

KANSAS CITY LIFE INSURANCE COMPANY

2021 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 2021.

Net income in 2021 totaled \$10.7 million, a decrease of \$4.5 million versus 2020. The 2021 results reflected declines in insurance revenues and net investment income. Partially offsetting these items were an increase in net investment gains, largely from the sale of a real estate property. In addition, the amortization of deferred acquisition costs and operating expenses decreased compared to the prior year as we continued to identify expense reduction opportunities.

During 2021, we were able to achieve a corporate objective of selling Sunset Life Insurance Company of America that resulted in a gain. This success allows us to reduce ongoing direct expenses and continue to focus our efforts on streamlining our core business and processes.

As part of this effort, at year-end 2020 we completed a reinsurance assumption transaction that allowed us to retain the Sunset Life block of insurance in force.

Although the COVID-19 pandemic continues to negatively impact our financial results, total revenues remained strong, exceeding \$500 million for the third straight year. We have continued 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. Furthermore, the pandemic and related effects have resulted in a sizeable increase in excess mortality resulting in continued elevated policyholder benefits. In addition to the impacts reflected in our policyholder benefits from the pandemic, the continued low interest rate environment presents ongoing challenges to many of our investments. It remains a challenge to find and obtain investments that offer an acceptable return, while not subjecting us to increasing risk outside of our defined acceptable limits. Further, as the year was brought to a close, the increase in inflation has brought another factor to be evaluated and managed.

It is during these challenging times that we are reminded that Security Assured remains our first and primary mission for our customers and policyholders. We have long supported our policyholders, customers, general agents, and agents by providing quality insurance products and timely benefit payments. We are committed to maintaining our financial security and financial strength so that we can continue to fulfill those promises that we have made. As we look to the future, we continue to identify, evaluate, and implement new opportunities to help our agents, general agents, policyholders, and customers to meet their ongoing needs.

A handwritten signature in dark 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

Kansas City Life Insurance Company has been assisting policyholders by providing top tier products and services since 1895. The Company's mission of Security Assured is a constant guiding force to help customers create a legacy and protect their loved ones.

In addition to its policyholders, Kansas City Life has upheld its promise of Security Assured by maintaining support for its field force of agents, shareholders, and associates for over 125 years. By working with Kansas City Life, these partners have pledged their loyalty to the Company's mission of providing financial security.

Throughout the years, Kansas City Life has continued through significant crises, such as world wars, global pandemics, economic recessions, and other times of great struggle to provide security to its customers. Through these significant events to today, the Company continues to focus on providing Security Assured to its policyholders in their times of greatest need.

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 and Grange Life Insurance Company. Sunset Life Insurance Company of America was also included in the Individual Insurance segment until its sale on Nov. 1, 2021.

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*, Grange Mutual Insurance Company, GuideOne Mutual Insurance Company and AmeriLife Group LLC allow representatives from these 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

A 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's arrangement with American Republic Insurance Company was terminated in 2022.*



The Individual Insurance segment generated approximately 51% of consolidated insurance revenues for the year ended Dec. 31, 2021, down from approximately 54% for the year ended Dec. 31, 2020.

Total new premiums decreased \$12.8 million or 36% in 2021 compared to 2020. This decrease reflected an \$11.4 million or 45% decline in new immediate annuity premiums and a \$1.4 million or 14% decline in new traditional life premiums. Total renewal premiums increased \$1.5 million or 1% in 2021 compared to the prior year, resulting from an increase in renewal traditional life premiums.

Total new deposits declined \$7.3 million or 10% in 2021 compared to 2020. New variable annuity deposits increased \$2.7 million or 17% while new deferred annuity deposits declined \$9.6 million or 20% and new interest sensitive life deposits decreased \$0.3 million or 3%. Total renewal deposits increased \$2.3 million or 2% in 2021 compared to the prior year. Renewal variable annuity deposits increased \$1.5 million or 20%, renewal deferred annuity deposits increased \$0.6 million or 4%, and renewal interest sensitive life deposits increased \$0.2 million or less than 1%.

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 19% of the Company's consolidated insurance revenues in 2021, up 1% from 2020. Total Group premiums decreased by \$0.8 million or 1% in 2021, following a \$0.8 million or 1% decrease in 2020. Moving forward, the Group Insurance segment continues to focus on three primary areas of emphasis to improve sales:

- Growing in-force business through the Company's sales representatives.
- Improving administrative efficiency through greater use of customer-facing technology,

designed to reduce expenses and improve customer service.

- Targeting higher-premium opportunities by pursuing groups with multiple lines of coverage and generating annualized premium in excess of \$50,000.

Old American Insurance Company

Founded in 1939, Old American Insurance Company has a long history of delivering final expense life insurance to its customers. Since the Company's inception, Old American's mission has been to provide present and future Peace of Mind to the senior market and, in turn, enhance the quality of life for both the client and their loved ones.

Old American's foundation is built on the philosophy that nobody should be considered uninsurable simply on the basis of age. That philosophy continues to resonate with its

mission of providing financial protection and security to the senior market.

As a fourth-generation, family-oriented company, Old American is proud to help other families provide for future expenses and protect their loved ones. With values rooted in reliability, protection, and security, the Company continues to serve nearly 200,000 policyholders in 47 states and the District of Columbia. As a subsidiary of Kansas City Life Insurance Company, Old American also continues to support Kansas City Life's promise of providing Security Assured to its policyholders.

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	
	2021	2020
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 3,088,197	\$ 3,118,980
Equity securities, at fair value	3,676	6,647
Mortgage loans	596,037	601,607
Real estate	142,278	165,403
Policy loans	82,060	84,447
Short-term investments	74,501	119,116
Other investments	12,840	10,838
Total investments	<u>3,999,589</u>	<u>4,107,038</u>
Cash	5,419	7,203
Accrued investment income	30,298	31,413
Deferred acquisition costs	292,027	276,425
Reinsurance recoverables	399,951	391,439
Other assets	201,170	186,453
Separate account assets	504,976	463,041
Total assets	<u>\$ 5,433,430</u>	<u>\$ 5,463,012</u>
LIABILITIES		
Future policy benefits	\$ 1,397,111	\$ 1,383,674
Policyholder account balances	2,247,392	2,231,640
Policy and contract claims	69,787	71,344
Other policyholder funds	185,713	175,131
Other liabilities	198,017	229,443
Separate account liabilities	504,976	463,041
Total liabilities	<u>4,602,996</u>	<u>4,554,273</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	933,338	933,092
Accumulated other comprehensive income	74,251	152,802
Treasury stock, at cost (2021 and 2020 - 8,813,266 shares)	(241,301)	(241,301)
Total stockholders' equity	<u>830,434</u>	<u>908,739</u>
Total liabilities and stockholders' equity	<u>\$ 5,433,430</u>	<u>\$ 5,463,012</u>

Consolidated Statements of Comprehensive Income

	Year Ended December 31	
	2021	2020
REVENUES		
Insurance revenues:		
Net premiums	\$ 208,864	\$ 223,756
Contract charges	121,803	126,722
Total insurance revenues	330,667	350,478
Investment revenues:		
Net investment income	142,468	145,684
Net investment gains	25,417	21,835
Total investment revenues	167,885	167,519
Other revenues	12,760	5,913
Total revenues	511,312	523,910
BENEFITS AND EXPENSES		
Policyholder benefits	280,886	280,970
Interest credited to policyholder account balances	79,725	78,792
Amortization of deferred acquisition costs	33,217	42,141
Operating expenses	104,564	106,093
Total benefits and expenses	498,392	507,996
Income before income tax expense	12,920	15,914
Income tax expense	2,216	744
NET INCOME	\$ 10,704	\$ 15,170
COMPREHENSIVE INCOME (LOSS), NET OF TAXES		
Changes in:		
Net unrealized gains (losses) on securities available for sale	\$ (100,859)	\$ 115,900
Effect on deferred acquisition costs, value of business acquired, and deferred revenue liabilities	7,946	(7,809)
Policyholder liabilities	9,247	(15,882)
Benefit plan obligations	5,115	1,087
Other comprehensive income (loss)	(78,551)	93,296
COMPREHENSIVE INCOME (LOSS)	\$ (67,847)	\$ 108,466
Basic and diluted earnings per share:		
Net income	\$ 1.11	\$ 1.57

Condensed Consolidated Statements of Cash Flows

	Year Ended December 31	
	2021	2020
OPERATING ACTIVITIES		
Net cash provided (used)	\$ (46,319)	\$ 5,894
INVESTING ACTIVITIES		
Purchases:		
Fixed maturity securities	(434,696)	(344,098)
Equity securities	(259)	(380)
Mortgage loans	(103,942)	(109,060)
Real estate	(36,994)	(2,610)
Policy loans	(8,754)	(8,706)
Other investments	(5,828)	(3,702)
Property and equipment	(628)	(1,844)
Sales or maturities, calls, and principal paydowns:		
Fixed maturity securities	308,361	344,071
Equity securities	3,000	5,000
Mortgage loans	109,546	85,111
Real estate	72,439	29,898
Policy loans	11,141	11,758
Other investments	8,599	4,204
Property and equipment	71	25
Net sales (purchases) of short-term investments	41,616	(43,690)
Proceeds from sale of subsidiary	28,468	—
Net cash used	(7,860)	(34,023)
FINANCING ACTIVITIES		
Policyholder account balances – deposits	215,598	220,549
Policyholder account balances – receipts from funding agreement	30,000	—
Withdrawals from policyholder account balances	(192,709)	(200,717)
Net transfers from separate accounts	7,320	8,794
Change in other deposits	2,644	2,930
Cash dividends to stockholders	(10,458)	(10,458)
Net cash provided	52,395	21,098
Decrease in cash	(1,784)	(7,031)
Cash at beginning of year	7,203	14,234
Cash at end of year	\$ 5,419	\$ 7,203

These condensed consolidated financial statements should be read in conjunction with the Company's 2021 annual financial report that is available on the Company's website (www.kclife.com/Company/Financials) and the OTC Markets Group 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 21, 2022, 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 OTC Markets Group 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, 2022, Kansas City Life had approximately 127 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
2021			
First quarter	\$ 46.05	\$ 36.05	\$ 0.27
Second quarter	46.00	43.00	0.27
Third quarter	44.60	41.60	0.27
Fourth quarter	45.50	40.75	0.27
			<u>\$ 1.08</u>
2020			
First quarter	\$ 34.50	\$ 23.06	\$ 0.27
Second quarter	29.40	25.25	0.27
Third quarter	34.00	25.51	0.27
Fourth quarter	39.00	31.74	0.27
			<u>\$ 1.08</u>

A quarterly dividend of \$0.27 per share was paid February 9, 2022.

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 more than 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.



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.

Financial Rating, evaluated by A.M. Best

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

Grange Life Insurance Company: B++ (Good; Stable Outlook)

Old American Insurance Company: B++ (Good; Stable Outlook)

These ratings represent A.M. Best's opinion of the financial strength and stability of Kansas City Life, Grange Life, and Old American Insurance Companies and each company's ability to meet ongoing obligations to policyholders, as of August 2021.

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
Insurance Advisory Partners LLC
Rye, N.Y.

David A. Laird, CPA, FLMI*

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

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.

**Philip A. Williams retired from the Company effective Feb. 4, 2022, and was succeeded by David A. Laird.*

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

David A. Laird, CPA, FLMI*

Senior Vice President, Finance

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

Thomas B. Deacy, CFA

Vice President, Securities

Theresa M. Mason, CPA, CGMA, FLMI

Vice President, Columbus Operations

Thomas P. Morgan

Vice President, Agencies

John L. Nogalski, CPA, FLMI

Vice President, Taxes

Talva S. Parker

Vice President, Group

James L. Richardson

Vice President, IT

Ellee P. Sibbing

Vice President and Controller

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*

Chief Financial Officer

Stephen E. Ropp

Vice President, Operations

Ellee P. Sibbing

Vice President and Controller

Malika S. Simmons

Secretary

Philip A. Williams, CFA*

Chief Financial Officer

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*

Chief Financial Officer

A. Craig Mason Jr.

General Counsel and Secretary

Mark A. Milton, FSA, CERA, MAAA

Actuary

Ellee P. Sibbing

Controller

Philip A. Williams, CFA*

Chief Financial Officer

**Philip A. Williams retired from the
Company effective Feb. 4, 2022, and
was succeeded by David A. Laird.*

Kansas City Life
Insurance Company

Grange Life Insurance Company

Old American Insurance Company

Sunset Financial Services, Inc.

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

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





KANSAS CITY LIFE

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