KANSAS CITY LIFE

KANSAS CITY LIFE INSURANCE COMPANY

A Missouri Corporation

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

SIC Code: 6311

QUARTERLY REPORT

For the Period Ending June 30, 2020
(the "Reporting Period")

The number of shares outstanding of our Common Stock is 9,683,414 as of June 30, 2020 (the end of reporting period)

The number of shares outstanding of our Common Stock was 9,683,414 as of March 31, 2020 (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
- The extent of the impacts resulting from the COVID-19 pandemic, including the duration, spread, severity, and any recurrence of the pandemic and the duration and scope of related government orders and restrictions.

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: *Phil.Williams@kclife.com*

Item 2. Shares Outstanding

Common Stock

	June 30, 2020
Number of Shares Authorized	36,000,000
Number of Shares Outstanding	9,683,414
Freely Tradable Shares (Public Float)	2,504,569
Total Number of Shareholders of Record	139

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

Item 3. Interim Consolidated Financial Statements

The interim consolidated financial statements of Kansas City Life Insurance Company as of and for the period ending June 30, 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 and six months ended June 30, 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 Kansas City Life Insurance Company management on its financial condition, results of operations, liquidity, and certain other factors that may affect its future results. The terms "the Company," "we," "us," and "our" are used to refer to Kansas City Life Insurance Company and its subsidiaries. Kansas City Life Insurance Company (Kansas City Life) is the parent company. 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 and six months ended June 30, 2020 and 2019 and our financial condition at June 30, 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;
- 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, significant stress to businesses, decreased consumer confidence, and increased unemployment. These conditions may persist into the future, potentially 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 $17.0 million in the second quarter of 2020 compared to net income of $5.3 million in the second quarter of 2019. Net income per share was $1.75 in the second quarter of 2020 versus $0.54 in the same period in the prior year. Net income for the first six months of 2020 was $17.1 million compared to $9.3 million in the same period in the prior year. Net income per share for the first six months of 2020 was $1.77 compared to $0.96 one year earlier.

The following table presents condensed consolidated results of operations for the quarters and six months ended June 30, 2020 and 2019.

	Quarter Ended June 30,			Six Months Ended June 30,		
	2020	2019	% Change	2020	2019	% Change
Revenues:						
Insurance and other revenues	$ 92,606	$ 89,220	4 %	$ 182,283	$ 179,675	1 %
Net investment income	36,238	37,896	(4)%	72,894	74,865	(3)%
Net investment gains	17,928	2,768	548 %	14,630	5,447	169 %
Benefits and expenses:						
Policyholder benefits and interest credited to policyholder account balances	84,571	85,738	(1)%	169,934	172,985	(2)%
Amortization of deferred acquisition costs	12,247	9,329	31 %	23,874	18,051	32 %
Operating expenses	28,646	28,388	1 %	55,102	57,573	(4)%
Income tax expense	4,339	1,148	278 %	3,778	2,062	83 %
Net income	$ 16,969	$ 5,281	221 %	$ 17,119	$ 9,316	84 %

Insurance Revenues

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

The Company generally uses a personal sales approach. Social distancing guidelines brought on by the COVID-19 pandemic have made this sales style more challenging. In addition, the underwriting process often requires obtaining medical and other evidence for insurability. This support has slowed during this challenging time, as medical and paramedical support has been unavailable or significantly slower in completing the required medical examinations. We have made strides to minimize the effects of this new environment, such as creating electronic applications and evaluating medical examination requirements for underwriting. In addition, the pandemic has made sales to small and medium-sized businesses more difficult, resulting in lower sales of our group life and accident and health products.

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

	Quarter Ended June 30,			Six Months Ended June 30,		
	2020	2019	% Change	2020	2019	% Change
New premiums:						
Traditional life insurance	$ 6,220	$ 5,893	6 %	$ 12,929	$ 13,267	(3)%
Immediate annuities	6,838	6,131	12 %	13,918	16,137	(14)%
Group life insurance	696	725	(4)%	1,378	1,478	(7)%
Group accident and health insurance	2,294	2,767	(17)%	4,778	5,469	(13)%
Total new premiums	16,048	15,516	3 %	33,003	36,351	(9)%
Renewal premiums	66,765	66,055	1 %	132,875	129,306	3 %
Total premiums	82,813	81,571	2 %	165,878	165,657	— %
Reinsurance ceded	(26,013)	(26,115)	— %	(51,897)	(52,041)	— %
Net premiums	$ 56,800	$ 55,456	2 %	$ 113,981	$ 113,616	— %

Consolidated total premiums increased $1.2 million or 2% in the second quarter of 2020 compared with the second quarter of 2019, reflecting a $0.7 million or 1% increase in renewal premiums and a $0.5 million or 3% increase in new premiums. New traditional life insurance premiums increased $0.3 million or 6% and new immediate annuity premiums increased $0.7 million or 12%. Immediate annuity receipts can have sizeable fluctuations, as receipts from policyholders largely result from one-time premiums. These improvements were partially offset by a $0.5 million or 17% decline in new group accident and health premiums, primarily from the dental line. The increase in renewal premiums was largely due to a $0.9 million or 2% increase in renewal traditional life insurance premiums, primarily from Old American. This was partially offset by a $0.3 million or 2% decrease in renewal accident and health premiums, largely from the dental line.

Consolidated total premiums were essentially flat in the first six months of 2020 compared with the first six months of 2019, as a $3.6 million or 3% increase in renewal premiums was partially offset by a $3.3 million or 9% decline in new premiums. New traditional life insurance premiums decreased $0.3 million or 3% and new immediate annuity premiums declined $2.2 million or 14%. In addition, new group accident and health premiums decreased $0.7 million or 13%, primarily from the dental line. The increase in renewal premiums was largely due to a $2.8 million or 3% increase in renewal traditional life insurance premiums, reflecting increases for both the Individual and Old American segments. In addition, renewal group life premiums increased $0.4 million or 6% and renewal accident and health premiums increased $0.4 million or 1%.

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

	Quarter Ended June 30,			Six Months Ended June 30,		
	2020	2019	% Change	2020	2019	% Change
New deposits:						
Interest sensitive life	$ 2,528	$ 3,771	(33)%	$ 5,217	$ 6,641	(21)%
Fixed annuities	8,576	11,550	(26)%	21,026	27,632	(24)%
Variable annuities	1,937	2,165	(11)%	4,406	4,869	(10)%
Total new deposits	13,041	17,486	(25)%	30,649	39,142	(22)%
Renewal deposits	37,933	39,685	(4)%	74,356	78,405	(5)%
Total deposits	$ 50,974	$ 57,171	(11)%	$ 105,005	$ 117,547	(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. Further, as described above, the COVID-19 pandemic and the related economic impact have impacted both new and renewal deposits.

Total new deposits decreased $4.4 million or 25% in the second quarter of 2020 compared with the second quarter of 2019, largely due to a $3.0 million or 26% decline in new fixed annuity deposits. In addition, new interest sensitive life deposits decreased $1.2 million or 33% and new variable annuity deposits decreased $0.2 million or 11%. The decline in new interest sensitive life deposits was largely due to a decrease in new universal life deposits, which includes the impact of the discontinuance of the secondary guarantee universal life product for new sales in 2020. The decline in new deposits in part resulted from the COVID-19 pandemic. Total renewal deposits decreased $1.8 million or 4% in the second quarter of 2020 compared to one year earlier, reflecting a $0.7 million or 2% decrease in renewal interest sensitive life deposits, a $0.6 million or 23% decline in renewal variable annuity deposits, and a $0.4 million or 7% decline in renewal fixed annuity deposits.

Total new deposits decreased $8.5 million or 22% in the first six months of 2020 compared with the first six months of 2019, primarily due to a $6.6 million or 24% decline in new fixed annuity deposits. In addition, new interest sensitive life deposits decreased $1.4 million or 21% and new variable annuity deposits decreased $0.5 million or 10%. The decline in new interest sensitive life deposits was largely due to a decrease in new universal life deposits, which includes the impact of the discontinuance of the secondary guarantee universal life product for new sales in 2020. The decline in new deposits in part resulted from the COVID-19 pandemic. Total renewal deposits decreased $4.0 million or 5% in the first six months of 2020 compared to the prior year, reflecting a $1.8 million or 18% decrease in renewal fixed annuity deposits, a $1.7 million or 3% decrease in renewal interest sensitive life deposits, and a $0.6 million or 13% decline in renewal variable annuity 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 $2.2 million or 7% in the second quarter of 2020 compared to one year earlier. Contract charges on open blocks increased $2.6 million or 12% in the second quarter of 2020 compared to the prior year and reflected higher deferred revenue, largely resulting from unlocking. Unlocking increased deferred revenue $3.8 million in the second quarter of 2020, compared to an increase of $0.8 million in the second quarter of 2019. Contract charges on closed blocks decreased $0.4 million or 3% in the second quarter of 2020 versus the prior year, reflecting the runoff of the blocks of business. Total contract charges on closed blocks equaled 38% of total consolidated contract charges during the second quarter of 2020, down from 42% during the second quarter of 2019.

Total contract charges increased $2.4 million or 4% in the first six months of 2020 compared to the first six months of 2019. Contract charges on open blocks increased $3.0 million or 8% in the first six months of 2020 versus the prior year and reflected higher deferred revenue, largely resulting from the unlocking mentioned above. Contract charges on closed blocks decreased $0.6 million or 2% in the first six months of 2020 compared to the prior year, reflecting the runoff of the blocks of business. Total contract charges on closed blocks equaled 41% of total consolidated contract charges during the first six months of 2020, down from 43% during the first six months of 2019.

Investment Revenues

Gross investment income decreased $1.5 million or 4% in the second quarter and $1.8 million or 2% in the first six months of 2020 compared with the same periods in 2019. These results 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 June 30, 2020, down slightly from 76% at December 31, 2019. Income from these investments decreased $0.6 million or 2% in the second quarter and $0.9 million or 2% in the first six months 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 $0.8 million or 11% in the second quarter and $1.6 million or 11% in the first six months of 2020 compared to one year earlier. These declines reflected lower average invested assets and lower yields earned. As of June 30, 2020, no material contract modifications, deferrals, or forbearance agreements had been executed on our mortgage loan portfolio related to the COVID-19 pandemic and the related economic impacts. However, we have granted three month deferrals on loans representing 3% of our mortgage loan portfolio by balance at June 30, 2020. Principal and interest deferrals totaled $0.5 million. Interest deferrals totaled less than 1% of the interest receipts for both the second quarter and first six months of 2020. We continue to closely monitor our mortgage loan portfolio and work closely with borrowers who are negatively impacted by the COVID-19 pandemic.

Investment income from real estate increased $0.5 million or 9% in the second quarter and $1.2 million or 12% in the first six months of 2020 compared to the prior year. This improvement largely resulted from increased occupancy at certain real estate rental properties and from annual rent increases. During the second quarter of 2020, forbearance was requested by six of our tenants. Real estate rent deferrals totaled 1% of total real estate income for the second quarter and less than 1% of total real estate income for the first six months of 2020. We continue to closely monitor our real estate portfolio and work closely with tenants who are negatively impacted by the COVID-19 pandemic.

Investment Gains (Losses)

Net investment gains for the second quarter of 2020 totaled $17.9 million compared to $2.8 million in the second quarter of 2019. The largest factor that contributed to the increase in the second quarter of 2020 was the opportunistic sale of an industrial real estate property that generated a net gain of $14.9 million. In addition, the change in fair value of derivative instruments resulted in a gain of $2.0 million in the second quarter of 2020 compared to a gain of $0.5 million in the second quarter of 2019, reflecting an increase in market values at June 30, 2020.

Net investment gains for the first six months of 2020 totaled $14.6 million compared to $5.4 million in the first six months of 2019. The largest factor in the increase during 2020 was the sale of the real estate property mentioned above that generated a net gain of $14.9 million. Partially offsetting this, the change in fair value of derivative instruments resulted in a loss of $1.5 million in the first six months of 2020 compared to a gain of $1.6 million in the first six months of 2019. The change in the fair value of equity securities resulted in a $0.1 million loss in the first six months of 2020 compared to a $0.9 million gain in the first six months of 2019. In addition, the Company increased the allowance for mortgage loan losses $0.9 million in the first six months of 2020 compared to a decrease in the allowance of $0.1 million in the first six months of 2019. The increase in the allowance was made in the first quarter of 2020 and was primarily due to the deterioration in the general economic outlook as a result of the COVID-19 pandemic.

We did not recognize any impairments on the securities portfolio during the second quarter of 2020. We recognized impairments on the securities portfolio of less than $0.1 million in the first six months of 2020. We will continue to monitor and evaluate this portfolio for potential strain in the individual holdings and sectors due to the added stress in the current economic environment.

Policyholder Benefits

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

Policyholder benefits decreased $0.2 million or less than 1% in the second quarter of 2020 compared to the prior year. Benefit and contract reserves increased $2.6 million compared to the prior year. The change in the fair value of derivative instruments increased benefit and contract reserves. In addition, changes in the fair value of the guaranteed minimum withdrawal benefits

(GMWB) rider increased benefit and contract reserves in the second quarter of 2020 compared with the second quarter of 2019. This reflected a decrease in spreads used for issuer discount that was partially offset by favorable capital market returns. Death benefits, net of reinsurance, increased $1.6 million or 5% compared to the prior year. Mortality cost resulting from the COVID-19 pandemic was 9% of the total mortality cost for the second quarter of 2020. Mortality cost is defined as death benefits net of reinsurance and reserves released. Offsetting these, other policyholder benefits, net of reinsurance, decreased $4.3 million or 23% versus the prior year, largely from the dental line.

Policyholder benefits decreased $2.5 million or 2% in the first six months of 2020 compared to the first six months of 2019. Other policyholder benefits, net of reinsurance, decreased $5.2 million or 14% compared to one year earlier, largely from the dental line. Benefit and contract reserves decreased $0.4 million or 2% compared to the prior year. The change in fair value of derivative instruments contributed to the decrease in 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 six months of 2020 compared with the prior year. This reflected declines in interest rates and unfavorable capital market returns. Partially offsetting these decreases, death benefits, net of reinsurance, increased $2.9 million or 4% compared to the prior year. Mortality cost resulting from the COVID-19 pandemic was 5% of the total mortality cost for the first six months of 2020.

Amortization of DAC

The amortization of DAC increased $2.9 million or 31% in the second quarter and $5.8 million or 32% in the first six months of 2020 compared to the prior year. The increases in both periods were primarily due to an increase in unlocking and refinements in estimates compared to the prior year, as discussed below. In addition, decreased investment performance in the separate accounts increased the amortization of DAC in the first six months of 2020 compared to the prior year. The decreased investment performance largely resulted from the economic impact of the COVID-19 pandemic.

Unlocking and Refinements in Estimates

At least annually, we review the models and the assumptions used to develop expected gross profits for interest sensitive and variable insurance products based upon management's current view of future events. Key assumptions analyzed include net interest income, net realized investment gains and losses, fees, surrender charges, expenses, and mortality gains and losses, net of reinsurance. We also consider refinements in estimates due to improved capabilities resulting from administrative or actuarial system enhancements.

The following tables summarize the effects of the refinements in estimates on all products and unlocking of assumptions on interest sensitive products in the Consolidated Statements of Comprehensive Income. Positive numbers are increases to income and negative numbers are reductions to income. The unlocking and refinements in estimates occurred during the second quarters of both 2020 and 2019.

	Six Months Ended June 30, 2020			
	DAC Amortization	VOBA Amortization	DRL Contract Charges	Net Impact to Pre-Tax Income
Unlocking	$ (5,219)	$ (1,593)	$ 3,838	$ (2,974)
Refinement in estimate	—	—	—	—
	$ (5,219)	$ (1,593)	$ 3,838	$ (2,974)

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

The unlocking resulted in a net $3.0 million decrease to pre-tax income in the first six months of 2020. These adjustments primarily resulted from interest rate fluctuations.

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

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 increased $0.3 million or 1% in the second quarter and decreased $2.5 million or 4% in the first six months of 2020 compared to the prior year. The COVID-19 pandemic has impacted our expenses in both periods, including a reduction in travel and agent meeting expenses. Agent meeting expenses declined as we canceled our agent conferences for 2020. These declines were partially offset by an increase in legal expenses in both periods. In addition, employee benefit expenses decreased in the first six months of 2020, reflecting declines in the market value of our deferred compensation and pension plans compared to the prior year. The amortization of VOBA increased in both the second quarter and first six months of 2020 compared to the same periods in 2019 due to unlocking. Unlocking increased operating expenses $1.6 million in 2020 compared to an increase of $0.5 million in 2019.

Income Taxes

We recorded an income tax expense of $4.3 million or 20% of income before tax in the second quarter of 2020, compared to income tax expense of $1.1 million or 18% of income before tax in the second quarter of 2019. The increase in income tax expense in the second quarter was primarily related to gains realized on the sale of a real estate property. The increase in the effective tax rate was primarily due to tax credits from affordable housing investments and permanent differences, including the dividends-received deduction having less impact on the effective tax rate due to an increase in pre-tax income. The second quarter 2020 statutory rate versus effective rate differences were smaller than usual due to the variance in actual versus assumed pretax results.

We recorded income tax expense for the six months ended June 30, 2020 of $3.8 million or 18% of income before tax, compared to income tax expense of $2.1 million or 18% of income before tax for the prior year period. The increase in income tax expense in the second quarter was primarily related to gains realized on the sale of a real estate property.

The effective income tax rate was lower than the prevailing corporate federal income tax rate of 21% for both the second quarters of 2020 and 2019. The lower effective income tax rates for the second quarter of 2020 were primarily due to tax credits from affordable housing investments, permanent differences, which includes the dividend-received deduction, and the impact of the CARES Act. The lower effective tax rates for the second quarter of 2019 were primarily due to tax credits from affordable housing investments and permanent differences, which includes the dividends-received deduction.

The CARES Act is intended to provide immediate economic assistance to both businesses and individuals. The CARES Act provides the opportunity to carry back 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. 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.

	June 30, 2020	% of Total	December 31, 2019	% of Total
Fixed maturity securities	$ 3,044,118	75%	$ 2,951,137	76%
Equity securities	8,069	—%	11,272	—%
Mortgage loans	583,564	15%	577,699	15%
Real estate	167,741	4%	183,016	5%
Policy loans	85,845	2%	87,499	2%
Short-term investments	145,392	4%	75,426	2%
Other investments	8,070	—	9,156	—
Total	$ 4,042,799	100%	$ 3,895,205	100%

Fixed maturity securities were the largest component of total investments at June 30, 2020 and December 31, 2019. The largest categories of fixed maturity securities at June 30, 2020 consisted of 78% 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 June 30, 2020 and 98% at December 31, 2019.

The fair value of fixed maturity securities with unrealized losses was $106.5 million at June 30, 2020 compared with $147.8 million at December 31, 2019. This decrease primarily reflected lower interest rates at June 30, 2020. At June 30, 2020, 75% of security investments with an unrealized loss were investment grade and accounted for 63% 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 June 30, 2020, we had $292.9 million in gross unrealized gains on fixed maturity securities that were partially offset by gross unrealized losses of $6.0 million. At December 31, 2019, we had $177.2 million in gross unrealized gains on fixed maturity securities that offset $3.0 million in gross unrealized losses. At June 30, 2020, 97% of the fixed maturity securities portfolio had unrealized gains, an increase from 95% at December 31, 2019. We had an increase in gross unrealized losses in corporate obligations from December 31, 2019 to June 30, 2020 due to changes in market spreads. Gross unrealized losses on fixed maturity securities for less than 12 months accounted for $3.8 million or 78% of the security values in a gross unrealized loss position at June 30, 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 $2.2 million at June 30, 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 June 30, 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 June 30, 2020 had a fair value of $14.8 million and net unrealized gains of $1.4 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 $583.6 million at June 30, 2020, up from $577.7 million at December 31, 2019. The commercial mortgage loan portfolio increased $5.9 million during the six months 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 June 30, 2020 and $2.8 million at December 31, 2019. As previously mentioned, we granted deferrals of principal and interest payments on a small number of mortgage loans during the first six months of 2020. These borrowers remain current in their payments.

Investments in real estate totaled $167.7 million at June 30, 2020, down from $183.0 million at December 31, 2019. The $15.3 million decrease was primarily due to the sale of a real estate property during the second quarter of 2020. As previously mentioned, certain tenants were granted real estate rent deferrals during the first six months of 2020. We expect that these tenants will be brought current within the agreed-upon terms and will be returned to the original payment schedules.

Liquidity and Capital Resources

Liquidity

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

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

Net cash provided by operating activities was $5.3 million for the six months ended June 30, 2020. Net cash used from investing activities was $17.3 million. The primary sources of cash provided by investing activities were sales, maturities, calls, and principal paydowns of investments totaling $231.5 million. Investment purchases, including new fixed maturities and mortgage loans, totaled $177.8 million. Net cash provided by financing activities was $2.8 million, including $2.4 million of deposits, net of withdrawals, on policyholder account balances, $4.1 million of net transfers from separate accounts and a $1.6 million change in other deposits. These were partially offset by the payment of $5.2 million of stockholder dividends.

Capital Resources

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

	June 30, 2020	December 31, 2019
Total assets, excluding separate accounts	$ 4,912,957	$ 4,788,664
Total stockholders' equity	891,477	810,731
Ratio of stockholders' equity to assets, excluding separate accounts	18%	17%

Stockholders' equity increased $80.7 million from year-end 2019, primarily due to an increase in net unrealized gains. This increase reflected lower interest rates at June 30, 2020. Stockholders' equity per share, or book value, equaled $92.06 at June 30, 2020, an increase 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 $173.7 million at June 30, 2020, a $68.9 million increase 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 six months of 2020.

On July 27, 2020, the Board of Directors declared a quarterly dividend of $0.27 per share payable on August 12, 2020 to stockholders of record on August 6, 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" in Note 16 of the financial statements 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 six months ended June 30, 2020 regarding the COVID-19 pandemic.

The effects of the COVID-19 outbreak could disrupt our operations and adversely affect our business, financial condition, and results of operations.

The widespread outbreak of COVID-19 has created significant volatility, uncertainty, and disruption in economic activity and financial markets globally. The global and domestic response to the COVID-19 outbreak continues to rapidly evolve. During the first half of 2020, many state and local governments have issued directives that have impacted and limited the behavior of citizens and businesses. 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 impacted the activities of our customers, agents, and 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 which 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 their ability to complete their work either remotely or in the office. This could result in delays in processing receipts and payments 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 numerous evolving factors and future developments, which are uncertain and cannot be predicted at this time. Such factors and developments include, but are not limited to: the duration, severity and spread of the outbreak; actions taken by government authorities to contain and mitigate COVID-19 and the effectiveness of such actions; the effect on the U.S. and global economies and financial markets and actions taken in response; the overall impact on the businesses of our customers, agents, partners, and vendors; the health of and effect on our workforce; the future effects to our operational and financial results of the changes we have made to protect the safety and well-being of our employees and future operational disruptions or challenges we may face; increased cybersecurity and information security risk as a result of the transition of our employees to a remote work environment; and how quickly and to what extent normal economic and operating conditions may resume. Negative financial impacts that could occur include, but are not limited to, asset impairments, defaults or delinquencies in our mortgage loan portfolio, vacancies in our real estate portfolio, a reduction in sales, a reduction in business retention, an increase in policyholder benefits, and an increase in operating expenses. While certain outcomes have been noted from the impacts of the pandemic, the full extent to which the COVID-19 pandemic may impact our business, financial condition or results of operations is uncertain and will continue to evolve over time.

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: July 30, 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: July 30, 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

	June 30, 2020	December 31, 2019
	(Unaudited)	
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	$ 3,044,118	$ 2,951,137
Equity securities, at fair value	8,069	11,272
Mortgage loans	583,564	577,699
Real estate	167,741	183,016
Policy loans	85,845	87,499
Short-term investments	145,392	75,426
Other investments	8,070	9,156
Total investments	4,042,799	3,895,205
Cash	5,081	14,234
Accrued investment income	31,807	32,142
Deferred acquisition costs	276,357	286,682
Reinsurance recoverables	384,307	378,772
Other assets	172,606	181,629
Separate account assets	398,676	431,201
Total assets	$ 5,311,633	$ 5,219,865
LIABILITIES		
Future policy benefits	$ 1,366,619	$ 1,331,215
Policyholder account balances	2,225,298	2,237,700
Policy and contract claims	52,420	55,997
Other policyholder funds	172,121	170,776
Other liabilities	205,022	182,245
Separate account liabilities	398,676	431,201
Total liabilities	4,420,156	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	940,270	928,380
Accumulated other comprehensive income	128,362	59,506
Treasury stock, at cost (2020 and 2019 - 8,813,266 shares)	(241,301)	(241,301)
Total stockholders' equity	891,477	810,731
Total liabilities and stockholders' equity	$ 5,311,633	$ 5,219,865

See accompanying Notes to Consolidated Financial Statements (Unaudited)

Kansas City Life Insurance Company
Consolidated Statements of Comprehensive Income

	Quarter Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(Unaudited)		(Unaudited)	
REVENUES				
Insurance revenues:				
Net premiums	$ 56,800	$ 55,456	$ 113,981	$ 113,616
Contract charges	34,446	32,261	65,511	63,085
Total insurance revenues	91,246	87,717	179,492	176,701
Investment revenues:				
Net investment income	36,238	37,896	72,894	74,865
Net investment gains	17,928	2,768	14,630	5,447
Total investment revenues	54,166	40,664	87,524	80,312
Other revenues	1,360	1,503	2,791	2,974
Total revenues	146,772	129,884	269,807	259,987
BENEFITS AND EXPENSES				
Policyholder benefits	65,395	65,634	131,265	133,812
Interest credited to policyholder account balances	19,176	20,104	38,669	39,173
Amortization of deferred acquisition costs	12,247	9,329	23,874	18,051
Operating expenses	28,646	28,388	55,102	57,573
Total benefits and expenses	125,464	123,455	248,910	248,609
Income before income tax expense	21,308	6,429	20,897	11,378
Income tax expense	4,339	1,148	3,778	2,062
NET INCOME	$ 16,969	$ 5,281	$ 17,119	$ 9,316
COMPREHENSIVE INCOME, NET OF TAXES				
Changes in:				
Net unrealized gains on securities available for sale	$ 127,223	$ 52,496	$ 88,907	$ 109,197
Effect on deferred acquisition costs, value of business acquired, and deferred revenue liabilities	(9,911)	(4,601)	(6,119)	(9,979)
Policyholder liabilities	(19,809)	(6,802)	(13,932)	(12,720)
Other comprehensive income	97,503	41,093	68,856	86,498
COMPREHENSIVE INCOME	$ 114,472	$ 46,374	$ 85,975	$ 95,814
Basic and diluted earnings per share:				
Net income	$ 1.75	$ 0.54	$ 1.77	$ 0.96

See accompanying Notes to Consolidated Financial Statements (Unaudited)

Kansas City Life Insurance Company
Consolidated Statements of Cash Flows

	Six Months Ended June 30, 2020	2019
	(Unaudited)	
OPERATING ACTIVITIES		
Net income	$ 17,119	$ 9,316
Adjustments to reconcile net income to net cash provided by (used from) operating activities:		
Amortization of investment premium and discount	1,374	1,758
Depreciation and amortization	4,383	4,058
Acquisition costs capitalized	(21,884)	(23,171)
Amortization of deferred acquisition costs	23,874	18,051
Net investment gains	(14,630)	(5,447)
Changes in assets and liabilities:		
Reinsurance recoverables	(5,535)	(3,878)
Future policy benefits	18,402	20,517
Policyholder account balances	(20,740)	(24,102)
Income taxes payable and deferred	3,778	1,515
Other, net	(873)	(8,494)
Net cash provided (used)	5,268	(9,877)
INVESTING ACTIVITIES		
Purchases:		
Fixed maturity securities	(135,500)	(153,486)
Mortgage loans	(33,418)	(16,075)
Real estate	(2,094)	(957)
Policy loans	(4,952)	(5,397)
Other investments	(1,833)	(1,259)
Property and equipment	(1,022)	(3,143)
Sales or maturities, calls, and principal paydowns:		
Fixed maturity securities	164,172	119,232
Equity securities	3,000	—
Mortgage loans	26,593	42,290
Real estate	29,752	2,156
Policy loans	6,606	5,271
Other investments	1,396	765
Property and equipment	—	28
Net sales of short-term investments	(69,966)	(9,534)
Receipts from post-acquisition purchase price adjustments	—	1,663
Net cash used	(17,266)	(18,446)

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

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
	(Unaudited)	
FINANCING ACTIVITIES		
Deposits on policyholder account balances	$ 105,005	$ 117,547
Withdrawals from policyholder account balances	(102,614)	(106,783)
Net transfers from separate accounts	4,054	2,245
Change in other deposits	1,629	143
Cash dividends to stockholders	(5,229)	(5,229)
Net cash provided	2,845	7,923
Decrease in cash	(9,153)	(20,400)
Cash at beginning of year	14,234	31,689
Cash at end of period	$ 5,081	$ 11,289

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 and six months ended June 30, 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 June 30, 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 June 30, 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 $19.5 million at June 30, 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 first quarter of 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 and agents 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 Company and our agents are using electronic applications and modified underwriting requirements in our sales efforts.

The impact of the COVID-19 pandemic on our financial condition and results of operations continues to evolve. The duration and the severity depend on certain developments, including the effect of the pandemic on financial markets. 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.

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. The government continues to issue updates, modifications, and implementation guidance to the CARES Act, as well as other relief packages and support. 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 second quarter and first six months 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 and six months ended June 30, 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. The FASB continues to assess the effective date of this ASU. 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 June 30, 2020.

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
U.S. Treasury securities and obligations of U.S. Government	$ 166,591	$ 20,184	$ —	$ 186,775
Federal agency issued residential mortgage-backed securities [1]	102,879	12,692	—	115,571
Subtotal	269,470	32,876	—	302,346
Corporate obligations:				
Industrial	429,725	37,676	1,058	466,343
Energy	161,386	13,828	787	174,427
Communications and technology	223,685	27,535	12	251,208
Financial	388,846	38,901	1,070	426,677
Consumer	650,357	60,269	1,601	709,025
Public utilities	307,746	38,136	9	345,873
Subtotal	2,161,745	216,345	4,537	2,373,553
Corporate private-labeled residential mortgage-backed securities	16,114	1,475	—	17,589
Municipal securities	225,826	40,390	2	266,214
Other	72,642	1,598	1,510	72,730
Redeemable preferred stocks	11,500	186	—	11,686
Total	$ 2,757,297	$ 292,870	$ 6,049	$ 3,044,118

[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.

	June 30, 2020		December 31, 2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 137,078	$ 138,895	$ 131,443	$ 132,475
Due after one year through five years	813,306	870,409	771,772	802,526
Due after five years through ten years	991,697	1,104,466	1,061,818	1,131,759
Due after ten years	606,073	696,879	593,664	649,790
Securities with variable principal payments	197,643	221,783	206,658	222,511
Redeemable preferred stocks	11,500	11,686	11,501	12,076
Total	$ 2,757,297	$ 3,044,118	$ 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 June 30, 2020.

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agency issued residential mortgage-backed securities [1]	$ 10	$ —	$ 11	$ —	$ 21	$ —
Subtotal	10	—	11	—	21	—
Corporate obligations:						
Industrial	13,857	1,058	—	—	13,857	1,058
Energy	7,396	787	—	—	7,396	787
Communications and technology	3,081	12	—	—	3,081	12
Financial	22,221	334	5,155	736	27,376	1,070
Consumer	21,807	1,543	942	58	22,749	1,601
Public utilities	240	9	—	—	240	9
Subtotal	68,602	3,743	6,097	794	74,699	4,537
Municipal securities	1,008	2	—	—	1,008	2
Other	13,167	86	17,558	1,424	30,725	1,510
Total	$ 82,787	$ 3,831	$ 23,666	$ 2,218	$ 106,453	$ 6,049

[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.

	June 30, 2020	December 31, 2019
Below cost for less than one year	47	63
Below cost for one year or more and less than three years	3	6
Below cost for three years or more	3	14
Total	53	83

The unrealized losses at both June 30, 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 June 30, 2020.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	$ 93,321	$ 90,399	$ 2,922
Unrealized losses of 20% or less and greater than 10%	14,208	12,264	1,944
Subtotal	107,529	102,663	4,866
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	4,973	3,790	1,183
Twelve months or greater	—	—	—
Total investment grade	4,973	3,790	1,183
Below investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	—	—	—
Total below investment grade	—	—	—
Unrealized losses greater than 20%	4,973	3,790	1,183
Subtotal	112,502	106,453	6,049
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	$ 112,502	$ 106,453	$ 6,049

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 June 30, 2020.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AA	$ 17,129	16%	$ 1,402	23%
A	21,321	20%	184	3%
BBB	41,236	39%	2,198	37%
Total investment grade	79,686	75%	3,784	63%
BB	25,825	24%	2,207	36%
B and below	942	1%	58	1%
Total below investment grade	26,767	25%	2,265	37%
	$ 106,453	100%	$ 6,049	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 29% of the fair value of the total below investment grade securities at June 30, 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.

	June 30, 2020		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Corporate private-labeled residential MBS:			
Investment grade	$ 1,573	$ 1,570	$ 3
Below investment grade	16,016	14,544	1,472
Total residential & non-agency MBS	17,589	16,114	1,475
Other structured securities:			
Investment grade	72,730	72,642	88
Below investment grade	—	—	—
Total other structured securities	72,730	72,642	88
Total structured securities	$ 90,319	$ 88,756	$ 1,563

	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.

	Quarter Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Credit losses on securities held at beginning of the period	$ 3,884	$ 4,385	$ 4,445	$ 4,381
Additional credit losses on securities for which an other-than-temporary impairment was recognized	—	—	19	4
Reductions for securities sold	—	(471)	(580)	(471)
Credit losses on securities held at the end of the period	$ 3,884	$ 3,914	$ 3,884	$ 3,914

Investment Gains (Losses)

The following table provides detail concerning investment gains and losses.

	Quarter Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Gross gains resulting from:				
Sales of investment securities	$ 204	$ 65	$ 228	$ 65
Investment securities called and other	692	905	2,229	1,008
Real estate	14,889	1,086	14,889	1,780
Total gross gains	15,785	2,056	17,346	2,853
Gross losses resulting from:				
Sales of investment securities	—	(62)	(3)	(62)
Investment securities called and other	(8)	—	(75)	—
Sale of real estate and joint ventures	(11)	—	(11)	—
Total gross losses	(19)	(62)	(89)	(62)
Change in allowance for loan losses	42	73	(948)	126
Change in fair value:				
Equity securities	161	171	(136)	912
Derivative instruments	1,959	530	(1,524)	1,622
Total change in fair value	2,120	701	(1,660)	2,534
Net realized investment gains, excluding other-than-temporary impairment losses	17,928	2,768	14,649	5,451
Net impairment losses recognized in earnings:				
Other-than-temporary impairment losses on fixed maturity securities	—	—	—	—
Portion of loss recognized in other comprehensive income	—	—	(19)	(4)
Net other-than-temporary impairment losses recognized in earnings	—	—	(19)	(4)
Net investment gains	$ 17,928	$ 2,768	$ 14,630	$ 5,447

The portion of loss recognized in other comprehensive income represents the non-credit portion of current or prior other-than-temporary impairment. No other-than-temporary impairments were recorded in earnings during the quarter ended June 30, 2020. Other-than-temporary impairments recorded in earnings during the six months ended June 30, 2020 totaled less than $0.1 million. No other-than-temporary impairments were recorded in earnings during the quarter or six months ended June 30, 2019.

Proceeds from Sales of Investment Securities

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Proceeds	$ 5,889	$ 6,541	$ 10,321	$ 6,541

Mortgage Loans

Investments in mortgage loans totaled $583.6 million at June 30, 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 June 30, 2020 and $2.8 million at December 31, 2019. Our allowance remained essentially unchanged during the second quarter of 2020. We increased our allowance $1.0 million during the first quarter of 2020, primarily due to the deterioration in the general economic outlook as a result of the COVID-19 pandemic.

We had 15% of our total investments in commercial mortgage loans at both June 30, 2020 and 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 44% at June 30, 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 did not refinance any loans during the quarter ended June 30, 2020. We refinanced two loans with a total outstanding balance of $2.6 million during the six months ended June 30, 2020. We did not refinance any loans during the quarter or six months ended June 30, 2019.

At June 30, 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. As of June 30, 2020, no material contract modifications, deferrals, or forbearance agreements had been executed. However, we have agreed to certain principal and interest deferrals on a small portion of the mortgage loan portfolio and we continue to evaluate and support our borrowers.

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

Real Estate

Investments in real estate totaled $167.7 million at June 30, 2020, compared to $183.0 million at December 31, 2019. The decrease during 2020 was primarily due to the sale of a real estate property.

During the second quarter of 2020, certain tenants were granted real estate rent deferrals. We expect that these tenants will be brought current within the agreed-upon terms and will be returned to the original payment schedules. We continue to monitor our real estate portfolio regarding additional strain resulting from the current economic environment.

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.

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 17,412	$ 169,363	$ —	$ 186,775
Federal agency issued residential mortgage-backed securities [1]	—	115,571	—	115,571
Subtotal	17,412	284,934	—	302,346
Corporate obligations:				
Industrial	—	466,343	—	466,343
Energy	—	174,427	—	174,427
Communications and technology	—	251,208	—	251,208
Financial	—	426,677	—	426,677
Consumer	—	709,025	—	709,025
Public utilities	—	345,873	—	345,873
Subtotal	—	2,373,553	—	2,373,553
Corporate private-labeled residential mortgage-backed securities	—	17,589	—	17,589
Municipal securities	—	266,214	—	266,214
Other	—	72,730	—	72,730
Redeemable preferred stocks	—	11,686	—	11,686
Fixed maturity securities	17,412	3,026,706	—	3,044,118
Equity securities	376	7,693	—	8,069
Short-term investments	145,392	—	—	145,392
Other investments	—	3,178	—	3,178
Separate account assets	—	398,676	—	398,676
Total	$ 163,180	$ 3,436,253	$ —	$ 3,599,433
Percent of total	5%	95%	—%	100%
Liabilities:				
Policyholder account balances:				
Indexed universal life	$ —	$ —	$ 2,088	$ 2,088
Other policyholder funds:				
Guaranteed minimum withdrawal benefits	—	—	3,061	3,061
Separate account liabilities	—	398,676	—	398,676
Total	$ —	$ 398,676	$ 5,149	$ 403,825

[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 and six months ended June 30, 2020 are summarized below.

	Quarter Ended June 30, 2020			Six Months Ended June 30, 2020		
	Assets	Liabilities		Assets	Liabilities	
	Other Investments	Indexed Universal Life	GMWB	Other Investments	Indexed Universal Life	GMWB
Beginning balance	$ —	$ 429	$ 1,130	$ 4,363	$ 3,603	$ (959)
Included in earnings	—	1,659	2,058	(3,483)	(1,515)	4,656
Included in other comprehensive income	—	—	—	—	—	—
Purchases, issuances, sales and other dispositions:						
Purchases	—	—	—	807	—	—
Issuances	—	—	119	—	—	220
Sales	—	—	—	(894)	—	—
Other dispositions	—	—	(246)	—	—	(856)
Transfers out of Level 3	—	—	—	(793)	—	—
Ending balance	$ —	$ 2,088	$ 3,061	$ —	$ 2,088	$ 3,061

The changes in Level 3 guaranteed minimum withdrawal benefits liability measured at fair value on a recurring basis for the quarter and six months ended June 30, 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 June 30, 2019.

	Quarter Ended	Six Months Ended
	June 30, 2019	
Beginning balance	$ (3,168)	$ (3,648)
Included in earnings	1,421	1,556
Included in other comprehensive income	—	—
Purchases, issuances, sales and other dispositions:		
Purchases	—	—
Issuances	118	238
Sales	—	—
Other dispositions	111	336
Ending balance	$ (1,518)	$ (1,518)

Broker pricing for our derivatives uses observable inputs for similar publicly traded instruments. During the quarter ended March 31, 2020, they were transferred from Level 3 to Level 2. We did not have any transfers between any levels during the quarter ended June 30, 2020 or the quarter or six months ended June 30, 2019.

We use the Black Scholes valuation method, including parameters for market volatility, risk-free rate, and index level, for the $2.1 million indexed universal life liabilities categorized as Level 3 at June 30, 2020. 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 June 30, 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.

	June 30, 2020				
	Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Fixed maturity securities	$ 17,412	$ 3,026,706	$ —	$ 3,044,118	$ 3,044,118
Equity securities	376	7,693	—	8,069	8,069
Mortgage loans	—	—	605,897	605,897	583,564
Policy loans	—	—	85,845	85,845	85,845
Short-term investments	145,392	—	—	145,392	145,392
Other investments	—	3,178	—	3,178	3,178
Separate account assets	—	398,676	—	398,676	398,676
Liabilities:					
Individual and group annuities	—	—	1,067,736	1,067,736	1,086,072
Supplementary contracts and annuities without life contingencies	—	—	54,229	54,229	54,704
Policyholder account balances - indexed universal life	—	—	2,088	2,088	2,088
Other policyholder funds - GMWB	—	—	3,061	3,061	3,061
Separate account liabilities	—	398,676	—	398,676	398,676

	December 31, 2019				
	Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Fixed maturity securities	$ 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
Short-term investments	75,426	—	—	75,426	75,426
Other investments	—	—	4,363	4,363	4,363
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
Policyholder account balances - indexed universal life	—	—	3,603	3,603	3,603
Other policyholder funds - GMWB	—	—	(959)	(959)	(959)
Separate account liabilities	—	431,201	—	431,201	431,201

5. Financing Receivables

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

The following table identifies financing receivables by classification amount.

	June 30, 2020	December 31, 2019
Agent receivables, net (allowance $1,437; 2019 - $1,482)	$ 2,209	$ 2,432
Investment-related financing receivables:		
Mortgage loans, net (allowance $3,784; 2019 - $2,836)	583,564	577,699
Total financing receivables	$ 585,773	$ 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.

	June 30, 2020			December 31, 2019		
	Gross Receivables	Allowance	Net Receivables	Gross Receivables	Allowance	Net Receivables
Agent specific loans	$ 1,257	$ 584	$ 673	$ 1,245	$ 600	$ 645
Other agent receivables	2,389	853	1,536	2,669	882	1,787
Total	$ 3,646	$ 1,437	$ 2,209	$ 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.

	June 30, 2020	December 31, 2019
Beginning of year	$ 1,482	$ 1,496
Additions	2	50
Deductions	(47)	(64)
End of period	$ 1,437	$ 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.

	June 30, 2020	December 31, 2019
Mortgage loans collectively evaluated for impairment	$ 516,755	$ 508,501
Mortgage loans individually evaluated for impairment	70,593	72,034
Allowance for loan losses	(3,784)	(2,836)
Carrying value	$ 583,564	$ 577,699

There was one mortgage loan that was past due at June 30, 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 or six months ended June 30, 2020 or 2019.

The following table presents an aging schedule for delinquent payments for both principal and interest by property type at June 30, 2020.

		Amount of Payments Past Due			
	Book Value	30-59 Days	60-89 Days	> 90 Days	Total
Industrial	$ 3,998	$ 37	$ 37	$ —	$ 74
Office	—	—	—	—	—
Medical	—	—	—	—	—
Other	—	—	—	—	—
Total	$ 3,998	$ 37	$ 37	$ —	$ 74

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

	June 30, 2020	December 31, 2019
Beginning of year	$ 2,836	$ 3,129
Provision	1,163	139
Deductions	(215)	(432)
End of period	$ 3,784	$ 2,836

We increased the allowance for mortgage loan losses $0.9 million in the first six months of 2020, primarily due to the deterioration in the general economic outlook as a result of the COVID-19 pandemic.

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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Federal income tax credits realized	$ (424)	$ (652)	$ (849)	$ (1,304)
Amortization	296	375	591	749

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

The following table presents the carrying amount and maximum exposure to loss relating to VIEs for which we hold a variable interest, but are not the primary beneficiary, and which had not been consolidated at June 30, 2020 and December 31, 2019. The table includes investments in five real estate joint ventures and 15 affordable housing real estate joint ventures at June 30, 2020 and five real estate joint ventures and 16 affordable housing real estate joint ventures at December 31, 2019.

	June 30, 2020		December 31, 2019	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Real estate joint ventures	$ 21,370	$ 21,370	$ 21,224	$ 21,224
Affordable housing real estate joint ventures	3,604	28,393	4,213	29,818
Total	$ 24,974	$ 49,763	$ 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 June 30, 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 $21.2 million of losses which could be realized if the tax credits received by the VIEs were recaptured at June 30, 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 $108.0 million at June 30, 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 $3.1 million at June 30, 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 $398.7 million at June 30, 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 June 30, 2020 and December 31, 2019.

In addition, we have an assumed closed block of variable universal life and variable annuity business that totaled $312.0 million at June 30, 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 $31.6 million at both June 30, 2020 and December 31, 2019 are included in our general account as Policyholder Account Balances. The Future Policy Benefits for the assumed block approximated $0.5 million at June 30, 2020 and $0.6 million at 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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Gross liability at beginning of the period	$ 36,671	$ 38,232	$ 36,780	$ 36,453
Less reinsurance recoverable	(28,228)	(29,547)	(28,359)	(28,739)
Net liability at beginning of the period	8,443	8,685	8,421	7,714
Incurred benefits related to:				
Current year	3,229	7,399	10,273	14,463
Prior years [1]	(386)	(192)	(420)	200
Total incurred benefits	2,843	7,207	9,853	14,663
Paid benefits related to:				
Current year	3,446	6,690	7,819	10,775
Prior years	482	624	3,097	3,024
Total paid benefits	3,928	7,314	10,916	13,799
Net liability at end of the period	7,358	8,578	7,358	8,578
Reinsurance recoverable	26,833	28,507	26,833	28,507
Gross liability at end of the period	$ 34,191	$ 37,085	$ 34,191	$ 37,085

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

	Group Insurance Segment			
	Quarter Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Gross liability at beginning of the period	$ 32,372	$ 32,755	$ 32,169	$ 31,188
Less reinsurance recoverable	(24,165)	(24,316)	(23,983)	(23,796)
Net liability at beginning of the period	8,207	8,439	8,186	7,392
Incurred benefits related to:				
Current year	3,209	7,380	10,239	14,428
Prior years [1]	(406)	(180)	(445)	267
Total incurred benefits	2,803	7,200	9,794	14,695
Paid benefits related to:				
Current year	3,442	6,685	7,814	10,765
Prior years	432	610	3,030	2,978
Total paid benefits	3,874	7,295	10,844	13,743
Net liability at end of the period	7,136	8,344	7,136	8,344
Reinsurance recoverable	22,981	23,423	22,981	23,423
Gross liability at end of the period	$ 30,117	$ 31,767	$ 30,117	$ 31,767

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

The following table presents the reconciliation of amounts in the above tables to Policy and Contract Claims and claim reserves that are included in Future Policy Benefits as presented in the Consolidated Balance Sheets.

	June 30,	
	2020	2019
Individual Insurance Segment:		
Individual accident and health	$ 642	$ 666
Individual life	30,054	24,559
Deferred annuity	4,108	3,560
Subtotal	34,804	28,785
Group Insurance Segment:		
Group accident and health	30,117	31,767
Group life	3,781	1,972
Subtotal	33,898	33,739
Old American Segment:		
Individual accident and health	3,432	4,652
Individual life	8,406	7,072
Subtotal	11,838	11,724
Total	$ 80,540	$ 74,248

For short-duration contracts, incurred-but-not-reported liabilities for the group long-term disability product that were included in the liability for unpaid claims and claim adjustment expenses, net of reinsurance, totaled $0.6 million at both June 30, 2020 and December 31, 2019.

9. Debt

We had no notes payable outstanding at June 30, 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 June 30, 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 and six months ended June 30, 2020 and 2019.

We have unsecured revolving lines of credit with three major commercial banks that totaled $80.0 million at both June 30, 2020 and 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 2021. We anticipate renewing these lines of credit as they come due. One line of credit includes a $10.0 million portion that can be unconditionally canceled by the lending institution at its discretion at any time.

The Company has access to secured borrowings through repurchase agreements with two major financial counterparties. The Company had no transactions that occurred under these agreements during the first six months of 2020 and had no outstanding borrowings as of June 30, 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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Federal income tax rate	21 %	21 %	21 %	21 %
Tax credits, net of equity adjustment	(1)%	(5)%	(2)%	(6)%
Impact of CARES Act	—%	— %	(3)%	— %
Permanent differences and other	—%	2 %	2 %	3 %
Effective income tax rate	20 %	18 %	18 %	18 %

The following table provides information about taxes paid.

	Quarter Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Cash paid for income taxes	$ —	$ 500	$ —	$ 488

We had no material uncertain tax positions at June 30, 2020 or December 31, 2019.

At June 30, 2020, we had a current tax liability of $3.0 million and a $69.0 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 3% decrease in the effective tax rate noted above is primarily the result of our ability to carry back 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 June 30,		Quarter Ended June 30,	
	2020	2019	2020	2019
Service cost	$ —	$ —	$ 46	$ 42
Interest cost	873	1,153	144	166
Expected return on plan assets	(2,314)	(2,306)	—	—
Amortization of:				
Unrecognized actuarial net (gain) loss	630	719	(261)	(365)
Unrecognized prior service credit	(17)	(17)	—	—
Net periodic benefit credit	$ (828)	$ (451)	$ (71)	$ (157)

	Pension Benefits		OPEB	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Service cost	$ —	$ —	$ 92	$ 84
Interest cost	1,747	2,307	288	332
Expected return on plan assets	(4,628)	(4,612)	—	—
Amortization of:				
Unrecognized actuarial net (gain) loss	1,259	1,437	(521)	(729)
Unrecognized prior service credit	(33)	(33)	—	—
Net periodic benefit credit	$ (1,655)	$ (901)	$ (141)	$ (313)

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 six months of 2020 for the three-year interval ended December 31, 2019. During the first six months 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 six months of 2020 was less than $0.1 million, net of tax. The cost of share-based compensation accrued as an operating expense in the second quarter and first six months of 2019 was less than $0.1 million, net of tax.

13. Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income. Other comprehensive income 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 reflects these items net of tax.

The following tables provide information about comprehensive income.

	Quarter Ended June 30, 2020		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized gains arising during the period:			
Fixed maturity securities	$ 161,929	$ 34,005	$ 127,924
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	888	187	701
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive income	—	—	—
Net unrealized gains excluding impairment losses	161,041	33,818	127,223
Effect on DAC, VOBA, and DRL	(12,546)	(2,635)	(9,911)
Change in policyholder liabilities	(25,074)	(5,265)	(19,809)
Other comprehensive income	$ 123,421	$ 25,918	$ 97,503
Net income			16,969
Comprehensive income			$ 114,472

	Quarter Ended June 30, 2019		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized gains arising during the period:			
Fixed maturity securities	$ 67,360	$ 14,146	$ 53,214
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	908	190	718
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive income	—	—	—
Net unrealized gains excluding impairment losses	66,452	13,956	52,496
Effect on DAC, VOBA, and DRL	(5,824)	(1,223)	(4,601)
Change in policyholder liabilities	(8,610)	(1,808)	(6,802)
Other comprehensive income	$ 52,018	$ 10,925	$ 41,093
Net income			5,281
Comprehensive income			$ 46,374

	Six Months Ended June 30, 2020		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized gains arising during the period:			
Fixed maturity securities	$ 114,967	$ 24,143	$ 90,824
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	2,446	514	1,932
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive income	(19)	(4)	(15)
Net unrealized gains excluding impairment losses	112,540	23,633	88,907
Effect on DAC, VOBA, and DRL	(7,746)	(1,627)	(6,119)
Change in policyholder liabilities	(17,635)	(3,703)	(13,932)
Other comprehensive income	$ 87,159	$ 18,303	$ 68,856
Net income			17,119
Comprehensive income			$ 85,975

	Six Months Ended June 30, 2019		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized gains arising during the period:			
Fixed maturity securities	$ 139,232	$ 29,239	$ 109,993
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	1,011	212	799
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive income	(4)	(1)	(3)
Net unrealized gains excluding impairment losses	138,225	29,028	109,197
Effect on DAC, VOBA, and DRL	(12,632)	(2,653)	(9,979)
Change in policyholder liabilities	(16,101)	(3,381)	(12,720)
Other comprehensive income	$ 109,492	$ 22,994	$ 86,498
Net income			9,316
Comprehensive income			$ 95,814

The following table provides accumulated balances related to each component of accumulated other comprehensive income (loss) at June 30, 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	91,166	(342)	—	(6,119)	(13,932)	70,773
Amounts reclassified from accumulated other comprehensive income (loss)	(1,932)	15	—	—	—	(1,917)
Net current-period other comprehensive income (loss)	89,234	(327)	—	(6,119)	(13,932)	68,856
End of period	$ 225,498	$ 1,090	$ (45,330)	$ (18,834)	$ (34,062)	$ 128,362

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 period	$ 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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Reclassification adjustments related to unrealized gains (losses) on investment securities:				
Net realized investment gains, excluding impairment losses[1]	$ 888	$ 908	$ 2,446	$ 1,011
Income tax expense[2]	(187)	(190)	(514)	(212)
Net of taxes	701	718	1,932	799
Other-than-temporary impairment losses[1]	—	—	(19)	(4)
Income tax benefit[2]	—	—	4	1
Net of taxes	—	—	(15)	(3)
Total pre-tax reclassifications	888	908	2,427	1,007
Total income tax expense	(187)	(190)	(510)	(211)
Total reclassification, net taxes	$ 701	$ 718	$ 1,917	$ 796

[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 second quarters and six months ended June 30, 2020 and 2019 was 9,683,414. The number of shares outstanding at both June 30, 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 June 30, 2020			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 50,876	$ 15,708	$ 24,662	$ 91,246
Interest credited to policyholder account balances	19,176	—	—	19,176
Amortization of deferred acquisition costs	7,576	—	4,671	12,247
Income tax expense (benefit)	3,680	931	(272)	4,339
Net income	12,350	3,507	1,112	16,969

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

	Six Months Ended June 30, 2020			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 98,806	$ 31,530	$ 49,156	$ 179,492
Interest credited to policyholder account balances	38,669	—	—	38,669
Amortization of deferred acquisition costs	14,077	—	9,797	23,874
Income tax expense (benefit)	2,787	1,116	(125)	3,778
Net income (loss)	13,389	4,201	(471)	17,119

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

16. Commitments, Contingent Liabilities, Guarantees, and Indemnifications

Commitments
In the normal course of business, we have open purchase and sale commitments. At June 30, 2020, we had purchase commitments to fund mortgage loans of $9.9 million.

Subsequent to June 30, 2020 we entered into commitments to fund additional mortgage loans of $8.0 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 June 30, 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 is currently ongoing.

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 June 30, 2020 through July 30, 2020, the date the consolidated financial statements were issued, and have identified the following subsequent event.

On July 27, 2020, the Kansas City Life Board of Directors declared a quarterly dividend of $0.27 per share, payable on August 12, 2020 to stockholders of record on August 6, 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 and six months ended June 30, 2020.