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 March 31, 2020
(the "Reporting Period")

The number of shares outstanding of our Common Stock is 9,683,414 as of March 31, 2020 (the end of reporting period)

The number of shares outstanding of our Common Stock was 9,683,414 as of December 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

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Statement on Forward-Looking Information

This report reviews the consolidated financial condition and results of operations of Kansas City Life Insurance Company. Historical information is presented and discussed. Where appropriate, factors that may affect future financial performance are also identified and discussed. Certain statements made in this report include "forward-looking statements." Forward-looking statements include any statement that may predict, forecast, indicate or imply future results, performance, or achievements rather than historical facts and may contain words like "believe," "expect," "estimate," "project," "forecast," "anticipate," "plan," "will," "shall," and other words, phrases, or expressions with similar meaning.

Forward-looking statements are subject to known and unknown risks, uncertainties, and other factors that may cause actual results to differ materially from those contemplated by the forward-looking statements. Factors that could cause future results to differ materially from expected results include, but are not limited to:

- Changes in general economic conditions, including the performance of financial markets and interest rates;
- Increasing competition and changes in consumer behavior, which may affect our ability to sell our products and retain business;
- Increasing competition in the recruitment and retention of general agents and agents;
- Customer and agent response to new products, distribution channels, and marketing initiatives;
- Fluctuations in experience regarding current mortality, morbidity, persistency, and interest rates relative to expected amounts used in pricing our products;
- Changes in assumptions related to deferred acquisition costs (DAC), value of business acquired (VOBA), and deferred revenue liability (DRL);
- Regulatory, accounting, or tax changes that may affect the cost of, or the demand for, our products or services;
- Unanticipated changes in industry trends and ratings assigned by nationally recognized rating organizations;
- The ability to integrate acquisitions and achieve anticipated operating efficiencies and the ability to preserve goodwill that results from acquisitions;
- Results of litigation we may be involved in; and
- Economic impacts resulting from the COVID-19 pandemic.

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:	Philip A. Williams Senior Vice President, Finance Kansas City Life Insurance Company Post Office Box 219139 Kansas City, Missouri 64121-9139 Telephone: (816) 753-7000 ext. 8763 E-mail: *Communications@kclife.com*

Item 2. Shares Outstanding

Common Stock

	March 31, 2020
Number of Shares Authorized	36,000,000
Number of Shares Outstanding	9,683,414
Freely Tradable Shares (Public Float)	2,505,867
Total Number of Shareholders of Record	140

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

Item 3. Interim Consolidated Financial Statements

The interim consolidated financial statements of Kansas City Life Insurance Company as of March 31, 2020 are attached hereto as Exhibit 3.1 and are hereby incorporated by reference into this Quarterly Report, including:

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

The interim consolidated financial statements and the accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The interim consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results. As permitted under GAAP, certain footnotes or other financial disclosures are condensed or omitted in the interim consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our 2019 Annual Report, which is available on the OTCQX website (*www.otcmarkets.com/stock/KCLI/filings*). The interim consolidated financial statements and the accompanying notes for the quarters ended March 31, 2020 and 2019 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, 2020.

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 insurance subsidiaries. We also have non-insurance subsidiaries that individually and collectively are not material.

The following is a discussion and analysis of the results of operations for the quarters ended March 31, 2020 and 2019 and our financial condition at March 31, 2020. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes included in this document, as well as our 2019 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. Financial market volatility can significantly impact 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. In addition, the COVID-19 pandemic has caused increased economic uncertainty, financial market volatility, and increased unemployment. These conditions may persist into the future, affecting our financial position and financial statements. However, future conditions are highly uncertain and difficult to predict.

Consolidated Results of Operations

Summary of Results

We earned net income of $0.2 million in the first quarter of 2020 compared to net income of $4.0 million in the first quarter of 2019. Net income per share was $0.02 in the first quarter of 2020 versus $0.42 in the same period in the prior year.

The following table presents condensed consolidated results of operations for the quarters ended March 31, 2020 and 2019.

	Quarter Ended March 31		
	2020	2019	% Change
Revenues:			
Insurance and other revenues	$ 89,677	$ 90,455	(1)%
Net investment income	36,656	36,969	(1)%
Net investment gains (losses)	(3,298)	2,679	(223)%
Benefits and expenses:			
Policyholder benefits and interest credited to policyholder account balances	85,363	87,247	(2)%
Amortization of deferred acquisition costs	11,627	8,722	33 %
Operating expenses	26,456	29,185	(9)%
Income tax expense (benefit)	(561)	914	(161)%
Net income	$ 150	$ 4,035	(96)%

Insurance Revenues

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

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

	Quarter Ended March 31		
	2020	2019	% Change
New premiums:			
Traditional life insurance	$ 6,709	$ 7,374	(9)%
Immediate annuities	7,080	10,006	(29)%
Group life insurance	682	753	(9)%
Group accident and health insurance	2,484	2,701	(8)%
Total new premiums	16,955	20,834	(19)%
Renewal premiums	66,110	63,252	5 %
Total premiums	83,065	84,086	(1)%
Reinsurance ceded	(25,884)	(25,926)	— %
Net premiums	$ 57,181	$ 58,160	(2)%

Consolidated total premiums decreased $1.0 million or 1% in the first quarter of 2020 compared with the first quarter of 2019 as a $3.9 million or 19% decline in new premiums was partially offset by a $2.9 million or 5% increase in renewal premiums. New traditional life insurance premiums decreased $0.7 million or 9%, primarily resulting from lower sales from Grange Life. In addition, new immediate annuity premiums decreased $2.9 million or 29%. Immediate annuity receipts can have sizeable fluctuations, as receipts from policyholders largely result from one-time premiums. The increase in renewal premiums was largely due to a $2.0 million or 4% increase in renewal traditional life insurance premiums, primarily from Grange Life and Old American. Additionally, renewal group life premiums increased $0.3 million or 9% and renewal group accident and health insurance premiums increased $0.6 million or 5% versus the prior year, largely from the disability and dental lines.

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

	Quarter Ended March 31		
	2020	2019	% Change
New deposits:			
Interest sensitive life	$ 2,689	$ 2,870	(6)%
Fixed annuities	12,450	16,082	(23)%
Variable annuities	2,469	2,704	(9)%
Total new deposits	17,608	21,656	(19)%
Renewal deposits	36,423	38,720	(6)%
Total deposits	$ 54,031	$ 60,376	(11)%

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 $4.0 million or 19% in the first quarter of 2020 compared with the first quarter of 2019, primarily due to a $3.6 million or 23% decline in new fixed annuity deposits. Also, new interest sensitive life deposits decreased $0.2 million or 6% and new variable annuity deposits decreased $0.2 million or 9%. In addition, the reduction in new universal life deposits includes the impact of the suspension of the secondary guarantee universal life product for new sales in 2020. Total renewal deposits declined $2.3 million or 6% in the first quarter of 2020 compared to the prior year, reflecting a $1.5 million or 28% decrease in renewal fixed annuity deposits and a $0.9 million or 3% decrease in renewal interest sensitive life deposits.

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

Total contract charges increased $0.2 million or 1% in the first quarter of 2020 compared to one year earlier. Contract charges on open blocks increased $0.4 million or 3% in the first quarter of 2020 compared to the prior year and reflected higher deferred revenue and expense loads. Contract charges on closed blocks decreased $0.2 million or 1% in the first quarter of 2020 compared to the prior year, reflecting the runoff of the blocks of business. Total contract charges on closed blocks equaled 43% of total consolidated contract charges during the first quarter of 2020, down slightly from 44% during the first quarter of 2019.

Investment Revenues

Gross investment income decreased $0.3 million or 1% in the first quarter first quarter of 2020 compared with the first quarter of 2019. This result reflected higher average invested assets that were offset by lower overall yields earned and available on certain investments.

Fixed maturity securities provide a majority of our investment income. Fixed maturity securities comprised 75% of total investments at March 31, 2020, down slightly from 76% at December 31, 2019. Income from these investments decreased $0.3 million or 1% in the first quarter of 2020 compared to the prior year as higher average invested assets were offset by lower yields earned.

Investment income from commercial mortgage loans decreased $0.7 million or 10% in the first quarter of 2020 compared to one year earlier. This decline reflected lower yields earned.

Investment income from real estate increased $0.7 million or 15% in the first quarter of 2020 compared to the prior year. This improvement largely resulted from increased occupancy at real estate rental properties.

Investment Gains (Losses)

Net investment losses for the first quarter of 2020 totaled $3.3 million compared to net investment gains of $2.7 million in the first quarter of 2019. Several factors contributed to the decline in 2020. The change in fair value of derivative instruments resulted in a loss of $3.5 million in the first quarter of 2020 compared to a gain of $1.1 million in the first quarter of 2019. The change in the fair value of equity securities resulted in a $0.3 million loss in the first quarter of 2020 compared to a $0.7 million gain in the first quarter of 2019. The changes in the fair value for both the derivative instruments and the equity securities resulted from the decline in market values at the end of March 2020. The declines reflected the impact of the COVID-19 pandemic.

The Company increased the allowance for mortgage loan losses $1.0 million in the first quarter of 2020 compared to a decrease in the allowance of $0.1 million in the first quarter of 2019. The increase in the allowance in 2020 was primarily due to the outlook for the effect of the COVID-19 pandemic on the market. At March 31, 2020, we did not have any loan defaults. However, we are working with our borrowers to understand potential strain resulting from the current economic environment. We are considering support to our borrowers under several options, but as of March 31, 2020 no contract modifications or forbearance agreements had been executed.

The Company sold a real estate investment property during the first quarter of 2019 that resulted in a gain of $0.7 million and there were no real estate sales during the first quarter of 2020. Partially offsetting this, investment securities called generated net gains of $1.5 million in the first quarter of 2020 compared to net gains of $0.1 million in the first quarter of 2019.

Policyholder Benefits

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

Policyholder benefits decreased $2.3 million or 3% in the first quarter of 2020 compared to the prior year, largely due to a decline in benefit and contract reserves. The largest factor in this decline was the change in fair value of derivative instruments, which decreased benefit and contract reserves. Partially offsetting this, changes in the fair value of the guaranteed minimum withdrawal benefits (GMWB) rider increased benefit and contract reserves in the first quarter of 2020 compared with the first quarter of 2019. This result reflected unfavorable capital markets and declines in interest rates, largely resulting from the economic impacts of the COVID-19 pandemic, that were mostly offset by increases in spreads used for issuer discount.

Amortization of DAC

The amortization of DAC increased $2.9 million or 33% in the first quarter of 2020 compared to the prior year. This was primarily due to decreased investment performance in the separate accounts. The decreased investment performance largely resulted from the economic impact of the COVID-19 pandemic.

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. Operating expenses decreased $2.7 million or 9% in the first quarter of 2020 compared to the prior year. This decrease largely reflected lower compensation costs.

Income Taxes

We recorded an income tax benefit of $0.6 million or 136% of income before tax in the first quarter of 2020, compared to income tax expense of $0.9 million or 18% of income before tax in the first quarter of 2019. The increase in the effective tax rate was primarily due to the impact of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and tax credits from affordable housing investments having more impact on the effective tax rate due to a decrease in pre-tax income. The CARES Act is intended to provide immediate economic assistance to both businesses and individuals. The CARES Act provides the opportunity to extend the carryback period for the utilization of net operating losses, accelerates the recoverability of any remaining Alternative Minimum Tax (AMT) credits, and provides more specific impacts associated with small business loans, payroll taxes, and other items. We are able to take advantage of certain aspects of the Act, while many aspects do not apply to us. We continue to assess the opportunities available to us under the CARES Act and will apply the applicable aspects available to us within our business framework.

The first quarter 2020 statutory rate versus effective rate differences were larger than usual due to the variance in actual versus assumed pretax results. The effective income tax rate was higher than the prevailing corporate federal income tax rate of 21% for the first quarter of 2020 and lower than the prevailing corporate federal tax rate of 21% for the first quarter of 2019. The higher effective income tax rate for the first quarter of 2020 was primarily due to the impact of the CARES Act. The lower effective tax rate for the first quarter of 2019 was primarily due to tax credits from affordable housing investments. 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.

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

	March 31 2020	% of Total	December 31 2019	% of Total
Fixed maturity securities	$ 2,901,938	75%	$ 2,951,137	76%
Equity securities	7,908	—%	11,272	—%
Mortgage loans	592,157	16%	577,699	15%
Real estate	183,167	5%	183,016	5%
Policy loans	87,303	2%	87,499	2%
Short-term investments	75,008	2%	75,426	2%
Other investments	5,681	—	9,156	—
Total	$ 3,853,162	100%	$ 3,895,205	100%

Fixed maturity securities were the largest component of total investments at March 31, 2020 and December 31, 2019. The largest categories of fixed maturity securities at March 31, 2020 consisted of 77% in corporate obligations, 9% in municipal securities, and 6% 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 March 31, 2020 and 98% at December 31, 2019.

The fair value of fixed maturity securities with unrealized losses was $639.9 million at March 31, 2020 compared with $147.8 million at December 31, 2019. This increase primarily reflected significantly wider corporate bond spreads at March 31, 2020 due to the COVID-19 pandemic impact. At March 31, 2020, 96% of security investments with an unrealized loss were investment grade and accounted for 90% of the total unrealized losses. At December 31, 2019, 99% of securities with an unrealized loss were investment grade and accounted for 100% of the total unrealized losses.

At March 31, 2020, we had $159.3 million in gross unrealized gains on fixed maturity securities that were offset by gross unrealized losses of $33.5 million. At December 31, 2019, we had $177.2 million in gross unrealized gains on fixed maturity securities that were offset by $3.0 million in gross unrealized losses. At March 31, 2020, 78% of the fixed maturity securities portfolio had unrealized gains, a decrease from 95% at December 31, 2019. We had an increase in gross unrealized losses in most categories from December 31, 2019 to March 31, 2020 due to wider corporate bond spreads. Gross unrealized losses on fixed maturity securities for less than 12 months accounted for $31.2 million or 97% of the security values in a gross unrealized loss position at March 31, 2020. Gross unrealized losses on fixed maturity securities for less than 12 months totaled $0.9 million and accounted for 66% of the security values in a gross unrealized loss position at December 31, 2019. Gross unrealized losses on fixed maturity security investments of 12 months or longer increased from $2.0 million at December 31, 2019 to $2.3 million at March 31, 2020.

Residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities that were rated below investment grade were 7% of the total mortgage-backed and asset-backed securities at March 31, 2020, compared to 8% at December 31, 2019.

We have written down certain investments in previous periods. Fixed maturity securities written down and still owned at March 31, 2020 had a fair value of $14.6 million and net unrealized gains of $0.6 million, compared to the December 31, 2019 fair value of $20.5 million and net unrealized gains of $1.8 million. Additional information identified or further deteriorations could result in impairments in future periods.

We evaluated the current status of all investments previously written down to determine whether we believe that these investments remained credit-impaired to the extent previously recorded. Our evaluation process is similar to our impairment evaluation process. If evidence exists that we will receive the contractual cash flows from securities previously written down, the accretion of income is adjusted. We did not change our evaluation of any investments under this process during 2020 or 2019.

Investments in mortgage loans totaled $592.2 million at March 31, 2020, up from $577.7 million at December 31, 2019. The commercial mortgage loan portfolio increased $14.5 million during the first quarter of 2020, as new loan originations exceeded prepaid loans and regularly scheduled payments. Our mortgage loans are secured by commercial real estate. These loans are stated at the outstanding principal balance, adjusted for amortization of premium and 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 $3.8 million at March 31, 2020 and $2.8 million at December 31, 2019.

Liquidity and Capital Resources

Liquidity

Statements made in our 2019 Annual Report remain pertinent, as our liquidity position is materially unchanged from year-end 2019.

Net cash provided by operating activities was $1.4 million for the quarter ended March 31, 2020. The primary sources of cash from operating activities in the first quarter of 2020 were premium receipts and net investment income. The primary uses of cash from operating activities in the first quarter of 2020 were for the payment of policyholder benefits and operating expenses. Net cash used from investing activities was $10.3 million. The primary sources of cash provided by investing activities were sales, maturities, calls, and principal paydowns of investments totaling $116.2 million. Investment purchases, including new fixed maturities and mortgage loans, totaled $126.4 million. Net cash provided by financing activities was less than $0.1 million, including $3.1 million of net transfers from separate accounts and a $1.0 million change in other deposits. These were offset by $1.5 million of withdrawals, net of deposits, on policyholder account balances and the payment of $2.6 million of stockholder dividends.

Capital Resources

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

	March 31 2020	December 31 2019
Total assets, excluding separate accounts	$ 4,741,403	$ 4,788,664
Total stockholders' equity	779,631	810,731
Ratio of stockholders' equity to assets, excluding separate accounts	16%	17%

Stockholders' equity decreased $31.1 million from year-end 2019, primarily due to a decrease in net unrealized gains. This decrease reflected significantly wider corporate bond spreads at March 31, 2020 due to the COVID-19 pandemic impact. Stockholders' equity per share, or book value, equaled $80.51 at March 31, 2020, a decrease from $83.72 at year-end 2019.

Net unrealized gains on available for sale securities, which are included as part of accumulated other comprehensive income 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 $76.2 million at March 31, 2020, a $28.6 million decrease from net unrealized gains on available securities of $104.8 million at December 31, 2019.

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 2020, the Board of Directors authorized the purchase of up to one million of our shares on the open market through January 2021. No shares were purchased under this authorization during the first quarter of 2020.

On April 27, 2020, the Board of Directors declared a quarterly dividend of $0.27 per share payable on May 13, 2020 to stockholders of record on May 7, 2020.

Item 5. Legal Proceedings

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

Please refer to our 2019 Annual Report for a description of our Risk Factors. Following is an additional risk factor for the quarter ended March 31, 2020 regarding the COVID-19 pandemic.

Risks resulting from the COVID-19 Pandemic Outbreak

Subsequent to December 31, 2019, the global outbreak of COVID-19 has been classified as a pandemic. The global and domestic response to the COVID-19 outbreak continues to rapidly evolve. During the first quarter of 2020, many state and local governments have issued stay-at-home orders. These orders direct citizens to stay at home except to perform certain essential activities and non-essential businesses have been closed. The Company, as a financial institution, is classified as an essential business. We have instituted our business continuity plan and our home office remains open to ensure that we remain fully operational.

The COVID-19 pandemic has potential impact on our customers, agents and the activities of our employees. The pandemic has increased mortality nationwide, raising the risk of increased mortality at our various life insurance subsidiaries, particularly with our final expense subsidiary who serves a population that is particularly at-risk from this virus. Many of our products also include cash values that may be needed by our customers to meet financial needs during business disruptions at non-essential companies. Sales could also decline because agents are unable to meet with customers and potential customers to complete the application process. At an employee level, many of our employees are working remotely or are periodically onsite to perform essential business functions and maintain business continuity. However, further spread of the disease could impact our employees in many ways, including in their ability to complete their work either remotely or in the office. This could result in delays in processing receipts or in paying or supporting the needs of policy and contract holders. The implementation of government-issued quarantines could also impede the ability of employees to complete the necessary work at the home office or could result in the closure of the home office.

The extent of the impact of the COVID-19 pandemic on our financial performance will depend on certain developments, including the impact on financial markets, which is uncertain and cannot be predicted at this time. Negative financial impacts that could occur include, but are not limited to, asset impairments, defaults or delinquencies on the Company’s mortgage loan portfolio, a reduction in sales, a reduction in business retention, an increase in policyholder benefits, and an increase in operating expenses. At the date of this filing, the full extent to which the COVID-19 pandemic may impact our financial condition or results of operations is uncertain.

Item 8. Exhibits

3.1 Interim Consolidated Financial Statements

Item 9. Issuer's Certifications

I, R. Philip Bixby, certify that:

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

Date: May 4, 2020

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

I, Philip A. Williams, certify that:

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

Date: May 4, 2020

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

Exhibit 3.1 Interim Consolidated Financial Statements
Amounts in thousands, except share data, security counts, or as otherwise noted.

Kansas City Life Insurance Company
Consolidated Balance Sheets

	March 31 2020 (Unaudited)	December 31 2019
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	$ 2,901,938	$ 2,951,137
Equity securities, at fair value	7,908	11,272
Mortgage loans	592,157	577,699
Real estate	183,167	183,016
Policy loans	87,303	87,499
Short-term investments	75,008	75,426
Other investments	5,681	9,156
Total investments	3,853,162	3,895,205
Cash	5,392	14,234
Accrued investment income	32,390	32,142
Deferred acquisition costs	293,798	286,682
Reinsurance recoverables	383,127	378,772
Other assets	173,534	181,629
Separate account assets	350,126	431,201
Total assets	$ 5,091,529	$ 5,219,865
LIABILITIES		
Future policy benefits	$ 1,334,305	$ 1,331,215
Policyholder account balances	2,230,199	2,237,700
Policy and contract claims	54,309	55,997
Other policyholder funds	177,340	170,776
Other liabilities	165,619	182,245
Separate account liabilities	350,126	431,201
Total liabilities	4,311,898	4,409,134
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	925,927	928,380
Accumulated other comprehensive income	30,859	59,506
Treasury stock, at cost (2020 and 2019 - 8,813,266 shares)	(241,301)	(241,301)
Total stockholders' equity	779,631	810,731
Total liabilities and stockholders' equity	$ 5,091,529	$ 5,219,865

See accompanying Notes to Consolidated Financial Statements (Unaudited)

Kansas City Life Insurance Company
Consolidated Statements of Comprehensive Income

	Quarter Ended March 31	
	2020	2019
	(Unaudited)	
REVENUES		
Insurance revenues:		
Net premiums	$ 57,181	$ 58,160
Contract charges	31,065	30,824
Total insurance revenues	88,246	88,984
Investment revenues:		
Net investment income	36,656	36,969
Net investment gains (losses)	(3,298)	2,679
Total investment revenues	33,358	39,648
Other revenues	1,431	1,471
Total revenues	123,035	130,103
BENEFITS AND EXPENSES		
Policyholder benefits	65,870	68,178
Interest credited to policyholder account balances	19,493	19,069
Amortization of deferred acquisition costs	11,627	8,722
Operating expenses	26,456	29,185
Total benefits and expenses	123,446	125,154
Income (loss) before income tax expense	(411)	4,949
Income tax expense (benefit)	(561)	914
NET INCOME	$ 150	$ 4,035
COMPREHENSIVE INCOME (LOSS), NET OF TAXES		
Changes in:		
Net unrealized gains (losses) on securities available for sale	$ (38,316)	$ 56,701
Effect on deferred acquisition costs, value of business acquired, and deferred revenue liabilities	3,792	(5,378)
Policyholder liabilities	5,877	(5,918)
Other comprehensive income (loss)	(28,647)	45,405
COMPREHENSIVE INCOME (LOSS)	$ (28,497)	$ 49,440
Basic and diluted earnings per share:		
Net income	$ 0.02	$ 0.42

See accompanying Notes to Consolidated Financial Statements (Unaudited)

Kansas City Life Insurance Company
Consolidated Statements of Cash Flows

	Quarter Ended March 31 2020	Quarter Ended March 31 2019
	(Unaudited)	
OPERATING ACTIVITIES		
Net income	$ 150	$ 4,035
Adjustments to reconcile net income to net cash provided by (used from) operating activities:		
Amortization of investment premium and discount	769	923
Depreciation and amortization	2,224	2,003
Acquisition costs capitalized	(11,680)	(11,677)
Amortization of deferred acquisition costs	11,627	8,722
Net investment losses (gains)	3,298	(2,679)
Changes in assets and liabilities:		
Reinsurance recoverables	(4,355)	(2,166)
Future policy benefits	10,286	11,053
Policyholder account balances	(9,795)	(12,803)
Income taxes payable and deferred	(561)	868
Other, net	(573)	1,635
Net cash provided (used)	1,390	(86)
INVESTING ACTIVITIES		
Purchases:		
Fixed maturity securities	(93,679)	(79,535)
Mortgage loans	(27,218)	(5,850)
Real estate	(1,339)	(532)
Policy loans	(3,255)	(2,538)
Other investments	(901)	(530)
Property and equipment	(488)	(458)
Sales or maturities, calls, and principal paydowns:		
Fixed maturity securities	97,101	33,057
Equity securities	3,000	—
Mortgage loans	11,764	15,810
Real estate	—	999
Policy loans	3,449	2,544
Other investments	894	108
Net sales of short-term investments	418	10,229
Receipts from post-acquisition purchase price adjustments	—	1,818
Net cash used	(10,254)	(24,878)

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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

FINANCING ACTIVITIES		
Deposits on policyholder account balances	$ 54,031	$ 60,376
Withdrawals from policyholder account balances	(55,524)	(52,680)
Net transfers from separate accounts	3,078	1,493
Change in other deposits	1,041	341
Cash dividends to stockholders	(2,604)	(2,615)
Net cash provided	22	6,915
Decrease in cash	(8,842)	(18,049)
Cash at beginning of year	14,234	31,689
Cash at end of period	$ 5,392	$ 13,640

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 insurance 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 2019 Annual Report, which is available on the OTCQX website. The interim consolidated financial statements and the accompanying notes for the quarters ended March 31, 2020 and 2019 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 2018 the Company acquired all of the issued and outstanding stock of Grange Life Insurance Company for approximately $75 million. The acquisition 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.

The acquisition resulted in goodwill, which is included in Other Assets in the Consolidated Balance Sheets. Goodwill was valued at $42.3 million at March 31, 2020 and December 31, 2019. During the first quarter of 2019, goodwill was reduced $1.8 million to settle certain items under the terms of the acquisition agreement. Under GAAP, goodwill is assessed at least annually for impairment rather than being amortized. The Company determined that goodwill was not impaired at March 31, 2020. None of the goodwill is expected to be deductible for tax purposes.

The acquisition generated an amortizable intangible asset, which is the difference between the fair value and book value of the net reserve liabilities acquired. We evaluated the fair value and book value of all other assets and liabilities acquired and no other intangible assets were recognized at acquisition. The intangible asset was valued at $19.7 million at March 31, 2020 and $20.0 million at December 31, 2019 and is included in Other Assets in the Consolidated Balance Sheets.

COVID-19 Pandemic

The global outbreak of COVID-19 was classified as a pandemic during the quarter ended March 31, 2020. The Company is classified as an essential business because it is a financial institution. We have instituted our business continuity plan and our home office remains open to ensure that our operations continue. The pandemic impacts the activities of our employees and agents. Many of our employees are working remotely. Employees working in the home office are required to adhere to social distancing guidelines and we have instituted additional cleaning and sanitizing efforts.

The extent of the impact of the COVID-19 pandemic on our financial performance will depend on certain developments, including the impact on financial markets, which is uncertain and cannot be predicted at this time. Negative financial impacts that could occur include, but are not limited to, asset impairments, defaults or delinquencies on the company’s mortgage loan portfolio, a reduction in sales, an increase in policyholder benefits, and an increase in operating expenses. At the date of this filing, the full extent of which the COVID-19 pandemic may impact our financial condition or results of operations is uncertain.

The CARES Act

On March 27, 2020, the United States government signed into law the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The Act provides wide-ranging economic relief to individuals and businesses. Among the provisions for business are lending initiatives, mortgage foreclosure moratorium and forbearance, and income tax modifications. We are currently evaluating the full impact of the CARES Act and its impacts on our business. Please refer to Note 10 for additional information on how the CARES Act impacted the Company during the first quarter of 2020.

Significant Accounting Policies

Please refer to our 2019 Annual Report for a full discussion of our significant accounting policies. No significant updates or changes to these policies occurred during the quarter ended March 31, 2020.

2. New Accounting Pronouncements

Accounting Pronouncements Adopted During 2020

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. The Company adopted this guidance effective January 1, 2020. The guidance will not impact our earnings or financial position as the modifications only impact disclosures.

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. The original effective date for this guidance, including subsequently issued amendments, was for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. In November 2019, the FASB deferred the effective date of this guidance to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. We are currently evaluating this guidance.

In August 2018, the FASB issued ASU No. 2018-12 Targeted Improvements to the Accounting for Long-Duration Contracts. This update modifies the existing recognition, measurement, presentation, and disclosure requirements in ASC 944 Financial Services - Insurance (Topic 944). It 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. The original effective date for this guidance was for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. In November 2019, the FASB deferred the effective date of this guidance to fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. We are currently evaluating this guidance.

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.

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

3. Investments

Fixed Maturity Securities

Securities by Asset Class

The following table provides amortized cost and fair value of fixed maturity securities by asset class at March 31, 2020.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 166,428	$ 18,217	$ —	$ 184,645
Federal agencies [1]	453	48	—	501
Federal agency issued residential mortgage-backed securities [1]	105,704	13,936	—	119,640
Subtotal	272,585	32,201	—	304,786
Corporate obligations:				
Industrial	446,920	17,144	4,327	459,737
Energy	159,423	3,613	9,826	153,210
Communications and technology	230,278	16,355	510	246,123
Financial	373,228	15,322	4,992	383,558
Consumer	658,649	25,698	6,521	677,826
Public utilities	296,227	16,487	3,375	309,339
Subtotal	2,164,725	94,619	29,551	2,229,793
Corporate private-labeled residential mortgage-backed securities	16,807	855	195	17,467
Municipal securities	237,001	31,218	154	268,065
Other	73,540	401	3,313	70,628
Redeemable preferred stocks	11,500	2	303	11,199
Total	$ 2,776,158	$ 159,296	$ 33,516	$ 2,901,938

[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, 2019.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 180,659	$ 11,666	$ 19	$ 192,306
Federal agencies [1]	1,379	107	—	1,486
Federal agency issued residential mortgage-backed securities [1]	107,865	8,491	53	116,303
Subtotal	289,903	20,264	72	310,095
Corporate obligations:				
Industrial	438,868	22,366	79	461,155
Energy	162,863	11,627	6	174,484
Communications and technology	231,255	17,265	5	248,515
Financial	365,621	21,775	454	386,942
Consumer	653,215	31,352	348	684,219
Public utilities	288,736	20,807	383	309,160
Subtotal	2,140,558	125,192	1,275	2,264,475
Corporate private-labeled residential mortgage-backed securities	18,420	1,844	—	20,264
Municipal securities	240,057	28,303	165	268,195
Other	76,417	1,059	1,444	76,032
Redeemable preferred stocks	11,501	575	—	12,076
Total	$ 2,776,856	$ 177,237	$ 2,956	$ 2,951,137

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

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

	March 31, 2020		December 31, 2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 139,847	$ 140,227	$ 131,443	$ 132,475
Due after one year through five years	791,001	805,149	771,772	802,526
Due after five years through ten years	1,026,932	1,065,953	1,061,818	1,131,759
Due after ten years	604,853	654,296	593,664	649,790
Securities with variable principal payments	202,025	225,114	206,658	222,511
Redeemable preferred stocks	11,500	11,199	11,501	12,076
Total	$ 2,776,158	$ 2,901,938	$ 2,776,856	$ 2,951,137

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 2019 Annual Report.

The following table provides information regarding fixed maturity securities available for sale with unrealized losses by asset class and by length of time that individual securities have been in a continuous unrealized loss position at March 31, 2020.

	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	$ —	$ —	$ —	$ —	$ —	$ —
Federal agency issued residential mortgage-backed securities [1]	74	—	13	—	87	—
Subtotal	74	—	13	—	87	—
Corporate obligations:						
Industrial	101,274	4,327	—	—	101,274	4,327
Energy	83,613	9,826	—	—	83,613	9,826
Communications and technology	22,256	510	—	—	22,256	510
Financial	102,353	4,111	5,010	881	107,363	4,992
Consumer	169,183	6,462	940	59	170,123	6,521
Public utilities	80,444	3,371	282	4	80,726	3,375
Subtotal	559,123	28,607	6,232	944	565,355	29,551
Corporate private-labeled residential mortgage-backed securities	3,485	195	—	—	3,485	195
Municipal securities	10,341	154	—	—	10,341	154
Other	37,845	1,913	16,100	1,400	53,945	3,313
Redeemable preferred stocks	6,697	303	—	—	6,697	303
Total	$ 617,565	$ 31,172	$ 22,345	$ 2,344	$ 639,910	$ 33,516

[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, 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	$ 6,249	$ 10	$ 8,778	$ 9	$ 15,027	$ 19
Federal agency issued residential mortgage-backed securities [1]	2,304	53	15	—	2,319	53
Subtotal	8,553	63	8,793	9	17,346	72
Corporate obligations:						
Industrial	6,116	54	3,066	25	9,182	79
Energy	3,078	6	—	—	3,078	6
Communications and technology	1,074	4	1,999	1	3,073	5
Financial	12,327	84	5,520	370	17,847	454
Consumer	22,540	273	8,975	75	31,515	348
Public utilities	21,795	249	5,224	134	27,019	383
Subtotal	66,930	670	24,784	605	91,714	1,275
Municipal securities	12,328	165	—	—	12,328	165
Other	10,298	44	16,100	1,400	26,398	1,444
Total	$ 98,109	$ 942	$ 49,677	$ 2,014	$ 147,786	$ 2,956

[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.

	March 31 2020	December 31 2019
Below cost for less than one year	305	63
Below cost for one year or more and less than three years	2	6
Below cost for three years or more	4	14
Total	311	83

We had a significant increase in unrealized losses at March 31, 2020 on our fixed maturity securities available for sale. The significant widening of corporate bond spreads negatively impacted the fair values on many securities. These declines were largely the result of the impact of the COVID-19 pandemic on economic activity. While we do not consider the unrealized losses related to these securities to be credit-related at this time, we continue to monitor the impact on the affected securities. The unrealized losses at both March 31, 2020 and December 31, 2019 primarily related to changes in interest rates and market spreads subsequent to purchase. A substantial portion of investment securities that have unrealized losses are either corporate debt issued with investment grade credit ratings or other investment securities. Included in other investment securities are commercial mortgage-backed securities and asset-backed securities.

The following table summarizes investments in fixed maturity securities available for sale with unrealized losses at March 31, 2020.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	$ 577,610	$ 559,091	$ 18,519
Unrealized losses of 20% or less and greater than 10%	77,633	67,443	10,190
Subtotal	655,243	626,534	28,709
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	8,025	6,064	1,961
Twelve months or greater	—	—	—
Total investment grade	8,025	6,064	1,961
Below investment grade:			
Less than twelve months	6,477	3,827	2,650
Twelve months or greater	—	—	—
Total below investment grade	6,477	3,827	2,650
Unrealized losses greater than 20%	14,502	9,891	4,611
Subtotal	669,745	636,425	33,320
Securities owned with realized impairment:			
Unrealized losses of 10% or less	2,413	2,399	14
Unrealized losses of 20% or less and greater than 10%	1,268	1,086	182
Unrealized losses greater than 20%	—	—	—
Subtotal	3,681	3,485	196
Total	$ 673,426	$ 639,910	$ 33,516

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

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	$ 149,834	$ 147,016	$ 2,818
Unrealized losses of 20% or less and greater than 10%	908	770	138
Subtotal	150,742	147,786	2,956
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	—	—	—
Total investment grade	—	—	—
Below investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	—	—	—
Total below investment grade	—	—	—
Unrealized losses greater than 20%	—	—	—
Subtotal	150,742	147,786	2,956
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	$ 150,742	$ 147,786	$ 2,956

The following table provides information on fixed maturity securities available for sale with unrealized losses by actual or equivalent Standard & Poor's rating at March 31, 2020.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	$ 21,881	3%	$ 376	1%
AA	30,127	5%	1,573	5%
A	170,691	27%	5,902	18%
BBB	389,884	61%	22,153	66%
Total investment grade	612,583	96%	30,004	90%
BB	23,401	3%	3,173	9%
B and below	3,926	1%	339	1%
Total below investment grade	27,327	4%	3,512	10%
	$ 639,910	100%	$ 33,516	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, 2019.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	$ 5,946	4%	$ 56	2%
AA	50,797	34%	1,755	59%
A	50,612	34%	398	14%
BBB	39,446	27%	733	25%
Total investment grade	146,801	99%	2,942	100%
BB	—	—%	—	—%
B and below	985	1%	14	—%
Total below investment grade	985	1%	14	—%
	$ 147,786	100%	$ 2,956	100%

Our residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities that were rated below investment grade represented 33% of the fair value of the total below investment grade securities at March 31, 2020, down from 43% at December 31, 2019.

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

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

	March 31, 2020		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Corporate private-labeled residential MBS:			
Investment grade	$ 1,637	$ 1,575	$ 62
Below investment grade	15,830	15,232	598
Total residential & non-agency MBS	17,467	16,807	660
Other structured securities:			
Investment grade	70,628	73,540	(2,912)
Below investment grade	—	—	—
Total other structured securities	70,628	73,540	(2,912)
Total structured securities	$ 88,095	$ 90,347	$ (2,252)

	December 31, 2019		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Corporate private-labeled residential MBS:			
Investment grade	$ 1,626	$ 1,583	$ 43
Below investment grade	18,638	16,837	1,801
Total residential & non-agency MBS	20,264	18,420	1,844
Other structured securities:			
Investment grade	76,032	76,417	(385)
Below investment grade	—	—	—
Total other structured securities	76,032	76,417	(385)
Total structured securities	$ 96,296	$ 94,837	$ 1,459

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

	Quarter Ended March 31	
	2020	2019
Credit losses on securities held at beginning of the period	$ 4,445	$ 4,381
Additional credit losses on securities for which an other-than-temporary impairment was previously recognized	19	4
Reductions for securities sold	(580)	—
Credit losses on securities held at the end of the period	$ 3,884	$ 4,385

Investment Gains (Losses)
The following table provides detail concerning investment gains and losses.

	Quarter Ended March 31	
	2020	2019
Gross gains resulting from:		
Sales of investment securities	$ 24	$ —
Investment securities called and other	1,537	103
Real estate	—	694
Total gross gains	1,561	797
Gross losses resulting from:		
Sales of investment securities	(3)	—
Investment securities called and other	(67)	—
Total gross losses	(70)	—
Change in allowance for loan losses	(990)	53
Change in fair value:		
Equity securities	(297)	741
Derivative instruments	(3,483)	1,092
Total change in fair value	(3,780)	1,833
Net realized investment gains, excluding other-than-temporary impairment losses	(3,279)	2,683
Net impairment losses recognized in earnings:		
Other-than-temporary impairment losses on fixed maturity securities	—	—
Portion of loss recognized in other comprehensive income (loss)	(19)	(4)
Net other-than-temporary impairment losses recognized in earnings	(19)	(4)
Net investment gains (losses)	$ (3,298)	$ 2,679

The portion of loss recognized in other comprehensive income (loss) represents the non-credit portion of current or prior other-than-temporary impairment. Other-than-temporary impairments recorded in earnings during the quarter ended March 31, 2020 and March 31, 2019 totaled less than $0.1 million.

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

	Quarter Ended March 31	
	2020	2019
Proceeds	$ 4,432	$ —

Mortgage Loans
Investments in mortgage loans totaled $592.2 million at March 31, 2020, compared to $577.7 million at December 31, 2019. 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 $3.8 million at March 31, 2020 and $2.8 million at December 31, 2019. We increased our allowance $1.0 million at March 31, 2020, primarily due to the outlook for the effect of the COVID-19 pandemic on the market.

We had 16% of our total investments in commercial mortgage loans at March 31, 2020 compared to 15% at December 31, 2019. 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 March 31, 2020 and 47% at December 31, 2019. This ratio is based upon the current balance of loans relative to the appraisal of value at the time the loan was originated or acquired. Additionally, we may receive fees when borrowers prepay their mortgage loans. For additional information on mortgage loans, please see Note 5 - Financing Receivables.

We may refinance commercial mortgage loans prior to contractual maturity as a means of retaining loans that meet our underwriting and pricing parameters. We refinanced two loans with a total outstanding balance of $2.6 million during the quarter ended March 31, 2020. We did not refinance any loans during the quarter ended March 31, 2019.

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 2019 Annual Report for a full discussion of the fair value hierarchy and our policies regarding fair value measurements.

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

	March 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 16,285	$ 168,360	$ —	$ 184,645
Federal agencies [1]	—	501	—	501
Federal agency issued residential mortgage-backed securities [1]	—	119,640	—	119,640
Subtotal	16,285	288,501	—	304,786
Corporate obligations:				
Industrial	—	459,737	—	459,737
Energy	—	153,210	—	153,210
Communications and technology	—	246,123	—	246,123
Financial	—	383,558	—	383,558
Consumer	—	677,826	—	677,826
Public utilities	—	309,339	—	309,339
Subtotal	—	2,229,793	—	2,229,793
Corporate private-labeled residential mortgage-backed securities	—	17,467	—	17,467
Municipal securities	—	268,065	—	268,065
Other	—	70,628	—	70,628
Redeemable preferred stocks	—	11,199	—	11,199
Fixed maturity securities	16,285	2,885,653	—	2,901,938
Equity securities	379	7,529	—	7,908
Short-term investments	75,008	—	—	75,008
Other investments	—	793	—	793
Separate account assets	—	350,126	—	350,126
Total	$ 91,672	$ 3,244,101	$ —	$ 3,335,773
Percent of total	3%	97%	—%	100%
Liabilities:				
Policyholder account balances:				
Indexed universal life	$ —	$ —	$ 429	$ 429
Other policyholder funds:				
Guaranteed minimum withdrawal benefits	—	—	1,130	1,130
Separate account liabilities	—	350,126	—	350,126
Total	$ —	$ 350,126	$ 1,559	$ 351,685

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

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 15,745	$ 176,561	$ —	$ 192,306
Federal agencies [1]	—	1,486	—	1,486
Federal agency issued residential mortgage-backed securities [1]	—	116,303	—	116,303
Subtotal	15,745	294,350	—	310,095
Corporate obligations:				
Industrial	—	461,155	—	461,155
Energy	—	174,484	—	174,484
Communications and technology	—	248,515	—	248,515
Financial	—	386,942	—	386,942
Consumer	—	684,219	—	684,219
Public utilities	—	309,160	—	309,160
Subtotal	—	2,264,475	—	2,264,475
Corporate private-labeled residential mortgage-backed securities	—	20,264	—	20,264
Municipal securities	—	268,195	—	268,195
Other	—	76,032	—	76,032
Redeemable preferred stocks	—	12,076	—	12,076
Fixed maturity securities	15,745	2,935,392	—	2,951,137
Equity securities	483	10,789	—	11,272
Short-term investments	75,426	—	—	75,426
Other investments	—	—	4,363	4,363
Separate account assets	—	431,201	—	431,201
Total	$ 91,654	$ 3,377,382	$ 4,363	$ 3,473,399
Percent of total	3%	97%	—%	100%
Liabilities:				
Policyholder account balances:				
Indexed universal life	$ —	$ —	$ 3,603	$ 3,603
Other policyholder funds:				
Guaranteed minimum withdrawal benefits	—	—	(959)	(959)
Separate account liabilities	—	431,201	—	431,201
Total	$ —	$ 431,201	$ 2,644	$ 433,845

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

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the quarter ended March 31, 2020 are summarized below.

	Assets	Liabilities	
	Other Investments	Indexed Universal Life	GMWB
Beginning balance	$ 4,363	$ 3,603	$ (959)
Included in earnings	(3,483)	(3,174)	2,598
Included in other comprehensive income (loss)	—	—	—
Purchases, issuances, sales and other dispositions:			
Purchases	807	—	—
Issuances	—	—	101
Sales	(894)	—	—
Other dispositions	—	—	(610)
Transfers out of Level 3	(793)	—	—
Ending balance	$ —	$ 429	$ 1,130

The changes in Level 3 liabilities measured at fair value on a recurring basis for the quarter ended March 31, 2019 are summarized below. The fair value of the derivatives included in Other Investments and the related reserves in relation to our indexed universal life portfolio were insignificant at March 31, 2019.

	Liabilities
	GMWB
Beginning balance	$ (3,648)
Included in earnings	135
Included in other comprehensive income (loss)	—
Purchases, issuances, sales and other dispositions:	
Purchases	—
Issuances	120
Sales	—
Other dispositions	225
Ending balance	$ (3,168)

Broker pricing for our derivatives used observable inputs for similar publicly traded instruments during the quarter ended March 31, 2020, which resulted in the transfer from Level 3 to Level 2. We did not have any transfers between any levels during the quarter ended March 31, 2019.

We use the Black Scholes valuation method, including parameters for market volatility, risk-free rate, and index level, for the $0.4 million indexed universal life liabilities categorized as Level 3. We also use a 100% persistency assumption. Persistency of the business is an unobservable input.

The GMWB liability is sensitive to changes in observable and unobservable inputs. Observable inputs include risk-free rates, index returns, volatilities, and correlations. Increases in risk-free rates and equity returns reduce the liability, while increases in volatilities increase the liability. Unobservable inputs include mortality, lapse, benefit utilization, and nonperformance risk adjustments. Increases in mortality, lapses, and credit spreads used for nonperformance risk reduce the liability, while increases in benefit utilization increase the liability. Please refer to the 2019 Annual Report for information regarding the valuation method for the GMWB liability and the unobservable inputs and ranges used in the valuation of those financial instruments. The valuation method, unobservable inputs, and ranges used had not materially changed at March 31, 2020.

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

	March 31, 2020				
	Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Fixed maturity securities available for sale	$ 16,285	$ 2,885,653	$ —	$ 2,901,938	$ 2,901,938
Equity securities	379	7,529	—	7,908	7,908
Mortgage loans	—	—	603,663	603,663	592,157
Policy loans	—	—	87,303	87,303	87,303
Other investments	—	793	—	793	793
Short-term investments	75,008	—	—	75,008	75,008
Separate account assets	—	350,126	—	350,126	350,126
Liabilities:					
Individual and group annuities	—	—	1,075,015	1,075,015	1,093,803
Supplementary contracts and annuities without life contingencies	—	—	52,225	52,225	53,354
Separate account liabilities	—	350,126	—	350,126	350,126
Policyholder account balances - indexed universal life	—	—	429	429	429
Other policyholder funds - GMWB	—	—	1,130	1,130	1,130

	December 31, 2019				
	Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Fixed maturity securities available for sale	$ 15,745	$ 2,935,392	$ —	$ 2,951,137	$ 2,951,137
Equity securities	483	10,789	—	11,272	11,272
Mortgage loans	—	—	597,577	597,577	577,699
Policy loans	—	—	87,499	87,499	87,499
Other investments	—	—	4,363	4,363	4,363
Short-term investments	75,426	—	—	75,426	75,426
Separate account assets	—	431,201	—	431,201	431,201
Liabilities:					
Individual and group annuities	—	—	1,077,538	1,077,538	1,096,588
Supplementary contracts and annuities without life contingencies	—	—	52,186	52,186	53,128
Separate account liabilities	—	431,201	—	431,201	431,201
Policyholder account balances - indexed universal life	—	—	3,603	3,603	3,603
Other policyholder funds - GMWB	—	—	(959)	(959)	(959)

5. Financing Receivables

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

The following table identifies financing receivables by classification amount.

	March 31 2020	December 31 2019
Agent receivables, net (allowance $1,464; 2019 - $1,482)	$ 2,188	$ 2,432
Investment-related financing receivables:		
Mortgage loans, net (allowance $3,826; 2019 - $2,836)	592,157	577,699
Total financing receivables	$ 594,345	$ 580,131

Agent Receivables
We have certain agent receivables that are classified as financing receivables. These receivables from agents are specifically assessed for collectibility and are reduced by an allowance for doubtful accounts.

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

	March 31, 2020			December 31, 2019		
	Gross Receivables	Allowance	Net Receivables	Gross Receivables	Allowance	Net Receivables
Agent specific loans	$ 1,259	$ 585	$ 674	$ 1,245	$ 600	$ 645
Other agent receivables	2,393	879	1,514	2,669	882	1,787
Total	$ 3,652	$ 1,464	$ 2,188	$ 3,914	$ 1,482	$ 2,432

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

	March 31 2020	December 31 2019
Beginning of year	$ 1,482	$ 1,496
Additions	2	50
Deductions	(20)	(64)
End of period	$ 1,464	$ 1,482

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

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

	March 31 2020	December 31 2019
Mortgage loans collectively evaluated for impairment	$ 524,645	$ 508,501
Mortgage loans individually evaluated for impairment	71,338	72,034
Allowance for loan losses	(3,826)	(2,836)
Carrying value	$ 592,157	$ 577,699

There was one mortgage loan that was past due at March 31, 2020. There were no mortgage loans that were past due at December 31, 2019. We had no troubled loans that were restructured or modified during the quarters ended March 31, 2020 or 2019.

The following table presents an aging schedule for delinquent payments for both principal and interest by property type at March 31, 2020.

		Amount of Payments Past Due			
	Book Value	30-59 Days	60-89 Days	> 90 Days	Total
Industrial	$ 4,045	$ 37	$ —	$ —	$ 37
Office	—	—	—	—	—
Medical	—	—	—	—	—
Other	—	—	—	—	—
Total	$ 4,045	$ 37	$ —	$ —	$ 37

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

	March 31 2020	December 31 2019
Beginning of year	$ 2,836	$ 3,129
Provision	1,146	139
Deductions	(156)	(432)
End of period	$ 3,826	$ 2,836

We increased the allowance for mortgage loan losses $1.0 million in the first quarter of 2020, primarily due to the outlook for the effect of the COVID-19 pandemic on the market.

Please refer to our 2019 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 2019 Annual Report for a full discussion of our VIEs.

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

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

	Quarter Ended March 31	
	2020	2019
Federal income tax credits realized	$ (424)	$ (652)
Amortization	296	375

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

The following table presents the carrying amount and maximum exposure to loss relating to VIEs for which we hold a variable interest, but are not the primary beneficiary, and which had not been consolidated at March 31, 2020 and December 31, 2019. The table includes investments in five real estate joint ventures and 16 affordable housing real estate joint ventures at both March 31, 2020 and December 31, 2019.

	March 31 2020		December 31 2019	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Real estate joint ventures	$ 21,345	$ 21,345	$ 21,224	$ 21,224
Affordable housing real estate joint ventures	3,918	28,706	4,213	29,818
Total	$ 25,263	$ 50,051	$ 25,437	$ 51,042

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

At March 31, 2020 and December 31, 2019, 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 included $20.9 million of losses which could be realized if the tax credits received by the VIEs were recaptured at March 31, 2020, compared to $21.4 million at December 31, 2019. 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 $102.7 million at March 31, 2020. The fair value of the separate accounts with the GMWB rider was $120.2 million at December 31, 2019. The GMWB guarantee liability was $1.1 million at March 31, 2020 and $(1.0) million December 31, 2019. 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 $350.1 million at March 31, 2020 and $431.2 million at December 31, 2019, and corresponding separate account liabilities of an equal amount. The decline in 2020 can largely be attributed to the economic impact of the COVID-19 pandemic. 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 March 31, 2020 and December 31, 2019.

In addition, we have an assumed closed block of variable universal life and variable annuity business that totaled $269.1 million at March 31, 2020 and $327.7 million at December 31, 2019. 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 $32.1 million at March 31, 2020 and $31.6 million at December 31, 2019 are included in our general account as Policyholder Account Balances. The Future Policy Benefits for the assumed block approximated $0.6 million at both March 31, 2020 and December 31, 2019.

8. Unpaid Claims Liability and Short-Duration Contracts

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

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

	Consolidated	
	Quarter Ended March 31	
	2020	2019
Gross liability at beginning of the period	$ 36,780	$ 36,453
Less reinsurance recoverable	(28,359)	(28,739)
Net liability at beginning of the period	8,421	7,714
Incurred benefits related to:		
Current year	7,045	7,064
Prior years [1]	(34)	392
Total incurred benefits	7,011	7,456
Paid benefits related to:		
Current year	4,373	4,085
Prior years	2,616	2,400
Total paid benefits	6,989	6,485
Net liability at end of the period	8,443	8,685
Reinsurance recoverable	28,228	29,547
Gross liability at end of the period	$ 36,671	$ 38,232

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

	Group Insurance Segment	
	Quarter Ended March 31	
	2020	2019
Gross liability at beginning of the period	$ 32,169	$ 31,188
Less reinsurance recoverable	(23,983)	(23,796)
Net liability at beginning of the period	8,186	7,392
Incurred benefits related to:		
Current year	7,031	7,048
Prior years [1]	(39)	447
Total incurred benefits	6,992	7,495
Paid benefits related to:		
Current year	4,372	4,080
Prior years	2,599	2,368
Total paid benefits	6,971	6,448
Net liability at end of the period	8,207	8,439
Reinsurance recoverable	24,165	24,316
Gross liability at end of the period	$ 32,372	$ 32,755

[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.

	March 31	
	2020	2019
Individual Insurance Segment:		
Individual accident and health	$ 635	$ 700
Individual life	33,301	24,801
Deferred annuity	3,777	4,868
Subtotal	37,713	30,369
Group Insurance Segment:		
Group accident and health	32,372	32,755
Group life	3,117	1,957
Subtotal	35,489	34,712
Old American Segment:		
Individual accident and health	3,664	4,777
Individual life	7,748	7,207
Subtotal	11,412	11,984
Total	$ 84,614	$ 77,065

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 $0.5 million at March 31, 2020 and $0.6 million at December 31, 2019.

9. Debt

We had no notes payable outstanding at March 31, 2020 or December 31, 2019.

As a member of the Federal Home Loan Bank of Des Moines (FHLB) with a capital investment of $4.9 million at March 31, 2020, we have the ability to borrow on a collateralized basis from the FHLB. We received an insignificant amount of dividends on the capital investment in both the quarters ended March 31, 2020 and 2019.

We have unsecured revolving lines of credit with three major commercial banks that totaled $80.0 million at March 31, 2020, with no balances outstanding. We had unsecured revolving lines of credit with two major commercial banks that totaled $80.0 million at December 31, 2019, with no balances outstanding. The lines of credit are at variable interest rates based upon short-term indices and will mature in June and July 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 quarter of 2020 and had no outstanding borrowings as of March 31, 2020. 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 March 31	
	2020	2019
Federal income tax rate	21 %	21 %
Tax credits, net of equity adjustment	41 %	(7)%
Impact of CARES Act	161 %	— %
Permanent differences and other	(87)%	4 %
Effective income tax rate	136 %	18 %

The following table provides information about taxes paid.

	Quarter Ended March 31	
	2020	2019
Cash paid for income taxes	$ —	$ (12)

We had no material uncertain tax positions at March 31, 2020 or December 31, 2019.

At March 31, 2020, we had a current tax asset of $1.0 million and a $43.1 million net deferred tax liability, compared to a $0.1 million current tax asset and a $50.7 million net deferred tax liability at December 31, 2019.

The CARES Act was signed into law on March 27, 2020 in an effort to provide fast and direct economic assistance to Americans during the COVID-19 health crisis. The CARES Act has several income tax provisions that we will be able to utilize, which will have a direct impact on our effective tax rate and income tax expense for 2020. The benefits that will apply to us include, but are not limited to, the ability to carry back net operating losses, and the acceleration of the recovery of Alternative Minimum Tax (AMT) credits. The 161% increase in the effective tax rate noted above is primarily the result of our ability to carryback net operating losses from the taxable years 2018 through 2020, which are taxed at a federal income tax rate of 21%, to the taxable years 2013 through 2017, which are taxed at a federal income tax rate of 35%.

11. Pensions and Other Postemployment Benefits (OPEB)

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

	Pension Benefits		OPEB	
	Quarter Ended March 31		Quarter Ended March 31	
	2020	2019	2020	2019
Service cost	$ —	$ —	$ 46	$ 42
Interest cost	874	1,154	144	166
Expected return on plan assets	(2,314)	(2,306)	—	—
Amortization of:				
Unrecognized actuarial net (gain) loss	629	718	(260)	(364)
Unrecognized prior service credit	(16)	(16)	—	—
Net periodic benefit credit	$ (827)	$ (450)	$ (70)	$ (156)

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 2019 Annual Report for additional information regarding this plan.

The Company did not make a cash payment under the long-term incentive plan during the first quarter of 2020 for the three-year interval ended December 31, 2019. During the first quarter of 2019, the Company did not make a cash payment under the long-term incentive plan for the three-year interval ended December 31, 2018.

At each reporting period, an estimate of the share-based compensation expense is accrued, utilizing the share price at the period end. The change in accrual that reduced operating expense in the first quarter of 2020 was less than $0.1 million, net of tax. The cost of share-based compensation accrued as an operating expense in the first quarter of 2019 was less than $0.1 million.

13. Comprehensive Income (Loss)

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

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

	Quarter Ended March 31, 2020		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized losses arising during the period:			
Fixed maturity securities	$ (46,962)	$ (9,862)	$ (37,100)
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	1,558	327	1,231
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive loss	(19)	(4)	(15)
Net unrealized losses excluding impairment losses	(48,501)	(10,185)	(38,316)
Effect on DAC, VOBA, and DRL	4,800	1,008	3,792
Change in policyholder liabilities	7,439	1,562	5,877
Other comprehensive loss	$ (36,262)	$ (7,615)	$ (28,647)
Net income			150
Comprehensive loss			$ (28,497)

	Quarter Ended March 31, 2019		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized gains arising during the period:			
Fixed maturity securities	$ 71,872	$ 15,093	$ 56,779
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	103	22	81
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive income	(4)	(1)	(3)
Net unrealized gains excluding impairment losses	71,773	15,072	56,701
Effect on DAC, VOBA, and DRL	(6,808)	(1,430)	(5,378)
Change in policyholder liabilities	(7,491)	(1,573)	(5,918)
Other comprehensive income	$ 57,474	$ 12,069	$ 45,405
Net income			4,035
Comprehensive income			$ 49,440

The following table provides accumulated balances related to each component of accumulated other comprehensive income (loss) at March 31, 2020, net of tax.

	Unrealized Gain on Non-Impaired Securities	Unrealized Gain on Impaired Securities	Benefit Plan Obligations	DAC/ VOBA/DRL Impact	Policyholder Liabilities	Total
Beginning of year	$ 136,264	$ 1,417	$ (45,330)	$ (12,715)	$ (20,130)	$ 59,506
Other comprehensive income (loss) before reclassification	(36,154)	(946)	—	3,792	5,877	(27,431)
Amounts reclassified from accumulated other comprehensive income (loss)	(1,231)	15	—	—	—	(1,216)
Net current-period other comprehensive income (loss)	(37,385)	(931)	—	3,792	5,877	(28,647)
End of period	$ 98,879	$ 486	$ (45,330)	$ (8,923)	$ (14,253)	$ 30,859

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

	Unrealized Gain on Non-Impaired Securities	Unrealized Gain on Impaired Securities	Benefit Plan Obligations	DAC/ VOBA/DRL Impact	Policyholder Liabilities	Total
Beginning of year	$ 6,555	$ 1,517	$ (48,372)	$ (1,107)	$ (4,143)	$ (45,550)
Other comprehensive income (loss) before reclassification	131,860	(561)	3,042	(11,608)	(15,987)	106,746
Amounts reclassified from accumulated other comprehensive income (loss)	(2,151)	461	—	—	—	(1,690)
Net current-period other comprehensive income (loss)	129,709	(100)	3,042	(11,608)	(15,987)	105,056
End of year	$ 136,264	$ 1,417	$ (45,330)	$ (12,715)	$ (20,130)	$ 59,506

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

	Quarter Ended March 31	
	2020	2019
Reclassification adjustments related to unrealized gains (losses) on investment securities:		
Net realized investment gains, excluding impairment losses[1]	$ 1,558	$ 103
Income tax expense[2]	(327)	(22)
Net of taxes	1,231	81
Other-than-temporary impairment losses[1]	(19)	(4)
Income tax benefit [2]	4	1
Net of taxes	(15)	(3)
Total pre-tax reclassifications	1,539	99
Total income tax expense	(323)	(21)
Total reclassification, net taxes	$ 1,216	$ 78

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

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

14. Earnings Per Share

Due to our capital structure and the absence of other potentially dilutive securities, there is no difference between basic and diluted earnings per common share for any of the periods reported. The average number of shares outstanding for both the first quarters ended March 31, 2020 and 2019 was 9,683,414. The number of shares outstanding at both March 31, 2020 and December 31, 2019 was 9,683,414.

15. Segment Information

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

	Quarter Ended March 31, 2020			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 47,930	$ 15,822	$ 24,494	$ 88,246
Interest credited to policyholder account balances	19,493	—	—	19,493
Amortization of deferred acquisition costs	6,501	—	5,126	11,627
Income tax expense (benefit)	(893)	185	147	(561)
Net income (loss)	1,039	694	(1,583)	150

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

16. Commitments, Contingent Liabilities, Guarantees, and Indemnifications

Commitments

In the normal course of business, we have open purchase and sale commitments. At March 31, 2020, we had purchase commitments to fund mortgage loans of $6.2 million.

Contingent Liabilities

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

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

Due to the unpredictable nature of litigation, the outcome of a litigation matter and the amount or range of potential loss can be difficult to ascertain. We establish liabilities for litigation and other loss contingencies when available information indicates both that a loss is probable and the amount of the loss can be reasonably estimated. Some matters could require us to pay damages or make other expenditures or establish accruals in amounts that cannot be estimated as of March 31, 2020. Based on information currently known by management, management does not believe any such expenditures are likely to have a material adverse effect on Kansas City Life's financial condition.

Cost of Insurance Litigation
We are a defendant in three very similar putative class actions that allege that we applied cost of insurance rates in excess of amounts permitted by the terms of certain universal life insurance policies.

The three cases are:

- Meek v. KCL, filed in the U.S. District Court for the Western District of Missouri, in which the plaintiff seeks to represent all similar universal life policyholders residing outside of the State of Missouri and seeks damages on behalf of all such policyholders.
- Karr v. KCL, filed in the 16th District Court for the State of Missouri (Jackson County), in which plaintiff seeks to represent all similar universal life policyholders residing in the State of Missouri and seeks damages on behalf of all such policyholders.
- Sheldon v KCL, filed in the 16th District Court for the State of Missouri (Jackson County), in which plaintiff seeks to represent all similar variable universal life policyholders and seeks damages on behalf of all such policyholders.

We are vigorously defending each of these matters.

We are subject to regular reviews and inspections by state and federal regulatory authorities. State insurance examiners - or independent audit firms engaged by such examiners - may, from time to time, conduct examinations or investigations into industry practices and into customer complaints. A regulatory violation discovered during a review, inspection, or investigation could result in a wide range of remedies that could include the imposition of sanctions against us or our employees, which could have a material adverse effect on our financial statements. The Missouri Department of Insurance most recently completed an examination based upon our statutory financial statements for the year ended December 31, 2014 for Kansas City Life, Sunset Life, and Old American. No recommendations or financial adjustments were required as a result of that examination. The Ohio Department of Insurance most recently completed an examination of Grange Life for the year ended December 31, 2014. A periodic examination by the Missouri Department of Insurance and the Ohio Department of Insurance based upon the year ended December 31, 2019 began during the first quarter of 2020.

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

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

17. Subsequent Events

We evaluated events that occurred subsequent to March 31, 2020 through May 4, 2020, the date the consolidated financial statements were issued, and have identified the following subsequent event.

On April 27, 2020, the Kansas City Life Board of Directors declared a quarterly dividend of $0.27 per share, payable on May 13, 2020 to stockholders of record on May 7, 2020.

There have been no other subsequent events that occurred during such period that require disclosure in, or adjustment to, the consolidated financial statements as of and for the quarter ended March 31, 2020.