolidated total premiums increased $2.8 million or 3% in the second quarter of 2022 compared with the second quarter of 2021, as new premiums increased $2.7 million or 25% and renewal premiums were essentially flat. The increase in new premiums reflected a $2.8 million or 97% increase in new immediate annuity premiums. Immediate annuity receipts can have sizeable fluctuations, as receipts from policyholders largely result from one-time premiums. Internal rollovers from various individual annuity products rose $0.9 million in the second quarter of 2022 compared to the second quarter of 2021. In addition, new group accident and health insurance premiums increased $0.4 million or 20% compared to the prior year, largely from the disability lines of business. Partially offsetting these premium improvements, new traditional life insurance premiums decreased $0.4 million or 8% compared to the prior year. This decline was largely from the Old American segment. Renewal premiums reflected increases for the traditional life, dental, and vision lines. These improvements were offset by declines in disability and group life premiums.

Consolidated total premiums increased $4.6 million or 3% in the first six months of 2022 compared with the first six months of 2021. This improvement included a $4.1 million or 19% increase in new premiums and a $0.5 million or less than 1% increase in renewal premiums. The growth in new premiums largely resulted from a $4.3 million or 76% increase in new immediate annuity premiums. Internal rollovers from various individual annuity products rose $2.0 million in the first six months of 2022 compared to one year earlier. In addition, new group accident and health insurance premiums increased $0.6 million or 15% compared to the prior year, largely from the disability lines of business. Partially offsetting these premium improvements, new individual life insurance premiums decreased $0.8 million or 7% compared to one year earlier, primarily from the Old American segment. The increase in renewal premiums reflected a $0.2 million or 1% increase in renewal group accident and health insurance premiums, primarily from the dental and vision lines of business. In addition, renewal traditional life insurance premiums and renewal group life insurance premiums each increased $0.1 million compared to the prior year.

Reinsurance ceded premiums increased $2.4 million or 9% in the second quarter and $4.2 million or 8% in the first six months of 2022 over the same periods in the prior year. These increases reflected a reinsurance agreement that became effective January 1, 2022, whereby Old American began reinsuring 50% of new business on selected products.

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 June 30,			Six Months Ended June 30,		
	2022	2021	% Change	2022	2021	% Change
New deposits:						
Interest sensitive life	$ 2,233	$ 2,406	(7)%	$ 6,016	$ 5,614	7 %
Fixed annuities	12,981	9,975	30 %	18,948	17,378	9 %
Variable annuities	4,149	5,189	(20)%	8,147	8,365	(3)%
Total new deposits	19,363	17,570	10 %	33,111	31,357	6 %
Renewal deposits	37,503	39,047	(4)%	76,439	76,614	— %
Total deposits	56,866	56,617	— %	109,550	107,971	1 %
Reinsurance ceded	(2,833)	—	— %	(2,833)	—	— %
Net deposits	$ 54,033	$ 56,617	(5)%	$ 106,717	$ 107,971	(1)%

General economic conditions and interest rates available in the marketplace influence new deposits on interest sensitive products. In addition, fluctuations in the equity markets influence the variable life and annuity products. Generally, low interest rate and increased inflationary environments present significant challenges to products such as these, and potential sizeable fluctuations in new sales can result between periods. Further, as described above, the COVID-19 pandemic and the related economic impacts have affected both new and renewal deposits.

Total new deposits increased $1.8 million or 10% in the second quarter of 2022 compared with the second quarter of 2021, reflecting a $3.0 million or 30% increase in new fixed annuity deposits. This improvement was partially offset by a $0.2 million or 7% decrease in new interest sensitive life deposits and a $1.0 million or 20% decline in new variable annuity deposits compared to the prior year. Total renewal deposits decreased $1.5 million or 4% in the second quarter of 2022 compared to the prior year, resulting from a $1.2 million or 4% decline in renewal interest sensitive life deposits and a $0.5 million or 10% decrease in renewal fixed annuity deposits. These declines were partially offset by a $0.2 million or 10% increase in renewal variable annuity deposits.

Total new deposits increased $1.8 million or 6% in the first six months of 2022 compared with the first six months of 2021. New interest sensitive life deposits increased $0.4 million or 7% and new fixed annuity deposits increased $1.6 million or 9%. Partially offsetting these increases, new variable annuity deposits declined $0.2 million or 3% compared to the prior year. Total renewal deposits declined $0.2 million or less than 1% in the first six months of 2022 compared to the prior year. A $0.7 million or 7% increase in renewal fixed annuity deposits was offset by a $0.6 million or 1% decrease in renewal interest sensitive life deposits and a $0.3 million or 5% decrease in renewal variable annuity deposits.

Reinsurance ceded on deposits totaled $2.8 million in both the second quarter and first six months of 2022, resulting from the deposit-type reinsurance agreement previously mentioned that became effective April 1, 2022.

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 assessed on policyholder account balance withdrawals. 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. Contract charges are also potentially impacted by unlocking adjustments, as discussed below.

Total contract charges decreased $0.5 million or 2% in the second quarter of 2022 compared to the second quarter of 2021. Contract charges on open blocks decreased $0.4 million or 2%, resulting from declines in surrender charges and deferred revenue that were partially offset by an increase in cost of insurance. Contract charges on closed blocks decreased $0.2 million or 1%, reflecting the runoff of the closed blocks of business. Total contract charges on closed blocks equaled 40% of total consolidated contract charges during the second quarters of both 2022 and 2021.

Total contract charges decreased $0.6 million or 1% in the first six months of 2022 compared to the prior year. Contract charges on open blocks decreased $0.2 million or 1%, resulting from declines in surrender charges and deferred revenue that were partially offset by increases in cost of insurance and expense loads. Contract charges on closed blocks decreased $0.4 million or 2%, reflecting the runoff of the closed blocks of business. Total contract charges on closed blocks equaled 41% of total consolidated contract charges during the first six months of both 2022 and 2021.

Unlocking increased deferred revenue $1.0 million in the second quarter of 2022, compared to an increase of $1.1 million in the second quarter of 2021.

Investment Revenues
Total net investment income increased $9.9 million or 27% in the second quarter and $8.0 million or 11% in the first six months of 2022 compared with the same periods in 2021.

Net investment income resulting from the deposit-type reinsurance agreement which was effective April 1, 2022, was $12.5 million in both the second quarter and first six months of 2022.

Net investment income on invested assets decreased $2.6 million or 7% in the second quarter and $4.5 million or 6% in the first six months of 2022 compared with the same periods in the prior year. These results reflected lower overall yields earned and available on certain investments, lower average invested assets, and a decrease in prepayment fees on mortgage loans. The lower invested assets primarily resulted from the sale of fixed maturity securities with a book value of approximately $502.0 million as part of the deposit-type reinsurance transaction.

Fixed maturity securities provide a majority of our investment income. Net investment income from these investments decreased $1.5 million or 6% in the second quarter and $2.1 million or 4% of the first six months of 2022 compared to the same prior year periods, reflecting lower average invested assets that were partially offset by higher yields earned. The lower invested assets in the second quarter of 2022 primarily resulted from the sale of fixed maturity securities as part of the deposit-type reinsurance transaction.

Net investment income from commercial mortgage loans declined $1.0 million or 14% in the second quarter and $2.0 million or 14% in the first six months of 2022 compared with the same periods in the prior year, primarily from lower prepayment fees as well as lower yields earned. As interest rates have increased in 2022, fewer mortgage loans have refinanced. This has resulted in decreases in prepayment fees of $0.6 million in the second quarter and $1.2 million in the first six months of 2022 compared to the same periods in the prior year.

Net investment income from real estate declined $0.4 million or 20% in the second quarter and $0.8 million or 18% in the first six months of 2022 compared to the same prior year periods. These declines primarily resulted from the loss of revenue from a real estate property that was sold in the fourth quarter of 2021.

Investment Gains (Losses)
Net investment losses for the second quarter of 2022 totaled $16.5 million compared to net investment gains of $3.4 million in the second quarter of 2021. The largest factor in the decrease in 2022 was the sale of investment securities for the deposit-type reinsurance agreement that generated a pretax net loss of $12.3 million. Also contributing to the net investment losses in the second quarter of 2022 was the change in fair value of derivative instruments, which resulted in a loss of $4.9 million in the second quarter of 2022 compared to a gain of $1.5 million in the second quarter of 2021.

Net investment losses for the first six months of 2022 totaled $16.5 million compared to net investment gains of $5.1 million for the first six months of 2021. The largest factor in the net investment losses in 2022 was the sale of investment securities for the deposit-type reinsurance agreement mentioned above. In addition, the change in fair value of derivative instruments resulted in a loss of $6.0 million in the first six months of 2022 compared to a gain of $2.5 million in the prior year.

Net impairment losses were not material during both the quarters and six months ended June 30, 2022 and 2021. We continue to monitor and evaluate the investment portfolio for potential strain in the individual holdings and sectors due to the added stress in the current economic environment.

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 decreased $8.4 million or 13% in the second quarter of 2022 compared to the prior year. The largest factor in this decline was a $6.3 million or 77% decrease in benefit and contract reserves. The change in the fair value of derivative instruments decreased reserves compared to the prior year. Also contributing to the decrease in reserves was the decline in the fair value of the guaranteed minimum withdrawal benefits (GMWB) rider compared with the prior year. The change in fair value of the GMWB rider reflected increases in interest rates and spreads that were partially offset by unfavorable capital market returns. In addition, reserves decreased at the Old American segment due to ceded reserves on the reinsurance arrangement that became effective January 1, 2022 and more reserves released for death benefits. Partially offsetting these items were increases in annuity and supplemental contract reserves, largely due to the increase in annuity premiums. Death benefits, net of reinsurance, decreased $1.3 million or 3% compared to the prior year. Death benefits have been heavily affected by the COVID-19 pandemic and have remained significantly higher since the pandemic began in 2020. Mortality cost resulting specifically from the COVID-19 pandemic was 1% of the total mortality cost for the second quarter of 2022, down from 6% for the second quarter of 2021. Mortality cost is defined as death benefits net of reinsurance and reserves released. Furthermore, group accident and health benefits declined $0.9 million or 12% in the second quarter of 2022 compared to the prior year, largely from the dental and disability lines.

Policyholder benefits declined $5.2 million or 4% in the first six months of 2022 compared to the first six months of 2021, primarily due to a $6.3 million or 89% decrease in benefit and contract reserve increase. The change in the fair value of derivative instruments decreased reserves compared to the prior year and mostly offset the realized loss previously mentioned. In addition, reserves decreased at the Old American segment due to ceded reserves on the reinsurance arrangement mentioned above and more reserves released for death benefits. Partially offsetting these items were increases in annuity and supplemental contract reserves, largely due to the increase in annuity premiums. The decline in benefit and contract reserves was partially offset by a $2.1 million or 2% increase in death benefits, net of reinsurance, in the first six months of 2022 compared to the prior year. Mortality cost resulting specifically from the COVID-19 pandemic was 9% of the total mortality cost for the first six months of 2022, down from 12% for the first six months of 2021.

Amortization of DAC

The amortization of DAC increased $4.4 million or 54% in the second quarter and $5.9 million or 36% in the first six months of 2022 compared to the same periods in the prior year. The results in both periods reflected the impact of unlocking and decreased investment performance in the separate accounts. Unlocking increased amortization of DAC $1.7 million in the second quarter of 2022 compared to a decrease of $0.4 million in the second quarter of 2021. In addition, DAC amortization increased in 2022 due to the write-off of DAC resulting from the deposit-type reinsurance arrangement.

Unlocking

At least annually, we review the models and the assumptions used to develop expected gross profits for interest sensitive and variable insurance products based upon management's current view of future events. Key assumptions analyzed include net interest income, net realized investment gains and losses, fees, surrender charges, expenses, and mortality gains and losses, net of reinsurance.

The following tables summarize the effects of unlocking of assumptions on interest sensitive products in the Consolidated Statements of Comprehensive Income. Positive numbers are increases to income and negative numbers are reductions to income. The unlocking occurred during the second quarters of 2022 and 2021.

	Six Months Ended June 30, 2022			
	DAC Amortization	VOBA Amortization	DRL Contract Charges	Net Impact to Pre-Tax Income
Unlocking	$ (1,744)	$ (26)	$ 953	$ (817)

	Six Months Ended June 30, 2021			
	DAC Amortization	VOBA Amortization	DRL Contract Charges	Net Impact to Pre-Tax Income
Unlocking	$ 380	$ (822)	$ 1,137	$ 695

The unlocking in 2022 resulted in a net $0.8 million decrease to pre-tax income in the first six months of 2022. The unlocking in 2021 resulted in a net $0.7 million increase to pre-tax income in the first six months of 2021. The adjustments in both periods primarily resulted from interest rate fluctuations and the impact of management actions in this low interest rate environment.

In addition, we had a $1.4 million decrease in benefit and contract reserves related to the impacts of unlocking in the first six months of 2022 compared to a $0.7 million decrease in the first six months of 2021. The pre-tax impact of all adjustments related to unlocking, including insurance revenues, amortization of DAC and VOBA, and policyholder benefits, was an increase to pretax income of $0.6 million in the first six months of 2022 and an increase to pretax income of $1.4 million in the first six months of 2021.

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 our operations, the amortization of VOBA and intangibles, and other expenses.

Operating expenses decreased $4.0 million or 16% in the second quarter of 2022 compared to the prior year. This decrease reflected a decline in employee compensation expenses, in part due to staffing fluctuations and a decline in the market value of deferred compensation benefits. In addition, legal fees declined. Partially offsetting these declines, agent meeting expenses increased. Operating expenses decreased $2.8 million or 5% in the first six months of 2022 compared to the prior year. This decline primarily resulted from lower employee compensation expenses as described above. Partially offsetting these, agent meeting expenses and legal fees increased.

The amortization of VOBA decreased $0.8 million or 62% in the second quarter and $0.7 million or 41% in the first six months of 2022 compared to the same periods in the prior year, primarily due to unlocking, as discussed above. Unlocking increased operating expenses less than $0.1 million in the second quarter of 2022 compared to an increase of $0.8 million in the second quarter of 2021.

Income Taxes

We recorded an income tax expense of $0.6 million or 11% of income before tax in the second quarter of 2022 compared to an income tax expense of $1.0 million or 19% of income before tax in the second quarter of 2021. The decrease in income tax expense in the second quarter of 2022 primarily occurred because of a reduction in pretax income in the second quarter of 2022 as compared to the second quarter in 2021.

We recorded an income tax benefit for the six months ended June 30, 2022 of $1.2 million or 27% of income before tax, compared to income tax expense of $1.0 million or 22% of income before tax for the prior year period. The decrease in income tax expense in the first six months of 2022 was primarily related to a reduction in pretax income in the first six months of 2022 as compared to the first six months of 2021.

The effective income tax rate was lower than the prevailing corporate federal income tax rate of 21% for both the second quarters of 2022 and 2021. The lower effective income tax rate in both periods was primarily due to tax credits from affordable housing investments, research and development credits, and permanent differences, which includes the dividend-received deduction.

The effective income tax rate was higher than the prevailing corporate federal income tax rate of 21% for the six months ended June 30, 2022. The higher effective income tax rate was primarily due to the effect of favorable tax adjustments relative to a pretax loss. Favorable tax adjustments include tax credits from affordable housing investments, research and development credits, and permanent differences, which includes the dividend-received deduction. The effective income tax rate was higher than the prevailing corporate federal income tax rate of 21% for the six months ended June 30, 2021. The higher effective income tax rate was primarily due to tax on capital gains that was partially offset by a net loss on operating income.

Analysis of Investments

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

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

	June 30, 2022	% of Total	December 31, 2021	% of Total
Fixed maturity securities	$ 2,274,491	72 %	$ 3,088,197	77 %
Equity securities	8,921	— %	3,676	— %
Mortgage loans	602,443	19 %	596,037	15 %
Real estate	142,489	5 %	142,278	4 %
Policy loans	82,255	3 %	82,060	2 %
Short-term investments	39,441	1 %	74,501	2 %
Other investments	9,954	— %	12,840	—
Total	$ 3,159,994	100 %	$ 3,999,589	100 %

Fixed maturity securities were the largest component of total investments at both June 30, 2022 and December 31, 2021. Fixed maturity securities declined from 77% of total investments at December 31, 2021 to 72% of total investments at June 30, 2022. This decline was primarily from an increase in unrealized losses on the portfolio due to increasing interest rates as well as from the sale of fixed maturity securities with a book value of approximately $502.0 million as part of the deposit-type reinsurance transaction. The largest categories of fixed maturity securities at June 30, 2022 consisted of 72% in corporate obligations, 11% in municipal securities, and 6% in U.S. Treasury securities and obligations of the U.S. Government. We had 27% of the fixed maturity securities in private placements at June 30, 2022 and 22% at December 31, 2021. The use of private placements offers an enhancement to our portfolio returns by providing access to higher yielding securities that choose to have a more limited offering at often lower cost.

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 99% of total securities at both June 30, 2022 and December 31, 2021.

The fair value of fixed maturity securities with unrealized losses was $1.8 billion at June 30, 2022 compared with $366.6 million at December 31, 2021. This increase primarily reflected higher interest rates at June 30, 2022. At both June 30, 2022 and December 31, 2021, 99% of security investments with an unrealized loss were investment grade and accounted for 99% of the total unrealized losses.

At June 30, 2022, we had $20.3 million in gross unrealized gains on fixed maturity securities that were offset by gross unrealized losses of $191.2 million. At December 31, 2021, we had $203.7 million in gross unrealized gains on fixed maturity securities that offset $10.4 million in gross unrealized losses. At June 30, 2022, 22% of the fixed maturity securities portfolio had unrealized gains, a decrease from 88% at December 31, 2021. We had an increase in gross unrealized losses in all categories from December 31, 2021 to June 30, 2022, primarily due to changes in interest rates. Gross unrealized losses on fixed maturity securities for less than 12 months accounted for $147.0 million or 90% of the security values in a gross unrealized loss position at June 30, 2022. Gross unrealized losses on fixed maturity securities for less than 12 months totaled $6.8 million and accounted for 81% of the security values in a gross unrealized loss position at December 31, 2021. Gross unrealized losses on fixed maturity security investments of 12 months or longer increased from $3.5 million at December 31, 2021 to $44.2 million at June 30, 2022.

We have written down certain investments in previous periods. Fixed maturity securities written down and still owned at June 30, 2022 had a fair value of $10.3 million and net unrealized gains of $0.4 million, compared to the December 31, 2021 fair value of $11.9 million and net unrealized gains of $1.3 million. 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 the quarters ended June 30, 2022 and 2021.

Investments in mortgage loans totaled $602.4 million at June 30, 2022, up from $596.0 million at December 31, 2021. The commercial mortgage loan portfolio increased by $6.4 million during the first six months of 2022, as new loan originations and refinancing activity exceeded prepaid loans and regularly scheduled payments. Our mortgage loans are secured by commercial real estate. These loans are stated at the outstanding principal balance, adjusted for amortization of premium and accrual of discount, less an allowance for loan losses. We believe this allowance is at a level adequate to absorb estimated credit losses. This allowance was $2.8 million at both June 30, 2022 and December 31, 2021.

Liquidity and Capital Resources

Liquidity

Management believes that the Company has sufficient sources of liquidity and capital resources to satisfy operational requirements and to finance expansion plans and strategic initiatives as they may occur. Primary sources of cash flow are premiums, other insurance considerations and deposits, receipts for policyholder accounts, investment sales and maturities, and investment income. We have a spread-based investment program utilizing advances from the Federal Home Loan Bank of Des Moines (FHLB) to provide additional liquidity. In addition, we have credit facilities that are available for additional working capital needs or investment opportunities. The principal uses of cash are for the insurance operations, including the purchase of investments, payment of insurance benefits, operating expenses, policyholder dividends, income taxes, withdrawals from policyholder accounts, and costs related to acquiring new business. There can be no assurance that we will continue to generate cash flows at or above current levels or that our ability to borrow under the current credit facilities will be maintained.

We perform cash flow testing and add various levels of stress testing to potential surrender and policy loan levels in order to assess current and near-term cash and liquidity needs. In the event of increased surrenders and other cash needs, we have several sources of cash flow available to meet our needs.

Net cash used from operating activities was $48.4 million for the six months ended June 30, 2022. Net cash used from investing activities was $44.7 million for the six months ended June 30, 2022. The primary sources of cash provided by investing activities were sales, maturities, calls, and principal paydowns of investments totaling $240.2 million. Investment purchases, including new fixed maturities and mortgage loans, totaled $319.6 million. Net cash provided by financing activities for the six months ended June 30, 2022, was $93.8 million, including $60.0 million of receipts from the FHLB funding agreement, $31.4 million of deposits, net of withdrawals, on policyholder account balances, $4.4 million of net transfers from separate accounts, and $3.7 million change in deposit asset on reinsurance. These were partially offset by the payment of $4.0 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.

	June 30, 2022	December 31, 2021
Total assets, excluding separate accounts	$ 4,658,792	$ 4,928,454
Total stockholders' equity	583,939	830,434
Ratio of stockholders' equity to assets, excluding separate accounts	13%	17%

Stockholders' equity decreased $246.5 million from year-end 2021, primarily due to an increase in net unrealized losses, reflecting higher interest rates at June 30, 2022. Stockholders' equity per share, or book value, equaled $60.30 at June 30, 2022, a decrease from $85.76 at year-end 2021, largely due to an increase in unrealized losses on available for sale securities.

Net unrealized losses on available for sale securities, which are included as part of Accumulated Other Comprehensive Income (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 $126.0 million at June 30, 2022, a $239.4 million change from net unrealized gains on available securities of $113.4 million at December 31, 2021. This decline reflected higher interest rates at June 30, 2022.

In 2021, the Company began entering into advance funding agreements with the FHLB. Total obligations outstanding under these agreements, which mature between 2024 and 2027, were $90.0 million at June 30, 2022 and are reported as Policyholder Account Balances in the Consolidated Balance Sheets. Interest is credited based on variable rates set by the FHLB. Interest payments were $0.1 million during the quarter and $0.2 million during the six months ended June 30, 2022.

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 (NAIC). We believe these statutory limitations impose no practical restrictions on future dividend payment plans.

In January 2022, the Board of Directors authorized the purchase of up to one million of our shares on the open market through January 2023. No shares were purchased under this authorization during the first six months of 2022.

On July 25, 2022, the Board of Directors declared a quarterly dividend of $0.14 per share payable on August 10, 2022 to stockholders of record on August 4, 2022.

Item 5. Legal Proceedings

We are, and in the future may be, subject to legal and regulatory actions in the ordinary course of our insurance operations. Pending legal actions include proceedings that have been brought on behalf of various alleged classes of complainants. In certain of these matters, the plaintiffs are seeking large and/or indeterminate amounts, including punitive or exemplary damages. Substantial legal liability in these or future legal or regulatory actions could have a material financial effect or cause significant harm to our reputation, which in turn could materially harm our business prospects. Please see the section titled "Contingent Liabilities" in Note 17 - Commitments, Contingent Liabilities, Guarantees, and Indemnifications of the financial statements 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, Walter E. 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: July 29, 2022

/s/ Walter E. Bixby
Walter E. Bixby
President, Chief Executive Officer,
and Vice Chairman of the Board

I, David A. Laird, 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: July 29, 2022

/s/ David A. Laird
David A. Laird
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

	June 30, 2022	December 31, 2021
	(Unaudited)	
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value (amortized cost: 2022 - $2,445,426; 2021 - $2,894,877)	$ 2,274,491	$ 3,088,197
Equity securities, at fair value (cost: 2022 - $3,663 and 2021 - $3,097)	8,921	3,676
Mortgage loans	602,443	596,037
Real estate	142,489	142,278
Policy loans	82,255	82,060
Short-term investments	39,441	74,501
Other investments	9,954	12,840
Total investments	3,159,994	3,999,589
Cash	6,067	5,419
Accrued investment income	26,605	30,298
Deferred acquisition costs	318,766	292,027
Reinsurance recoverables	401,331	399,951
Deposit asset on reinsurance	512,523	—
Other assets	233,506	201,170
Separate account assets	396,185	504,976
Total assets	$ 5,054,977	$ 5,433,430
LIABILITIES		
Future policy benefits	$ 1,376,557	$ 1,397,111
Policyholder account balances	2,294,816	2,247,392
Policy and contract claims	65,235	69,787
Other policyholder funds	202,251	185,713
Other liabilities	135,994	198,017
Separate account liabilities	396,185	504,976
Total liabilities	4,471,038	4,602,996
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	926,177	933,338
Accumulated other comprehensive income (loss)	(165,083)	74,251
Treasury stock, at cost (2022 and 2021 - 8,813,266 shares)	(241,301)	(241,301)
Total stockholders' equity	583,939	830,434
Total liabilities and stockholders' equity	$ 5,054,977	$ 5,433,430

See accompanying Notes to Consolidated Financial Statements (Unaudited)

Kansas City Life Insurance Company
Consolidated Statements of Comprehensive Income

	Quarter Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(Unaudited)		(Unaudited)	
REVENUES				
Insurance revenues:				
Net premiums	$ 51,983	$ 51,638	$ 104,587	$ 104,158
Contract charges	31,505	32,047	62,084	62,658
Total insurance revenues	83,488	83,685	166,671	166,816
Investment revenues:				
Net investment income	46,074	36,196	80,092	72,101
Net investment gains (losses)	(16,547)	3,369	(16,493)	5,141
Total investment revenues	29,527	39,565	63,599	77,242
Other revenues	1,564	1,554	3,540	3,077
Total revenues	114,579	124,804	233,810	247,135
BENEFITS AND EXPENSES				
Policyholder benefits	57,783	66,145	129,732	134,892
Interest credited to policyholder account balances	18,009	20,020	37,349	39,545
Amortization of deferred acquisition costs	12,477	8,120	22,111	16,259
Operating expenses	21,269	25,252	49,011	51,815
Total benefits and expenses	109,538	119,537	238,203	242,511
Income (loss) before income tax expense (benefit)	5,041	5,267	(4,393)	4,624
Income tax expense (benefit)	556	981	(1,202)	1,006
NET INCOME (LOSS)	$ 4,485	$ 4,286	$ (3,191)	$ 3,618
COMPREHENSIVE INCOME (LOSS), NET OF TAXES				
Changes in:				
Net unrealized gains (losses) on securities available for sale	$ (122,255)	$ 37,141	$ (287,761)	$ (59,190)
Effect on deferred acquisition costs, value of business acquired, and deferred revenue liabilities	8,016	(1,583)	21,665	4,728
Policyholder liabilities	5,942	(4,479)	26,762	4,351
Other comprehensive income (loss)	(108,297)	31,079	(239,334)	(50,111)
COMPREHENSIVE INCOME (LOSS)	$ (103,812)	$ 35,365	$ (242,525)	$ (46,493)
Basic and diluted earnings per share:				
Net income (loss)	$ 0.46	$ 0.44	$ (0.33)	$ 0.37

See accompanying Notes to Consolidated Financial Statements (Unaudited)

Kansas City Life Insurance Company
Consolidated Statements of Cash Flows

	Six Months Ended June 30,	
	2022	2021
	(Unaudited)	
OPERATING ACTIVITIES		
Net income (loss)	$ (3,191)	$ 3,618
Adjustments to reconcile net income (loss) to net cash used from operating activities:		
Amortization of investment premium and discount	1,181	418
Depreciation and amortization	3,536	3,984
Acquisition costs capitalized	(13,640)	(18,883)
Amortization of deferred acquisition costs	22,111	16,259
Net investment losses (gains)	16,493	(5,141)
Changes in assets and liabilities:		
Reinsurance recoverables	(1,380)	(346)
Future policy benefits	12,495	15,765
Policyholder account balances	(47,398)	(23,240)
Income taxes payable and deferred	(3,480)	(3,539)
Other, net	(35,170)	(14,040)
Net cash used	(48,443)	(25,145)
INVESTING ACTIVITIES		
Purchases:		
Fixed maturity securities	(257,572)	(198,181)
Equity securities	(4,800)	(197)
Mortgage loans	(45,078)	(64,032)
Real estate	(1,786)	(383)
Policy loans	(5,021)	(3,866)
Other investments	(5,320)	(2,464)
Property and equipment	(388)	(522)
Sales or maturities, calls, and principal paydowns:		
Fixed maturity securities	194,274	165,640
Equity securities	248	—
Mortgage loans	38,626	49,692
Real estate	2	3,208
Policy loans	4,826	5,468
Other investments	2,237	4,161
Property and equipment	4	6
Net sales of short-term investments	35,060	52,319
Net cash provided (used)	(44,688)	10,849

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

	Six Months Ended June 30,	
	2022	2021
	(Unaudited)	
FINANCING ACTIVITIES		
Policyholder account balances - deposits	$ 109,550	$ 107,971
Policyholder account balances - receipts from funding agreement	60,000	—
Withdrawals from policyholder account balances	(78,173)	(96,786)
Change in deposit asset on reinsurance, net	3,683	—
Net transfers from separate accounts	4,363	4,801
Change in other deposits	(1,674)	4,074
Cash dividends to stockholders	(3,970)	(5,229)
Net cash provided	93,779	14,831
Increase in cash	648	535
Cash at beginning of year	5,419	7,203
Cash at end of period	$ 6,067	$ 7,738

Non-Cash Activity

In the second quarter of 2022, we had a non-cash investing transaction that consisted of the receipt of a $0.6 million equity security and a $1.0 million fixed maturity security in exchange for a $1.6 million fixed maturity security as result of the Chapter 11 Bankruptcy of one of our issuers. The new equity security and fixed maturity security were recorded at fair value, which equaled the fair value of the fixed maturity security that was extinguished.

In the second quarter of 2022, we entered into a reinsurance arrangement that resulted in the non-cash transfer of $493.9 million of fixed maturity securities and $516.2 million of policyholder account balance liabilities to a certified reinsurer. See the Business Changes section of Note 1 - Nature of Operations and Significant Accounting Policies for further information.

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) and its subsidiaries. Kansas City Life Insurance Company (Kansas City Life) is the parent company. Old American Insurance Company (Old American) and Grange Life Insurance Company (Grange Life) are wholly-owned insurance subsidiaries. Sunset Life Insurance Company of America (now Ibexis Life & Annuity Insurance Company) was an insurance subsidiary that was wholly-owned by the Company until it was sold on November 1, 2021 - see Business Changes section below. 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 16 - 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 2021 Annual Report, which is available on the OTC Markets Group website (*www.otcmarkets.com/stock/KCLI/filings*). The interim consolidated financial statements and the accompanying notes for the quarters and six months ended June 30, 2022 and 2021 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. Amounts are stated in thousands, except share data, security counts, or as otherwise noted.

Business Changes

On May 25, 2022, retroactive to April 1, 2022, we entered into a reinsurance arrangement whereby we reinsured a sizeable block of fixed annuity contracts to a certified reinsurer. This closed block of contracts reflected business issued prior to 2015 and consisted entirely of higher guaranteed interest rate products. We are accounting for this transaction as a deposit-type contract. The contract reinsures $516.2 million in policyholder account balance liabilities in exchange for fixed maturity securities, cash, less deferred revenue. We immediately recognized $11.6 million of certain non-refundable premiums associated with the transaction in investment income. The remaining deferred revenue will be amortized in future periods. The net consideration transferred to the reinsurer was $493.9 million. This resulted in recognizing a deposit asset on reinsurance of $516.2 million at April 1, 2022. The related pre-tax net realized investment loss from the sale of the fixed maturity securities associated with the transaction was $12.3 million. We will continue to administer this business on an ongoing basis, and we will receive an ongoing expense allowance associated with these efforts. For additional information on this reinsurance arrangement, please see Note 13 - Deposit Asset on Reinsurance.

On November 1, 2021, we sold 100% of the capital and surplus of Ibexis Life to Bona Holdings, LLC for $29.5 million, resulting in a net gain of approximately $5.5 million. In addition, we received $1.0 million for providing certain transition support associated with this transaction.

COVID-19 Pandemic

The impact of the COVID-19 pandemic on our financial condition and results of operations continues to evolve. The duration and the severity depend on certain developments, including the effect of the pandemic on financial markets. Certain negative financial impacts occurred as a result of the COVID-19 pandemic, including increased policyholder benefit payments, largely from death benefits; deferrals of interest and principal on certain investments; reduced investment income from lower available interest rates; and fluctuations in certain operating expenses. Other negative financial impacts could occur including, but not limited to: asset impairments; defaults, delinquencies or additional deferrals on the Company’s mortgage loan and real estate portfolios; a reduction in sales; additional increases in policyholder benefits; and continued increases in certain expenses.

Significant Accounting Policies
Please refer to our 2021 Annual Report for a full discussion of our significant accounting policies. No significant updates or changes to these policies occurred during the quarter or six months ended June 30, 2022. For a discussion of our accounting policies related to reinsurance on deposit-type contracts, please see Note 13 - Deposit Asset on Reinsurance.

2. New Accounting Pronouncements

Accounting Pronouncements Issued, Not Yet Adopted
In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 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 assets 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. The original effective date for this guidance, including subsequently issued amendments, for public business entities that are not U.S. Securities and Exchange Commission (SEC) filers was for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. The FASB deferred the effective date of this guidance for public business entities that do not meet the definition of an SEC filer to fiscal years beginning after December 15, 2022, including 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 requires insurance entities to (1) review and update the assumptions used to measure cash flows at least annually and (2) update the discount rate assumption at each reporting date. The change in the liability estimate as a result of updating cash flow assumptions is required to be recognized in net income. The change in the liability estimate as a result of updating the discount rate assumption is required to be recognized in other comprehensive income. Expected future cash flows are required to be discounted at an upper-medium grade (low-credit-risk) fixed income instrument yield that maximizes the use of observable market inputs.

- 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. The portion of any change in fair value attributable to a change in the instrument-specific credit risk is required to be recognized in other comprehensive income.

- It simplifies the amortization of deferred acquisition costs by requiring amortization on a constant level basis over the expected term of the related contracts. Deferred acquisition costs are required to be written off for unexpected contract terminations but are not subject to an impairment test.

- It improves the effectiveness of the required disclosures. It requires an insurance entity to provide disaggregated rollforwards of beginning to ending balances of the liability for future policy benefits, policyholder account balances, market risk benefits, separate account liabilities, and deferred acquisition costs. It also requires disclosures regarding significant inputs, judgments, assumptions, and methods used in measurement, including changes in those inputs, judgments, and assumptions, and the effect of those changes on measurement.

The original effective date for this guidance was for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The FASB deferred the effective date of this guidance to fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025. 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 June 30, 2022.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 131,576	$ 1,511	$ 2,010	$ 131,077
Federal agency issued residential mortgage-backed securities [1]	67,980	524	2,548	65,956
Subtotal	199,556	2,035	4,558	197,033
Corporate obligations:				
Industrial	335,176	1,664	31,512	305,328
Energy	91,139	1,765	1,994	90,910
Communications and technology	185,630	2,067	15,728	171,969
Financial	412,689	1,367	37,778	376,278
Consumer	482,203	439	45,002	437,640
Public utilities	280,484	1,960	29,690	252,754
Subtotal	1,787,321	9,262	161,704	1,634,879
Corporate private-labeled residential mortgage-backed securities	9,892	667	244	10,315
Municipal securities	259,776	8,345	13,881	254,240
Other	182,881	1	10,101	172,781
Redeemable preferred stocks	6,000	—	757	5,243
Total	$ 2,445,426	$ 20,310	$ 191,245	$ 2,274,491

[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, 2021.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 147,884	$ 12,696	$ 140	$ 160,440
Federal agency issued residential mortgage-backed securities [1]	70,838	4,873	13	75,698
Subtotal	218,722	17,569	153	236,138
Corporate obligations:				
Industrial	414,391	24,897	1,570	437,718
Energy	146,181	10,049	39	156,191
Communications and technology	233,390	17,208	1,046	249,552
Financial	461,740	27,974	1,372	488,342
Consumer	647,861	39,707	3,107	684,461
Public utilities	348,164	26,765	1,578	373,351
Subtotal	2,251,727	146,600	8,712	2,389,615
Corporate private-labeled residential mortgage-backed securities	10,641	1,403	—	12,044
Municipal securities	232,470	36,913	428	268,955
Other	175,317	1,162	1,082	175,397
Redeemable preferred stocks	6,000	48	—	6,048
Total	$ 2,894,877	$ 203,695	$ 10,375	$ 3,088,197

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

The following table provides information on fixed maturity securities available for sale by actual or equivalent Standard & Poor's rating at June 30, 2022 with the percent of total unrealized gains (losses) identified.

	Amortized Cost	Fair Value	Unrealized Gains (Losses)	% of Total
AAA	$ 188,636	$ 183,106	$ (5,530)	3 %
AA	568,650	545,375	(23,275)	14 %
A	775,869	707,616	(68,253)	40 %
BBB	881,065	809,021	(72,044)	42 %
Total investment grade	2,414,220	2,245,118	(169,102)	99 %
BB	18,931	17,611	(1,320)	1 %
B and below	12,275	11,762	(513)	— %
Total below investment grade	31,206	29,373	(1,833)	1 %
Total	$ 2,445,426	$ 2,274,491	$ (170,935)	100 %

The following table provides information on fixed maturity securities available for sale by actual or equivalent Standard & Poor's rating at December 31, 2021 with the percent of total unrealized gains (losses) identified.

	Amortized Cost	Fair Value	Unrealized Gains (Losses)	% of Total
AAA	$ 183,920	$ 197,319	$ 13,399	7 %
AA	588,506	641,837	53,331	28 %
A	1,043,384	1,114,086	70,702	37 %
BBB	1,046,200	1,100,183	53,983	27 %
Total investment grade	2,862,010	3,053,425	191,415	99 %
BB	18,424	18,720	296	— %
B and below	14,443	16,052	1,609	1 %
Total below investment grade	32,867	34,772	1,905	1 %
Total	$ 2,894,877	$ 3,088,197	$ 193,320	100 %

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.

	June 30, 2022		December 31, 2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 117,194	$ 117,058	$ 121,297	$ 122,979
Due after one year through five years	476,911	472,485	843,382	893,131
Due after five years through ten years	713,960	661,157	851,116	904,165
Due after ten years	987,699	876,972	918,209	994,023
Securities with variable principal payments	143,662	141,576	154,873	167,851
Redeemable preferred stocks	6,000	5,243	6,000	6,048
Total	$ 2,445,426	$ 2,274,491	$ 2,894,877	$ 3,088,197

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 2021 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 June 30, 2022.

	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	$ 58,237	$ 1,608	$ 3,943	$ 402	$ 62,180	$ 2,010
Federal agency issued residential mortgage-backed securities [1]	49,856	2,548	1	—	49,857	2,548
Subtotal	108,093	4,156	3,944	402	112,037	4,558
Corporate obligations:						
Industrial	199,067	23,947	25,780	7,565	224,847	31,512
Energy	50,882	1,994	—	—	50,882	1,994
Communications and technology	102,646	11,108	14,960	4,620	117,606	15,728
Financial	297,001	30,378	30,482	7,400	327,483	37,778
Consumer	342,157	32,207	49,273	12,795	391,430	45,002
Public utilities	194,335	20,842	28,135	8,848	222,470	29,690
Subtotal	1,186,088	120,476	148,630	41,228	1,334,718	161,704
Corporate private-labeled residential mortgage-backed securities	3,802	244	—	—	3,802	244
Municipal securities	143,537	12,441	5,061	1,440	148,598	13,881
Other	149,332	8,971	21,272	1,130	170,604	10,101
Redeemable preferred stocks	5,243	757	—	—	5,243	757
Total	$1,596,095	$ 147,045	$ 178,907	$ 44,200	$ 1,775,002	$ 191,245

[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, 2021.

	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	$ 2,973	$ 60	$ 1,843	$ 80	$ 4,816	$ 140
Federal agency issued residential mortgage-backed securities [1]	2,828	13	3	—	2,831	13
Subtotal	5,801	73	1,846	80	7,647	153
Corporate obligations:						
Industrial	56,250	1,146	7,070	424	63,320	1,570
Energy	1,045	39	—	—	1,045	39
Communications and technology	30,492	909	2,297	137	32,789	1,046
Financial	46,844	727	19,592	645	66,436	1,372
Consumer	80,069	2,535	9,722	572	89,791	3,107
Public utilities	35,473	969	11,702	609	47,175	1,578
Subtotal	250,173	6,325	50,383	2,387	300,556	8,712
Municipal securities	16,300	308	2,258	120	18,558	428
Other	26,604	135	13,278	947	39,882	1,082
Total	$ 298,878	$ 6,841	$ 67,765	$ 3,534	$ 366,643	$ 10,375

[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.

	June 30, 2022	December 31, 2021
Below cost for less than one year	1,008	185
Below cost for one year or more and less than three years	122	36
Total	1,130	221

We do not consider the unrealized losses related to these securities to be credit-related. The unrealized losses at both June 30, 2022 and December 31, 2021 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 June 30, 2022.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	$ 1,160,996	$ 1,115,825	$ 45,171
Unrealized losses of 20% or less and greater than 10%	531,934	451,993	79,941
Subtotal	1,692,930	1,567,818	125,112
Unrealized losses greater than 20%:			
Investment grade	270,435	204,955	65,480
Below investment grade	2,882	2,229	653
Total securities owned without realized impairment	1,966,247	1,775,002	191,245
Securities owned with realized impairment:			
Unrealized losses of 10% or less	—	—	—
Unrealized losses of 20% or less and greater than 10%	—	—	—
Unrealized losses greater than 20%	—	—	—
Total securities owned with realized impairment	—	—	—
Total	$ 1,966,247	$ 1,775,002	$ 191,245

The following table summarizes investments in fixed maturity securities available for sale with unrealized losses at December 31, 2021.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	$ 375,032	$ 364,870	$ 10,162
Unrealized losses of 20% or less and greater than 10%	1,986	1,773	213
Subtotal	377,018	366,643	10,375
Unrealized losses greater than 20%:			
Investment grade	—	—	—
Below investment grade	—	—	—
Total securities owned without realized impairment	377,018	366,643	10,375
Securities owned with realized impairment:			
Unrealized losses of 10% or less	—	—	—
Unrealized losses of 20% or less and greater than 10%	—	—	—
Unrealized losses greater than 20%	—	—	—
Total securities owned with realized impairment	—	—	—
Total	$ 377,018	$ 366,643	$ 10,375

The following table provides information on fixed maturity securities available for sale with unrealized losses by actual or equivalent Standard & Poor's rating at June 30, 2022.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	$ 149,122	8 %	$ 8,414	5 %
AA	368,581	21 %	30,993	16 %
A	596,953	34 %	72,660	38 %
BBB	637,486	36 %	76,678	40 %
Total investment grade	1,752,142	99 %	188,745	99 %
BB	16,314	1 %	1,320	1 %
B and below	6,546	— %	1,180	— %
Total below investment grade	22,860	1 %	2,500	1 %
	$ 1,775,002	100 %	$ 191,245	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, 2021.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	$ 11,121	3 %	$ 326	3 %
AA	51,904	14 %	1,537	15 %
A	145,334	40 %	4,308	41 %
BBB	156,235	42 %	4,134	40 %
Total investment grade	364,594	99 %	10,305	99 %
BB	2,049	1 %	70	1 %
B and below	—	— %	—	— %
Total below investment grade	2,049	1 %	70	1 %
	$ 366,643	100 %	$ 10,375	100 %

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.

	June 30, 2022		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Corporate private-labeled residential mortgage-backed securities:			
Investment grade	$ 1,328	$ 1,462	$ (134)
Below investment grade	8,987	8,430	557
Total residential & non-agency mortgage-backed securities	10,315	9,892	423
Other structured securities:			
Investment grade	172,781	182,881	(10,100)
Below investment grade	—	—	—
Total other structured securities	172,781	182,881	(10,100)
Total structured securities	$ 183,096	$ 192,773	$ (9,677)

	December 31, 2021		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Corporate private-labeled residential mortgage-backed securities:			
Investment grade	$ 1,506	$ 1,498	$ 8
Below investment grade	10,538	9,143	1,395
Total residential & non-agency mortgage-backed securities	12,044	10,641	1,403
Other structured securities:			
Investment grade	175,397	175,317	80
Below investment grade	—	—	—
Total other structured securities	175,397	175,317	80
Total structured securities	$ 187,441	$ 185,958	$ 1,483

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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Credit losses on securities held at beginning of the period	$ 4,003	$ 3,899	$ 3,996	$ 3,884
Additional credit losses on securities for which an other-than-temporary impairment was recognized	27	—	34	15
Reductions for securities sold	(467)	—	(467)	—
Credit losses on securities held at the end of the period	$ 3,563	$ 3,899	$ 3,563	$ 3,899

Investment Revenues

The following table provides net investment income by income associated with invested assets and income associated with ceded reinsurance.

	Quarter Ended June 30, 2022	Quarter Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Invested assets	$ 33,532	$ 36,196	$ 67,550	$ 72,101
Ceded reinsurance	12,542	—	12,542	—
Net investment income	$ 46,074	$ 36,196	$ 80,092	$ 72,101

Investment Gains (Losses)

The following table provides detail concerning investment gains and losses.

	Quarter Ended June 30, 2022	Quarter Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Gross gains resulting from:				
Sales of investment securities	$ 1,837	$ 311	$ 1,961	$ 311
Investment securities called and other	90	1,582	1,192	2,536
Sales of real estate and joint ventures	—	105	—	239
Total gross gains	1,927	1,998	3,153	3,086
Gross losses resulting from:				
Sales of investment securities	(13,714)	(6)	(13,714)	(6)
Investment securities called and other	(23)	(1)	(23)	(319)
Sales of real estate and joint ventures	—	(50)	—	(50)
Total gross losses	(13,737)	(57)	(13,737)	(375)
Change in allowance for loan losses	31	(87)	(35)	(89)
Change in fair value:				
Equity securities	(190)	(7)	(223)	(2)
Derivative instruments	(4,902)	1,522	(5,968)	2,536
Other invested assets	351	—	351	—
Total change in fair value	(4,741)	1,515	(5,840)	2,534
Net realized investment gains (losses), excluding other-than-temporary impairment losses	(16,520)	3,369	(16,459)	5,156
Net impairment losses recognized in earnings:				
Other-than-temporary impairment losses on fixed maturity securities	—	—	—	—
Portion of loss recognized in other comprehensive income (loss)	(27)	—	(34)	(15)
Net other-than-temporary impairment losses recognized in earnings	(27)	—	(34)	(15)
Net investment gains (losses)	$ (16,547)	$ 3,369	$ (16,493)	$ 5,141

Gains and losses from sales of investment securities in the above table includes a $12.3 million net loss related to the deposit-type reinsurance agreement during the quarter and six months ended June 30, 2022.

The portion of loss recognized in other comprehensive income (loss) represents the non-credit portion of current or prior other-than-temporary impairment. Other-than-temporary impairments recorded in earnings during the quarter ended June 30, 2022 totaled less than $0.1 million. No other-than-temporary impairments were recorded in earnings during the quarter ended June

30, 2021. Other-than-temporary impairments recorded in earnings during both the six months ended June 30, 2022 and 2021 totaled less than $0.1 million.

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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Proceeds	$ 576,139	$ 8,882	$ 582,782	$ 8,882

The increase in proceeds in the quarter and six months ended June 30, 2022 largely resulted from the deposit-type reinsurance agreement.

Mortgage Loans
Investments in mortgage loans totaled $602.4 million at June 30, 2022, compared to $596.0 million at December 31, 2021. 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. This allowance was $2.8 million at both June 30, 2022 and December 31, 2021. Our periodic evaluation and assessment of the adequacy of the allowance is based on known and inherent risks in the portfolio, historical and industry data, current economic conditions, and other relevant factors.

Commercial mortgage loans represented 19% of our total investments at June 30, 2022, up from 15% at December 31, 2021. 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 June 30, 2022 and 46% at December 31, 2021. 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 refinanced two loans with a total outstanding balance of $8.4 million during the quarter ended June 30, 2022. We refinanced five loans with a total outstanding balance of $17.0 million during the six months ended June 30, 2022. We refinanced five loans with a total outstanding balance of $10.1 million during the quarter ended June 30, 2021. We refinanced seven loans with a total outstanding balance of $12.5 million during the six months ended June 30, 2021.

At June 30, 2022, we did not have any loan defaults. However, we continue to work with our borrowers to understand the potential strain resulting from the current economic environment. As of June 30, 2022, there were no material contract modifications, deferrals, or forbearance agreements with any of our borrowers.

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 17 - 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 2021 Annual Report. Please refer to our 2021 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.

	June 30, 2022			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 9,029	$ 122,048	$ —	$ 131,077
Federal agency issued residential mortgage-backed securities [1]	—	65,956	—	65,956
Subtotal	9,029	188,004	—	197,033
Corporate obligations:				
Industrial	—	305,328	—	305,328
Energy	—	90,910	—	90,910
Communications and technology	—	171,969	—	171,969
Financial	—	376,278	—	376,278
Consumer	—	437,640	—	437,640
Public utilities	—	252,754	—	252,754
Subtotal	—	1,634,879	—	1,634,879
Corporate private-labeled residential mortgage-backed securities	—	10,315	—	10,315
Municipal securities	—	254,240	—	254,240
Other	—	172,781	—	172,781
Redeemable preferred stocks	—	5,243	—	5,243
Fixed maturity securities	9,029	2,265,462	—	2,274,491
Equity securities	396	3,246	5,279	8,921
Short-term investments	39,441	—	—	39,441
Other investments	—	1,310	—	1,310
Separate account assets	—	396,185	—	396,185
Total	$ 48,866	$ 2,666,203	$ 5,279	$ 2,720,348
Percent of total	2 %	98 %	— %	100 %
Liabilities:				
Policyholder account balances:				
Indexed universal life	$ —	$ —	$ 1,270	$ 1,270
Funding agreement	—	—	90,166	90,166
Other policyholder funds:				
Guaranteed minimum withdrawal benefits	—	—	(2,232)	(2,232)
Separate account liabilities	—	396,185	—	396,185
Total	$ —	$ 396,185	$ 89,204	$ 485,389

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

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 9,489	$ 150,951	$ —	$ 160,440
Federal agency issued residential mortgage-backed securities [1]	—	75,698	—	75,698
Subtotal	9,489	226,649	—	236,138
Corporate obligations:				
Industrial	—	437,718	—	437,718
Energy	—	156,191	—	156,191
Communications and technology	—	249,552	—	249,552
Financial	—	488,342	—	488,342
Consumer	—	684,461	—	684,461
Public utilities	—	373,351	—	373,351
Subtotal	—	2,389,615	—	2,389,615
Corporate private-labeled residential mortgage-backed securities	—	12,044	—	12,044
Municipal securities	—	268,955	—	268,955
Other	—	175,397	—	175,397
Redeemable preferred stocks	—	6,048	—	6,048
Fixed maturity securities	9,489	3,078,708	—	3,088,197
Equity securities	406	3,270	—	3,676
Short-term investments	74,501	—	—	74,501
Other investments	—	6,688	—	6,688
Separate account assets	—	504,976	—	504,976
Total	$ 84,396	$ 3,593,642	$ —	$ 3,678,038
Percent of total	2 %	98 %	— %	100 %
Liabilities:				
Policyholder account balances:				
Indexed universal life	$ —	$ —	$ 6,264	$ 6,264
Funding agreement	—	—	30,023	30,023
Other policyholder funds:				
Guaranteed minimum withdrawal benefits	—	—	(149)	(149)
Separate account liabilities	—	504,976	—	504,976
Total	$ —	$ 504,976	$ 36,138	$ 541,114

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

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized below.

	Quarter Ended June 30, 2022			
	Assets	Liabilities		
	Equity Securities	Indexed Universal Life	Funding Agreement	GMWB
Beginning balance	$ —	$ 4,741	$ 50,031	$ (1,849)
Included in earnings	—	(3,471)	135	(459)
Included in other comprehensive income (loss)	—	—	—	—
Purchases, issuances, sales and other dispositions:				
Purchases	5,279	—	40,000	—
Issuances	—	—	—	92
Sales	—	—	—	—
Other dispositions	—	—	—	(16)
Transfers out of Level 3	—	—	—	—
Ending balance	$ 5,279	$ 1,270	$ 90,166	$ (2,232)

	Six Months Ended June 30, 2022			
	Assets	Liabilities		
	Equity Securities	Indexed Universal Life	Funding Agreement	GMWB
Beginning balance	$ —	$ 6,264	$ 30,023	$ (149)
Included in earnings	—	(4,994)	143	(2,209)
Included in other comprehensive income (loss)	—	—	—	—
Purchases, issuances, sales and other dispositions:				
Purchases	5,279	—	60,000	—
Issuances	—	—	—	235
Sales	—	—	—	—
Other dispositions	—	—	—	(109)
Transfers out of Level 3	—	—	—	—
Ending balance	$ 5,279	$ 1,270	$ 90,166	$ (2,232)

	Quarter Ended June 30, 2021		Six Months Ended June 30, 2021	
	Indexed Universal Life	GMWB	Indexed Universal Life	GMWB
Beginning balance	$ 5,711	$ (1,162)	$ 5,402	$ 2,201
Included in earnings	487	1,001	796	(2,646)
Included in other comprehensive income (loss)	—	—	—	—
Purchases, issuances, sales and other dispositions:				
Purchases	—	—	—	—
Issuances	—	358	—	660
Sales	—	—	—	—
Other dispositions	—	(63)	—	(81)
Transfers out of Level 3	—	—	—	—
Ending balance	$ 6,198	$ 134	$ 6,198	$ 134

We did not have any transfers between any levels during the quarters or six months ended June 30, 2022 or June 30, 2021.

We use the Black Scholes valuation method, including parameters for market volatility, risk-free rate, and index level, for the indexed universal life liabilities categorized as Level 3. We also use a 100% persistency assumption. Persistency of the business is an unobservable input.

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 our 2021 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 June 30, 2022.

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.

	June 30, 2022				
	Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Fixed maturity securities	$ 9,029	$ 2,265,462	$ —	$ 2,274,491	$ 2,274,491
Equity securities	396	3,246	5,279	8,921	8,921
Mortgage loans	—	—	602,461	602,461	602,443
Policy loans	—	—	82,255	82,255	82,255
Short-term investments	39,441	—	—	39,441	39,441
Other investments	—	1,310	—	1,310	1,310
Separate account assets	—	396,185	—	396,185	396,185
Liabilities:					
Individual and group annuities	—	—	1,141,965	1,141,965	1,159,143
Supplementary contracts and annuities without life contingencies	—	—	51,520	51,520	54,595
Policyholder account balances:					
Indexed universal life	—	—	1,270	1,270	1,270
Funding agreement	—	—	90,166	90,166	90,166
Other policyholder funds - GMWB	—	—	(2,232)	(2,232)	(2,232)
Separate account liabilities	—	396,185	—	396,185	396,185

	December 31, 2021				
	Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Fixed maturity securities	$ 9,489	$ 3,078,708	$ —	$ 3,088,197	$ 3,088,197
Equity securities	406	3,270	—	3,676	3,676
Mortgage loans	—	—	613,829	613,829	596,037
Policy loans	—	—	82,060	82,060	82,060
Short-term investments	74,501	—	—	74,501	74,501
Other investments	—	6,688	—	6,688	6,688
Separate account assets	—	504,976	—	504,976	504,976
Liabilities:					
Individual and group annuities	—	—	1,088,328	1,088,328	1,106,065
Supplementary contracts and annuities without life contingencies	—	—	54,248	54,248	54,899
Policyholder account balances:					
Indexed universal life	—	—	6,264	6,264	6,264
Funding agreement	—	—	30,023	30,023	30,023
Other policyholder funds - GMWB	—	—	(149)	(149)	(149)
Separate account liabilities	—	504,976	—	504,976	504,976

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.

	June 30, 2022	December 31, 2021
Agent receivables, net (allowance \$863; 2021 - \$912)	\$ 1,470	\$ 1,819
Investment-related financing receivables:		
Mortgage loans, net (allowance \$2,827; 2021 - \$2,792)	602,443	596,037
Total financing receivables	\$ 603,913	\$ 597,856

Agent Receivables

We have certain agent receivables that are classified as financing receivables. These receivables from agents are specifically assessed for collectibility and are reduced by an allowance for doubtful accounts. Agent receivables are included in Other Assets in the Consolidated Balance Sheets.

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

	June 30, 2022			December 31, 2021		
	Gross Receivables	Allowance	Net Receivables	Gross Receivables	Allowance	Net Receivables
Agent specific loans	\$ 781	\$ 260	\$ 521	\$ 833	\$ 266	\$ 567
Other agent receivables	1,552	603	949	1,898	646	1,252
Total	\$ 2,333	\$ 863	\$ 1,470	\$ 2,731	\$ 912	\$ 1,819

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

	June 30, 2022	December 31, 2021
Beginning of year	\$ 912	\$ 1,084
Additions	36	58
Deductions	(85)	(230)
End of period	\$ 863	\$ 912

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.

	June 30, 2022	December 31, 2021
Mortgage loans collectively evaluated for impairment	\$ 570,411	\$ 563,196
Mortgage loans individually evaluated for impairment	34,859	35,633
Allowance for loan losses	(2,827)	(2,792)
Carrying value	\$ 602,443	\$ 596,037

There were no mortgage loans that were past due at June 30, 2022 or at December 31, 2021.

We had no troubled debt restructurings during the quarters or six months ended June 30, 2022 or 2021.

The following table details the activity within the allowance for mortgage loan losses. The provision reflects new loans and maturities and the deductions reflect payments on loans and recoveries received.

	June 30, 2022	December 31, 2021
Beginning of year	$ 2,792	$ 2,854
Provision	290	539
Deductions	(255)	(601)
End of period	$ 2,827	$ 2,792

Please refer to our 2021 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 2021 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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Federal income tax credits realized	$ (101)	(230)	(202)	(460)
Amortization	52	207	104	413

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 June 30, 2022 and December 31, 2021. The table includes investments in two real estate joint ventures and seven affordable housing real estate joint ventures at both June 30, 2022 and December 31, 2021.

	June 30, 2022		December 31, 2021	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Real estate joint ventures	$ 1,862	$ 1,862	$ 978	$ 978
Affordable housing real estate joint ventures	1,890	10,117	1,996	10,223
Total	$ 3,752	$ 11,979	$ 2,974	$ 11,201

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 June 30, 2022 and December 31, 2021, we had no equity commitments outstanding to the real estate joint venture VIEs. At June 30, 2022 and December 31, 2021, we had no contingent commitments to fund additional equity contributions for operating support to real estate joint venture VIEs.

In addition, the maximum exposure to loss on affordable housing joint ventures included $6.3 million of losses which could be realized if the tax credits received by the VIEs were recaptured at June 30, 2022, compared to $6.2 million at December 31, 2021. 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 $99.8 million at June 30, 2022. The fair value of the separate accounts with the GMWB rider was $122.5 million at December 31, 2021. The GMWB guarantee liability was $(2.2) million at June 30, 2022 and $(0.1) million December 31, 2021. 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 $396.2 million at June 30, 2022 and $505.0 million at December 31, 2021, and corresponding Separate Account Liabilities of an equal amount. The fixed-rate funds for these policies are included in our general account as policyholder account balances. The future policy benefits for the direct block approximated $0.5 million at June 30, 2022 and $0.4 million at December 31, 2021.

In addition, we have an assumed closed block of variable universal life and variable annuity business that totaled $314.7 million at June 30, 2022 and $392.7 million at December 31, 2021. 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 $36.4 million at June 30, 2022 and $34.1 million at December 31, 2021 are included in our general account as policyholder account balances. The future policy benefits for the assumed block approximated $0.5 million at both June 30, 2022 and December 31, 2021.

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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Gross liability at beginning of the period	$ 33,075	$ 35,011	$ 33,632	$ 34,773
Less reinsurance recoverable	(24,583)	(26,748)	(24,607)	(26,542)
Net liability at beginning of the period	8,492	8,263	9,025	8,231
Incurred benefits related to:				
Current year	5,734	7,275	13,094	14,262
Prior years [1]	681	82	823	87
Total incurred benefits	6,415	7,357	13,917	14,349
Paid benefits related to:				
Current year	5,052	6,362	9,367	10,666
Prior years	1,448	834	5,168	3,490
Total paid benefits	6,500	7,196	14,535	14,156
Net liability at end of the period	8,407	8,424	8,407	8,424
Reinsurance recoverable	23,730	25,926	23,730	25,926
Gross liability at end of the period	$ 32,137	$ 34,350	$ 32,137	$ 34,350

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

	Group Insurance Segment			
	Quarter Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Gross liability at beginning of the period	$ 30,173	$ 31,941	$ 30,670	$ 31,572
Less reinsurance recoverable	(22,001)	(23,876)	(21,991)	(23,565)
Net liability at beginning of the period	8,172	8,065	8,679	8,007
Incurred benefits related to:				
Current year	5,707	7,160	13,054	14,123
Prior years [1]	691	40	850	71
Total incurred benefits	6,398	7,200	13,904	14,194
Paid benefits related to:				
Current year	5,038	6,354	9,352	10,656
Prior years	1,437	808	5,136	3,442
Total paid benefits	6,475	7,162	14,488	14,098
Net liability at end of the period	8,095	8,103	8,095	8,103
Reinsurance recoverable	21,107	23,143	21,107	23,143
Gross liability at end of the period	$ 29,202	$ 31,246	$ 29,202	$ 31,246

[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.

	June 30,	
	2022	2021
Individual Insurance Segment:		
Individual accident and health	$ 621	$ 745
Individual life	38,683	39,267
Deferred annuity	5,928	5,351
Subtotal	45,232	45,363
Group Insurance Segment:		
Group accident and health	29,202	31,246
Group life	3,309	2,866
Subtotal	32,511	34,112
Old American Segment:		
Individual accident and health	2,314	2,359
Individual life	10,039	8,811
Subtotal	12,353	11,170
Total	$ 90,096	$ 90,645

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 $0.6 million at both June 30, 2022 and December 31, 2021.

9. Debt

Notes Payable
We had no notes payable outstanding at June 30, 2022 or December 31, 2021.

As a member of the Federal Home Loan Bank of Des Moines (FHLB), we have the ability to borrow on a collateralized basis from the FHLB. Through this membership, we will have a specific borrowing capacity based upon the amount of collateral we establish. At June 30, 2022, securities and mortgages in the amount of $271.2 million, with a fair value of $255.6 million, were pledged to the FHLB, providing a borrowing capacity of $199.9 million. At December 31, 2021, securities and mortgages in the amount of $254.5 million, with a fair value of $254.6 million, were pledged to the FHLB, providing a borrowing capacity of $196.3 million. The rates of interest are variable and set by the FHLB at the time of the advance. The Company's capital investment totaled $8.6 million at June 30, 2022 and $6.2 million at December 31, 2021 and is included in Other Investments in the Consolidated Balance Sheets. Dividends received on the capital investment totaled $0.1 million in the quarter ended June 30, 2022 and less than $0.1 million in the quarter ended June 30, 2021. Dividends received on the capital investment totaled $0.1 million in both the six months ended June 30, 2022 and 2021.

We had unsecured revolving lines of credit with two major commercial banks that totaled $80.0 million at June 30, 2022, with no balances outstanding. We had unsecured revolving lines of credit with three major commercial banks that totaled $70.0 million at December 31, 2021, with no balances outstanding. The lines of credit are at variable interest rates based upon short-term indices, maturing in June of 2023. We anticipate renewing these lines of credit as they come due. One line of credit includes a $20.0 million portion that can be unconditionally canceled by the lending institution at its discretion at any time.

The Company has access to secured borrowings through repurchase agreements with two major financial counterparties. The Company had no transactions that occurred under these agreements during the first six months of 2022 and had no outstanding borrowings as of June 30, 2022. The Company had no transactions that occurred under these agreements during the year ended December 31, 2021 and had no outstanding borrowings as of December 31, 2021. Any borrowings drawn under these agreements require a variable interest rate based upon short-term indices and approval from the counterparty at the time of the transaction. No securities are currently pledged under these agreements.

Funding Agreement
In 2021, the Company began entering into advance funding agreements with the FHLB. Under the agreements, the Company pledges fixed maturity security and commercial mortgage loan collateral and receives cash, which is then reinvested, primarily into other fixed maturity securities. Securities pledged as collateral may not be sold or re-pledged by the Company. The investments pledged and outstanding advance agreements are included in the overall borrowing capacity established with the FHLB. We have established a maximum participation of $100.0 million with this program. Total obligations outstanding under these agreements, which mature between 2024 and 2027, were $90.0 million at June 30, 2022 and $30.0 million at December 31, 2021 and are reported as Policyholder Account Balances in the Consolidated Balance Sheets. Interest is credited based on variable rates set by the FHLB. Interest payments were $0.1 million during the quarter and $0.2 million during the six months ended June 30, 2022.

10. Income Taxes

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Federal income tax rate	21 %	21 %	21 %	21 %
Tax credits, net of equity adjustment	(2)%	(1)%	4 %	(3)%
Permanent differences and other	(8)%	(1)%	2 %	4 %
Effective income tax rate	11 %	19 %	27 %	22 %

The following table provides information about taxes paid.

	Quarter Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Cash paid for income taxes	$ 2,192	$ 4,545	$ 2,277	$ 4,545

We had no material uncertain tax positions at June 30, 2022 or December 31, 2021.

At June 30, 2022, we had a $2.1 million current tax asset and a $20.3 million net deferred tax asset, compared to a $1.5 million current tax liability and a $43.3 million net deferred tax liability at December 31, 2021.

11. Pensions and Other Postemployment Benefits (OPEB)

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

	Pension Benefits		OPEB	
	Quarter Ended June 30,		Quarter Ended June 30,	
	2022	2021	2022	2021
Service cost	$ —	$ —	$ 31	$ 45
Interest cost	735	626	124	115
Expected return on plan assets	(2,417)	(2,319)	—	—
Amortization of:				
Unrecognized actuarial net (gain) loss	516	593	(225)	(215)
Unrecognized prior service credit	(16)	(17)	—	—
Net periodic benefit credit	$ (1,182)	$ (1,117)	$ (70)	$ (55)

	Pension Benefits		OPEB	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Service cost	$ —	$ —	$ 62	$ 90
Interest cost	1,470	1,252	248	230
Expected return on plan assets	(4,834)	(4,639)	—	—
Amortization of:				
Unrecognized actuarial net (gain) loss	1,032	1,187	(450)	(431)
Unrecognized prior service credit	(32)	(33)	—	—
Net periodic benefit credit	$ (2,364)	$ (2,233)	$ (140)	$ (111)

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 2021 Annual Report for additional information regarding this plan.

The Company made a cash payment of $1.3 million under the long-term incentive plan during the first six months of 2022 for the three-year interval ended December 31, 2021. The Company did not make any cash payments under the long-term incentive plan during the first six months of 2021 for the three-year interval ended December 31, 2020.

At each reporting period, an estimate of the share-based compensation expense is accrued, utilizing the share price at the period end. The change in accrual that reduced operating expense was $1.0 million, net of tax, in the second quarter and $0.9 million, net of tax, in the first six months of 2022. The cost of share-based compensation accrued as an operating expense was $0.4 million, net of tax, in the second quarter and $1.3 million, net of tax, in the first six months of 2021.

13. Deposit Asset on Reinsurance

In the second quarter of 2022, the Company reinsured a block of fixed annuity business with an average crediting rate of 3.75% to a certified reinsurer. This reinsurance arrangement was effective April 1, 2022.

The contract reinsures $516.2 million in policyholder account balance liabilities in exchange for fixed maturity securities, cash, less deferred revenue. We immediately recognized $11.6 million of certain non-refundable premiums associated with the transaction in investment income. The remaining deferred revenue will be amortized in future periods. The net consideration transferred to the reinsurer was $493.9 million. This resulted in recognizing a deposit asset on reinsurance of $516.2 million at April 1, 2022. The related pre-tax net realized investment loss from the sale of the fixed maturity securities associated with the transaction was $12.3 million. We will continue to administer this business on an ongoing basis, and we will receive an ongoing expense allowance associated with these efforts. The remaining liability is included in Other Liabilities in the Consolidated Balances Sheets and will be amortized over future periods consistent with the amortization of the Deposit Asset on Reinsurance.

The Company determined that the reinsurance agreement does not expose the reinsurer to a significant loss from insurance risk. Therefore, the Company has recognized the reinsurance agreement using the deposit-type method of accounting. The reserve credit transferred to the reinsurer is reported as Deposit Asset on Reinsurance in the Consolidated Balance Sheets. As amounts are received or paid, consistent with the underlying reinsured contracts, the Deposit Asset on Reinsurance is adjusted. The Deposit Asset on Reinsurance is also accreted to the estimated ultimate cash flows using the interest method and the adjustment is reported as Net Investment Income in the Consolidated Statements of Comprehensive Income. In the second quarter of 2022, the investment income recognized was $16.3 million and the interest credited on the block was $4.7 million. As of June 30, 2022, the Deposit Asset on Reinsurance balance was $512.5 million.

14. Comprehensive Income (Loss)

Comprehensive Income (Loss) is comprised of Net Income (Loss) 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 June 30, 2022		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized losses arising during the period:			
Fixed maturity securities	$ (166,591)	$ (34,985)	$ (131,606)
Less reclassification adjustments:			
Net realized investment losses, excluding impairment losses	(11,810)	(2,481)	(9,329)
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive loss	(27)	(5)	(22)
Net unrealized losses excluding impairment losses	(154,754)	(32,499)	(122,255)
Effect on DAC, VOBA, and DRL	10,148	2,132	8,016
Change in policyholder liabilities	7,521	1,579	5,942
Other comprehensive loss	$ (137,085)	$ (28,788)	$ (108,297)
Net income			4,485
Comprehensive loss			$ (103,812)

	Quarter Ended June 30, 2021		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized gains arising during the period:			
Fixed maturity securities	$ 48,707	$ 10,075	$ 38,632
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	1,888	397	1,491
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive income	—	—	—
Net unrealized gains excluding impairment losses	46,819	9,678	37,141
Effect on DAC, VOBA, and DRL	(2,004)	(421)	(1,583)
Change in policyholder liabilities	(5,669)	(1,190)	(4,479)
Other comprehensive income	$ 39,146	$ 8,067	$ 31,079
Net income			4,286
Comprehensive income			$ 35,365

	Six Months Ended June 30, 2022		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized losses arising during the period:			
Fixed maturity securities	$ (374,873)	$ (78,724)	$ (296,149)
Less reclassification adjustments:			
Net realized investment losses, excluding impairment losses	(10,584)	(2,223)	(8,361)
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive loss	(34)	(7)	(27)
Net unrealized losses excluding impairment losses	(364,255)	(76,494)	(287,761)
Effect on DAC, VOBA, and DRL	27,425	5,760	21,665
Change in policyholder liabilities	33,875	7,113	26,762
Other comprehensive loss	$ (302,955)	$ (63,621)	$ (239,334)
Net loss			(3,191)
Comprehensive loss			$ (242,525)

	Six Months Ended June 30, 2021		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized losses arising during the period:	$ (72,417)	$ (15,208)	$ (57,209)
Fixed maturity securities			
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	2,523	530	1,993
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive loss	(15)	(3)	(12)
Net unrealized losses excluding impairment losses	(74,925)	(15,735)	(59,190)
Effect on DAC, VOBA, and DRL	5,985	1,257	4,728
Change in policyholder liabilities	5,508	1,157	4,351
Other comprehensive loss	$ (63,432)	$ (13,321)	$ (50,111)
Net income			3,618
Comprehensive loss			$ (46,493)

The following table provides accumulated balances related to each component of Accumulated Other Comprehensive Income (Loss) at June 30, 2022, net of tax.

	Unrealized Gain (Loss) on Non-Impaired Securities	Unrealized Gain on Impaired Securities	Benefit Plan Obligations	DAC/ VOBA/DRL Impact	Policyholder Liabilities	Total
Beginning of year	$ 151,660	$ 1,062	$ (39,128)	$ (12,578)	$ (26,765)	$ 74,251
Other comprehensive income (loss) before reclassification	(295,394)	(755)	—	21,665	26,762	(247,722)
Amounts reclassified from accumulated other comprehensive income (loss)	8,361	27	—	—	—	8,388
Net current-period other comprehensive income (loss)	(287,033)	(728)	—	21,665	26,762	(239,334)
End of period	$ (135,373)	$ 334	$ (39,128)	$ 9,087	$ (3)	$ (165,083)

The following table provides accumulated balances related to each component of Accumulated Other Comprehensive Income (Loss) at December 31, 2021, net of tax.

	Unrealized Gain on Non-Impaired Securities	Unrealized Gain on Impaired Securities	Benefit Plan Obligations	DAC/ VOBA/DRL Impact	Policyholder Liabilities	Total
Beginning of year	$ 252,334	$ 1,247	$ (44,243)	$ (20,524)	$ (36,012)	$ 152,802
Other comprehensive income (loss) before reclassification	(96,874)	(566)	5,115	7,946	9,247	(75,132)
Amounts reclassified from accumulated other comprehensive income (loss)	(3,800)	381	—	—	—	(3,419)
Net current-period other comprehensive income (loss)	(100,674)	(185)	5,115	7,946	9,247	(78,551)
End of period	$ 151,660	$ 1,062	$ (39,128)	$ (12,578)	$ (26,765)	$ 74,251

The following table presents the pre-tax and the related Income Tax Benefit (Expense) components of the amounts reclassified from Accumulated Other Comprehensive Income (Loss) to the Consolidated Statements of Comprehensive Income.

	Quarter Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Reclassification adjustments related to unrealized gains (losses) on investment securities:				
Net realized investment gains (losses), excluding impairment losses[1]	$ (11,810)	$ 1,888	$ (10,584)	$ 2,523
Income tax benefit (expense)[2]	2,481	(397)	2,223	(530)
Net of taxes	(9,329)	1,491	(8,361)	1,993
Other-than-temporary impairment losses[1]	(27)	—	(34)	(15)
Income tax benefit[2]	5	—	7	3
Net of taxes	(22)	—	(27)	(12)
Total pre-tax reclassifications	(11,837)	1,888	(10,618)	2,508
Total income tax benefit (expense)	2,486	(397)	2,230	(527)
Total reclassification, net taxes	$ (9,351)	$ 1,491	$ (8,388)	$ 1,981

[1] (Increases) decreases Net Investment Gains (Losses) in the Consolidated Statements of Comprehensive Income.

[2] (Increases) decreases Income Tax Expense (Benefit) in the Consolidated Statements of Comprehensive Income.

15. 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 second quarters and six months ended June 30, 2022 and 2021 was 9,683,414. The number of shares outstanding at both June 30, 2022 and December 31, 2021 was 9,683,414.

16. 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 June 30, 2022			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 43,869	$ 16,131	$ 23,488	$ 83,488
Interest credited to policyholder account balances	18,009	—	—	18,009
Amortization of deferred acquisition costs	7,697	—	4,780	12,477
Income tax expense	101	288	167	556
Net income	2,761	1,097	627	4,485

	Quarter Ended June 30, 2021			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 43,136	$ 15,533	$ 25,016	$ 83,685
Interest credited to policyholder account balances	20,020	—	—	20,020
Amortization of deferred acquisition costs	3,737	—	4,383	8,120
Income tax expense (benefit)	930	(37)	88	981
Net income (loss)	4,077	(140)	349	4,286

	Six Months Ended June 30, 2022			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 87,434	$ 32,075	$ 47,162	$ 166,671
Interest credited to policyholder account balances	37,349	—	—	37,349
Amortization of deferred acquisition costs	12,046	—	10,065	22,111
Income tax expense (benefit)	(382)	38	(858)	(1,202)
Net income (loss)	(116)	144	(3,219)	(3,191)

	Six Months Ended June 30, 2021			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 85,874	$ 31,097	$ 49,845	$ 166,816
Interest credited to policyholder account balances	39,545	—	—	39,545
Amortization of deferred acquisition costs	6,797	—	9,462	16,259
Income tax expense (benefit)	1,286	87	(367)	1,006
Net income (loss)	4,770	327	(1,479)	3,618

17. Commitments, Contingent Liabilities, Guarantees, and Indemnifications

Commitments

In the normal course of business, we have open purchase and sale commitments. At June 30, 2022, we had purchase commitments to fund mortgage loans of $11.9 million.

Subsequent to June 30, 2022, we entered into commitments to fund additional mortgage loans of $14.4 million.

Contingent Liabilities

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.

Kansas City Life is involved in various pending or threatened legal proceedings, including purported class actions, arising from the conduct of business both in the ordinary course and otherwise. In some of the matters, very large and/or indeterminate amounts, including punitive and treble damages, are sought.

Due to the unpredictable nature of litigation, the probable outcome of a litigation matter and the amount or range of potential loss can be difficult to ascertain. We establish liabilities for litigation and other loss contingencies when available information indicates both that a loss is probable and the amount of the loss can be reasonably estimated. Some matters could require us to pay damages or make other expenditures or establish accruals in amounts that cannot be estimated as of June 30, 2022. Based on information currently known by management, management does not believe any such expenditures are likely to have a material adverse effect on Kansas City Life's financial condition.

Cost of Insurance Litigation

We are the defendant in five related litigation matters (including three certified class actions and two putative class actions) that allege that we determined cost of insurance rates in excess of amounts permitted by the terms of certain life insurance policies.

The five matters are:

- Meek v. KCL, which is a class action filed in the U.S. District Court for the Western District of Missouri, including current and former policyholders who purchased certain universal life policies originally issued in the State of Kansas. As discussed below, the Court in the Meek case has certified a class of policyholders for the action and identified the policies at issue. The Court has not ruled on the merits of plaintiff's claims.

- Karr v. KCL, which is a class action filed in the 16th Circuit Court for the State of Missouri (Jackson County), including current Missouri residents who purchased certain universal life policies in the State of Missouri. As discussed below, the Court in Karr has certified a class of policyholders for the action, identified the policies at issue, and issued partial summary judgment on three of the five counts. The Court has not determined an amount, if any, that plaintiff's may be entitled to receive in the case, with that issue being reserved for determination by a jury.

- Sheldon v. KCL, which is a class action filed in the 16th Circuit Court for the State of Missouri (Jackson County), including current Missouri residents who purchased certain variable universal life policies in the State of Missouri. As discussed below, the Court in the Sheldon case has certified a class of policyholders for the action and identified the policies at issue. The Court has not ruled on the merits of the plaintiff's claims.

- Fine v. KCL, which is a putative class action filed in the U.S. District Court for the Central District of California, including current and former policyholders who purchased certain universal life and certain variable universal life policies originally issued in the State of California. This case was filed on March 29, 2022 and is in preliminary stages. The Court has not certified a class of policyholders or identified the policies at issue in this matter.

- McMillan v. KCL, which is a putative class action filed in the U.S. District Court for the District of Maryland, including current and former policyholders who purchased certain universal life and certain variable universal life policies originally issued in the State of Maryland. This case was filed on May 5, 2022 and is in preliminary stages. The Court has not certified a class of policyholders or identified the policies at issue in this matter.

The Court in Karr v. KCL certified a class of policyholders to be represented by the named plaintiff on July 12, 2021. The class in the Karr lawsuit includes current Missouri citizens whose life insurance policies were issued in Missouri and were active on or after January 1, 2002. On February 22, 2022, the Court granted partial Summary Judgment to plaintiffs on three of the five counts at issue in the class action. The three counts will be submitted to a jury to determine what damages, if any, have been incurred by the Class. The remaining two counts have not yet been adjudicated. KCL has moved to decertify the class, will continue to vigorously defend the damages claims and remaining claims at trial, and intends to pursue any appeals that may be available at the appropriate times.

The Court in Meek v. KCL certified a class of policyholders to be represented by the named plaintiff on February 7, 2022, for four of the five counts at issue in the class action. The Court also limited the class to Kansas policyholders rather than the multi-state class sought by plaintiff. The Kansas-only class that was certified in the Meek lawsuit includes current and former policyholders whose life insurance policies were issued in Kansas and whose policies were active on or after January 1, 2002. The Court's decision means that the class of policyholders certified in the Meek v. KCL lawsuit meets the requirements of Federal Rule of Civil Procedure 23(b)(3), which governs class actions in federal courts. While the ruling establishes a class at this stage of the litigation and permits the future issuance of a notice to class members, the Court has not decided who will win this case.

In both the Karr v. KCL and the Meek v. KCL class actions, the Court has identified the following policies as those being at issue in the case: Better Life Plan, Better Life Plan Qualified, LifeTrack, AGP, MGP, PGP, Chapter One, Classic, Rightrack (89), Performer (88), Performer (91), Prime Performer, Competitor (88), Competitor (91), Executive (88), Executive (91), Protector 50, LewerMax, Ultra 20 (93), Competitor II, Executive II, Performer II, or Ultra 20 (96).

The Court in Sheldon v. KCL certified a class of policyholders to be represented by the named plaintiff on May 11, 2022, for four of the five counts at issue in the class action. The Court also limited the class to Missouri policyholders holding the Century II Variable Universal Life policy rather than the multi-state class sought by plaintiff. The Missouri-only class that was certified in the Sheldon matter includes current and former Missouri resident policyholders whose policies were issued in Missouri and whose policies were active on or after January 1, 2002. The Court's decision means that the class of policyholders certified in the Sheldon v. KCL lawsuit meets the requirements of Federal Rule of Civil Procedure 23(b)(3), which governs class actions in federal courts. While the ruling establishes a class at this stage of the litigation and permits the future issuance of a notice to class members, the Court has not decided who will win this case.

We believe we have meritorious defenses to all of the claims asserted in the Meek, Sheldon, Fine, and McMillan cases described above and to the unadjudicated claims and damages claims asserted in the Karr case. We are vigorously defending each of these matters. However, there can be no assurances as to the outcome of these matters. In the event of an unfavorable outcome, the amount that may be required to be paid to discharge or settle the matters could have a material adverse impact on our business and financial statements.

We have not concluded that a loss related the Meek, Sheldon, Fine, or McMillan matters is probable, nor have we accrued any liability relating to those three matters.

With respect to the damages claims related to the three Counts subject to the partial summary judgment ruling in Karr, the circumstances of our defenses and the potential damages claims by plaintiff, including the potential for compensatory damages, interest and punitive damages, as well as our intent to pursue any available appeals, make it impossible to estimate a potential range of potential losses in this matter. As a result, we have not accrued a liability for this loss contingency at this time.

Regulatory Matters

We are subject to regular reviews and inspections by state and federal regulatory authorities. State insurance examiners - or independent audit firms engaged by such examiners - may, from time to time, conduct examinations or investigations into industry practices and into customer complaints. A regulatory violation discovered during a review, inspection, or investigation could result in a wide range of remedies that could include the imposition of sanctions against us or our employees, which could have a material adverse effect on our financial statements.

The life insurance industry has been the subject of significant regulatory and legal activities regarding the use of the U.S. Social Security Administration's Death Master File ("Death Master File") in the claims process. Certain states have proposed, and many other states are considering, new legislation and regulations related to unclaimed life insurance benefits and the use of the Death Master File in the claims process. Based on our analysis to date, we believe that we have adequately reserved for contingencies from a change in statute or regulation. Ongoing regulatory developments and other future requirements related to this matter may result in additional payments or costs that could be significant and could have a material adverse effect on our financial statements.

Guarantees and Indemnifications

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

18. Subsequent Events

We evaluated events that occurred subsequent to June 30, 2022 through July 29, 2022, the date the consolidated financial statements were issued, and have identified the following subsequent event.

On July 25, 2022, the Kansas City Life Board of Directors declared a quarterly dividend of $0.14 per share, payable on August 10, 2022 to stockholders of record on August 4, 2022.

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 and six months ended June 30, 2022.