KANSAS CITY LIFE INSURANCE COMPANY

A Missouri Corporation

3520 Broadway
Kansas City, MO 64111-2565
Telephone: (816) 753-7000
www.kclife.com

SIC Code: 6311

QUARTERLY REPORT

For the Period Ending June 30, 2019
(the "Reporting Period")

The number of shares outstanding of our Common Stock is 9,683,414 as of June 30, 2019 (the end of reporting period)

The number of shares outstanding of our Common Stock was 9,683,414 as of March 31, 2019 (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 general economic conditions, including the performance of financial markets and interest rates;
- Increasing competition and changes in consumer behavior, which may affect our ability to sell our products and retain business;
- Increasing competition in the recruitment and retention of general agents and agents;
- Customer and agent response to new products, distribution channels, and marketing initiatives;
- Fluctuations in experience regarding current mortality, morbidity, persistency, and interest rates relative to expected amounts used in pricing our products;
- Changes in assumptions related to deferred acquisition costs (DAC), value of business acquired (VOBA), and deferred revenue liability (DRL);
- Regulatory, accounting, or tax changes that may affect the cost of, or the demand for, our products or services;
- Unanticipated changes in industry trends and ratings assigned by nationally recognized rating organizations; and
- The ability to integrate acquisitions and achieve anticipated operating efficiencies and the ability to preserve goodwill that results from acquisitions.

No assurances can be given that such statements will prove to be correct. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

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

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

Item 2. Shares Outstanding

Common Stock

	June 30, 2019
Number of Shares Authorized	36,000,000
Number of Shares Outstanding	9,683,414
Freely Tradable Shares (Public Float)	2,506,304
Total Number of Shareholders of Record	148

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

Item 3. Interim Consolidated Financial Statements

The interim consolidated financial statements of Kansas City Life Insurance Company as of June 30, 2019 are attached hereto as Exhibit 3.1 and are hereby incorporated by reference into this Quarterly Report, including:

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

The interim consolidated financial statements and the accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The interim consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results. These adjustments are generally of a normal recurring nature. As permitted under GAAP, certain footnotes or other financial disclosures are condensed or omitted in the interim consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our 2018 Annual Report, which is available on the OTCQX website (*www.otcmarkets.com/stock/KCLI/filings*). The interim consolidated financial statements and the accompanying notes for the quarters and six months ended June 30, 2019 and 2018 are unaudited. Operating results for the interim period are not necessarily indicative of the results that may be expected or achieved for the year ending December 31, 2019.

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

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

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

The following is a discussion and analysis of the results of operations for the quarters and six months ended June 30, 2019 and 2018 and our financial condition at June 30, 2019. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes included in this document, as well as our 2018 Annual Report.

Overview

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

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

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

Consolidated Results of Operations

Summary of Results

We earned net income of $5.3 million in the second quarter of 2019 compared to $4.1 million in the second quarter of 2018. Net income per share was $0.54 in the second quarter of 2019 versus $0.43 in the same period in the prior year. Net income for the first six months of 2019 was $9.3 million compared to $5.6 million in the same period in the prior year. Net income per share for the first six months of 2019 was $0.96 compared to $0.58 one year earlier.

The following table presents condensed consolidated results of operations for the quarters and six months ended June 30, 2019 and 2018.

	Quarter Ended June 30			Six Months Ended June 30		
	2019	2018	% Change	2019	2018	% Change
Revenues:						
Insurance and other revenues	$ 89,220	$ 76,588	16 %	$ 179,675	$ 151,138	19 %
Net investment income	37,896	34,687	9 %	74,865	69,553	8 %
Net investment gains	2,768	1,056	162 %	5,447	1,151	373 %
Benefits and expenses:						
Policyholder benefits and interest credited to policyholder account balances	85,738	73,358	17 %	172,985	145,271	19 %
Amortization of deferred acquisition costs	9,329	10,665	(13)%	18,051	20,788	(13)%
Operating expenses	28,388	23,363	22 %	57,573	49,095	17 %
Income tax expense	1,148	837	37 %	2,062	1,118	84 %
Net income	$ 5,281	$ 4,108	29 %	$ 9,316	$ 5,570	67 %

The Company acquired Grange Life on October 1, 2018. Grange Life is domiciled in the state of Ohio and is licensed in 15 states to sell traditional life insurance, universal life products, and fixed annuities. The acquisition of Grange Life is expected to expand our existing block of business and also to expand our insurance sales through access to a wider distribution network of independent agents. Grange Life is included in the Individual Insurance segment. The results of Grange Life operations are included in our Consolidated Statements of Comprehensive Income for the quarter and six months ended June 30, 2019.

Insurance Revenues

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

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

	Quarter Ended June 30			Six Months Ended June 30		
	2019	2018	% Change	2019	2018	% Change
New premiums:						
Traditional life insurance	$ 5,893	$ 5,133	15 %	$ 13,267	$ 10,201	30 %
Immediate annuities	6,131	6,918	(11)%	16,137	12,264	32 %
Group life insurance	725	720	1 %	1,478	1,428	4 %
Group accident and health insurance	2,767	2,920	(5)%	5,469	5,912	(7)%
Total new premiums	15,516	15,691	(1)%	36,351	29,805	22 %
Renewal premiums	66,055	45,339	46 %	129,306	90,099	44 %
Total premiums	81,571	61,030	34 %	165,657	119,904	38 %
Reinsurance ceded	(26,115)	(15,513)	68 %	(52,041)	(29,975)	74 %
Net premiums	$ 55,456	$ 45,517	22 %	$ 113,616	$ 89,929	26 %

Consolidated total premiums increased $20.5 million or 34% in the second quarter of 2019 compared with the second quarter of 2018, as a $20.7 million or 46% increase in renewal premiums was partially offset by a $0.2 million or 1% decrease in new premiums. New traditional life insurance premiums increased $0.8 million or 15%, primarily resulting from the addition of Grange Life sales of traditional life insurance. Offsetting this was a $0.8 million or 11% decrease in new immediate annuity premiums. Immediate annuity receipts can have sizeable fluctuations, as receipts from policyholders largely result from one-time premiums. In addition, new group accident and health premiums declined $0.2 million or 5%, primarily from the dental line. The increase in renewal premiums reflected a $20.0 million or 65% increase in renewal traditional life insurance premiums. This improvement primarily resulted from the addition of $18.7 million in renewal traditional life insurance premiums from the Grange Life portfolio of existing business. In addition, renewal traditional life insurance premiums from Old American increased $0.9 million or 5% compared to the same period in the prior year, reflecting continued sales growth over the past several years. Also, renewal group accident and health insurance premiums increased $0.8 million or 7% versus the prior year, largely from the dental and disability lines, and renewal group life insurance premiums increased $0.3 million or 9%.

Consolidated total premiums increased $45.8 million or 38% in the first six months of 2019 compared with the first six months of 2018, as new premiums increased $6.6 million or 22% and renewal premiums increased $39.2 million or 44%. The largest factor in the improvement in new premiums was a $3.9 million or 32% increase in new immediate annuity premiums. In addition, new traditional life insurance premiums increased $3.1 million or 30%. This increase largely resulted from the addition of Grange Life sales of traditional life insurance, which added $2.9 million in the first six months of 2019. The increase in renewal premiums reflected a $37.6 million or 62% increase in renewal traditional life insurance premiums. This improvement included $35.7 million in renewal traditional life insurance premiums from the Grange Life portfolio of existing business. In addition, renewal traditional life insurance premiums from Old American increased $1.7 million or 5% compared to the same period in the prior year, reflecting continued sales growth over the past several years. As well, renewal group accident and health insurance premiums increased $1.1 million or 5% compared to the same period one year earlier, primarily from the dental and disability lines, and renewal group life insurance premiums increased $0.6 million or 9%.

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		
	2019	2018	% Change	2019	2018	% Change
New deposits:						
Interest sensitive life	$ 3,771	$ 5,661	(33)%	$ 6,641	$ 7,539	(12)%
Fixed annuities	11,550	14,028	(18)%	27,632	26,756	3 %
Variable annuities	2,165	2,141	1 %	4,869	7,355	(34)%
Total new deposits	17,486	21,830	(20)%	39,142	41,650	(6)%
Renewal deposits	39,685	34,672	14 %	78,405	68,912	14 %
Total deposits	$ 57,171	$ 56,502	1 %	$ 117,547	$ 110,562	6 %

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

Total new deposits decreased $4.3 million or 20% in the second quarter of 2019 compared with the second quarter of 2018, as new fixed annuity deposits declined $2.5 million or 18% and new interest sensitive life deposits decreased $1.9 million or 33%. The results for new interest sensitive life deposits included a $0.2 million or 14% increase in new universal life deposits that was offset by a $2.2 million or 50% decrease in new indexed universal life deposits. Total renewal deposits increased $5.0 million or 14% in the second quarter of 2019 compared to the prior year. This improvement included a $4.8 million or 18% increase in renewal interest sensitive life deposits and a $0.3 million or 14% increase in renewal variable annuity deposits. Partially offsetting these, renewal variable universal life deposits declined $0.4 million or 7%. The results for renewal interest sensitive life deposits included a $3.5 million or 18% increase in renewal universal life deposits and a $1.8 million or 99% increase in renewal indexed universal life deposits. The addition of the Grange Life portfolio contributed $4.1 million of renewal universal life deposits. Excluding Grange Life, renewal universal life deposits decreased $0.7 million or 3%.

Total new deposits decreased $2.5 million or 6% in the first six months of 2019 compared with the same period in 2018, as new variable annuity deposits decreased $2.5 million or 34% and new interest sensitive life deposits declined $0.9 million or 12%. Total renewal deposits increased $9.5 million or 14% in the the first six months of 2019 versus the prior year due to a $9.7 million or 18% increase in renewal interest sensitive life deposits. In addition, renewal fixed annuity deposits increased $0.8 million or 8%. Partially offsetting these, renewal variable annuity deposits declined $1.0 million or 19%. The addition of the Grange Life portfolio contributed $8.2 million of renewal universal life deposits. Excluding Grange Life, renewal universal life deposits decreased $1.6 million or 4%.

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

Total contract charges increased $2.7 million or 9% in the second quarter of 2019 compared to one year earlier. This increase reflected the addition of the Grange Life portfolio. The Grange Life interest sensitive block of business is considered a closed block. Contract charges on open blocks were essentially flat in the second quarter of 2019 versus the second quarter of 2018. Contract charges on closed blocks increased $2.8 million or 26%. Excluding Grange Life, contract charges on closed blocks decreased $0.6 million or 6%, reflecting the runoff of the blocks of business. Total contract charges on closed blocks equaled 42% of total consolidated contract charges during the second quarter of 2019, up from 37% during the second quarter of 2018.

Total contract charges increased $5.0 million or 9% in the first six months of 2019 compared to the same period one year earlier. This increase was largely due to the addition of the Grange Life portfolio. Contract charges on open blocks decreased $0.5 million or 1% and contract charges on closed blocks increased $5.5 million or 25%. Excluding Grange Life, contract charges on closed blocks decreased $1.3 million or 6%, reflecting the runoff of the blocks of business. Total contract charges on closed blocks equaled 43% of total consolidated contract charges during the first six months of 2019, up from 37% during the first six months of 2018.

Investment Revenues

Gross investment income increased $3.0 million or 8% in the second quarter and $5.1 million or 7% in the first six months of 2019 compared with the same periods in 2018. These improvements resulted from higher average invested assets, primarily from the addition of the Grange Life portfolio of investments. Partially offsetting this were lower overall yields earned and available on certain investments.

Fixed maturity securities provide a majority of our investment income. Fixed maturity securities comprised 75% of total investments at June 30, 2019, up from 73% at December 31, 2018. Income from these investments increased $2.7 million or 11% in the second quarter and $5.1 million or 10% in the first six months of 2019 compared to the prior year. This improvement was due to higher average investments, primarily from the addition of the Grange Life portfolio.

Investment income from real estate decreased $0.3 million or 6% in the second quarter and $0.8 million or 7% in the first six months of 2019 compared to the prior year, largely due to lower occupancy levels at certain rental properties.

Net investment gains for the second quarter of 2019 totaled $2.8 million compared to $1.1 million in the second quarter of 2018. The net investment gains in the second quarter of 2019 included a $0.9 million gain from investment securities called and a $0.5 million gain from the change in the fair value of derivative instruments. In addition, the Company sold a real estate investment property that generated a gain of approximately $1.1 million in the second quarter of 2019.

Net investment gains for the first six months of 2019 totaled $5.4 million compared to $1.2 million in the first six months of 2018. The net investment gains for the first six months of 2019 reflected a $1.0 million gain from investment securities called, a $0.9 million gain from the change in the fair value of equity securities, and a $1.6 million gain from the change in the fair value of derivative instruments. In addition, the Company sold real estate investment properties that generated gains of approximately $1.8 million.

Policyholder Benefits

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

Policyholder benefits increased $10.4 million or 19% in the second quarter of 2019 compared to the prior year, largely due to the acquisition of Grange Life. Excluding Grange Life, policyholder benefits were essentially flat when comparing the two periods. Changes in the fair value of the guaranteed minimum withdrawal benefits (GMWB) rider and derivative instruments increased benefit and contract reserves. These were offset by a decrease in annuity considerations, which results in a decrease to the change in reserves on an equal and offsetting basis.

Policyholder benefits increased $24.7 million or 23% in the first six months of 2019 compared to one year earlier. Excluding Grange Life, policyholder benefits increased $5.0 million or 5%. This increase was largely due to an increase in benefit and contract reserves. Changes in the fair value of the GMWB rider and derivative instruments increased benefit and contract reserves in the first six months of 2019 compared to the first six months of 2018. In addition, higher annuity premiums contributed to the increase in benefit and contract reserves. Partially offsetting these, death benefits, net of reinsurance, decreased compared to the prior year.

Amortization of DAC

The amortization of DAC decreased $1.3 million or 13% in the second quarter and $2.7 million or 13% in the first six months of 2019 compared to the prior year. The decrease in the second quarter reflected a decrease in unlocking and refinements in estimates compared to the prior year. In addition, the DAC for certain blocks of business became fully amortized in 2018 and thus did not contribute amortization in 2019. The decrease in the first six months reflected improved investment performance in the separate accounts, a decrease in unlocking and refinements in estimates compared to one year earlier, and the complete amortization of certain blocks of business in 2018 referred to above.

Unlocking and Refinements in Estimates

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. We also consider refinements in estimates due to improved capabilities resulting from administrative or actuarial system enhancements.

The following tables summarize the effects of the refinements in estimates on all products and 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 and refinements in estimates occurred during the second quarters of 2019 and 2018.

	Six Months Ended June 30, 2019			
	DAC Amortization	VOBA Amortization	DRL Contract Charges	Net Impact to Pre-Tax Income
Unlocking	$ (350)	$ (538)	$ 763	$ (125)
Refinement in estimate	308	—	17	325
	$ (42)	$ (538)	$ 780	$ 200

	Six Months Ended June 30, 2018			
	DAC Amortization	VOBA Amortization	DRL Contract Charges	Net Impact to Pre-Tax Income
Unlocking	$ (884)	$ (644)	$ 920	$ (608)
Refinement in estimate	71	—	—	71
	$ (813)	$ (644)	$ 920	$ (537)

The unlocking and refinements in estimates resulted in a net $0.2 million increase to pre-tax income in the first six months of 2019. These adjustments primarily resulted from unlocking surrender rates and reinsurance as well as refinements of expense loads. These were partially offset by interest rate fluctuations.

The unlocking and refinements in estimates resulted in a net $0.5 million reduction to pre-tax income in the first six months of 2018. These adjustments primarily resulted from interest rate fluctuations.

Operating Expenses

Operating expenses consist of incurred commission expense from the sale of insurance products, net of the deferral of certain commissions and certain expenses directly associated with the successful acquisition of new business, expenses from operations, the amortization of VOBA and intangibles, and other expenses. In total, operating expenses increased $5.0 million or 22% in the second quarter and $8.5 million or 17% in the first six months of 2019 compared to the same periods in the prior year. The increases in both periods reflected increased compensation costs and agent expenses as well as increases in expenses resulting from our acquisition of Grange Life.

Income Taxes

We recorded income tax expense of $1.1 million or 18% of income before tax in the second quarter of 2019, compared to income tax expense of $0.8 million or 17% of income before tax in the second quarter of 2018. The increase in the effective tax rate was primarily due to permanent differences, including the dividends-received deduction, having less impact on the effective tax rate due to an increase in pre-tax income. The second quarter 2019 statutory rate versus effective rate differences were larger than usual due to the variance in actual versus assumed pretax results.

We recorded income tax expense for the six months ended June 30, 2019 of $2.1 million or 18% of income before tax, compared to income tax expense of $1.1 million or 17% of income before tax for the prior year period. The increase in the effective tax rate was primarily due to permanent differences, including the dividends-received deduction, having less impact on the effective tax rate due to an increase in pre-tax income.

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

Analysis of Investments

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

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

	June 30 2019	% of Total	December 31 2018	% of Total
Fixed maturity securities	$ 2,879,002	75%	$ 2,704,079	73%
Equity securities	15,336	—%	14,424	1%
Mortgage loans	613,450	16%	639,559	17%
Real estate	184,893	5%	186,994	5%
Policy loans	88,192	2%	88,066	2%
Short-term investments	68,246	2%	58,712	2%
Other investments	7,471	—	5,355	—
Total	$ 3,856,590	100%	$ 3,697,189	100%

Fixed maturity securities were the largest component of total investments at June 30, 2019 and December 31, 2018. The largest categories of fixed maturity securities at June 30, 2019 consisted of 76% in corporate obligations, 9% in municipal securities, and 6% in U.S. Treasury securities and other obligations of the U.S. Government. At December 31, 2018, the largest categories of fixed maturity securities consisted of 75% in corporate obligations, 10% in municipal securities, and 7% in U.S. Treasury securities and other obligations of the U.S. Government.

We use actual or equivalent Standard & Poor's ratings to determine the investment grading of fixed maturity securities. Our fixed maturity securities that were rated investment grade represented 99% of total securities at June 30, 2019 and December 31, 2018.

The fair value of fixed maturity securities with unrealized losses was $163.9 million at June 30, 2019 compared with $1.3 billion at December 31, 2018. This decrease primarily reflected falling interest rates and tighter corporate bond spreads during 2019. At June 30, 2019, 94% of security investments with an unrealized loss were investment grade and accounted for 82% of the total unrealized losses. At December 31, 2018, 99% of securities with an unrealized loss were investment grade and accounted for 95% of the total unrealized losses.

At June 30, 2019, we had $152.4 million in gross unrealized gains on fixed maturity securities that offset gross unrealized losses of $4.0 million. At December 31, 2018, we had $59.0 million in gross unrealized gains on fixed maturity securities that offset $48.8 million in gross unrealized losses. At June 30, 2019, 94% of the fixed maturity securities portfolio had unrealized gains, an increase from 52% at December 31, 2018. We had a decrease in gross unrealized losses in most categories from December 31, 2018 to June 30, 2019 due to falling interest rates and tighter corporate bond spreads during 2019. Gross unrealized losses on fixed maturity securities for less than 12 months accounted for less than $0.1 million or 6% of the security values in a gross unrealized loss position at June 30, 2019 compared to $9.8 million and 40% of the security values in a gross unrealized loss position at December 31, 2018. Gross unrealized losses on fixed maturity security investments of 12 months or longer decreased from $39.0 million at December 31, 2018 to $3.9 million at June 30, 2019.

Residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities that were rated below investment grade were 11% of the total mortgage-backed and asset-backed securities at June 30, 2019, compared to 13% at December 31, 2018.

We have written down certain investments in previous periods. Fixed maturity securities written down and still owned at June 30, 2019 and December 31, 2018 were not material. Additional information identified or further deteriorations could result in impairments in future periods.

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

Investments in mortgage loans totaled $613.5 million at June 30, 2019, down from $639.6 million at December 31, 2018. The commercial mortgage loan portfolio decreased $26.1 million during the first six months of 2019, as regularly scheduled payments and the volume of prepaid loans exceeded new loan originations. Mortgage loan fundings decreased $21.5 million in the first six months of 2019 compared to the prior year. The decrease in new mortgage loans was largely the result of maintaining strict underwriting standards to support our portfolio credit quality and competition from other lenders. Our mortgage loans are secured by commercial real estate. These loans are stated at the outstanding principal balance, adjusted for amortization of premium and accretion of discount, less an allowance for loan losses. We believe this allowance is at a level adequate to absorb estimated credit losses and was $3.0 million at June 30, 2019 and $3.1 million at December 31, 2018.

Investments in real estate totaled $184.9 million at June 30, 2019 and $187.0 million at December 31, 2018. This decrease largely resulted from the sale of properties during 2019.

Liquidity and Capital Resources

Liquidity

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

Net cash used from operating activities was $9.9 million for the six months ended June 30, 2019. The primary sources of cash from operating activities in the first six months of 2019 were premium receipts and net investment income. The primary uses of cash from operating activities in the first six months of 2019 were for the payment of policyholder benefits and operating expenses. Net cash used from investing activities was $18.4 million. The primary sources of cash from investing activities were sales, maturities, calls, and principal paydowns of investments totaling $169.7 million. Investment purchases, including new fixed maturities and mortgage loans, totaled $177.2 million. In addition, net purchases of short-term investments totaled $9.5 million and net acquisitions of property and equipment totaled $3.1 million. Net cash provided by financing activities was $7.9 million, including $2.2 million of net transfers from separate accounts and $10.8 million of deposits, net of withdrawals, on policyholder account balances. These were partially offset by the payment of $5.2 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 2019	December 31 2018
Total assets, excluding separate accounts	$ 4,728,263	$ 4,597,752
Total stockholders' equity	782,290	691,706
Ratio of stockholders' equity to assets, excluding separate accounts	17%	15%

Stockholders’ equity increased $90.6 million from year-end 2018, primarily due to an increase in net unrealized gains. This increase largely reflected fluctuations in the fair value of investments that resulted from falling interest rates and tighter corporate bond spreads. Stockholders’ equity per share, or book value, equaled $80.79 at June 30, 2019, an increase from $71.43 at year-end 2018.

Net unrealized gains on available for sale securities, which are included as part of accumulated other comprehensive 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 $89.3 million at June 30, 2019, an $86.5 million increase from net unrealized gains on available securities of $2.8 million at December 31, 2018.

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

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

On July 22, 2019, the Board of Directors declared a quarterly dividend of $0.27 per share payable on August 7, 2019 to stockholders of record on August 1, 2019.

Item 5. Legal Proceedings

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

Item 6. Defaults upon Senior Securities

None

Item 7. Other Information

None

Item 8. Exhibits

3.1 Interim Consolidated Financial Statements

Item 9. Issuer's Certifications

I, R. Philip Bixby, certify that:

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

Date: August 1, 2019

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

I, Philip A. Williams, certify that:

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

Date: August 1, 2019

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

Exhibit 3.1 Interim Consolidated Financial Statements

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

Kansas City Life Insurance Company
Consolidated Balance Sheets

	June 30 2019 (Unaudited)	December 31 2018
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	$ 2,879,002	$ 2,704,079
Equity securities, at fair value	15,336	14,424
Mortgage loans	613,450	639,559
Real estate	184,893	186,994
Policy loans	88,192	88,066
Short-term investments	68,246	58,712
Other investments	7,471	5,355
Total investments	3,856,590	3,697,189
Cash	11,289	31,689
Accrued investment income	32,496	31,535
Deferred acquisition costs	281,854	291,168
Reinsurance recoverables	370,073	366,196
Other assets	175,961	179,975
Separate account assets	411,398	373,734
Total assets	$ 5,139,661	$ 4,971,486
LIABILITIES		
Future policy benefits	$ 1,315,449	$ 1,279,034
Policyholder account balances	2,250,860	2,261,860
Policy and contract claims	44,108	47,274
Other policyholder funds	172,219	174,984
Other liabilities	163,337	142,894
Separate account liabilities	411,398	373,734
Total liabilities	4,357,371	4,279,780
STOCKHOLDERS' EQUITY		
Common stock, par value $1.25 per share		
Authorized 36,000,000 shares, issued 18,496,680 shares	23,121	23,121
Additional paid in capital	41,025	41,025
Retained earnings	918,497	914,411
Accumulated other comprehensive income (loss)	40,948	(45,550)
Treasury stock, at cost (2019 and 2018 - 8,813,266 shares)	(241,301)	(241,301)
Total stockholders' equity	782,290	691,706
Total liabilities and stockholders' equity	$ 5,139,661	$ 4,971,486

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	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
REVENUES				
Insurance revenues:				
Net premiums	$ 55,456	$ 45,517	$ 113,616	$ 89,929
Contract charges	32,261	29,530	63,085	58,095
Total insurance revenues	87,717	75,047	176,701	148,024
Investment revenues:				
Net investment income	37,896	34,687	74,865	69,553
Net investment gains	2,768	1,056	5,447	1,151
Total investment revenues	40,664	35,743	80,312	70,704
Other revenues	1,503	1,541	2,974	3,114
Total revenues	129,884	112,331	259,987	221,842
BENEFITS AND EXPENSES				
Policyholder benefits	65,634	55,268	133,812	109,109
Interest credited to policyholder account balances	20,104	18,090	39,173	36,162
Amortization of deferred acquisition costs	9,329	10,665	18,051	20,788
Operating expenses	28,388	23,363	57,573	49,095
Total benefits and expenses	123,455	107,386	248,609	215,154
Income before income tax expense	6,429	4,945	11,378	6,688
Income tax expense	1,148	837	2,062	1,118
NET INCOME	$ 5,281	$ 4,108	$ 9,316	$ 5,570
COMPREHENSIVE INCOME (LOSS), NET OF TAXES				
Changes in:				
Net unrealized gains (losses) on securities available for sale	$ 52,496	$ (21,461)	109,197	$ (66,892)
Effect on deferred acquisition costs, value of business acquired, and deferred revenue liabilities	(4,601)	3,223	(9,979)	8,821
Future policy benefits	(6,712)	3,249	(12,558)	10,156
Policyholder account balances	(90)	47	(162)	125
Other comprehensive income (loss)	41,093	(14,942)	$ 86,498	(47,790)
COMPREHENSIVE INCOME (LOSS)	$ 46,374	$ (10,834)	$ 95,814	$ (42,220)
Basic and diluted earnings per share:				
Net income	$ 0.54	$ 0.43	$ 0.96	$ 0.58

See accompanying Notes to Consolidated Financial Statements (Unaudited)

Kansas City Life Insurance Company
Consolidated Statements of Cash Flows

	Six Months Ended June 30	
	2019	2018
	(Unaudited)	
OPERATING ACTIVITIES		
Net income	$ 9,316	$ 5,570
Adjustments to reconcile net income to net cash used from operating activities:		
Amortization of investment premium and discount	1,758	1,691
Depreciation and amortization	4,058	2,506
Acquisition costs capitalized	(23,171)	(21,182)
Amortization of deferred acquisition costs	18,051	20,788
Net investment gains	(5,447)	(1,151)
Changes in assets and liabilities:		
Reinsurance recoverables	(3,878)	2,878
Future policy benefits	20,517	8,442
Policyholder account balances	(24,102)	(13,164)
Income taxes payable and deferred	1,515	1,081
Other, net	(8,494)	(11,084)
Net cash used	(9,877)	(3,625)
INVESTING ACTIVITIES		
Purchases:		
Fixed maturity securities	(153,486)	(108,215)
Equity securities	—	(58)
Mortgage loans	(16,075)	(33,466)
Real estate	(957)	(4,473)
Policy loans	(5,397)	(15,439)
Other investments	(1,259)	(965)
Sales or maturities, calls, and principal paydowns:		
Fixed maturity securities	119,232	127,830
Equity securities	—	49
Mortgage loans	42,290	40,240
Real estate	2,156	—
Policy loans	5,271	16,821
Other investments	765	1,366
Net purchases of short-term investments	(9,534)	(4,711)
Acquisition of property and equipment	(3,115)	(19,025)
Adjustments to purchase price of Grange Life	1,663	—
Net cash used	(18,446)	(46)

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

	Six Months Ended June 30	
	2019	2018
	(Unaudited)	
FINANCING ACTIVITIES		
Deposits on policyholder account balances	$ 117,547	$ 110,562
Withdrawals from policyholder account balances	(106,783)	(104,112)
Net transfers from separate accounts	2,245	2,330
Change in other deposits	143	221
Cash dividends to stockholders	(5,229)	(5,228)
Net cash provided	7,923	3,773
Increase (decrease) in cash	(20,400)	102
Cash at beginning of year	31,689	9,504
Cash at end of period	$ 11,289	$ 9,606

See accompanying Notes to Consolidated Financial Statements (Unaudited)

1. Nature of Operations and Significant Accounting Policies

Basis of Presentation

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

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

The interim consolidated financial statements were prepared on the basis of GAAP for interim financial reporting. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. As such, these interim consolidated financial statements should be read in conjunction with our 2018 Annual Report, which is available on the OTCQX website. The interim consolidated financial statements and the accompanying notes for the quarters and six months ended June 30, 2019 and 2018 are unaudited. Management believes that the disclosures included herein are adequate to make the information presented not misleading, and include all adjustments necessary to present fairly the financial position and the results of operations for all periods presented. The results of operations for any interim period are not necessarily indicative of operating results for a full year. Significant intercompany transactions have been eliminated in consolidation and certain immaterial reclassifications have been made to prior period results to conform with the current period's presentation.

The interim consolidated financial statements include estimates and assumptions relating to the reported amounts of certain assets and liabilities, the disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements, and the reported amounts of certain revenue and expenses during the period. These estimates are inherently subject to change and actual results could differ from these estimates.

Acquisition

In the fourth quarter of 2018 the Company acquired all of the issued and outstanding stock of Grange Life Insurance Company. The purchase price was reduced $1.7 million during the first six months of 2019 to settle certain items under the terms of the agreement. The fair value of the acquired assets and liabilities acquired is subject to change during the provisional period, which may last up to twelve months subsequent to the acquisition date. Future adjustments to the purchase price allocation could be significant as valuations for certain intangible assets and contingent liabilities are finalized. Adjustments to refine the valuation of the acquired assets, liabilities, and recorded fair value will be applied prospectively and could have a material impact to our consolidated financial statements.

Additionally, the agreement provides for performance-related contingent consideration based on certain future revenues of both Grange Life and the Company over a three year period from the closing date. As of June 30, 2019, management was still developing its estimate of the contingent liability and therefore an amount is not reflected in the total consideration transferred. Our initial assessment is that the contingent liability will not be material.

Goodwill resulting from the acquisition totaled $41.4 million at June 30, 2019. Goodwill was reduced $1.7 million during the first six months of 2019 as a result of the purchase price adjustments referred to above. The acquisition also included an intangible asset with a book value of $20.5 million at June 30, 2019. Amortization of the intangible asset totaled $0.3 million in the second quarter and $0.7 million in the first six months of 2019 and is included in Operating Expenses in the Consolidated Statements of Comprehensive Income. The intangible asset is periodically assessed for impairment. Goodwill and the intangible asset are included in Other Assets in the Consolidated Balance Sheets.

Significant Accounting Policies

Please refer to our 2018 Annual Report for a full discussion of our significant accounting policies. No significant updates or changes to these policies occurred during the quarter and six months ended June 30, 2019.

2. New Accounting Pronouncements

Accounting Pronouncements Adopted During 2019

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

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

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

Accounting Pronouncements Issued, Not Yet Adopted

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

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

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

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

In October 2018, the FASB issued ASU No. 2018-17 Targeted Improvements to Related Party Guidance for Variable Interest Entities. This update clarifies that indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. This guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. We are currently evaluating this guidance.

All other new accounting standards and updates of existing standards issued through the date of this filing were considered by management and did not relate to accounting policies and procedures pertinent to us at this time or were not expected to have a material impact to the consolidated financial statements.

3. Investments

Fixed Maturity Securities

Securities by Asset Class
The following table provides amortized cost and fair value of fixed maturity securities by asset class at June 30, 2019.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 174,673	$ 11,213	$ 51	$ 185,835
Federal agencies [1]	2,336	139	—	2,475
Federal agency issued residential mortgage-backed securities [1]	105,331	8,556	8	113,879
Subtotal	282,340	19,908	59	302,189
Corporate obligations:				
Industrial	459,038	19,283	173	478,148
Energy	166,075	9,859	642	175,292
Communications and technology	239,244	15,094	39	254,299
Financial	327,218	16,742	535	343,425
Consumer	635,445	23,940	515	658,870
Public utilities	274,411	16,184	599	289,996
Subtotal	2,101,431	101,102	2,503	2,200,030
Corporate private-labeled residential mortgage-backed securities	22,818	2,480	—	25,298
Municipal securities	233,926	27,069	—	260,995
Other	75,543	1,384	1,401	75,526
Redeemable preferred stocks	14,500	464	—	14,964
Total	$ 2,730,558	$ 152,407	$ 3,963	$ 2,879,002

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

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

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

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

Contractual Maturities

The following table provides the distribution of maturities for fixed maturity securities available for sale. Expected maturities may differ from these contractual maturities since issuers or borrowers may have the right to call or prepay obligations.

	June 30, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 112,395	$ 113,225	$ 118,311	$ 119,083
Due after one year through five years	828,048	854,761	777,498	779,903
Due after five years through ten years	1,046,460	1,104,027	1,088,868	1,080,109
Due after ten years	528,679	575,262	493,252	502,078
Securities with variable principal payments	200,476	216,763	201,430	209,496
Redeemable preferred stocks	14,500	14,964	14,501	13,410
Total	$ 2,730,558	$ 2,879,002	$ 2,693,860	$ 2,704,079

Unrealized Losses on Investments

At the end of each quarter, all fixed maturity securities are reviewed to determine whether impairments exist and whether other-than-temporary impairments should be recorded. This quarterly process includes an assessment of the credit quality of each investment in the entire securities portfolio. Additional reporting and review procedures are conducted for those securities where fair value is less than 90% of amortized cost. A formal review document is prepared no less often than quarterly of all investments where fair value is less than 80% of amortized cost for six months or more and selected investments that have changed significantly from a previous period and that have a decline in fair value greater than 10% of amortized cost. Additional information on our process and considerations, as well as related accounting when other-than-temporary impairments are identified, is provided in Note 3 - Investments of our 2018 Annual Report.

The following table provides information regarding fixed maturity securities available for sale with unrealized losses by asset class and by length of time that individual securities have been in a continuous unrealized loss position at June 30, 2019.

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government	$ —	$ —	$ 11,232	$ 51	$ 11,232	$ 51
Federal agency issued residential mortgage-backed securities [1]	121	1	3,449	7	3,570	8
Subtotal	121	1	14,681	58	14,802	59
Corporate obligations:						
Industrial	2,998	1	22,953	172	25,951	173
Energy	1,976	3	12,339	639	14,315	642
Communications and technology	—	—	12,333	39	12,333	39
Financial	—	—	8,354	535	8,354	535
Consumer	1,303	6	35,905	509	37,208	515
Public utilities	1,087	21	30,473	578	31,560	599
Subtotal	7,364	31	122,357	2,472	129,721	2,503
Other	2,005	—	17,349	1,401	19,354	1,401
Total	$ 9,490	$ 32	$ 154,387	$ 3,931	$ 163,877	$ 3,963

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

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

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government	$ 14,705	$ 32	$ 27,854	$ 350	$ 42,559	$ 382
Federal agency issued residential mortgage-backed securities [1]	922	5	7,135	141	8,057	146
Subtotal	15,627	37	34,989	491	50,616	528
Corporate obligations:						
Industrial	111,282	2,274	120,592	4,836	231,874	7,110
Energy	45,514	815	60,229	3,547	105,743	4,362
Communications and technology	65,157	1,057	51,688	2,753	116,845	3,810
Financial	59,036	1,122	115,355	6,324	174,391	7,446
Consumer	157,293	2,723	200,584	11,240	357,877	13,963
Public utilities	39,772	1,289	96,603	5,439	136,375	6,728
Subtotal	478,054	9,280	645,051	34,139	1,123,105	43,419
Municipal securities	9,329	78	46,655	1,615	55,984	1,693
Other	10,908	110	38,856	1,970	49,764	2,080
Redeemable preferred stocks	7,202	299	6,208	792	13,410	1,091
Total	$ 521,120	$ 9,804	$ 771,759	$ 39,007	$ 1,292,879	$ 48,811

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

The following table provides information regarding the number of fixed maturity securities with unrealized losses.

	June 30 2019	December 31 2018
Below cost for less than one year	6	258
Below cost for one year or more and less than three years	50	287
Below cost for three years or more	10	13
Total	66	558

We do not consider the unrealized losses related to these securities to be credit-related. The unrealized losses at both June 30, 2019 and December 31, 2018 primarily related to changes in interest rates and market spreads subsequent to purchase. A substantial portion of investment securities that have unrealized losses are either corporate debt issued with investment grade credit ratings or other investment securities. Included in other investment securities are commercial mortgage-backed securities and asset-backed securities.

The following table summarizes investments in fixed maturity securities available for sale with unrealized losses at June 30, 2019.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	$ 162,944	$ 159,810	$ 3,134
Unrealized losses of 20% or less and greater than 10%	3,988	3,360	628
Subtotal	166,932	163,170	3,762
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	908	707	201
Twelve months or greater	—	—	—
Total investment grade	908	707	201
Below investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	—	—	—
Total below investment grade	—	—	—
Unrealized losses greater than 20%	908	707	201
Subtotal	167,840	163,877	3,963
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%	—	—	—
Subtotal	—	—	—
Total	$ 167,840	$ 163,877	$ 3,963

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

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

The following table provides information on fixed maturity securities available for sale with unrealized losses by actual or equivalent Standard & Poor's rating at June 30, 2019.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	$ 6,236	4%	$ 14	—%
AA	30,901	19%	1,458	37%
A	41,410	25%	425	11%
BBB	76,047	46%	1,362	34%
Total investment grade	154,594	94%	3,259	82%
BB	4,973	3%	26	1%
B and below	4,310	3%	678	17%
Total below investment grade	9,283	6%	704	18%
	$ 163,877	100%	$ 3,963	100%

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

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

Our residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities that were rated below investment grade represented 55% of the fair value of the total below investment grade securities at June 30, 2019, down from 61% at December 31, 2018.

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

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

	June 30, 2019		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Corporate Private-Labeled Residential MBS:			
Investment grade	$ 1,752	$ 1,670	$ 82
Below investment grade	23,546	21,148	2,398
Total residential & non-agency MBS	25,298	22,818	2,480
Other structured securities:			
Investment grade	75,526	75,543	(17)
Below investment grade	—	—	—
Total other structured securities	75,526	75,543	(17)
Total structured securities	$ 100,824	$ 98,361	$ 2,463

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

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

	Quarter Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Credit losses on securities held at beginning of the period	$ 4,385	$ 4,381	$ 4,381	$ 4,399
Additions for increases (decreases) in the credit loss for which an other-than-temporary impairment was previously recognized when there was no intent to sell the security before recovery of its amortized cost basis	—	—	4	—
Reductions for securities sold	(471)	—	(471)	(18)
Credit losses on securities held at the end of the period	$ 3,914	$ 4,381	$ 3,914	$ 4,381

Investment Gains (Losses)
The following tables provide detail concerning investment gains and losses.

	Quarter Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Gross gains resulting from:				
Sales of investment securities	$ 65	$ 52	$ 65	$ 113
Investment securities called and other	905	571	1,008	809
Real estate	1,086	—	1,780	—
Total gross gains	2,056	623	2,853	922
Gross losses resulting from:				
Sales of investment securities	(62)	—	(62)	—
Investment securities called and other	—	(57)	—	(57)
Total gross losses	(62)	(57)	(62)	(57)
Change in allowance for loan losses	73	68	126	112
Change in fair value:				
Equity securities	171	147	912	110
Derivative instruments	530	275	1,622	64
Total change in fair value	701	422	2,534	174
Net realized investment gains, excluding other-than-temporary impairment losses	2,768	1,056	5,451	1,151
Net impairment losses recognized in earnings:				
Other-than-temporary impairment losses on fixed maturity securities	—	—	—	—
Portion of loss recognized in other comprehensive income (loss)	—	—	(4)	—
Net other-than-temporary impairment losses recognized in earnings	—	—	(4)	—
Net investment gains	$ 2,768	$ 1,056	$ 5,447	$ 1,151

The portion of loss recognized in other comprehensive income (loss) represents the non-credit portion of current or prior other-than-temporary impairment. Corporate private-labeled residential mortgage-backed and other securities had no impairments recorded in earnings during the quarter ended June 30, 2019 and less than $0.1 million in the six months ended June 30, 2019. No other-than-temporary impairments were recorded in earnings during the quarter and six months ended June 30, 2018.

No material derivative financial instruments were held as of June 30, 2019 or December 31, 2018. However, the change in fair value resulted in a realized gain of $0.5 million in the second quarter of 2019 and a realized gain of $0.3 million in the second quarter of 2018. The change in fair value resulted in a realized gain of $1.6 million in the first six months of 2019 and a realized gain of $0.1 million in the first six months of 2018.

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

	Quarter Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Proceeds	$ 6,541	$ 7,189	$ 6,541	$ 14,601

Mortgage Loans

Investments in mortgage loans totaled $613.5 million at June 30, 2019, compared to $639.6 million at December 31, 2018. Our mortgage loans are secured by commercial real estate and are stated at cost, adjusted for premium amortization and discount accretion, less an allowance for loan losses. We believe this allowance is at a level adequate to absorb estimated credit losses and was $3.0 million at June 30, 2019 and $3.1 million at December 31, 2018. We had 16% of our total investments in commercial mortgage loans at June 30, 2019 and 17% at December 31, 2018. In addition to the subject collateral underlying the mortgage, we may require some amount of recourse from borrowers as another potential source of repayment should the loan default. Any recourse requirement deemed necessary is determined as part of the underwriting requirements of each loan. The average loan-to-value ratio for the overall portfolio was 45% at both June 30, 2019 and December 31, 2018. This ratio is based upon the current balance of loans relative to the appraisal of value at the time the loan was originated or acquired. Additionally, we may receive fees when borrowers prepay their mortgage loans. For additional information on mortgage loans, please see Note 5 - Financing Receivables.

We may refinance commercial mortgage loans prior to contractual maturity as a means of retaining loans that meet our underwriting and pricing parameters. We did not refinance any loans during the quarter or six months ended June 30, 2019. We refinanced one loan with an outstanding balance of $4.2 million during the second quarter and six months ended June 30, 2018.

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

4. Fair Value Measurements

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

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

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

	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 15,481	$ 170,353	$ —	$ 185,834
Federal agencies [1]	—	2,475	—	2,475
Federal agency issued residential mortgage-backed securities [1]	—	113,880	—	113,880
Subtotal	15,481	286,708	—	302,189
Corporate obligations:				
Industrial	—	478,148	—	478,148
Energy	—	175,292	—	175,292
Communications and technology	—	254,299	—	254,299
Financial	—	343,425	—	343,425
Consumer	—	658,870	—	658,870
Public utilities	—	289,996	—	289,996
Subtotal	—	2,200,030	—	2,200,030
Corporate private-labeled residential mortgage-backed securities	—	25,298	—	25,298
Municipal securities	—	260,995	—	260,995
Other	—	75,526	—	75,526
Redeemable preferred stocks	—	14,964	—	14,964
Fixed maturity securities	15,481	2,863,521	—	2,879,002
Equity securities	4,637	10,699	—	15,336
Short-term investments	68,246	—	—	68,246
Separate account assets	—	411,398	—	411,398
Total	$ 88,364	$ 3,285,618	$ —	$ 3,373,982
Percent of total	3%	97%	—%	100%
Liabilities:				
Other policyholder funds:				
Guaranteed minimum withdrawal benefits	$ —	$ —	$ (1,518)	$ (1,518)
Separate account liabilities	—	411,398	—	411,398
Total	$ —	$ 411,398	$ (1,518)	$ 409,880

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

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

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

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

	Quarter Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Beginning balance	$ (3,168)	$ (3,920)	$ (3,648)	$ (3,252)
Included in earnings	1,421	(520)	1,556	(1,300)
Included in other comprehensive income (loss)	—	—	—	—
Purchases, issuances, sales and other dispositions:				
Purchases	—	—	—	—
Issuances	118	90	238	146
Sales	—	—	—	—
Other dispositions	111	41	336	97
Ending balance	$ (1,518)	$ (4,309)	$ (1,518)	$ (4,309)

We did not have any transfers between any levels during the six months ended June 30, 2019 or June 30, 2018.

The GMWB liability is sensitive to changes in observable and unobservable inputs. Observable inputs include risk-free rates, index returns, volatilities, and correlations. Increases in risk-free rates and equity returns reduce the liability, while increases in volatilities increase the liability. Unobservable inputs include mortality, lapse, benefit utilization, and nonperformance risk adjustments. Increases in mortality, lapses, and credit spreads used for nonperformance risk reduce the liability, while increases in benefit utilization increase the liability. Please refer to the 2018 Annual Report for information regarding the valuation method for the GMWB liability and the unobservable inputs and ranges used in the valuation of those financial instruments. The valuation method, unobservable inputs, and ranges used had not materially changed at June 30, 2019.

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

	June 30 2019	December 31 2018
	Increase/(Decrease) in millions	
A 10% increase in the mortality assumption	$ (0.1)	$ (0.1)
A 10% decrease in the lapse assumption	0.2	—
A 10% increase in the benefit utilization	1.1	—
A 10 basis point increase in the credit spreads used for non-performance	(0.4)	(0.3)

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

	June 30, 2019				
	Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Fixed maturity securities available for sale	$ 15,481	$ 2,863,521	$ —	$ 2,879,002	$ 2,879,002
Equity securities	4,637	10,699	—	15,336	15,336
Mortgage loans	—	—	622,921	622,921	613,450
Policy loans	—	—	88,192	88,192	88,192
Short-term investments	68,246	—	—	68,246	68,246
Separate account assets	—	411,398	—	411,398	411,398
Liabilities:					
Individual and group annuities	—	—	1,091,281	1,091,281	1,110,765
Supplementary contracts and annuities without life contingencies	—	—	50,928	50,928	51,982
Separate account liabilities	—	411,398	—	411,398	411,398
Other policyholder funds - GMWB	—	—	(1,518)	(1,518)	(1,518)

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

5. Financing Receivables

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

The following table identifies financing receivables by classification amount.

	June 30 2019	December 31 2018
Receivables:		
Agent receivables, net (allowance $1,476; 2018 - $1,496)	$ 2,150	$ 2,078
Investment-related financing receivables:		
Mortgage loans, net (allowance $3,003; 2018 - $3,129)	613,450	639,559
Total financing receivables	$ 615,600	$ 641,637

Agent Receivables

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

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

	June 30, 2019			December 31, 2018		
	Gross Receivables	Allowance	Net Receivables	Gross Receivables	Allowance	Net Receivables
Agent specific loans	$ 1,223	$ 600	$ 623	$ 1,210	$ 600	$ 610
Other agent receivables	2,403	876	1,527	2,364	896	1,468
Total	$ 3,626	$ 1,476	$ 2,150	$ 3,574	$ 1,496	$ 2,078

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

	June 30 2019	December 31 2018
Beginning of year	$ 1,496	$ 817
Additions	23	812
Deductions	(43)	(133)
End of period	$ 1,476	$ 1,496

Mortgage Loans

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

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

	June 30 2019	December 31 2018
Mortgage loans collectively evaluated for impairment	$ 543,387	$ 568,521
Mortgage loans individually evaluated for impairment	73,066	74,167
Allowance for loan losses	(3,003)	(3,129)
Carrying value	$ 613,450	$ 639,559

The following table presents an aging schedule for delinquent payments for both principal and interest by property type at June 30, 2019.

		Amount of Payments Past Due			
	Book Value	30-59 Days	60-89 Days	> 90 Days	Total
Industrial	$ 4,252	$ 37	$ —	$ —	$ 37
Total	$ 4,252	$ 37	$ —	$ —	$ 37

There was one mortgage loan that was over 30 days past due at June 30, 2019. No mortgage loans were past due at December 31, 2018. We had no troubled loans that were restructured or modified during the quarters or six months ended June 30, 2019 or 2018.

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

	June 30 2019	December 31 2018
Beginning of year	$ 3,129	$ 4,079
Provision	—	—
Deductions	(126)	(950)
End of period	$ 3,003	$ 3,129

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

6. Variable Interest Entities (VIEs)

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

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

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

	Quarter Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Federal income tax credits realized	$ (652)	$ (688)	$ (1,304)	$ (1,376)
Amortization	375	358	749	719

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, 2019 and December 31, 2018. The table includes investments in five real estate joint ventures and 16 affordable housing real estate joint ventures at both June 30, 2019 and December 31, 2018.

	June 30 2019		December 31 2018	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Real estate joint ventures	$ 21,374	$ 21,373	$ 21,689	$ 21,689
Affordable housing real estate joint ventures	4,890	28,770	5,643	30,950
Total	$ 26,264	$ 50,143	$ 27,332	$ 52,639

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

At June 30, 2019 and December 31, 2018, we had no equity commitments outstanding to the real estate joint venture VIEs. We have contingent commitments to fund additional equity contributions for operating support to certain real estate joint venture VIEs, which could result in additional exposure to loss. However, we are unable to quantify the amount of these contingent commitments.

In addition, the maximum exposure to loss on affordable housing joint ventures at June 30, 2019 included $19.0 million of losses which could be realized if the tax credits received by the VIEs were recaptured, compared to $19.7 million at December 31, 2018. Recapture events would cause us to reverse some or all of the benefit previously recognized by us or third parties to whom the tax credit interests were transferred. A recapture event can occur at any time during a 15-year required compliance period. The principal causes of recapture include financial default and non-compliance with affordable housing program requirements by the properties controlled by the VIE. Guarantees from the managing member or managing partner in the VIE, insurance contracts, or changes in the residual value accruing to our interests in the VIE may mitigate the potential exposure due to recapture.

7. Separate Accounts

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

We offer a GMWB rider that can be added to new or existing variable annuity contracts. The value of the separate accounts with the GMWB rider was recorded at fair value of $119.0 million at June 30, 2019. The fair value of the separate accounts with the GMWB rider was $115.2 million at December 31, 2018. The GMWB guarantee liability was $(1.5) million at June 30, 2019 and $(3.6) million December 31, 2018. The change in this value is included in Policyholder Benefits in the Consolidated Statements of Comprehensive Income. The value of variable annuity separate accounts with the GMWB rider is recorded in Separate Account Liabilities, and the value of the rider is included in Other Policyholder Funds in the Consolidated Balance Sheets.

We have two blocks of variable universal life policies and variable annuity contracts from which fees are received. The fees are based upon both specific transactions and the fund value of the blocks of policies. We have a direct block of ongoing business identified in the Consolidated Balance Sheets as separate account assets, totaling $411.4 million at June 30, 2019 and $373.7 million at December 31, 2018, and corresponding separate account liabilities of an equal amount. The fixed-rate funds for these policies are included in our general account as Policyholder Account Balances. The Future Policy Benefits for the direct block approximated $0.5 million at both June 30, 2019 and December 31, 2018.

In addition, we have an assumed closed block of variable universal life and variable annuity business that totaled $311.8 million at June 30, 2019 and $285.6 million at December 31, 2018. As required under modified coinsurance transaction accounting, the assumed separate account fund balances are not recorded as separate accounts on our consolidated financial statements. Rather, the assumed fixed-rate funds for these policies of $31.0 million at June 30, 2019 and $30.6 million at December 31, 2018 are included in our general account as Policyholder Account Balances. The Future Policy Benefits for the assumed block approximated $0.6 million at both June 30, 2019 and December 31, 2018.

8. Unpaid Claims Liability and Short-Duration Contracts

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

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

	Consolidated			
	Quarter Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Gross liability at beginning of the period	$ 38,232	$ 33,094	$ 36,453	$ 34,040
Less reinsurance recoverable	(29,547)	(26,010)	(28,739)	(26,949)
Net liability at beginning of the period	8,685	7,084	7,714	7,091
Incurred benefits related to:				
Current year	7,399	7,016	14,463	13,960
Prior years [1]	(192)	(231)	200	(490)
Total incurred benefits	7,207	6,785	14,663	13,470
Paid benefits related to:				
Current year	6,690	6,243	10,775	10,702
Prior years	624	489	3,024	2,722
Total paid benefits	7,314	6,732	13,799	13,424
Net liability at end of the period	8,578	7,137	8,578	7,137
Reinsurance recoverable	28,507	26,570	28,507	26,570
Gross liability at end of the period	$ 37,085	$ 33,707	$ 37,085	$ 33,707

[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	
	2019	2018	2019	2018
Gross liability at beginning of the period	$ 32,755	$ 27,347	$ 31,188	$ 27,945
Less reinsurance recoverable	(24,316)	(20,608)	(23,796)	(21,231)
Net liability at beginning of the period	8,439	6,739	7,392	6,714
Incurred benefits related to:				
Current year	7,380	6,993	14,428	13,908
Prior years [1]	(180)	(197)	267	(428)
Total incurred benefits	7,200	6,796	14,695	13,480
Paid benefits related to:				
Current year	6,685	6,237	10,765	10,695
Prior years	610	471	2,978	2,672
Total paid benefits	7,295	6,708	13,743	13,367
Net liability at end of the period	8,344	6,827	8,344	6,827
Reinsurance recoverable	23,423	21,155	23,423	21,155
Gross liability at end of the period	$ 31,767	$ 27,982	$ 31,767	$ 27,982

[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	
	2019	2018
Individual Insurance Segment:		
Individual accident and health	$ 666	$ 560
Individual life	24,559	14,405
Deferred annuity	3,560	2,274
Subtotal	28,785	17,239
Group Insurance Segment:		
Group accident and health	31,767	27,982
Group life	1,972	2,364
Subtotal	33,739	30,346
Old American Segment:		
Individual accident and health	4,652	5,165
Individual life	7,072	5,905
Subtotal	11,724	11,070
Total	$ 74,248	$ 58,655

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 $0.7 million at June 30, 2019 and December 31, 2018.

9. Debt

We had no notes payable outstanding at June 30, 2019 or December 31, 2018.

As a member of the Federal Home Loan Bank of Des Moines (FHLB) with a capital investment of $4.8 million at June 30, 2019, we have the ability to borrow on a collateralized basis from the FHLB. We received an insignificant amount of dividends on the capital investment in both the quarters and six months ended June 30, 2019 and 2018.

We have unsecured revolving lines of credit with two major commercial banks that totaled $70.0 million at June 30, 2019 and December 31, 2018, with no balances outstanding. The lines of credit are at variable interest rates based upon short-term indices and will mature in June of 2020. We anticipate renewing these lines of credit as they come due. One line of credit includes a $10.0 million portion that can be unconditionally canceled by the lending institution at its discretion at any time.

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 2019 and had no outstanding borrowings as of June 30, 2019. 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.

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	
	2019	2018	2019	2018
Federal income tax rate	21 %	21 %	21 %	21 %
Tax credits, net of equity adjustment	(5)%	(7)%	(6)%	(11)%
Permanent differences and other	2 %	3 %	3 %	7 %
Effective income tax rate	18 %	17 %	18 %	17 %

The following table provides information about taxes paid.

	Quarter Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Cash paid for income taxes	$ 500	$ 41	$ 488	$ 41

We had no material uncertain tax positions at June 30, 2019 or December 31, 2018.

At June 30, 2019, we had a current tax asset of $3.5 million and a $45.4 million net deferred tax liability, compared to a $4.3 million current tax asset and a $22.4 million net deferred tax liability at December 31, 2018.

11. Pensions and Other Postemployment Benefits (OPEB)

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

	Pension Benefits		OPEB	
	Quarter Ended June 30		Quarter Ended June 30	
	2019	2018	2019	2018
Service cost	$ —	$ —	$ 42	$ 55
Interest cost	1,153	1,068	166	158
Expected return on plan assets	(2,306)	(2,544)	—	—
Amortization of:				
Unrecognized actuarial net (gain) loss	719	598	(365)	(323)
Unrecognized prior service credit	(17)	(15)	—	(25)
Net periodic benefit credit	$ (451)	$ (893)	$ (157)	$ (135)

	Pension Benefits		OPEB	
	Six Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Service cost	$ —	$ —	$ 84	$ 111
Interest cost	2,307	2,137	332	316
Expected return on plan assets	(4,612)	(5,088)	—	—
Amortization of:				
Unrecognized actuarial net (gain) loss	1,437	1,197	(729)	(646)
Unrecognized prior service credit	(33)	(33)	—	(50)
Net periodic benefit credit	$ (901)	$ (1,787)	$ (313)	$ (269)

12. Share-Based Payment

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

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

At each reporting period, an estimate of the share-based compensation expense is accrued, utilizing the share price at the period end. The cost of share-based compensation accrued as operating expense in the second quarter and first six months of 2019 was less than $0.1 million, net of tax. The change in accrual for share-based compensation, net of tax, that reduced operating expense in the second quarter of 2018 was $0.2 million. The change in accrual for share-based compensation, net of tax, that reduced operating expense was $0.3 million for the six months ended June 30, 2018.

13. Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net income and other comprehensive income (loss). Other comprehensive income (loss) includes the unrealized investment gains or losses on securities available for sale (net of reclassifications for realized investment gains or losses), net of adjustments to DAC, VOBA, DRL, future policy benefits, and policyholder account balances.

In addition, other comprehensive income (loss) includes the change in the liability for benefit plan obligations. Other comprehensive income (loss) reflects these items net of tax.

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

	Quarter Ended June 30, 2019		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized gains arising during the period:			
Fixed maturity securities	$ 67,360	$ 14,146	$ 53,214
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	908	190	718
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive income	—	—	—
Net unrealized gains excluding impairment losses	66,452	13,956	52,496
Effect on DAC, VOBA, and DRL	(5,824)	(1,223)	(4,601)
Change in future policy benefits	(8,496)	(1,784)	(6,712)
Change in policyholder account balances	(114)	(24)	(90)
Other comprehensive income	$ 52,018	$ 10,925	$ 41,093
Net income			5,281
Comprehensive income			$ 46,374

	Quarter Ended June 30, 2018		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized losses arising during the period:			
Fixed maturity securities	$ (26,508)	$ (5,566)	$ (20,942)
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	657	138	519
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive loss	—	—	—
Net unrealized losses excluding impairment losses	(27,165)	(5,704)	(21,461)
Effect on DAC, VOBA, and DRL	4,080	857	3,223
Change in future policy benefits	4,113	864	3,249
Change in policyholder account balances	59	12	47
Other comprehensive loss	$ (18,913)	$ (3,971)	$ (14,942)
Net income			4,108
Comprehensive loss			$ (10,834)

	Six Months Ended June 30, 2019		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized gains arising during the period:			
Fixed maturity securities	$ 139,232	$ 29,239	$ 109,993
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	1,011	212	799
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive income	(4)	(1)	(3)
Net unrealized gains excluding impairment losses	138,225	29,028	109,197
Effect on DAC, VOBA, and DRL	(12,632)	(2,653)	(9,979)
Change in future policy benefits	(15,896)	(3,338)	(12,558)
Change in policyholder account balances	(205)	(43)	(162)
Other comprehensive income	$ 109,492	$ 22,994	$ 86,498
Net income			9,316
Comprehensive income			$ 95,814

	Six Months Ended June 30, 2018		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized losses arising during the period:			
Fixed maturity securities	$ (83,757)	$ (17,588)	$ (66,169)
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	916	193	723
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive loss	—	—	—
Net unrealized losses excluding impairment losses	(84,673)	(17,781)	(66,892)
Effect on DAC, VOBA, and DRL	11,166	2,345	8,821
Change in future policy benefits	12,856	2,700	10,156
Change in policyholder account balances	157	32	125
Other comprehensive loss	$ (60,494)	$ (12,704)	$ (47,790)
Net income			5,570
Comprehensive loss			$ (42,220)

The following table provides accumulated balances related to each component of accumulated other comprehensive income (loss) at June 30, 2019, net of tax.

	Unrealized Gain on Non-Impaired Securities	Unrealized Gain on Impaired Securities	Benefit Plan Obligations	DAC/ VOBA/ DRL Impact	Future Policy Benefits	Policyholder Account Balances	Total
Beginning of year	$ 6,555	$ 1,517	$ (48,372)	$ (1,107)	$ (3,996)	$ (147)	$ (45,550)
Other comprehensive income (loss) before reclassification	109,653	340	—	(9,979)	(12,558)	(162)	87,294
Amounts reclassified from accumulated other comprehensive income (loss)	(799)	3	—	—	—	—	(796)
Net current-period other comprehensive income (loss)	108,854	343	—	(9,979)	(12,558)	(162)	86,498
End of period	$ 115,409	$ 1,860	$ (48,372)	$ (11,086)	$ (16,554)	$ (309)	$ 40,948

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

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

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

	Quarter Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Reclassification adjustments related to unrealized gains (losses) on investment securities:				
Net realized investment gains, excluding impairment losses[1]	$ 908	$ 657	$ 1,011	$ 916
Income tax expense [2]	(190)	(138)	(212)	(193)
Net of taxes	718	519	799	723
Other-than-temporary impairment losses[1]	—	—	(4)	—
Income tax benefit [2]	—	—	1	—
Net of taxes	—	—	(3)	—
Total pre-tax reclassifications	908	657	1,007	916
Total income tax expense	(190)	(138)	(211)	(193)
Total reclassification, net taxes	$ 718	$ 519	$ 796	$ 723

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

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

14. Earnings Per Share

Due to our capital structure and the absence of other potentially dilutive securities, there is no difference between basic and diluted earnings per common share for any of the periods reported. The average number of shares outstanding for both the second quarters and six months ended June 30, 2019 and 2018 was 9,683,414. The number of shares outstanding at both June 30, 2019 and December 31, 2018 was 9,683,414.

15. Segment Information

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

	Quarter Ended June 30, 2019			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 47,586	$ 16,118	$ 24,013	$ 87,717
Interest credited to policyholder account balances	20,104	—	—	20,104
Amortization of deferred acquisition costs	4,446	—	4,883	9,329
Income tax expense	691	229	228	1,148
Net income	3,566	863	852	5,281

	Quarter Ended June 30, 2018			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 36,725	$ 15,339	$ 22,983	$ 75,047
Interest credited to policyholder account balances	18,090	—	—	18,090
Amortization of deferred acquisition costs	5,973	—	4,692	10,665
Income tax expense	663	5	169	837
Net income	3,448	19	641	4,108

	Six Months Ended June 30, 2019			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 97,688	$ 31,434	$ 47,579	$ 176,701
Interest credited to policyholder account balances	39,173	—	—	39,173
Amortization of deferred acquisition costs	7,959	—	10,092	18,051
Income tax expense (benefit)	1,931	183	(52)	2,062
Net income (loss)	8,822	687	(193)	9,316

	Six Months Ended June 30, 2018			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 71,993	$ 30,386	$ 45,645	$ 148,024
Interest credited to policyholder account balances	36,162	—	—	36,162
Amortization of deferred acquisition costs	10,993	—	9,795	20,788
Income tax expense (benefit)	1,209	155	(246)	1,118
Net income (loss)	5,910	585	(925)	5,570

16. Commitments, Contingent Liabilities, Guarantees, and Indemnifications

Commitments

In the normal course of business, we have open purchase and sale commitments. At June 30, 2019, we had purchase commitments to fund mortgage loans of $7.4 million.

Contingent Liabilities, Guarantees, and Indemnifications

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

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

17. Subsequent Events

We evaluated events that occurred subsequent to June 30, 2019 through August 1, 2019, the date the consolidated financial statements were issued, and have identified the following subsequent event.

On July 22, 2019, the Kansas City Life Board of Directors declared a quarterly dividend of $0.27 per share, payable on August 7, 2019 to stockholders of record on August 1, 2019.

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, 2019.