KANSAS CITY LIFE INSURANCE COMPANY

A Missouri Corporation

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Kansas City, MO 64111-2565
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www.kclife.com
Investor Relations: Phil.Williams@kclife.com

SIC Code: 6311

QUARTERLY REPORT

For the Period Ending September 30, 2021
(the "Reporting Period")

The number of shares outstanding of our Common Stock was 9,683,414 as of September 30, 2021 (the end of reporting period)

The number of shares outstanding of our Common Stock was 9,683,414 as of June 30, 2021 (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 economic conditions, including the performance of financial markets and interest rates;
- Competition and changes in consumer behavior, which may affect our ability to sell our products and retain business;
- 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 catastrophic events such as natural disasters, pandemics, and terrorist attacks.

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: (816) 753-7000

Issuer's Website: *www.kclife.com*

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Item 2. Shares Outstanding

Common Stock

	September 30, 2021
Number of Shares Authorized	36,000,000
Number of Shares Outstanding	9,683,414
Freely Tradable Shares (Public Float)	2,568,223
Total Number of Shareholders of Record	129

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 September 30, 2021 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 2020 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 nine months ended September 30, 2021 and 2020 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, 2021.

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. On May 5, 2021, Kansas City Life entered into a definitive agreement to sell 100% of the capital and surplus of Sunset Life to Bona Holdings LLC. The Missouri Department of Commerce and Insurance has granted regulatory approval and the sale is expected to close in November of 2021.

The following is a discussion and analysis of the results of operations for the quarters and nine months ended September 30, 2021 and 2020 and our financial condition at September 30, 2021. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes included in this document, as well as our 2020 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 associated with reinsurance 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, supply chain shortages, decreased consumer confidence, and increased labor shortages. These conditions may persist into the future, affecting our financial position and financial statements. However, future conditions are highly uncertain and difficult to predict.

Consolidated Results of Operations

Summary of Results

We incurred a net loss of $6.0 million in the third quarter of 2021 compared to a net loss of $1.2 million in the third quarter of 2020. Net loss per share was $0.62 in the third quarter of 2021 compared to net loss per share of $0.13 in the same period in the prior year. Net loss for the first nine months of 2021 was $2.4 million compared to net income of $15.9 million in the first nine months of 2020. Net loss per share for the first nine months of 2021 was $0.25 compared to net income per share of $1.64 one year earlier.

The following table presents condensed consolidated results of operations for the quarters and nine months ended September 30, 2021 and 2020.

	Quarter Ended September 30,			Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Revenues:						
Insurance and other revenues	$ 85,094	$ 89,037	(4)%	$ 254,987	$ 271,320	(6)%
Net investment income	36,016	35,989	— %	108,117	108,883	(1)%
Net investment gains	172	2,979	(94)%	5,313	17,609	(70)%
Benefits and expenses:						
Policyholder benefits and interest credited to policyholder account balances	93,466	94,204	(1)%	267,903	264,138	1 %
Amortization of deferred acquisition costs	9,054	9,720	(7)%	25,313	33,594	(25)%
Operating expenses	25,751	25,109	3 %	77,566	80,211	(3)%
Income tax expense (benefit)	(983)	171	(675)%	23	3,949	(99)%
Net income (loss)	$ (6,006)	$ (1,199)	401 %	$ (2,388)	$ 15,920	(115)%

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 uses a sales approach which generally involves personal interaction with our clients. The COVID-19 pandemic has resulted in many challenges and disruptions for our sales approach. These challenges include meeting with customers in person and obtaining medical or other evidence of insurability in a socially distanced setting. This environment continues to evolve as the pandemic lengthens and has still not returned to historical levels. We continue to make strides to minimize the effects of this challenging environment by implementing more remote styles of client interaction, creating electronic applications, and streamlining medical examination requirements for underwriting.

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

	Quarter Ended September 30,			Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
New premiums:						
Traditional life insurance	$ 5,332	$ 6,014	(11)%	$ 16,095	$ 18,943	(15)%
Immediate annuities	5,015	5,791	(13)%	10,691	19,710	(46)%
Group life insurance	567	774	(27)%	1,852	2,152	(14)%
Group accident and health insurance	1,882	2,258	(17)%	5,663	7,036	(20)%
Total new premiums	12,796	14,837	(14)%	34,301	47,841	(28)%
Renewal premiums	67,905	66,808	2 %	203,688	199,682	2 %
Total premiums	80,701	81,645	(1)%	237,989	247,523	(4)%
Reinsurance ceded	(27,102)	(24,939)	9 %	(80,232)	(76,836)	4 %
Net premiums	$ 53,599	$ 56,706	(5)%	$ 157,757	$ 170,687	(8)%

Consolidated total premiums decreased $0.9 million or 1% in the third quarter of 2021 compared with the third quarter of 2020 as a $2.0 million or 14% decline in new premiums was partially offset by a $1.1 million or 2% increase in renewal premiums. The decline in new premiums included a $0.7 million or 11% decrease in new traditional life insurance premiums and a $0.8 million or 13% decrease in new immediate annuity premiums. Immediate annuity receipts can have sizeable fluctuations, as receipts from policyholders largely result from one-time premiums. Internal rollovers from various individual annuity products declined $1.2 million in the third quarter of 2021 compared to the third quarter of 2020. In addition, new group accident and health insurance premiums decreased $0.4 million or 17%, primarily from the dental and disability lines. Small and medium-sized businesses continue to be negatively impacted by the COVID-19 pandemic. Sales to these businesses have become more difficult, resulting in lower sales of our group accident and health products. The increase in renewal premiums largely resulted from a $0.6 million or 1% increase in renewal traditional life insurance premiums, primarily from the Old American segment. In addition, renewal group accident and health premiums increased $0.3 million or 3% compared to the prior year, largely from the disability line.

Consolidated total premiums decreased $9.5 million or 4% in the first nine months of 2021 compared with the first nine months of 2020, as a $13.5 million or 28% decline in new premiums was partially offset by a $4.0 million or 2% increase in renewal premiums. The decline in new premiums reflected a $2.8 million or 15% decrease in new traditional life insurance premiums and a $9.0 million or 46% decrease in new immediate annuity premiums. Internal rollovers from various individual annuity products declined $7.6 million in the first nine months of 2021 compared to one year earlier. In addition, new group accident and health insurance premiums decreased $1.4 million or 20%, largely from the dental and disability lines. The increase in renewal premiums primarily resulted from a $3.3 million or 2% increase in renewal traditional life insurance premiums, reflecting increases for both the Individual Insurance and Old American segments. In addition, renewal group accident and health premiums increased $0.4 million or 1%, largely from the disability line, and renewal group life premiums increased $0.4 million or 4%.

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 September 30,			Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
New deposits:						
Interest sensitive life	$ 2,262	$ 3,049	(26)%	$ 7,876	$ 8,266	(5)%
Fixed annuities	11,770	12,002	(2)%	29,148	33,028	(12)%
Variable annuities	3,187	6,054	(47)%	11,552	10,460	10 %
Total new deposits	17,219	21,105	(18)%	48,576	51,754	(6)%
Renewal deposits	35,571	37,022	(4)%	112,185	111,378	1 %
Total deposits	$ 52,790	$ 58,127	(9)%	$ 160,761	$ 163,132	(1)%

General economic conditions and interest rates available in the marketplace influence new deposits on interest sensitive products. In addition, fluctuations in the equity markets influence the variable life and 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 impacts have affected both new and renewal deposits.

Total new deposits declined $3.9 million or 18% in the third quarter of 2021 compared with the third quarter of 2020, reflecting a $2.9 million or 47% decrease in new variable annuity deposits and a $0.8 million or 26% decrease in new interest sensitive life deposits. Total renewal deposits declined $1.5 million or 4% in the third quarter of 2021 compared to the prior year, primarily resulting from a $1.1 million or 25% decrease in renewal deferred annuity deposits and a $0.5 million or 2% decrease in renewal interest sensitive life deposits.

Total new deposits decreased $3.2 million or 6% in the first nine months of 2021 compared with the first nine months of 2020. A $3.9 million or 12% decline in new fixed annuity deposits and a $0.4 million or 5% decline in new interest sensitive life deposits were partially offset by a $1.1 million or 10% increase in new variable annuity deposits. Total renewal deposits increased $0.8 million or 1% in the first nine months of 2021 compared to the prior year, largely reflecting a $1.0 million or 17% increase in renewal variable annuity deposits that was partially offset by a $0.3 million decrease in renewal interest sensitive life deposits.

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

Total contract charges decreased approximately $1.0 million or 3% in the third quarter of 2021 compared to one year earlier. Contract charges on open blocks decreased $0.7 million or 4% and reflected lower deferred revenue. Contract charges on closed blocks decreased $0.2 million or 2%, reflecting the runoff of the closed blocks of business. Total contract charges on closed blocks equaled 43% of total consolidated contract charges during the third quarter of 2021, up from 42% during the third quarter of 2020.

Total contract charges decreased $3.8 million or 4% in the first nine months of 2021 compared to the first nine months of 2020. Contract charges on open blocks decreased $2.8 million or 5% and reflected lower deferred revenue, largely resulting from unlocking. Unlocking increased deferred revenue $1.1 million in the second quarter of 2021 compared to an increase of $3.8 million in the second quarter of 2020. Contract charges on closed blocks decreased $1.0 million or 2%, reflecting the runoff of the closed blocks of business. Total contract charges on closed blocks equaled 42% of total consolidated contract charges during the first nine months of 2021, up from 41% in the first nine months of 2020.

Investment Revenues
Gross investment income decreased $0.5 million or 1% in the third quarter and $1.3 million or 1% in the first nine months of 2021 compared with the same periods of 2020, as higher average invested assets and an increase in prepayment fees on mortgage loans were offset by lower overall yields earned and available on certain investments.

Fixed maturity securities provide a majority of our investment income. Income from these investments decreased $1.1 million or 4% in the third quarter and $2.4 million or 3% in the first nine months of 2021 compared to the prior year as higher average invested assets were offset by lower yields earned.

Investment income from commercial mortgage loans increased $1.0 million or 16% in the third quarter and $2.5 million or 13% in the first nine months of 2021, reflecting an increase in prepayment fees and higher average mortgage loan balances that were partially offset by lower yields earned. There were no new deferrals or forbearance agreements granted on our mortgage loan portfolio related to the COVID-19 pandemic and the associated economic impacts during the third quarter or first nine months of 2021. However, we granted deferrals on certain mortgage loans in the second quarter of 2020. These mortgage loan deferrals have concluded and have been fully repaid in 2021. 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 declined $0.6 million or 10% in the third quarter and $1.0 million or 6% in the first nine months of 2021 compared to one year earlier, largely from the loss of revenue from a real estate property that was sold in 2020. There were no new forbearance agreements granted to tenants related to the COVID-19 pandemic during the third quarter or first nine months of 2021. However, forbearance agreements were granted to certain tenants in the second, third, and fourth quarters of 2020. The modified terms did not result in any defaults. These tenants were brought current within the agreed-upon terms and were returned to the original payment schedules during 2021. 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 third quarter of 2021 totaled $0.2 million compared to $3.0 million in the third quarter of 2020. The largest factor in the decrease in 2021 was the change in fair value of derivative instruments, which resulted in a gain of $0.1 million in the third quarter of 2021 compared to a gain of $1.5 million in the third quarter of 2020. In addition, investment securities sales and calls generated a net gain of $0.2 million in the third quarter of 2021, down from a net gain of $1.3 million in the third quarter of 2020.

Net investment gains for the first nine months of 2021 totaled $5.3 million compared to $17.6 million in the first nine months of 2020. The largest factor in the decrease in 2021 was the sale of a real estate property that generated a net gain of $14.9 million in the second quarter of 2020. Additionally, investment securities sales and calls generated a net gain of $2.7 million in the first nine months of 2021, down from a net gain of $3.7 million in the first nine months of 2020. Partially offsetting these, the change in fair value of derivative instruments resulted in a gain of $2.6 million in the first nine months of 2021 compared to a loss of less than $0.1 million in the first nine months of 2020. In addition, we increased our allowance for mortgage loan losses $1.0 million in the first nine months of 2020 with no similar increase during the first nine months of 2021. The increase in 2020 was primarily due to the outlook for the effect of the COVID-19 pandemic on the market. Subsequently, we reduced the allowance $0.9 million in the fourth quarter of 2020, as we updated our outlook on market conditions.

We recognized an impairment on the securities portfolio totaling $0.4 million during the third quarter and first nine months of 2021. We recognized an impairment on the securities portfolio of less than $0.1 million during the nine months ended September 30, 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 $0.8 million or 1% in the third quarter of 2021 compared to the prior year. This decrease reflected a $5.1 million or 51% decline in benefit and contract reserves and a $0.9 million or 5% decrease in other benefits, net of reinsurance. These were partially offset by a $5.2 million or 12% increase in death benefits, net of reinsurance. The largest factors in the decrease in benefit and contract reserves were the change in the fair value of derivative instruments and lower considerations on supplementary contracts compared to the prior year. Partially offsetting these, the increase in the fair value of the guaranteed minimum withdrawal benefits (GMWB) rider in the third quarter of 2021 compared with the prior year increased benefit and contract reserves. This change in fair value reflected an increase in longer-term interest rates that were partially offset by unfavorable capital market returns. The decrease in other benefits primarily reflected lower benefits from the dental line. The increase in net death benefits was heavily affected by the COVID-19 pandemic and its related impacts. Mortality cost resulting specifically from the COVID-19 pandemic was 8% of the total mortality cost for the third quarter of 2021. Mortality cost is defined as death benefits net of reinsurance and reserves released. Also contributing to the increase in net death benefits were lower ceded death benefits compared to the prior year.

Policyholder benefits increased $2.8 million or 1% in the first nine months of 2021 compared to the first nine months of 2020. This increase primarily resulted from an $18.1 million or 16% increase in death benefits, net of reinsurance, and a $3.6 million or 7% increase in other benefits, net of reinsurance. Partially offsetting these, benefit and contract reserves decreased $17.6 million or 59% and surrenders decreased $1.3 million or 16% compared to one year earlier. The increase in net death benefits was heavily affected by the COVID-19 pandemic and its related impacts. Mortality cost resulting specifically from the COVID-19 pandemic was 11% of the total mortality cost for the first nine months of 2021. The increase in other benefits reflected higher benefits from the dental and disability lines. The increase in dental benefits primarily relates to the lower benefits in 2020 resulting from the impact of the pandemic. The decrease in benefit and contract reserves reflected lower considerations on supplementary contracts and declines in the fair value of derivative instruments and the GMWB rider compared to the prior year. The decline in the fair value of the GMWB rider reflected an increase in longer-term interest rates and favorable capital market returns.

Amortization of DAC
The amortization of DAC decreased $0.7 million or 7% in the third quarter and $8.3 million or 25% in the first nine months of 2021 compared to the prior year. The decline in the third quarter reflected negative mortality experience that was partially offset by decreased investment performance in the separate accounts. The decline in the first nine months was largely attributable to unlocking and negative mortality experience. Unlocking, as discussed below, decreased amortization of DAC $0.4 million in 2021 compared to an increase of $5.2 million in 2020.

Unlocking
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.

The following tables summarize the effects of 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 occurred during the second quarters of 2021 and 2020. No unlocking occurred in the first or third quarters of 2021 or 2020.

	Nine Months Ended September 30, 2021			
	DAC Amortization	VOBA Amortization	DRL Contract Charges	Net Impact to Pre-Tax Income
Unlocking	$ 380	$ (822)	$ 1,137	$ 695

	Nine Months Ended September 30, 2020			
	DAC Amortization	VOBA Amortization	DRL Contract Charges	Net Impact to Pre-Tax Income
Unlocking	$ (5,219)	$ (1,593)	$ 3,838	$ (2,974)

The unlocking in 2021 resulted in a $0.7 million increase to pre-tax income in the first nine months of 2021. These adjustments primarily resulted from interest rate fluctuations and the impact of management actions in this low interest rate environment.

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

Operating Expenses
Operating expenses consist of incurred commission expense from the sale of insurance products, net of the deferral of certain commissions and certain expenses directly associated with the successful acquisition of new business, expenses from our operations, the amortization of VOBA and intangibles, and other expenses.

Operating expenses increased $0.6 million or 3% in the third quarter of 2021 compared to the third quarter of 2020, reflecting higher legal fees and higher commissions net of capitalization of deferrable expenses. These increases were partially offset by a decline in employee compensation expenses.

Operating expenses decreased $2.6 million or 3% in the first nine months of 2021 compared to one year earlier. This decline included reductions in legal fees, advertising, and outside labor. Also, we canceled our agent conferences for 2021, which reduced operating expenses. Partially offsetting these decreases were higher commissions net of capitalization of deferrable expenses. In addition, employee compensation expenses increased, primarily including a rise in the market value of our deferred compensation plans compared to the prior year.

The amortization of VOBA decreased $0.2 million or 45% in the third quarter and $1.5 million or 44% in the first nine months of 2021. The decrease in the third quarter was largely due to improved mortality experience. The decline in the first nine months was primarily due to unlocking, as discussed above, and improved mortality experience. Unlocking increased operating expenses $0.8 million in 2021 compared to an increase of $1.6 million in 2020.

Income Taxes

We recorded an income tax benefit of $1.0 million in the third quarter of 2021 compared to an income tax expense of $0.2 million in the third quarter of 2020. The decrease in income tax expense in the third quarter of 2021 compared to the prior year primarily occurred because of lower pretax income in 2021.

We recorded income tax expense for the nine months ended September 30, 2021 of less than $0.1 million compared to $3.9 million for the prior year period. The decrease in income tax expense in the first nine months of 2021 was primarily related to gains realized on the sale of a real estate property in the third quarter of 2020 and lower pretax income in 2021.

The effective income tax rate was lower than the prevailing corporate federal income tax rate of 21% for the third quarter of 2021. The lower effective income tax rate was primarily due to tax credits from affordable housing investments, research and development credits, and permanent differences, which includes the dividends-received deduction. The effective income tax rate was lower than the prevailing corporate federal income tax rate of 21% for the third quarter of 2020. The lower effective income tax rate was primarily due to tax credits from affordable housing investments, permanent differences, which includes the dividends-received deduction, and the impact of the Coronavirus Aid, Relief and Economic Security Act (CARES Act).

The effective income tax rate was lower than the prevailing corporate federal income tax rate of 21% for the nine months ended September 30, 2021. The lower effective income tax rate was primarily due to tax on capital gains that was partially offset by a net loss on operating income. The effective income tax rate was lower than the prevailing corporate federal income tax rate of 21% for the nine months ended September 30, 2020. The lower effective income tax rate was primarily due to tax credits from affordable housing investments, research and development credits, permanent differences, which includes the dividends-received deduction, and the impact of the CARES Act.

The CARES Act was intended to provide immediate economic assistance to both businesses and individuals. The CARES Act provided the opportunity to carry back net operating losses, accelerate the recoverability of any remaining Alternative Minimum Tax (AMT) credits, and provided more specific impacts associated with small business loans, payroll taxes, and other items. We were able to take advantage of certain aspects of the CARES Act in 2020, while many aspects did not apply to us. The aspects of the CARES Act that were beneficial to us in 2020 are no longer applicable in 2021. 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.

	September 30, 2021	% of Total	December 31, 2020	% of Total
Fixed maturity securities	$ 3,076,431	77 %	$ 3,118,980	76 %
Equity securities	6,835	— %	6,647	— %
Mortgage loans	613,309	16 %	601,607	15 %
Real estate	159,089	4 %	165,403	4 %
Policy loans	82,638	2 %	84,447	2 %
Short-term investments	50,888	1 %	119,116	3 %
Other investments	10,760	— %	10,838	—
Total	$ 3,999,950	100 %	$ 4,107,038	100 %

Fixed maturity securities were the largest component of total investments at both September 30, 2021 and December 31, 2020. The largest categories of fixed maturity securities at September 30, 2021 consisted of 79% in corporate obligations, 8% in municipal securities, and 5% in U.S. Treasury securities and obligations of the U.S. Government. We had 18% of the fixed maturity securities in private placements at September 30, 2021, up from 16% at December 31, 2020.

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 September 30, 2021 and 98% of total securities at December 31, 2020.

The fair value of fixed maturity securities with unrealized losses was $284.4 million at September 30, 2021 compared with $89.3 million at December 31, 2020. This increase primarily reflected higher interest rates at September 30, 2021. At September 30, 2021, 99% of security investments with an unrealized loss were investment grade and accounted for 100% of the total unrealized losses. At December 31, 2020, 95% of securities with an unrealized loss were investment grade and accounted for 77% of the total unrealized losses.

At September 30, 2021, we had $235.5 million in gross unrealized gains on fixed maturity securities that offset gross unrealized losses of $9.3 million. At December 31, 2020, we had $323.9 million in gross unrealized gains on fixed maturity securities that offset $3.0 million in gross unrealized losses. At September 30, 2021, 91% of the fixed maturity securities portfolio had unrealized gains, a decrease from 97% at December 31, 2020. We had an increase in gross unrealized losses in corporate obligations from December 31, 2020 to September 30, 2021, primarily due to changes in interest rates. Gross unrealized losses on fixed maturity securities for less than 12 months accounted for $6.2 million or 78% of the security values in a gross unrealized loss position at September 30, 2021. Gross unrealized losses on fixed maturity securities for less than 12 months totaled $1.4 million and accounted for 76% of the security values in a gross unrealized loss position at December 31, 2020. Gross unrealized losses on fixed maturity security investments of 12 months or longer increased from $1.6 million at December 31, 2020 to $3.0 million at September 30, 2021.

Residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities that were rated below investment grade were 6% of the total mortgage-backed and asset-backed securities at September 30, 2021 and 7% of the total mortgage-backed and asset-backed securities at December 31, 2020.

We have written down certain investments in previous periods. Fixed maturity securities written down and still owned at September 30, 2021 had a fair value of $12.7 million and net unrealized gains of $1.5 million, compared to the December 31, 2020 fair value of $13.6 million and net unrealized gains of $1.6 million. Additional information identified or further deterioration 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 2021 or 2020.

Investments in mortgage loans totaled $613.3 million at September 30, 2021, up from $601.6 million at December 31, 2020. The commercial mortgage loan portfolio increased $11.7 million during the first nine months of 2021, as new loan originations and refinancing activity 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 $2.9 million at both September 30, 2021 and December 31, 2020. As previously mentioned, we granted deferrals of principal and interest payments on certain mortgage loans during 2020. These mortgage loan deferrals have concluded and the repayments of these deferred amounts have been fully repaid in 2021.

Investments in real estate totaled $159.1 million at September 30, 2021, down from $165.4 million at December 31, 2020. The decrease in real estate is due primarily to real estate sales of $4.2 million. As previously mentioned, certain tenants were granted real estate rent deferrals during 2020. These tenants were brought current within the agreed-upon terms and were returned to the original payment schedules during 2021.

Liquidity and Capital Resources

Liquidity

We meet liquidity requirements generally through positive cash inflows 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. We have a spread-based investment program utilizing advances from the Federal Home Loan Bank of Des Moines (FHLB) to provide additional liquidity. 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 used from operating activities was $21.4 million for the nine months ended September 30, 2021. Net cash used from investing activities was $9.0 million for the nine months ended September 30, 2021. The primary sources of cash provided by investing activities were sales, maturities, calls, and principal paydowns of investments totaling $315.4 million. Investment purchases, including new fixed maturities and mortgage loans, totaled $392.1 million. Net cash provided by financing activities for the nine months ended September 30, 2021 was $27.8 million, including $28.5 million of deposits, net of withdrawals, on policyholder account balances, $5.0 million of net transfers from separate accounts, and a $2.1 million change in other deposits. These were partially offset by the payment of $7.8 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.

	September 30, 2021	December 31, 2020
Total assets, excluding separate accounts	$ 4,909,250	$ 4,999,971
Total stockholders' equity	835,799	908,739
Ratio of stockholders' equity to assets, excluding separate accounts	17%	18%

Stockholders' equity decreased $72.9 million from year-end 2020, primarily due to a decrease in net unrealized gains. This decrease reflected higher interest rates at September 30, 2021. Stockholders' equity per share, or book value, equaled $86.31 at September 30, 2021, a decrease from $93.84 at year-end 2020.

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 $134.3 million at September 30, 2021, a $62.7 million decrease from net unrealized gains on available securities of $197.0 million at December 31, 2020.

During the third quarter of 2021, the Company entered into a collateralized advance agreement with the FHLB, which matures in August of 2026. At September 30, 2021, total obligations outstanding under this agreement were $10.0 million and are reported as Policyholder Account Balances in the Consolidated Balance Sheets. Interest is credited based on variable rates set by the FHLB. Interest payments during the nine months ended September 30, 2021 were not material.

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 (NAIC). We believe these statutory limitations impose no practical restrictions on future dividend payment plans.

In January 2021, the Board of Directors authorized the purchase of up to one million of our shares on the open market through January 2022. No shares were purchased under this authorization during the first nine months of 2021.

On October 25, 2021, the Board of Directors declared a quarterly dividend of $0.27 per share payable on November 10, 2021 to stockholders of record on November 4, 2021.

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 titled "Contingent Liabilities" in Note 16 - Commitments, Contingent Liabilities, Guarantees, and Indemnifications of the financial statements in Exhibit 3.1.

Item 6. Defaults upon Senior Securities

None

Item 7. Other Information

None

Item 8. Exhibits

3.1 Interim Consolidated Financial Statements

Item 9. Issuer's Certifications

I, R. Philip Bixby, certify that:

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

Date: October 29, 2021

/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: October 29, 2021

/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

	September 30, 2021	December 31, 2020
	(Unaudited)	
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	$ 3,076,431	$ 3,118,980
Equity securities, at fair value	6,835	6,647
Mortgage loans	613,309	601,607
Real estate	159,089	165,403
Policy loans	82,638	84,447
Short-term investments	50,888	119,116
Other investments	10,760	10,838
Total investments	3,999,950	4,107,038
Cash	4,535	7,203
Accrued investment income	30,952	31,413
Deferred acquisition costs	287,690	276,425
Reinsurance recoverables	389,747	391,439
Other assets	196,376	186,453
Separate account assets	481,678	463,041
Total assets	$ 5,390,928	$ 5,463,012
LIABILITIES		
Future policy benefits	$ 1,397,694	$ 1,383,674
Policyholder account balances	2,235,288	2,231,640
Policy and contract claims	67,970	71,344
Other policyholder funds	182,795	175,131
Other liabilities	189,704	229,443
Separate account liabilities	481,678	463,041
Total liabilities	4,555,129	4,554,273
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	922,860	933,092
Accumulated other comprehensive income	90,094	152,802
Treasury stock, at cost (2021 and 2020 - 8,813,266 shares)	(241,301)	(241,301)
Total stockholders' equity	835,799	908,739
Total liabilities and stockholders' equity	$ 5,390,928	$ 5,463,012

See accompanying Notes to Consolidated Financial Statements (Unaudited)

Kansas City Life Insurance Company
Consolidated Statements of Comprehensive Income

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(Unaudited)		(Unaudited)	
REVENUES				
Insurance revenues:				
Net premiums	$ 53,599	$ 56,706	$ 157,757	$ 170,687
Contract charges	29,877	30,836	92,535	96,347
Total insurance revenues	83,476	87,542	250,292	267,034
Investment revenues:				
Net investment income	36,016	35,989	108,117	108,883
Net investment gains	172	2,979	5,313	17,609
Total investment revenues	36,188	38,968	113,430	126,492
Other revenues	1,618	1,495	4,695	4,286
Total revenues	121,282	128,005	368,417	397,812
BENEFITS AND EXPENSES				
Policyholder benefits	73,269	74,094	208,161	205,359
Interest credited to policyholder account balances	20,197	20,110	59,742	58,779
Amortization of deferred acquisition costs	9,054	9,720	25,313	33,594
Operating expenses	25,751	25,109	77,566	80,211
Total benefits and expenses	128,271	129,033	370,782	377,943
Income (loss) before income tax expense (benefit)	(6,989)	(1,028)	(2,365)	19,869
Income tax expense (benefit)	(983)	171	23	3,949
NET INCOME (LOSS)	$ (6,006)	$ (1,199)	$ (2,388)	$ 15,920
COMPREHENSIVE INCOME (LOSS), NET OF TAXES				
Changes in:				
Net unrealized gains (losses) on securities available for sale	$ (15,654)	$ 14,691	$ (74,843)	103,598
Effect on deferred acquisition costs, value of business acquired, and deferred revenue liabilities	1,143	(817)	5,871	(6,936)
Policyholder liabilities	1,913	(1,213)	6,264	(15,145)
Other comprehensive income (loss)	(12,598)	12,661	(62,708)	81,517
COMPREHENSIVE INCOME (LOSS)	$ (18,604)	$ 11,462	$ (65,096)	$ 97,437
Basic and diluted earnings per share:				
Net income (loss)	$ (0.62)	$ (0.13)	$ (0.25)	$ 1.64

See accompanying Notes to Consolidated Financial Statements (Unaudited)

Kansas City Life Insurance Company
Consolidated Statements of Cash Flows

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
	(Unaudited)	
OPERATING ACTIVITIES		
Net income (loss)	$ (2,388)	$ 15,920
Adjustments to reconcile net income (loss) to net cash provided by (used from) operating activities:		
Amortization of investment premium and discount	1,079	1,757
Depreciation and amortization	5,935	6,479
Acquisition costs capitalized	(28,056)	(33,371)
Amortization of deferred acquisition costs	25,313	33,594
Net investment gains	(5,313)	(17,609)
Changes in assets and liabilities:		
Reinsurance recoverables	1,692	(11,758)
Future policy benefits	21,705	27,052
Policyholder account balances	(29,194)	(24,948)
Income taxes payable and deferred	(7,271)	(1,851)
Other, net	(4,914)	6,926
Net cash provided (used)	(21,412)	2,191
INVESTING ACTIVITIES		
Purchases:		
Fixed maturity securities	(287,954)	(244,860)
Equity securities	(259)	(380)
Mortgage loans	(93,042)	(50,068)
Real estate	(776)	(2,297)
Policy loans	(6,175)	(6,689)
Other investments	(3,911)	(2,860)
Property and equipment	(560)	(1,514)
Sales or maturities, calls, and principal paydowns:		
Fixed maturity securities	215,249	262,038
Equity securities	—	5,000
Mortgage loans	81,301	38,898
Real estate	4,202	29,751
Policy loans	7,984	9,625
Other investments	6,616	2,819
Property and equipment	70	—
Net sales (purchases) of short-term investments	68,229	(61,966)
Net cash used	(9,026)	(22,503)

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

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
	(Unaudited)	
FINANCING ACTIVITIES		
Deposits on policyholder account balances	$ 170,761	$ 163,132
Withdrawals from policyholder account balances	(142,280)	(151,252)
Net transfers from separate accounts	5,042	5,920
Change in other deposits	2,091	4,104
Cash dividends to stockholders	(7,844)	(7,844)
Net cash provided	27,770	14,060
Decrease in cash	(2,668)	(6,252)
Cash at beginning of year	7,203	14,234
Cash at end of period	$ 4,535	$ 7,982

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) - see Business Changes section below, 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 2020 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 nine months ended September 30, 2021 and 2020 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. Amounts are stated in thousands, except share data, security counts, or as otherwise noted.

COVID-19 Pandemic

The global outbreak of COVID-19 was classified as a pandemic during the first quarter of 2020. 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. Certain financial impacts occurred in 2021 and 2020 as a result of the COVID-19 pandemic, including increased policyholder benefit payments, largely from death benefits; reduced investment income from lower available interest rates; and fluctuations in certain operating expenses. Other negative financial impacts that could occur include, but are not limited to: asset impairments; defaults, delinquencies or deferrals on the Company’s mortgage loan and real estate portfolios; a reduction in sales; additional increases in policyholder benefits; and increases in certain operating expenses.

Business Changes

On May 5, 2021, Kansas City Life entered into a definitive agreement to sell 100% of the capital and surplus of Sunset Life to Bona Holdings LLC. The Missouri Department of Commerce and Insurance has granted regulatory approval and the sale is expected to close in November of 2021 with a net gain of approximately $5.5 million.

Significant Accounting Policies

Please refer to our 2020 Annual Report for a full discussion of our significant accounting policies. No significant updates or changes to these policies occurred during the quarter or nine months ended September 30, 2021.

2. New Accounting Pronouncements

Accounting Pronouncements Issued, Not Yet Adopted

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 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 assets 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, for public business entities that are not U.S. Securities and Exchange Commission (SEC) filers was for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. The FASB deferred the effective date of this guidance for public business entities that do not meet the definition of an SEC filer 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 requires insurance entities to (1) review and update the assumptions used to measure cash flows at least annually and (2) update the discount rate assumption at each reporting date. The change in the liability estimate as a result of updating cash flow assumptions is required to be recognized in net income. The change in the liability estimate as a result of updating the discount rate assumption is required to be recognized in other comprehensive income. Expected future cash flows are required to be discounted at an upper-medium grade (low-credit-risk) fixed income instrument yield that maximizes the use of observable market inputs.

- 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. The portion of any change in fair value attributable to a change in the instrument-specific credit risk is required to be recognized in other comprehensive income.

- It simplifies the amortization of deferred acquisition costs by requiring amortization on a constant level basis over the expected term of the related contracts. Deferred acquisition costs are required to be written off for unexpected contract terminations but are not subject to an impairment test.

- It improves the effectiveness of the required disclosures. It requires an insurance entity to provide disaggregated rollforwards of beginning to ending balances of the liability for future policy benefits, policyholder account balances, market risk benefits, separate account liabilities, and deferred acquisition costs. It also requires disclosures regarding significant inputs, judgments, assumptions, and methods used in measurement, including changes in those inputs, judgments, and assumptions, and the effect of those changes on measurement.

The original effective date for this guidance was for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The FASB deferred the effective date of this guidance to fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025. We are currently evaluating this guidance.

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

3. Investments

Fixed Maturity Securities

Securities by Asset Class

The following table provides amortized cost and fair value of fixed maturity securities by asset class at September 30, 2021.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 153,957	$ 15,289	$ 92	$ 169,154
Federal agency issued residential mortgage-backed securities [1]	72,867	5,847	—	78,714
Subtotal	226,824	21,136	92	247,868
Corporate obligations:				
Industrial	419,613	28,643	1,390	446,866
Energy	155,203	12,379	25	167,557
Communications and technology	237,911	20,690	973	257,628
Financial	442,820	33,388	1,298	474,910
Consumer	655,049	47,021	2,819	699,251
Public utilities	340,630	30,609	1,400	369,839
Subtotal	2,251,226	172,730	7,905	2,416,051
Corporate private-labeled residential mortgage-backed securities	11,612	1,558	7	13,163
Municipal securities	219,845	38,130	310	257,665
Other	137,673	1,743	942	138,474
Redeemable preferred stocks	3,000	210	—	3,210
Total	$ 2,850,180	$ 235,507	$ 9,256	$ 3,076,431

[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, 2020.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 161,524	$ 19,910	$ 5	$ 181,429
Federal agency issued residential mortgage-backed securities [1]	95,934	9,976	—	105,910
Subtotal	257,458	29,886	5	287,339
Corporate obligations:				
Industrial	431,133	42,211	72	473,272
Energy	157,735	16,128	252	173,611
Communications and technology	221,551	28,844	16	250,379
Financial	420,577	46,226	572	466,231
Consumer	641,557	66,517	528	707,546
Public utilities	327,993	44,958	174	372,777
Subtotal	2,200,546	244,884	1,614	2,443,816
Corporate private-labeled residential mortgage-backed securities	14,568	1,670	—	16,238
Municipal securities	218,709	45,014	5	263,718
Other	103,709	2,288	1,334	104,663
Redeemable preferred stocks	3,000	206	—	3,206
Total	$ 2,797,990	$ 323,948	$ 2,958	$ 3,118,980

[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.

	September 30, 2021		December 31, 2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 131,737	$ 133,968	$ 119,638	$ 121,163
Due after one year through five years	848,496	909,730	852,605	924,353
Due after five years through ten years	890,634	960,656	930,841	1,048,706
Due after ten years	820,022	897,369	704,520	812,915
Securities with variable principal payments	156,291	171,498	187,386	208,637
Redeemable preferred stocks	3,000	3,210	3,000	3,206
Total	$ 2,850,180	$ 3,076,431	$ 2,797,990	$ 3,118,980

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 2020 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 September 30, 2021.

	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	$ 4,413	$ 92	$ —	$ —	$ 4,413	$ 92
Federal agency issued residential mortgage-backed securities [1]	—	—	3	—	3	—
Subtotal	4,413	92	3	—	4,416	92
Corporate obligations:						
Industrial	35,606	1,122	8,639	268	44,245	1,390
Energy	—	—	2,137	25	2,137	25
Communications and technology	24,598	582	6,329	391	30,927	973
Financial	32,615	795	15,813	503	48,428	1,298
Consumer	71,054	2,174	14,661	645	85,715	2,819
Public utilities	32,832	1,141	3,050	259	35,882	1,400
Subtotal	196,705	5,814	50,629	2,091	247,334	7,905
Corporate private-labeled residential mortgage-backed securities	128	7	—	—	128	7
Municipal securities	17,686	310	—	—	17,686	310
Other	3,294	5	11,563	937	14,857	942
Total	$ 222,226	$ 6,228	$ 62,195	$ 3,028	$ 284,421	$ 9,256

[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, 2020.

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government	$ 1,917	$ 5	$ —	$ —	$ 1,917	$ 5
Federal agency issued residential mortgage-backed securities [1]	—	—	8	—	8	—
Subtotal	1,917	5	8	—	1,925	5
Corporate obligations:						
Industrial	10,613	72	—	—	10,613	72
Energy	4,277	252	—	—	4,277	252
Communications and technology	2,442	16	—	—	2,442	16
Financial	15,023	324	5,643	248	20,666	572
Consumer	12,819	528	—	—	12,819	528
Public utilities	12,202	174	—	—	12,202	174
Subtotal	57,376	1,366	5,643	248	63,019	1,614
Municipal securities	1,218	5	—	—	1,218	5
Other	6,935	21	16,188	1,313	23,123	1,334
Total	$ 67,446	$ 1,397	$ 21,839	$ 1,561	$ 89,285	$ 2,958

[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.

	September 30, 2021	December 31, 2020
Below cost for less than one year	142	41
Below cost for one year or more and less than three years	33	4
Below cost for three years or more	—	—
Total	175	45

We do not consider the unrealized losses related to these securities to be credit-related. The unrealized losses at both September 30, 2021 and December 31, 2020 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 September 30, 2021.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	$ 290,702	$ 281,768	$ 8,934
Unrealized losses of 20% or less and greater than 10%	2,975	2,653	322
Subtotal	293,677	284,421	9,256
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	293,677	284,421	9,256
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	$ 293,677	$ 284,421	$ 9,256

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

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	$ 88,214	$ 85,919	$ 2,295
Unrealized losses of 20% or less and greater than 10%	1,983	1,780	203
Subtotal	90,197	87,699	2,498
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	2,046	1,586	460
Twelve months or greater	—	—	—
Total investment grade	2,046	1,586	460
Below investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	—	—	—
Total below investment grade	—	—	—
Unrealized losses greater than 20%	2,046	1,586	460
Subtotal	92,243	89,285	2,958
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	$ 92,243	$ 89,285	$ 2,958

The following table provides information on fixed maturity securities available for sale with unrealized losses by actual or equivalent Standard & Poor's rating at September 30, 2021.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	$ 11,148	4 %	$ 167	2 %
AA	38,897	14 %	1,511	16 %
A	106,028	37 %	3,981	43 %
BBB	126,261	44 %	3,590	39 %
Total investment grade	282,334	99 %	9,249	100 %
BB	128	— %	7	— %
B and below	1,959	1 %	—	— %
Total below investment grade	2,087	1 %	7	— %
	$ 284,421	100 %	$ 9,256	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, 2020.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	$ 4,997	6 %	$ —	— %
AA	26,847	30 %	1,609	54 %
A	23,219	26 %	263	9 %
BBB	29,407	33 %	408	14 %
Total investment grade	84,470	95 %	2,280	77 %
BB	3,229	3 %	218	7 %
B and below	1,586	2 %	460	16 %
Total below investment grade	4,815	5 %	678	23 %
	$ 89,285	100 %	$ 2,958	100 %

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.

	September 30, 2021		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Corporate private-labeled residential mortgage-backed securities:			
Investment grade	$ 1,520	$ 1,515	$ 5
Below investment grade	11,643	10,097	1,546
Total residential & non-agency mortgage-backed securities	13,163	11,612	1,551
Other structured securities:			
Investment grade	138,474	137,673	801
Below investment grade	—	—	—
Total other structured securities	138,474	137,673	801
Total structured securities	$ 151,637	$ 149,285	$ 2,352

	December 31, 2020		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Corporate private-labeled residential mortgage-backed securities:			
Investment grade	$ 1,575	$ 1,573	$ 2
Below investment grade	14,663	12,995	1,668
Total residential & non-agency mortgage-backed securities	16,238	14,568	1,670
Other structured securities:			
Investment grade	104,663	103,709	954
Below investment grade	—	—	—
Total other structured securities	104,663	103,709	954
Total structured securities	$ 120,901	$ 118,277	$ 2,624

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

	Quarter Ended September 30, 2021	Quarter Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Credit losses on securities held at beginning of the period	$ 3,899	$ 3,884	$ 3,884	$ 4,445
Additional credit losses on securities for which an other-than-temporary impairment was recognized	387	—	402	19
Reductions for securities sold	(370)	—	(370)	(580)
Credit losses on securities held at the end of the period	$ 3,916	$ 3,884	$ 3,916	$ 3,884

Investment Gains (Losses)

The following table provides detail concerning investment gains and losses.

	Quarter Ended September 30, 2021	Quarter Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Gross gains resulting from:				
Sales of investment securities	$ —	$ 57	$ 311	$ 285
Investment securities called and other	191	1,296	2,727	3,525
Sales of real estate and joint ventures	279	—	518	14,889
Total gross gains	470	1,353	3,556	18,699
Gross losses resulting from:				
Sales of investment securities	—	(2)	(6)	(5)
Investment securities called and other	(5)	(4)	(324)	(79)
Sales of real estate and joint ventures	—	—	(50)	(11)
Total gross losses	(5)	(6)	(380)	(95)
Change in allowance for loan losses	72	(13)	(17)	(961)
Change in fair value:				
Equity securities	(69)	135	(71)	(1)
Derivative instruments	91	1,510	2,627	(14)
Total change in fair value	22	1,645	2,556	(15)
Net realized investment gains, excluding other-than-temporary impairment losses	559	2,979	5,715	17,628
Net impairment losses recognized in earnings:				
Other-than-temporary impairment losses on fixed maturity securities	(387)	—	(387)	—
Portion of loss recognized in other comprehensive income (loss)	—	—	(15)	(19)
Net other-than-temporary impairment losses recognized in earnings	(387)	—	(402)	(19)
Net investment gains	$ 172	$ 2,979	$ 5,313	$ 17,609

The portion of loss recognized in other comprehensive income (loss) represents the non-credit portion of current or prior other-than-temporary impairment. Other-than-temporary impairments recorded in earnings during the quarter and nine months ended September 30, 2021 totaled $0.4 million. Other-than-temporary impairments recorded in earnings during the quarter and nine months ended September 30, 2020 totaled less than $0.1 million.

Proceeds from Sales of Investment Securities

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Proceeds	$ —	$ 8,578	$ 8,882	$ 18,899

Mortgage Loans

Investments in mortgage loans totaled $613.3 million at September 30, 2021, compared to $601.6 million at December 31, 2020. 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 $2.9 million at both September 30, 2021 and December 31, 2020.

Commercial mortgage loans represented 16% of our total investments at September 30, 2021, up slightly from 15% at December 31, 2020. 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 47% at September 30, 2021 and 46% at December 31, 2020. This ratio is based upon the current balance of loans relative to the appraisal of value at the time the loan was originated or acquired. Additionally, we may receive fees when borrowers prepay their mortgage loans. For additional information on mortgage loans, please see Note 5 - Financing Receivables.

We may refinance commercial mortgage loans prior to contractual maturity as a means of retaining loans that meet our underwriting and pricing parameters. We refinanced two loans with a total outstanding balance of $2.1 million during the quarter ended September 30, 2021. We refinanced nine loans with a total outstanding balance of $14.5 million during the nine months ended September 30, 2021. We did not refinance any loans during the quarter ended September 30, 2020. We refinanced two loans with a total outstanding balance of $2.6 million during the nine months ended September 30, 2020.

At September 30, 2021, we did not have any loan defaults. However, we continue to work with our borrowers to understand the potential strain resulting from the current economic environment. As of September 30, 2021, no material contract modifications, deferrals, or forbearance agreements had been executed. However, certain short-term deferrals of principal and interest on a small portion of the mortgage loan portfolio were granted during 2020 related to the COVID-19 pandemic and the associated economic impacts. The mortgage loan deferrals that were granted in 2020 have concluded and have been fully repaid in 2021. We continue to closely monitor our mortgage loan portfolio and work closely with borrowers who are negatively impacted by the COVID-19 pandemic.

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 $159.1 million at September 30, 2021, compared to $165.4 million at December 31, 2020.

During 2020, certain tenants were granted real estate rent deferrals. These tenants were brought current within the agreed-upon terms and have returned to the original payment schedules during 2021. 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 2020 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.

	September 30, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 15,921	$ 153,233	$ —	$ 169,154
Federal agency issued residential mortgage-backed securities [1]	—	78,714	—	78,714
Subtotal	15,921	231,947	—	247,868
Corporate obligations:				
Industrial	—	446,866	—	446,866
Energy	—	167,557	—	167,557
Communications and technology	—	257,628	—	257,628
Financial	—	474,910	—	474,910
Consumer	—	699,251	—	699,251
Public utilities	—	369,839	—	369,839
Subtotal	—	2,416,051	—	2,416,051
Corporate private-labeled residential mortgage-backed securities	—	13,163	—	13,163
Municipal securities	—	257,665	—	257,665
Other	—	138,474	—	138,474
Redeemable preferred stocks	—	3,210	—	3,210
Fixed maturity securities	15,921	3,060,510	—	3,076,431
Equity securities	407	6,428	—	6,835
Short-term investments	50,888	—	—	50,888
Other investments	—	5,365	—	5,365
Separate account assets	—	481,678	—	481,678
Total	$ 67,216	$ 3,553,981	$ —	$ 3,621,197
Percent of total	2 %	98 %	— %	100 %
Liabilities:				
Policyholder account balances:				
Indexed universal life	$ —	$ —	$ 4,966	$ 4,966
Other policyholder funds:				
Guaranteed minimum withdrawal benefits	—	—	239	239
Separate account liabilities	—	481,678	—	481,678
Total	$ —	$ 481,678	$ 5,205	$ 486,883

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

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 16,192	$ 165,237	$ —	$ 181,429
Federal agency issued residential mortgage-backed securities [1]	—	105,910	—	105,910
Subtotal	16,192	271,147	—	287,339
Corporate obligations:				
Industrial	—	473,272	—	473,272
Energy	—	173,611	—	173,611
Communications and technology	—	250,379	—	250,379
Financial	—	466,231	—	466,231
Consumer	—	707,546	—	707,546
Public utilities	—	372,777	—	372,777
Subtotal	—	2,443,816	—	2,443,816
Corporate private-labeled residential mortgage-backed securities	—	16,238	—	16,238
Municipal securities	—	263,718	—	263,718
Other	—	104,663	—	104,663
Redeemable preferred stocks	—	3,206	—	3,206
Fixed maturity securities	16,192	3,102,788	—	3,118,980
Equity securities	396	6,251	—	6,647
Short-term investments	119,116	—	—	119,116
Other investments	—	5,946	—	5,946
Separate account assets	—	463,041	—	463,041
Total	$ 135,704	$ 3,578,026	$ —	$ 3,713,730
Percent of total	4 %	96 %	— %	100 %
Liabilities:				
Policyholder account balances:				
Indexed universal life	$ —	$ —	$ 5,402	$ 5,402
Other policyholder funds:				
Guaranteed minimum withdrawal benefits	—	—	2,201	2,201
Separate account liabilities	—	463,041	—	463,041
Total	$ —	$ 463,041	$ 7,603	$ 470,644

[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 are summarized below.

	Quarter Ended September 30, 2021			Nine Months Ended September 30, 2021		
	Assets	Liabilities		Assets	Liabilities	
	Other Investments	Indexed Universal Life	GMWB	Other Investments	Indexed Universal Life	GMWB
Beginning balance	$ —	$ 6,198	$ 134	$ —	$ 5,402	$ 2,201
Included in earnings	—	(1,232)	(79)	—	(436)	(2,724)
Included in other comprehensive income (loss)	—	—	—	—	—	—
Purchases, issuances, sales and other dispositions:						
Purchases	—	—	—	—	—	—
Issuances	—	—	197	—	—	856
Sales	—	—	—	—	—	—
Other dispositions	—	—	(13)	—	—	(94)
Transfers out of Level 3	—	—	—	—	—	—
Ending balance	$ —	$ 4,966	$ 239	$ —	$ 4,966	$ 239

	Quarter Ended September 30, 2020			Nine Months Ended September 30, 2020		
	Assets	Liabilities		Assets	Liabilities	
	Other Investments	Indexed Universal Life	GMWB	Other Investments	Indexed Universal Life	GMWB
Beginning balance	$ —	$ 2,088	$ 3,061	$ 4,363	$ 3,603	$ (959)
Included in earnings	—	1,803	(690)	(3,483)	288	3,966
Included in other comprehensive income (loss)	—	—	—	—	—	—
Purchases, issuances, sales and other dispositions:						
Purchases	—	—	—	807	—	—
Issuances	—	—	635	—	—	854
Sales	—	—	—	(894)	—	—
Other dispositions	—	—	(215)	—	—	(1,070)
Transfers out of Level 3	—	—	—	(793)	—	—
Ending balance	$ —	$ 3,891	$ 2,791	$ —	$ 3,891	$ 2,791

We did not have any transfers between any levels during the quarter or nine months ended September 30, 2021. 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 other transfers during the quarter or nine months ended September 30, 2020.

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

The GMWB liability is sensitive to changes in observable and unobservable inputs. Observable inputs include risk-free rates, index returns, volatilities, and correlations. Increases in risk-free rates and equity returns reduce the liability, while increases in volatilities increase the liability. Unobservable inputs include mortality, lapse, benefit utilization, and nonperformance risk adjustments. Increases in mortality, lapses, and credit spreads used for nonperformance risk reduce the liability, while increases in benefit utilization increase the liability. Please refer to our 2020 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 September 30, 2021.

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.

	September 30, 2021				
	Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Fixed maturity securities	$ 15,921	$ 3,060,510	$ —	$ 3,076,431	$ 3,076,431
Equity securities	407	6,428	—	6,835	6,835
Mortgage loans	—	—	635,831	635,831	613,309
Policy loans	—	—	82,638	82,638	82,638
Short-term investments	50,888	—	—	50,888	50,888
Other investments	—	5,365	—	5,365	5,365
Separate account assets	—	481,678	—	481,678	481,678
Liabilities:					
Individual and group annuities	—	—	1,074,923	1,074,923	1,092,757
Supplementary contracts and annuities without life contingencies	—	—	55,009	55,009	55,597
Policyholder account balances - indexed universal life	—	—	4,966	4,966	4,966
Other policyholder funds - GMWB	—	—	239	239	239
Separate account liabilities	—	481,678	—	481,678	481,678

	December 31, 2020				
	Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Fixed maturity securities	$ 16,192	$ 3,102,788	$ —	$ 3,118,980	$ 3,118,980
Equity securities	396	6,251	—	6,647	6,647
Mortgage loans	—	—	634,336	634,336	601,607
Policy loans	—	—	84,447	84,447	84,447
Short-term investments	119,116	—	—	119,116	119,116
Other investments	—	5,946	—	5,946	5,946
Separate account assets	—	463,041	—	463,041	463,041
Liabilities:					
Individual and group annuities	—	—	1,071,186	1,071,186	1,089,134
Supplementary contracts and annuities without life contingencies	—	—	52,547	52,547	52,950
Policyholder account balances - indexed universal life	—	—	5,402	5,402	5,402
Other policyholder funds - GMWB	—	—	2,201	2,201	2,201
Separate account liabilities	—	463,041	—	463,041	463,041

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.

	September 30, 2021	December 31, 2020
Agent receivables, net (allowance $1,009; 2020 - $1,084)	$ 2,208	$ 2,184
Investment-related financing receivables:		
Mortgage loans, net (allowance $2,871; 2020 - $2,854)	613,309	601,607
Total financing receivables	$ 615,517	$ 603,791

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.

	September 30, 2021			December 31, 2020		
	Gross Receivables	Allowance	Net Receivables	Gross Receivables	Allowance	Net Receivables
Agent specific loans	$ 841	$ 265	$ 576	$ 914	$ 289	$ 625
Other agent receivables	2,376	744	1,632	2,354	795	1,559
Total	$ 3,217	$ 1,009	$ 2,208	$ 3,268	$ 1,084	$ 2,184

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

	September 30, 2021	December 31, 2020
Beginning of year	$ 1,084	$ 1,482
Additions	36	44
Deductions	(111)	(442)
End of period	$ 1,009	$ 1,084

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.

	September 30, 2021	December 31, 2020
Mortgage loans collectively evaluated for impairment	$ 580,166	$ 551,240
Mortgage loans individually evaluated for impairment	36,014	53,221
Allowance for loan losses	(2,871)	(2,854)
Carrying value	$ 613,309	$ 601,607

There were no mortgage loans that were past due at September 30, 2021.

There was one mortgage loan that was past due at December 31, 2020. This mortgage loan was paid off during the first quarter of 2021. The following table presents an aging schedule for delinquent payments for both principal and interest by property type at December 31, 2020.

		Amount of Payments Past Due			
	Book Value	30-59 Days	60-89 Days	> 90 Days	Total
Industrial	$ 3,903	$ 83	$ 83	$ 165	$ 331
Office	—	—	—	—	—
Retail	—	—	—	—	—
Other	—	—	—	—	—
Total	$ 3,903	$ 83	$ 83	$ 165	$ 331

We had no troubled debt restructurings during the quarters or nine months ended September 30, 2021 or 2020.

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

	September 30, 2021	December 31, 2020
Beginning of year	$ 2,854	$ 2,836
Provision	495	542
Deductions	(478)	(524)
End of period	$ 2,871	$ 2,854

Please refer to our 2020 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 2020 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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Federal income tax credits realized	$ 230	$ 424	$ 690	$ 1,273
Amortization	206	296	620	887

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 September 30, 2021 and December 31, 2020. The table includes investments in five real estate joint ventures and seven affordable housing real estate joint ventures at September 30, 2021 and five real estate joint ventures and eight affordable housing real estate joint ventures at December 31, 2020.

	September 30, 2021		December 31, 2020	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Real estate joint ventures	$ 21,322	$ 21,322	$ 21,327	$ 21,327
Affordable housing real estate joint ventures	2,049	28,254	2,723	27,512
Total	$ 23,371	$ 49,576	$ 24,050	$ 48,839

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 September 30, 2021 and December 31, 2020, we had no equity commitments outstanding to the real estate joint venture VIEs. At September 30, 2021 and December 31, 2020, we had no contingent commitments to fund additional equity contributions for operating support to real estate joint venture VIEs.

In addition, the maximum exposure to loss on affordable housing joint ventures included $24.2 million of losses which could be realized if the tax credits received by the VIEs were recaptured at September 30, 2021, compared to $22.1 million at December 31, 2020. Recapture events would cause us to reverse some or all of the benefit previously recognized by us or third parties to whom the tax credit interests were transferred. A recapture event can occur at any time during a 15-year required compliance period. The principal causes of recapture include financial default and non-compliance with affordable housing program requirements by the properties controlled by the VIE. Guarantees from the managing member or managing partner in the VIE, insurance contracts, or changes in the residual value accruing to our interests in the VIE may mitigate the potential exposure due to recapture.

7. Separate Accounts

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

We offer a GMWB rider that can be added to new or existing variable annuity contracts. The value of the separate accounts with the GMWB rider was recorded at fair value of $119.7 million at September 30, 2021. The fair value of the separate accounts with the GMWB rider was $118.5 million at December 31, 2020. The GMWB guarantee liability was $0.2 million at September 30, 2021 and $2.2 million December 31, 2020. 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 $481.7 million at September 30, 2021 and $463.0 million at December 31, 2020, and corresponding separate account liabilities of an equal amount. The fixed-rate funds for these policies are included in our general account as Policyholder Account Balances. The Future Policy Benefits for the direct block approximated $0.4 million at September 30, 2021 and $0.5 million at December 31, 2020.

In addition, we have an assumed closed block of variable universal life and variable annuity business that totaled $383.2 million at September 30, 2021 and $369.9 million at December 31, 2020. 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 $34.3 million at September 30, 2021 and $32.8 million at December 31, 2020 are included in our general account as Policyholder Account Balances. The Future Policy Benefits for the assumed block approximated $0.5 million at both September 30, 2021 and December 31, 2020.

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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Gross liability at beginning of the period	$ 34,350	$ 34,191	$ 34,773	$ 36,780
Less reinsurance recoverable	(25,926)	(26,833)	(26,542)	(28,359)
Net liability at beginning of the period	8,424	7,358	8,231	8,421
Incurred benefits related to:				
Current year	6,646	7,568	20,906	17,840
Prior years [1]	(758)	(55)	(669)	(473)
Total incurred benefits	5,888	7,513	20,237	17,367
Paid benefits related to:				
Current year	6,008	6,248	16,674	14,067
Prior years	81	324	3,571	3,422
Total paid benefits	6,089	6,572	20,245	17,489
Net liability at end of the period	8,223	8,299	8,223	8,299
Reinsurance recoverable	25,095	27,066	25,095	27,066
Gross liability at end of the period	$ 33,318	$ 35,365	$ 33,318	$ 35,365

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

	Group Insurance Segment			
	Quarter Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Gross liability at beginning of the period	$ 31,246	$ 30,117	$ 31,572	$ 32,169
Less reinsurance recoverable	(23,143)	(22,981)	(23,565)	(23,983)
Net liability at beginning of the period	8,103	7,136	8,007	8,186
Incurred benefits related to:				
Current year	6,567	7,547	20,689	17,786
Prior years [1]	(690)	(58)	(618)	(502)
Total incurred benefits	5,877	7,489	20,071	17,284
Paid benefits related to:				
Current year	5,954	6,242	16,610	14,056
Prior years	95	300	3,537	3,331
Total paid benefits	6,049	6,542	20,147	17,387
Net liability at end of the period	7,931	8,083	7,931	8,083
Reinsurance recoverable	22,359	23,231	22,359	23,231
Gross liability at end of the period	$ 30,290	$ 31,314	$ 30,290	$ 31,314

[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.

	September 30,	
	2021	2020
Individual Insurance Segment:		
Individual accident and health	$ 649	$ 636
Individual life	41,911	38,127
Deferred annuity	4,169	2,401
Subtotal	46,729	41,164
Group Insurance Segment:		
Group accident and health	30,290	31,314
Group life	4,120	3,400
Subtotal	34,410	34,714
Old American Segment:		
Individual accident and health	2,379	3,415
Individual life	10,841	9,033
Subtotal	13,220	12,448
Total	$ 94,359	$ 88,326

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 September 30, 2021 and $0.7 million at December 31, 2020.

9. Debt

Notes Payable
We had no notes payable outstanding at September 30, 2021 or December 31, 2020.

As a member of the Federal Home Loan Bank of Des Moines (FHLB) with a capital investment of $5.0 million at September 30, 2021, 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 nine months ended September 30, 2021 and 2020.

We had unsecured revolving lines of credit with three major commercial banks that totaled $70.0 million at September 30, 2021 and $80.0 million at December 31, 2020, with no balances outstanding. The lines of credit are at variable interest rates based upon short-term indices with $10.0 million maturing in July of 2022 and $60.0 million maturing in June of 2022. We anticipate renewing these lines of credit as they come due. One line of credit includes a $20.0 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 nine months of 2021 and had no outstanding borrowings as of September 30, 2021. The Company had no transactions that occurred under these agreements during the year ended December 31, 2020 and had no outstanding borrowings as of December 31, 2020. Any borrowings drawn under these agreements require a variable interest rate based upon short-term indices and approval from the counterparty at the time of the transaction. No securities are currently pledged under these agreements.

Funding Agreement
During the third quarter of 2021, the Company entered into a collateralized advance agreement with the FHLB. Under the agreement, which matures in August of 2026, the Company pledges fixed maturity security and commercial mortgage loan collateral and receives cash, which is then reinvested, primarily into other fixed maturity securities. Securities pledged as collateral may not be sold or re-pledged by the Company. At September 30, 2021, total obligations outstanding under this agreement were $10.0 million and are reported as Policyholder Account Balances in the Consolidated Balance Sheets. Interest is credited based on variable rates set by the FHLB. Interest payments during the nine months ended September 30, 2021 were not material.

10. Income Taxes

The following table provides a reconciliation of the federal income tax rate to our effective income tax rate.

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Federal income tax rate	21 %	21 %	21 %	21 %
Tax credits, net of equity adjustment	1 %	16 %	8 %	(3)%
Impact of CARES Act	— %	30 %	— %	(5)%
Permanent differences and other	(8)%	(84)%	(30)%	7 %
Effective income tax rate	14 %	(17)%	(1)%	20 %

The following table provides information about taxes paid.

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Cash paid for income taxes	$ 2,750	$ 5,800	$ 7,295	$ 5,800

We had no material uncertain tax positions at September 30, 2021 or December 31, 2020.

At September 30, 2021, we had a current tax asset of $6.1 million and a $52.9 million net deferred tax liability, compared to a $1.8 million current tax liability and a $69.6 million net deferred tax liability at December 31, 2020.

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 had several income tax provisions that we utilized, which had a direct impact on our effective tax rate and income tax expense for 2020. The benefits that applied to us included, but were not limited to, the ability to carry back net operating losses and the acceleration of the recovery of Alternative Minimum Tax (AMT) credits. The impact of the CARES Act was to increase the 2020 effective tax rate, which was primarily the result of our ability to carry back net operating losses from the taxable years 2018 through 2020, which were taxed at a federal income tax rate of 21%, to the taxable years 2013 through 2017, which were taxed at a federal income tax rate of 35%. The provisions of the CARES Act do not apply to net operating losses generated in 2021 or future periods, and all AMT credits were fully recovered on our 2019 income tax return filings.

11. Pensions and Other Postemployment Benefits (OPEB)

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

	Pension Benefits		OPEB	
	Quarter Ended September 30,		Quarter Ended September 30,	
	2021	2020	2021	2020
Service cost	$ —	$ —	$ 46	$ 46
Interest cost	627	874	115	143
Expected return on plan assets	(2,319)	(2,313)	—	—
Amortization of:				
Unrecognized actuarial net (gain) loss	593	629	(216)	(260)
Unrecognized prior service credit	(17)	(17)	—	—
Net periodic benefit credit	$ (1,116)	$ (827)	$ (55)	$ (71)

	Pension Benefits		OPEB	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Service cost	$ —	$ —	$ 136	$ 138
Interest cost	1,879	2,621	345	431
Expected return on plan assets	(6,958)	(6,941)	—	—
Amortization of:				
Unrecognized actuarial net (gain) loss	1,780	1,888	(647)	(781)
Unrecognized prior service credit	(50)	(50)	—	—
Net periodic benefit credit	$ (3,349)	$ (2,482)	$ (166)	$ (212)

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 2020 Annual Report for additional information regarding this plan.

The Company did not make any cash payments under the long-term incentive plan during the first nine months of 2021 for the three-year interval ended December 31, 2020. The Company did not make any cash payments under the long-term incentive plan during the first nine months of 2020 for the three-year interval ended December 31, 2019.

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 third quarter of 2021 was $0.1 million, net of tax. The cost of share-based compensation accrued as an operating expense was $1.2 million, net of tax, in the first nine months of 2021. The cost of share-based compensation accrued as an operating expense in the third quarter and first nine months of 2020 was $0.1 million, net of tax.

13. Comprehensive Income (Loss)

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

The following tables provide information about Comprehensive Income (Loss).

	Quarter Ended September 30, 2021		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized losses arising during the period:			
Fixed maturity securities	$ (20,013)	$ (4,202)	$ (15,811)
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	188	39	149
Other-than-temporary impairment losses recognized in earnings	(387)	(81)	(306)
Other-than-temporary impairment losses recognized in other comprehensive loss	—	—	—
Net unrealized losses excluding impairment losses	(19,814)	(4,160)	(15,654)
Effect on DAC, VOBA, and DRL	1,447	304	1,143
Change in policyholder liabilities	2,421	508	1,913
Other comprehensive loss	$ (15,946)	$ (3,348)	$ (12,598)
Net loss			(6,006)
Comprehensive loss			$ (18,604)

	Quarter Ended September 30, 2020		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized gains arising during the period:			
Fixed maturity securities	$ 19,947	$ 4,189	$ 15,758
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	1,350	283	1,067
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive income	—	—	—
Net unrealized gains excluding impairment losses	18,597	3,906	14,691
Effect on DAC, VOBA, and DRL	(1,034)	(217)	(817)
Change in policyholder liabilities	(1,537)	(324)	(1,213)
Other comprehensive income	$ 16,026	$ 3,365	$ 12,661
Net loss			(1,199)
Comprehensive income			$ 11,462

	Nine Months Ended September 30, 2021		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized losses arising during the period:			
Fixed maturity securities	$ (92,429)	$ (19,410)	$ (73,019)
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	2,711	569	2,142
Other-than-temporary impairment losses recognized in earnings	(387)	(81)	(306)
Other-than-temporary impairment losses recognized in other comprehensive loss	(15)	(3)	(12)
Net unrealized losses excluding impairment losses	(94,738)	(19,895)	(74,843)
Effect on DAC, VOBA, and DRL	7,432	1,561	5,871
Change in policyholder liabilities	7,929	1,665	6,264
Other comprehensive loss	$ (79,377)	$ (16,669)	$ (62,708)
Net loss			(2,388)
Comprehensive loss			$ (65,096)

	Nine Months Ended September 30, 2020		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized gains arising during the period:			
Fixed maturity securities	$ 134,914	$ 28,332	$ 106,582
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	3,796	797	2,999
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	131,137	27,539	103,598
Effect on DAC, VOBA, and DRL	(8,780)	(1,844)	(6,936)
Change in policyholder liabilities	(19,172)	(4,027)	(15,145)
Other comprehensive income	$ 103,185	$ 21,668	$ 81,517
Net income			15,920
Comprehensive income			$ 97,437

The following table provides accumulated balances related to each component of Accumulated Other Comprehensive Income (Loss) at September 30, 2021, 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	$ 252,334	$ 1,247	$ (44,243)	$ (20,524)	$ (36,012)	$ 152,802
Other comprehensive income (loss) before reclassification	(72,701)	(318)	—	5,871	6,264	(60,884)
Amounts reclassified from accumulated other comprehensive income (loss)	(2,142)	318	—	—	—	(1,824)
Net current-period other comprehensive income (loss)	(74,843)	—	—	5,871	6,264	(62,708)
End of period	177,491	1,247	(44,243)	(14,653)	(29,748)	90,094

The following table provides accumulated balances related to each component of Accumulated Other Comprehensive Income (Loss) at December 31, 2020, net of tax.

	Unrealized Gain on Non-Impaired Securities	Unrealized Gain on Impaired Securities	Benefit Plan Obligations	DAC/ VOBA/DRL Impact	Policyholder Liabilities	Total
Beginning of year	$ 136,264	$ 1,417	$ (45,330)	$ (12,715)	$ (20,130)	$ 59,506
Other comprehensive income (loss) before reclassification	120,056	(185)	1,087	(7,809)	(15,882)	97,267
Amounts reclassified from accumulated other comprehensive income (loss)	(3,986)	15	—	—	—	(3,971)
Net current-period other comprehensive income (loss)	116,070	(170)	1,087	(7,809)	(15,882)	93,296
End of period	$ 252,334	$ 1,247	$ (44,243)	$ (20,524)	$ (36,012)	$ 152,802

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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Reclassification adjustments related to unrealized gains (losses) on investment securities:				
Net realized investment gains, excluding impairment losses[1]	$ 188	$ 1,350	$ 2,711	$ 3,796
Income tax expense[2]	(39)	(283)	(569)	(797)
Net of taxes	149	1,067	2,142	2,999
Other-than-temporary impairment losses[1]	(387)	—	(402)	(19)
Income tax benefit[2]	81	—	84	4
Net of taxes	(306)	—	(318)	(15)
Total pre-tax reclassifications	(199)	1,350	2,309	3,777
Total income tax benefit (expense)	42	(283)	(485)	(793)
Total reclassification, net taxes	$ (157)	$ 1,067	$ 1,824	$ 2,984

[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 third quarters and nine months ended September 30, 2021 and 2020 was 9,683,414. The number of shares outstanding at both September 30, 2021 and December 31, 2020 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 September 30, 2021			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 42,947	$ 15,488	$ 25,041	$ 83,476
Interest credited to policyholder account balances	20,197	—	—	20,197
Amortization of deferred acquisition costs	3,242	—	5,812	9,054
Income tax expense (benefit)	(646)	146	(483)	(983)
Net income (loss)	(4,622)	551	(1,935)	(6,006)

	Quarter Ended September 30, 2020			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 47,140	$ 15,664	$ 24,738	$ 87,542
Interest credited to policyholder account balances	20,110	—	—	20,110
Amortization of deferred acquisition costs	4,186	—	5,534	9,720
Income tax expense (benefit)	604	(158)	(275)	171
Net income (loss)	454	(597)	(1,056)	(1,199)

	Nine Months Ended September 30, 2021			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 128,821	$ 46,585	$ 74,886	$ 250,292
Interest credited to policyholder account balances	59,742	—	—	59,742
Amortization of deferred acquisition costs	10,039	—	15,274	25,313
Income tax expense (benefit)	640	233	(850)	23
Net income (loss)	148	878	(3,414)	(2,388)

	Nine Months Ended September 30, 2020			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 145,946	$ 47,194	$ 73,894	$ 267,034
Interest credited to policyholder account balances	58,779	—	—	58,779
Amortization of deferred acquisition costs	18,263	—	15,331	33,594
Income tax expense (benefit)	3,391	958	(400)	3,949
Net income (loss)	13,843	3,604	(1,527)	15,920

16. Commitments, Contingent Liabilities, Guarantees, and Indemnifications

Commitments

In the normal course of business, we have open purchase and sale commitments. At September 30, 2021, we had purchase commitments to fund mortgage loans of $10.0 million.

Subsequent to September 30, 2021, we entered into commitments to fund additional mortgage loans of $5.2 million.

Contingent Liabilities

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

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

Due to the unpredictable nature of litigation, the outcome of a litigation matter and the amount or range of potential loss can be difficult to ascertain. We establish liabilities for litigation and other loss contingencies when available information indicates both that a loss is probable and the amount of the loss can be reasonably estimated. Some matters could require us to pay damages or make other expenditures or establish accruals in amounts that cannot be estimated as of September 30, 2021. 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 actions consisting of two putative class actions and one class action that allege that we determined 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 is a putative class action filed in the U.S. District Court for the Western District of Missouri, in which the plaintiff seeks to represent current and former policyholders who purchased certain universal life policies outside of the State of Missouri. The plaintiff is seeking damages and declaratory relief on behalf of all such policyholders.

- Karr v. KCL is a class action filed in the 16th Circuit Court for the State of Missouri (Jackson County), in which plaintiff represents current Missouri residents who purchased certain universal life policies in the State of Missouri. The plaintiff is seeking damages and declaratory relief on behalf of all such policyholders.

- Sheldon v. KCL is a putative class action filed in the 16th Circuit Court for the State of Missouri (Jackson County), in which plaintiff seeks to represent all similar current and former policyholders who purchased certain variable universal life products. The plaintiff is seeking damages and declaratory relief on behalf of all such policyholders.

For the Karr v. KCL matter, the Court certified a class of policyholders to be represented by the named plaintiff on July 12, 2021. The class in the Karr lawsuit includes all Missouri citizens who own or owned a Better Life Plan, Better Life Plan Qualified, LifeTrack, AGP, MGP, PGP, Chapter One, Classic, Rightrack (89), Performer (88), Performer (91), Prime Performer, Competitor (88), Competitor (91), Executive (88), Executive (91), Protector 50, LewerMax, Ultra 20 (93), Competitor II, Executive II, Performer II, or Ultra 20 (96) life insurance policy issued or administered by Defendant in the State of Missouri, or its predecessors in interest, that was active on or after January 1, 2002. The Court's decision means that the Karr v. KCL lawsuit meets the requirements of Missouri Rule of Civil Procedure 52.08, which governs class actions in Missouri courts. While the ruling establishes a class at this stage of the litigation and permits the issuance of a notice to class members, the Court has not decided who will win this case.

We believe we have meritorious defenses to the claims asserted in the matters described above, and we are vigorously defending each of these matters. However, there can be no assurances as to the outcome of the above matters. In the event of an unfavorable outcome, the amount that may be required to be paid to discharge or settle the matters could be a material adverse impact on our business and financial statements.

We have not concluded that a loss related to any of these matters is probable, nor have we accrued any liability relating to any of these matters

Regulatory 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. In November 2020, the Missouri Department of Insurance completed a statutory-basis examination for the year ended December 31, 2019 for Kansas City Life, Sunset Life, and Old American. No recommendations or financial adjustments were required as a result of that examination. In November 2020, the Ohio Department of Insurance completed a statutory-basis examination of Grange Life for the year ended December 31, 2019. No recommendations or financial adjustments were required as a result of that examination.

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 September 30, 2021 through October 29, 2021, the date the consolidated financial statements were issued, and have identified the following subsequent events.

On October 25, 2021, the Kansas City Life Board of Directors declared a quarterly dividend of $0.27 per share, payable on November 10, 2021 to stockholders of record on November 4, 2021.

On May 5, 2021, Kansas City Life entered into a definitive agreement to sell 100% of the capital and surplus of Sunset Life to Bona Holdings LLC. The Missouri Department of Commerce and Insurance has granted regulatory approval and the sale is expected to close in November of 2021 with a net gain of approximately $5.5 million.

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 nine months ended September 30, 2021.