

KANSAS CITY LIFE INSURANCE COMPANY

2019 ANNUAL REPORT



KANSAS CITY LIFE

Message From The President



It is my pleasure to share with you our accomplishments and highlights for Kansas City Life Insurance Company in 2019.

Net income in 2019 totaled \$24.4 million, an increase of \$8.8 million versus 2018. These results reflected an increase in insurance revenues, largely from the addition of Grange Life Insurance Company. Grange Life was acquired on Oct. 1, 2018, and thus contributed a full year towards the Company's results in 2019 compared to one quarter in 2018. These results also reflect an increase in investment income and higher net investment gains. Partially offsetting these items was an increase in policyholder benefits, primarily from Grange Life, and an increase in operating expenses.

The acquisition of Grange Life has expanded our existing block of in-force business and has increased sales of Kansas City Life products through access to a wider distribution network of independent agents.

The most significant challenge for us, and all insurance and financial service companies, is the sustained low interest rate environment. Available yields across all market sectors in 2019 continued to be less than longer-term historical averages. However, we remain well-positioned to manage through these challenges with our diversified portfolio of high-quality securities, mortgage loans, and real estate investments.

During 2019, we experienced growth in our life insurance products, led by sales of our term policies. Our simplified issued term products, along with Grange Life term sales, were strong contributors and we expect continued positive results in 2020. These products and other activities position us well for future sales growth.

Our promise of Security Assured continues to reflect our commitment to provide financial security and financial strength to our customers and policyholders. It is our lodestar and the reminder of our commitment. While this report is primarily focused on the achievements of 2019, we are focused on the challenges that lie ahead. We believe that our solid business practices and philosophies, coupled with our product mix and prudent investment decisions, will allow us to continue to fulfill our promise to you, our agents, our general agents, our customers, and our policyholders.

A handwritten signature in blue ink, appearing to read "R. Philip Bixby". The signature is fluid and cursive.

— **R. Philip Bixby**

*President, Chief Executive Officer and
Chairman of the Board*

Corporate Highlights

Since 1895, Kansas City Life Insurance Company has been dedicated to one promise – providing financial protection for its policyholders. This promise was born out of a philosophy to put the people before anything else and provide Security Assured to its policyholders, field force, shareholders and associates. These relationships are the foundation of how Kansas City Life continues to do business today.

Quality individuals, products and services position Kansas City Life to be the Company it set out to be 124 years ago. These cornerstones of success, paired with experienced leadership, allow the Company to pay tribute to the time-honored mission of providing Security Assured.

This is what allows Kansas City Life to be an industry leader and the company of choice for so many customers. The commitment to sound business practices, integrity and financial strength are the foundations of success the Company abides by to maintain consistent, long-term profitable growth.

Individual Insurance

Kansas City Life's Individual Insurance segment provides financial security to consumers in 49 states. Life insurance products are distributed through two channels: the Company's field force and third-party marketing arrangements. The Individual Insurance segment consists of individual insurance products for Kansas City Life, Sunset Life Insurance Company of America, and Grange Life Insurance Company.

Company's field force

The Company's field force is represented by independent agencies, which are operated by general agents and agents across the U.S. and in certain locations in Europe. Kansas City Life provides each agency with a comprehensive product portfolio and the marketing support necessary to succeed in servicing consumers in their local markets.

The Company's product portfolio and individual one-on-one support from the Home Office are attractive recruiting resources, setting Kansas City Life apart from many in the industry.

Third-party alliances

Independent arrangements with American Republic Insurance Company, GuideOne Mutual Insurance Company and AmeriLife Group LLC allow representatives from all three companies to distribute Kansas City Life's products. These agreements provide representatives with the complementary products and services they need to offer more complete financial security to their clients.

Life insurance sales

One measure of life insurance sales and new business production at Kansas City Life is from new premiums recorded and new deposits received. Premiums include receipts from traditional individual life insurance and immediate annuity products. Deposits are received from universal life insurance, variable universal life insurance and fixed deferred and variable annuity products.



KANSAS CITY
LIFE
INSURANCE
COMPANY

The Individual Insurance segment generated approximately 54% of consolidated insurance revenues for the year ended Dec. 31, 2019, up from approximately 50% for the year ended Dec. 31, 2018. The increase during 2019 largely resulted from the Grange Life acquisition.

Total new premiums increased \$6.5 million or 19% in 2019 compared to 2018. This increase primarily resulted from the addition of Grange Life's portfolio of traditional life insurance which contributed \$5.3 million of new premiums in 2019. Excluding Grange Life premiums, total new premiums increased \$3.6 million or 11%. This reflected a \$2.6 million or 10% increase in new immediate annuity premiums and a \$1.0 million or 17% increase in new traditional life premiums. Total renewal premiums increased \$55.0 million or 89% in 2019 compared to the prior year. Excluding Grange Life premiums, total renewal premiums were essentially flat compared to the prior year.

Total new deposits decreased \$6.5 million or 8% in 2019 compared to 2018. New interest sensitive deposits decreased \$2.8 million or 17%, new variable annuity deposits decreased \$3.2 million or 24%, and new fixed annuity deposits decreased \$0.5 million or 1%. Excluding Grange Life deposits, new interest sensitive life deposits decreased \$1.9 million or 12%. Total renewal deposits increased \$12.2 million or 9% in 2019 compared to the prior year. A \$13.7 million or 12% increase in renewal interest sensitive life deposits was partially offset by a \$1.7 million or 17% decrease in renewal

variable annuity deposits. Excluding Grange Life deposits, renewal interest sensitive life deposits increased \$1.6 million or 2%.

Future growth

The Individual Insurance segment is an essential part of Kansas City Life's core business, representing a majority of the Company's revenue. The Company plans to continue to grow the segment by recruiting talented general agents and agents and by adding more third-party alliances. Enhancements to the product portfolio, increased focus on sales development and superior marketing support are elements that will be emphasized to attract new field representatives.

Group Insurance

Kansas City Life offers several insurance products in the Group Insurance segment, including dental, life, accident, critical illness, vision, and short- and long-term disability. These offerings encompass both traditional, employer-funded group insurance, as well as voluntary, employee-paid products.

The Group Insurance segment markets products primarily to small and mid-size organizations. Group products are sold through sales representatives who target a nationwide network of independent general agents and group brokers, along with the Company's career general agents. This sales network is this segment's core distribution system. The Company also markets Group products through select third-party marketing arrangements.

The Group Insurance segment generated 18% of the Company's consolidated insurance revenues in 2019, down from 20% in 2018. Total Group premiums increased by \$1.9 million or 3% in 2019, following a \$2.5 million or 3% increase in 2018. Moving forward, the Group Insurance segment continues to focus on three primary areas of emphasis to improve sales:

1. Growing in-force business through the Company's sales representatives and select third-party marketing arrangements
2. Improving administrative efficiency through greater use of customer-facing technology,

designed to reduce expenses and improve customer service

3. Enhancing the segment's product portfolio, through delivery of new product offerings and more flexible options to meet the dynamic needs of the employee benefits market

Sunset Financial Services, Inc.

Sunset Financial Services Inc. is Kansas City Life's distributing broker/dealer for its proprietary line of variable annuity and variable universal life products.



Consolidated Balance Sheets

Amounts in thousands, except share data

	December 31	
	2019	2018
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 2,951,137	\$ 2,704,079
Equity securities, at fair value	11,272	14,424
Mortgage loans	577,699	639,559
Real estate	183,016	186,994
Policy loans	87,499	88,066
Short-term investments	75,426	58,712
Other investments	9,156	5,355
Total investments	<u>3,895,205</u>	<u>3,697,189</u>
Cash	14,234	31,689
Accrued investment income	32,142	31,535
Deferred acquisition costs	286,682	291,168
Reinsurance recoverables	378,772	366,196
Other assets	181,629	179,975
Separate account assets	431,201	373,734
Total assets	<u>\$ 5,219,865</u>	<u>\$ 4,971,486</u>
LIABILITIES		
Future policy benefits	\$ 1,331,215	\$ 1,279,034
Policyholder account balances	2,237,700	2,261,860
Policy and contract claims	55,997	47,274
Other policyholder funds	170,776	174,984
Other liabilities	182,245	142,894
Separate account liabilities	431,201	373,734
Total liabilities	<u>4,409,134</u>	<u>4,279,780</u>
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	928,380	914,411
Accumulated other comprehensive income (loss)	59,506	(45,550)
Treasury stock, at cost (2019 and 2018 – 8,813,266 shares)	(241,301)	(241,301)
Total stockholders' equity	<u>810,731</u>	<u>691,706</u>
Total liabilities and stockholders' equity	<u>\$ 5,219,865</u>	<u>\$ 4,971,486</u>

Consolidated Statements of Comprehensive Income

Amounts in thousands, except share data

	Year Ended December 31	
	2019	2018
REVENUES		
Insurance revenues:		
Net premiums	\$ 223,227	\$ 193,593
Contract charges	125,886	116,916
Total insurance revenues	349,113	310,509
Investment revenues:		
Net investment income	148,349	141,315
Net investment gains	9,133	2,840
Total investment revenues	157,482	144,155
Other revenues	6,098	6,368
Total revenues	512,693	461,032
BENEFITS AND EXPENSES		
Policyholder benefits	257,621	227,202
Interest credited to policyholder account balances	78,520	74,308
Amortization of deferred acquisition costs	35,948	40,616
Operating expenses	111,154	101,720
Total benefits and expenses	483,243	443,846
Income before income tax expense	29,450	17,186
Income tax expense	5,023	1,514
NET INCOME	\$ 24,427	\$ 15,672
COMPREHENSIVE INCOME (LOSS), NET OF TAXES		
Change in:		
Net unrealized gains (losses) on securities available for sale	\$ 129,609	\$ (65,062)
Effect on deferred acquisition costs, value of business acquired, and deferred revenue liabilities	(11,608)	8,867
Policyholder liabilities	(15,987)	11,354
Benefit plan obligations	3,042	(5,823)
Other comprehensive income (loss)	105,056	(50,664)
COMPREHENSIVE INCOME (LOSS)	\$ 129,483	\$ (34,992)
Basic and diluted earnings per share:		
Net income	\$ 2.52	\$ 1.62

Condensed Consolidated Statements of Cash Flows

	Year Ended December 31	
	2019	2018
OPERATING ACTIVITIES		
Net cash provided	\$ 132	\$ 65,082
INVESTING ACTIVITIES		
Purchases:		
Fixed maturity securities	(342,477)	(275,591)
Equity securities	—	(58)
Mortgage loans	(25,036)	(65,557)
Real estate	(1,975)	(7,282)
Policy loans	(10,969)	(9,469)
Other investments	(2,712)	(2,074)
Property and equipment	(2,379)	(20,448)
Sales or maturities, calls and principal paydowns:		
Fixed maturity securities	263,411	307,167
Equity securities	4,000	824
Mortgage loans	87,157	75,636
Real estate	3,084	12,734
Policy loans	11,535	11,685
Other investments	2,176	2,712
Property and equipment	5,572	932
Net purchases of short-term investments	(16,714)	(12,930)
Acquisition of Grange Life, net of cash acquired	—	(62,447)
Receipts from post-acquisition purchase price adjustments	1,663	—
Net cash used	(23,664)	(44,166)
FINANCING ACTIVITIES		
Deposits on policyholder account balances	223,058	217,344
Withdrawals from policyholder account balances	(207,242)	(206,444)
Net transfers from separate accounts	3,500	4,386
Change in other deposits	(2,666)	(3,560)
Cash dividends to stockholders	(10,458)	(10,457)
Post-acquisition contingent liability fulfillment	(115)	—
Net cash provided	6,077	1,269
Increase (decrease) in cash	(17,455)	22,185
Cash at beginning of year	31,689	9,504
Cash at end of year	\$ 14,234	\$ 31,689

These condensed consolidated financial statements should be read in conjunction with the Company's 2019 annual financial report that is available on the Company's website (www.kclife.com/Company/Financials) and the OTCQX website (www.otcmarkets.com/stock/KCLI/filings).

Stockholder Information

CORPORATE HEADQUARTERS

Kansas City Life Insurance Company
3520 Broadway
P.O. Box 219139 | Kansas City, MO 64121-9139
Telephone: 816-753-7000 | Fax: 816-753-4902
Website: www.kclife.com | Email: communications@kclife.com

ANNUAL MEETING

The annual meeting of stockholders will be held April 23, 2020, at Kansas City Life Insurance Company's corporate headquarters. Please see the Notice of Annual Meeting and Proxy.

TRANSFER AGENT

Janice Poe, Stock Agent and Assistant Secretary
Kansas City Life Insurance Company
P.O. Box 219139 | Kansas City, MO 64121-9139

ANNUAL FINANCIAL REPORT REQUEST

The Company's annual financial report is available electronically on the Company's website (www.kclife.com/Company/Financials) and the OTCQX website (www.otcmarkets.com/stock/KCLI/filings). Stockholders may request a free paper copy of Kansas City Life's annual financial report, as published on the OTCQX best marketplace, by writing to Secretary, Kansas City Life Insurance Company.

SECURITY HOLDERS

As of January 31, 2020, Kansas City Life had approximately 142 holders of record.

Stock and Dividend Information

The following table presents the high and low prices for the Company's common stock for the periods indicated and the dividends declared per share and paid during such periods. The Company's common stock is traded on the OTCQX best marketplace under the symbol "KCLI."

	High	Low	Dividend Paid
2019			
First quarter	\$ 37.10	\$ 33.87	\$ 0.27
Second quarter	35.85	32.76	0.27
Third quarter	34.00	32.01	0.27
Fourth quarter	34.97	31.30	0.27
			<u>\$ 1.08</u>
2018			
First quarter	\$ 45.50	\$ 41.51	\$ 0.27
Second quarter	45.00	39.25	0.27
Third quarter	42.99	37.50	0.27
Fourth quarter	39.62	33.76	0.27
			<u>\$ 1.08</u>

A quarterly dividend of \$0.27 per share was paid February 12, 2020.

The high and low market quotations are compiled according to Company records and may reflect inter-dealer prices, without markup, markdown or commission and may not necessarily represent actual transactions.

The Kansas City Life Group of Companies



Kansas City Life Insurance Company

Since 1895, Kansas City Life Insurance Company (www.kclife.com) has been dedicated to the present and future financial security of our customers. Kansas City Life provides financial services, including life insurance and investments*, to consumers throughout 49 states and the District of Columbia. More than 2,500 general agents and agents serve individuals, families, small businesses and corporations with a diverse range of products, including universal life, term life, whole life, variable life insurance*, variable annuities*, fixed deferred annuities and group products. Kansas City Life has been providing Security Assured for nearly 125 years.



Grange Life Insurance Company

Since 1968, Grange Life Insurance Company has operated in Columbus, Ohio. Grange Life specializes in life insurance protection that includes income replacement, mortgage protection, wealth transfer, and final expenses. Grange Life serves customers across 15 states: Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia and Wisconsin.



Old American Insurance Company

Since 1939, for over 80 years, the mission of Old American Insurance Company (www.oaic.com) has been to provide Peace of Mind to the senior market. Agents assist individuals ages 50 to 85 through final arrangements planning and communication, in order to enhance the quality of life for policyholders and relieve the emotional and financial burdens from their beneficiaries. In addition, Old American offers a whole life insurance policy for children two weeks to 15 years old, further extending Peace of Mind to parents and grandparents. Old American operates in 47 states and the District of Columbia.



Sunset Financial Services, Inc.

Sunset Financial Services Inc. is the distributing broker/dealer for Kansas City Life's line of variable annuity and variable universal life products.



Sunset Life Insurance Company of America

Sunset Life Insurance Company of America (www.sunsetlife.com) was originally founded in 1937. Kansas City Life purchased Sunset Life in 1974 and its operations were consolidated into the Company's Home Office in 1999. The Sunset Life sales force was integrated into the Kansas City Life sales force in 2006.

Financial Rating, evaluated by A.M. Best

Kansas City Life Insurance Company: A (Excellent; Negative Outlook)

Grange Life Insurance Company: A- (Excellent; Negative Outlook)

Old American Insurance Company: A- (Excellent; Stable Outlook)

Sunset Life Insurance Company: A- (Excellent; Stable Outlook)

These ratings represent A.M. Best's opinion of the financial strength and stability of Kansas City Life, Grange Life, Old American and Sunset Life Insurance Companies and each company's ability to meet ongoing obligations to policyholders, as of September 2019.

There are 13 financial strength ratings assigned by A.M. Best, ranging from A++ (Superior) to D (Poor).

**Kansas City Life's variable product series is distributed through Sunset Financial Services, Inc.*

Board of Directors Kansas City Life Insurance Company

Kevin G. Barth

Chairman and Chief Executive Officer
Commerce Bank
Kansas City, Mo.

R. Philip Bixby

President, Chief Executive Officer and
Chairman of the Board
Kansas City Life Insurance Company
Kansas City, Mo.

Walter E. Bixby, LLIF

Executive Vice President and Vice Chairman
of the Board
Kansas City Life Insurance Company
President
Old American Insurance Company
Kansas City, Mo.

William R. Blessing

Retired Senior Vice President,
Corporate Strategy and Development
Embarq
Overland Park, Kan.

Michael Braude

Retired President and Chief Executive Officer
Kansas City Board of Trade
Kansas City, Mo.

James T. Carr

President and Chief Executive Officer
National Association of
Intercollegiate Athletics
Kansas City, Mo.

John C. Cozad

President
Cozad Company, LLC
Platte City, Mo.

Thomas M. Hoenig

Retired President and Chief Executive Officer
Federal Reserve Bank
Kansas City, Mo.

Nancy Bixby Hudson

Investor
Lander, Wyo.

David S. Kimmel

Managing Partner
Summit Capital, LLC
Rye, N.Y.

A. Craig Mason Jr.

Senior Vice President, General Counsel
and Secretary
Kansas City Life Insurance Company
Kansas City, Mo.

Cecil R. Miller, CPA

Retired Partner
KPMG, LLP
Kansas City, Mo.

Mark Milton, FSA, CERA, MAAA

Senior Vice President and Actuary
Kansas City Life Insurance Company
Kansas City, Mo.

William A. Schalekamp, JD, CLU, FLMI

Retired Senior Vice President, General
Counsel and Secretary
Kansas City Life Insurance Company
Kansas City, Mo.

Philip A. Williams, CFA

Senior Vice President, Finance
Kansas City Life Insurance Company
Kansas City, Mo.

Kansas City Life
Insurance Company

Grange Life Insurance Company

Old American Insurance Company

Sunset Financial Services, Inc.

Sunset Life Insurance Company of America

Home Office
3520 Broadway
Kansas City, MO 64111
816-753-7000

Visit us on the Internet:
www.kclife.com
www.oaic.com
www.sunsetlife.com

Senior Officers

Kansas City Life Insurance Company

R. Philip Bixby

President, Chief Executive Officer and
Chairman of the Board

Walter E. Bixby, LLIF

Executive Vice President and Vice Chairman
of the Board

Donald E. Krebs, MSM, CLU, ChFC, LLIF
Senior Vice President, Sales and Marketing

A. Craig Mason Jr.

Senior Vice President, General Counsel
and Secretary

Mark A. Milton, FSA, CERA, MAAA
Senior Vice President and Actuary

Stephen E. Ropp

Senior Vice President, Operations

Philip A. Williams, CFA

Senior Vice President, Finance

Aaron L. Bush, ASA, MAAA

Vice President, Corporate Actuary

Timothy W. Knott, FSA, MAAA

Vice President, Group

David A. Laird, CPA, FLMI

Vice President and Controller

Theresa M. Mason, CPA, CGMA, FLMI

Vice President, Columbus Operations

Thomas P. Morgan

Vice President, Agencies

John L. Nogalski, CPA, FLMI

Vice President, Taxes

James L. Richardson

Vice President, IT

Old American Insurance Company

R. Philip Bixby

Chairman of the Board

Walter E. Bixby, LLIF

President

Bradley W. Cope

Vice President, Sales

David A. Laird, CPA, FLMI

Vice President and Controller

Timothy J. Langland, JD, CLU, FLMI

Vice President, Associate General Counsel
and Secretary

Stephen E. Ropp

Vice President, Operations

Philip A. Williams, CFA

Chief Financial Officer

Sunset Life Insurance Company of America

R. Philip Bixby

Chief Executive Officer and Chairman
of the Board

Walter E. Bixby, LLIF

Vice Chairman of the Board

Donald E. Krebs, MSM, CLU, ChFC, LLIF

Vice President, Sales and Marketing

David A. Laird, CPA, FLMI

Vice President and Controller

Mark A. Milton, FSA, CERA, MAAA

Vice President and Actuary

Stephen E. Ropp

Vice President, Operations

Philip A. Williams, CFA

Vice President, Finance

Scott E. Harvison, JD

Secretary

Grange Life Insurance Company

R. Philip Bixby

Chairman of the Board

Walter E. Bixby, LLIF

Chief Executive Officer

Theresa M. Mason, CPA, CGMA, FLMI

President

David A. Laird, CPA, FLMI

Controller

A. Craig Mason Jr.

General Counsel and Secretary

Mark A. Milton, FSA, CERA, MAAA

Actuary

Philip A. Williams, CFA

Chief Financial Officer



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