KANSAS CITY LIFE INSURANCE COMPANY

A Missouri Corporation

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Kansas City, MO 64111-2565
Telephone: (816) 753-7000

www.kclife.com

Investor Relations: Craig.Mason@kclife.com

SIC Code: 6311

QUARTERLY REPORT

For the Period Ending March 31, 2022
(the "Reporting Period")

The number of shares outstanding of our Common Stock was 9,683,414 as of March 31, 2022 (the end of reporting period)

The number of shares outstanding of our Common Stock was 9,683,414 as of December 31, 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, inflation, 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, terrorist attacks, international conflicts, and wars.

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*
Investor Relations:	A. Craig Mason Jr. Senior Vice President, General Counsel & Secretary Kansas City Life Insurance Company Post Office Box 219139 Kansas City, Missouri 64121-9139 Telephone: (816) 753-7000 ext. 8763 E-mail: Craig.Mason@kclife.com

Item 2. Shares Outstanding

Common Stock

	March 31, 2022
Number of Shares Authorized	36,000,000
Number of Shares Outstanding	9,683,414
Freely Tradable Shares (Public Float)	2,563,941
Total Number of Shareholders of Record	126

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 March 31, 2022 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 audited consolidated financial statements and related notes included in our 2021 Annual Report, which is available on the OTC Markets Group website (*www.otcmarkets.com/stock/KCLI/filings*). The interim consolidated financial statements and the accompanying notes for the quarters ended March 31, 2022 and 2021 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, 2022.

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. Old American Insurance Company (Old American) and Grange Life Insurance Company (Grange Life) are wholly-owned insurance subsidiaries. Sunset Life Insurance Company of America (Sunset Life) is an insurance subsidiary that was wholly-owned by the Company until it was sold on November 1, 2021. We also have non-insurance subsidiaries that individually and collectively are not material.

The following is a discussion and analysis of the results of operations for the quarters ended March 31, 2022 and 2021 and our financial condition at March 31, 2022. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes included in this document, as well as our 2021 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, increased inflationary 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 $7.7 million in the first quarter of 2022 compared to a net loss of $0.7 million in the first quarter of 2021. Net loss per share was $0.79 in the first quarter of 2022 compared to net loss per share of $0.07 in the same period in the prior year.

The following table presents condensed consolidated results of operations for the quarters ended March 31, 2022 and 2021.

	Quarter Ended March 31,		
	2022	2021	% Change
Revenues:			
Insurance and other revenues	$ 85,159	$ 84,654	1 %
Net investment income	34,018	35,905	(5)%
Net investment gains	54	1,772	(97)%
Benefits and expenses:			
Policyholder benefits and interest credited to policyholder account balances	91,289	88,272	3 %
Amortization of deferred acquisition costs	9,634	8,139	18 %
Operating expenses	27,742	26,563	4 %
Income tax expense (benefit)	(1,758)	25	(7,132)%
Net loss	$ (7,676)	$ (668)	1,049 %

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. In addition, we review, update, and enhance our products to ensure that they remain within compliance under statutory regulatory requirements and that they remain profitable. We also discontinue sales and reprice certain products that become outdated, unprofitable, or that cannot support our business and client needs.

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

	Quarter Ended March 31,		
	2022	2021	% Change
New premiums:			
Traditional life insurance	$ 4,958	$ 5,315	(7)%
Immediate annuities	4,404	2,833	55 %
Group life insurance	645	665	(3)%
Group accident and health insurance	2,141	1,946	10 %
Total new premiums	12,148	10,759	13 %
Renewal premiums	68,069	67,624	1 %
Total premiums	80,217	78,383	2 %
Reinsurance ceded	(27,613)	(25,863)	7 %
Net premiums	$ 52,604	$ 52,520	— %

Consolidated total premiums increased $1.8 million or 2% in the first quarter of 2022 compared with the first quarter of 2021. This improvement included a $1.4 million or 13% increase in new premiums and a $0.4 million or 1% increase in renewal premiums. The growth in new premiums largely resulted from a $1.6 million or 55% increase 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 rose $1.1 million in the first quarter of 2022 compared to the first quarter of 2021. In addition, new group accident and health insurance premiums increased $0.2 million or 10% compared to the prior year, largely from the disability lines of business. Partially offsetting these premium improvements, new individual life insurance premiums decreased $0.4 million or 7% compared to one year earlier. This decline was due in part to agent turnover as well as lower premiums from the Old American segment. The increase in renewal premiums reflected a $0.2 million or 2% increase in renewal group accident and health insurance premiums, primarily from the disability and vision lines of business. In addition, renewal traditional life insurance premiums and renewal group life insurance premiums each increased $0.1 million compared to the prior year.

Reinsurance ceded premiums increased $1.8 million or 7% in the first quarter of 2022 compared with one year earlier. This increase largely resulted from a reinsurance agreement, which became effective January 1, 2022, whereby Old American began reinsuring 50% of new business on selected products.

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

	Quarter Ended March 31,		
	2022	2021	% Change
New deposits:			
Interest sensitive life	$ 3,783	$ 3,208	18 %
Fixed annuities	5,967	7,403	(19)%
Variable annuities	3,998	3,176	26 %
Total new deposits	13,748	13,787	— %
Renewal deposits	38,936	37,567	4 %
Total deposits	$ 52,684	$ 51,354	3 %

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 were essentially flat in the first quarter of 2021 compared with the first quarter of 2021. New interest sensitive life deposits increased $0.6 million or 18% and new variable annuity deposits increased $0.8 million or 26% compared to the prior year. Offsetting these, new fixed annuity deposits declined $1.4 million or 19%. Total renewal deposits increased $1.4 million or 4% in the first quarter of 2022 compared to the prior year, resulting from a $0.6 million or 2% increase in renewal interest sensitive life deposits and a $1.2 million or 26% increase in renewal fixed annuity deposits. These were partially offset by a $0.4 million or 17% decrease in renewal variable annuity deposits.

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

Total contract charges were essentially flat in the first quarter of 2022 compared to one year earlier. Contract charges on open blocks increased $0.2 million or 1% and reflected increases in cost of insurance and expense loads. 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 42% of total consolidated contract charges during the first quarters of both 2022 and 2021.

Investment Revenues

Gross investment income decreased $2.4 million or 6% in the first quarter of 2022 compared with the first quarter of 2021. Lower overall yields earned and available on certain investments and a decrease in prepayment fees on mortgage loans were partially offset by higher average invested assets.

Fixed maturity securities provide a majority of our investment income. Income from these investments decreased $0.6 million or 2% in the first quarter of 2022 compared to the prior year as higher average invested assets were offset by lower yields earned. In addition, certain higher yielding invested assets matured or were called and were replaced with lower yielding investments available in the market.

Investment income from commercial mortgage loans declined $1.1 million or 15% in the first quarter of 2022 compared with the first quarter of 2021, resulting from lower yields earned and a $0.6 million decrease in prepayment fees. In addition, investment income from real estate declined $0.8 million or 15% in the first quarter of 2022 compared to the prior year. This decline largely resulted from the loss of revenue from a real estate property that was sold in the fourth quarter of 2021.

Investment Gains

Net investment gains for the first quarter of 2022 totaled $0.1 million compared to $1.8 million in the first quarter of 2021. The largest factor in the decrease in 2022 was the change in fair value of derivative instruments, which resulted in a loss of $1.1 million in the first quarter of 2022 compared to a gain of $1.0 million in the first quarter of 2021. Partially offsetting this decrease, investment securities sales and calls generated a net gain of $1.2 million in the first quarter of 2022, up from a net gain of $0.6 million in the first quarter of 2021.

Net impairment losses recognized in earnings were not material during both the quarters ended March 31, 2022 and 2021. We continue to monitor and evaluate the investment 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 increased $3.2 million or 5% in the first quarter of 2022 compared to the prior year, largely resulting from a $3.4 million or 7% increase in death benefits, net of reinsurance. Death benefits have been heavily affected by the COVID-19 pandemic and have remained significantly higher since the pandemic began in 2020. Mortality cost resulting specifically from the COVID-19 pandemic was 12% of the total mortality cost for the first quarter of 2022. Mortality cost is defined as death benefits net of reinsurance and reserves released. The change in benefit and contract reserves was essentially flat in the first quarter of 2022 compared to the prior year. The change in the fair value of derivative instruments decreased reserves compared to the prior year. In addition, reserves decreased at the Old American segment due to ceded reserves on the new reinsurance arrangement mentioned above and more reserves released for death benefits. Offsetting these were an increase in supplemental contract reserves, largely due to the increase in annuity premiums, and the decrease in the fair value of the guaranteed minimum withdrawal benefits (GMWB) rider compared with the prior year. The change in fair value of the GMWB rider reflected an increase in longer-term interest rates that were partially offset by unfavorable capital market returns.

Amortization of DAC

The amortization of DAC increased $1.5 million or 18% in the first quarter of 2022 compared to the prior year. This largely resulted from negative mortality experience and decreased investment performance in the separate accounts.

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 $1.2 million or 4% in the first quarter of 2022 compared to the first quarter of 2021, reflecting increases in agent meeting expenses and legal fees. These increases were partially offset by a decrease in employee compensation expenses, in part due to staffing fluctuations and a decline in the market value of deferred compensation benefits.

Income Taxes

We recorded an income tax benefit of $1.8 million in the first quarter of 2022 compared to an income tax expense of less than $0.1 million in the first quarter of 2021. The decrease in income tax expense in the first quarter of 2022 primarily occurred because of a reduction in pretax income in the first quarter of 2022 as compared to the first quarter in 2021. The statutory rate versus effective rate differences for the first quarter 2022 were smaller than the first quarter 2021 due to the 2021 pretax loss being a smaller amount which increases relative percentage changes.

The effective income tax rate was lower than the prevailing corporate federal income tax rate of 21% for the first quarter of 2022. 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 first 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.

Analysis of Investments

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

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

	March 31, 2022	% of Total	December 31, 2021	% of Total
Fixed maturity securities	$ 2,913,546	77 %	$ 3,088,197	77 %
Equity securities	3,642	— %	3,676	— %
Mortgage loans	610,727	16 %	596,037	15 %
Real estate	143,051	4 %	142,278	4 %
Policy loans	82,272	2 %	82,060	2 %
Short-term investments	42,048	1 %	74,501	2 %
Other investments	12,057	— %	12,840	—
Total	$ 3,807,343	100 %	$ 3,999,589	100 %

Fixed maturity securities were the largest component of total investments at both March 31, 2022 and December 31, 2021. The largest categories of fixed maturity securities at March 31, 2022 consisted of 78% in corporate obligations, 9% in municipal securities, and 5% in U.S. Treasury securities and obligations of the U.S. Government. We had 22% of the fixed maturity securities in private placements at both March 31, 2022 and December 31, 2021. The use of private placements offers an enhancement to our portfolio returns by providing access to higher yielding securities that choose to have a more limited offering at often lower cost.

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 both March 31, 2022 and December 31, 2021.

The fair value of fixed maturity securities with unrealized losses was $1.3 billion at March 31, 2022 compared with $366.6 million at December 31, 2021. This increase primarily reflected higher interest rates at March 31, 2022. At both March 31, 2022 and December 31, 2021, 99% of security investments with an unrealized loss were investment grade and accounted for 99% of the total unrealized losses.

At March 31, 2022, we had $63.0 million in gross unrealized gains on fixed maturity securities that were offset by gross unrealized losses of $79.2 million. At December 31, 2021, we had $203.7 million in gross unrealized gains on fixed maturity securities that offset $10.4 million in gross unrealized losses. At March 31, 2022, 56% of the fixed maturity securities portfolio had unrealized gains, a decrease from 88% at December 31, 2021. We had an increase in gross unrealized losses in corporate obligations from December 31, 2021 to March 31, 2022, primarily due to changes in interest rates. Gross unrealized losses on fixed maturity securities for less than 12 months accounted for $43.5 million or 77% of the security values in a gross unrealized loss position at March 31, 2022. Gross unrealized losses on fixed maturity securities for less than 12 months totaled $6.8 million and accounted for 81% of the security values in a gross unrealized loss position at December 31, 2021. Gross unrealized losses on fixed maturity security investments of 12 months or longer increased from $3.5 million at December 31, 2021 to $35.7 million at March 31, 2022.

We have written down certain investments in previous periods. Fixed maturity securities written down and still owned at March 31, 2022 had a fair value of $12.8 million and net unrealized gains of $1.0 million, compared to the December 31, 2021 fair value of $11.9 million and net unrealized gains of $1.3 million. Additional information identified or further deteriorations could result in impairments in future periods.

We evaluated the current status of all investments previously written down to determine whether we believe that these investments remained credit-impaired to the extent previously recorded. Our evaluation process is similar to our impairment evaluation process. If evidence exists that we will receive the contractual cash flows from securities previously written down, the accretion of income is adjusted. We did not change our evaluation of any investments under this process during the quarters ended March 31, 2022 and 2021.

Investments in mortgage loans totaled $610.7 million at March 31, 2022, up from $596.0 million at December 31, 2021. The commercial mortgage loan portfolio increased $14.7 million during the first quarter of 2022, 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 accrual 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 March 31, 2022 and $2.8 million at December 31, 2021.

Liquidity and Capital Resources

Liquidity

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, income taxes, withdrawals from policyholder accounts, and costs related to acquiring new business. 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 $15.8 million for the quarter ended March 31, 2022. Net cash used from investing activities was $21.4 million for the quarter ended March 31, 2022. The primary sources of cash provided by investing activities were sales, maturities, calls, and principal paydowns of investments totaling $68.1 million. Investment purchases, including new fixed maturities and mortgage loans, totaled $122.0 million. Net cash provided by financing activities for the quarter ended March 31, 2022 was $36.2 million, including $20.0 million of receipts from the FHLB funding agreement, $16.7 million of deposits, net of withdrawals, on policyholder account balances, and $2.2 million of net transfers from separate accounts. These were partially offset by the payment of $2.6 million of stockholder dividends.

Capital Resources

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

	March 31, 2022	December 31, 2021
Total assets, excluding separate accounts	$ 4,750,572	$ 4,928,454
Total stockholders' equity	689,106	830,434
Ratio of stockholders' equity to assets, excluding separate accounts	15%	17%

Stockholders' equity decreased $141.3 million from year-end 2021, primarily due to an increase in net unrealized losses, reflecting higher interest rates at March 31, 2022. Stockholders' equity per share, or book value, equaled $71.16 at March 31, 2022, a decrease from $85.76 at year-end 2021, largely due to a decrease in unrealized gains on available for sale securities.

Net unrealized losses on available for sale securities, which are included as part of Accumulated Other Comprehensive Income (Loss) and as a component of Stockholders' Equity (net of unrealized losses on investments, related taxes, policyholder account balances, future policy benefits, DAC, VOBA, and DRL), totaled $17.6 million at March 31, 2022, a $131.0 million decrease from net unrealized gains on available securities of $113.4 million at December 31, 2021. This decline reflected higher interest rates at March 31, 2022.

In 2021, the Company began entering into advance funding agreements with the FHLB. Total obligations outstanding under these agreements, which mature between 2024 and 2027, were $50.0 million at March 31, 2022 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 quarter ended March 31, 2022 were less than $0.1 million.

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 2022, the Board of Directors authorized the purchase of up to one million of our shares on the open market through January 2023. No shares were purchased under this authorization during the first quarter of 2022.

On April 25, 2022, the Board of Directors declared a quarterly dividend of $0.14 per share payable on May 11, 2022 to stockholders of record on May 5, 2022.

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

On April 25, 2022, Mr. R. Philip Bixby retired as President and Chief Executive Officer. He will remain as Chairman of the Board of Directors.

On April 25, 2022, the Board of Directors elected Walter E. Bixby to serve as President and Chief Executive Officer. He also serves as Vice Chairman of the Board of Directors.

Item 8. Exhibits

3.1 Interim Consolidated Financial Statements

Item 9. Issuer's Certifications

I, Walter E. 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: April 29, 2022

/s/ Walter E. Bixby
Walter E. Bixby
President, Chief Executive Officer,
and Vice Chairman of the Board

I, David A. Laird, 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: April 29, 2022

/s/ David A. Laird
David A. Laird
Senior Vice President, Finance

Exhibit 3.1 Interim Consolidated Financial Statements

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

Kansas City Life Insurance Company
Consolidated Balance Sheets

	March 31, 2022	December 31, 2021
	(Unaudited)	
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value (amortized cost: 2022 - $2,929,727; 2021 - $2,894,877)	$ 2,913,546	$ 3,088,197
Equity securities, at fair value (cost: 2022 and 2021 - $3,097)	3,642	3,676
Mortgage loans	610,727	596,037
Real estate	143,051	142,278
Policy loans	82,272	82,060
Short-term investments	42,048	74,501
Other investments	12,057	12,840
Total investments	3,807,343	3,999,589
Cash	4,369	5,419
Accrued investment income	30,736	30,298
Deferred acquisition costs	311,225	292,027
Reinsurance recoverables	396,810	399,951
Other assets	200,089	201,170
Separate account assets	467,074	504,976
Total assets	$ 5,217,646	$ 5,433,430
LIABILITIES		
Future policy benefits	$ 1,375,432	$ 1,397,111
Policyholder account balances	2,260,412	2,247,392
Policy and contract claims	81,261	69,787
Other policyholder funds	195,451	185,713
Other liabilities	148,910	198,017
Separate account liabilities	467,074	504,976
Total liabilities	4,528,540	4,602,996
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	923,047	933,338
Accumulated other comprehensive income (loss)	(56,786)	74,251
Treasury stock, at cost (2022 and 2021 - 8,813,266 shares)	(241,301)	(241,301)
Total stockholders’ equity	689,106	830,434
Total liabilities and stockholders’ equity	$ 5,217,646	$ 5,433,430

See accompanying Notes to Consolidated Financial Statements (Unaudited)

Kansas City Life Insurance Company
Consolidated Statements of Comprehensive Income

	Quarter Ended March 31, 2022	Quarter Ended March 31, 2021
	(Unaudited)	
REVENUES		
Insurance revenues:		
Net premiums	$ 52,604	$ 52,520
Contract charges	30,579	30,611
Total insurance revenues	83,183	83,131
Investment revenues:		
Net investment income	34,018	35,905
Net investment gains	54	1,772
Total investment revenues	34,072	37,677
Other revenues	1,976	1,523
Total revenues	119,231	122,331
BENEFITS AND EXPENSES		
Policyholder benefits	71,949	68,747
Interest credited to policyholder account balances	19,340	19,525
Amortization of deferred acquisition costs	9,634	8,139
Operating expenses	27,742	26,563
Total benefits and expenses	128,665	122,974
Loss before income tax expense (benefit)	(9,434)	(643)
Income tax expense (benefit)	(1,758)	25
NET LOSS	$ (7,676)	$ (668)
COMPREHENSIVE LOSS, NET OF TAXES		
Changes in:		
Net unrealized gains (losses) on securities available for sale	$ (165,506)	$ (96,331)
Effect on deferred acquisition costs, value of business acquired, and deferred revenue liabilities	13,649	6,311
Policyholder liabilities	20,820	8,830
Other comprehensive loss	(131,037)	(81,190)
COMPREHENSIVE LOSS	$ (138,713)	$ (81,858)
Basic and diluted earnings per share:		
Net loss	$ (0.79)	$ (0.07)

See accompanying Notes to Consolidated Financial Statements (Unaudited)

Kansas City Life Insurance Company
Consolidated Statements of Cash Flows

	Quarter Ended March 31, 2022	Quarter Ended March 31, 2021
	(Unaudited)	
OPERATING ACTIVITIES		
Net loss	$ (7,676)	$ (668)
Adjustments to reconcile net loss to net cash used from operating activities:		
Amortization of investment premium and discount	581	518
Depreciation and amortization	1,870	1,951
Acquisition costs capitalized	(6,819)	(9,038)
Amortization of deferred acquisition costs	9,634	8,139
Net investment gains	(54)	(1,772)
Changes in assets and liabilities:		
Reinsurance recoverables	3,141	(3,667)
Future policy benefits	4,019	4,909
Policyholder account balances	(25,361)	(12,722)
Income taxes payable and deferred	(1,843)	(23)
Other, net	6,687	(8,128)
Net cash used	(15,821)	(20,501)
INVESTING ACTIVITIES		
Purchases:		
Fixed maturity securities	(87,008)	(116,934)
Mortgage loans	(28,562)	(19,925)
Real estate	(1,562)	(173)
Policy loans	(2,636)	(1,836)
Other investments	(2,216)	(1,431)
Property and equipment	(19)	(203)
Sales or maturities, calls, and principal paydowns:		
Fixed maturity securities	49,956	81,417
Mortgage loans	13,797	22,194
Real estate	2	150
Policy loans	2,424	2,803
Other investments	1,933	2,052
Property and equipment	—	35
Net sales of short-term investments	32,453	41,647
Net cash provided (used)	(21,438)	9,796

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

	Quarter Ended March 31, 2022	Quarter Ended March 31, 2021
	(Unaudited)	
FINANCING ACTIVITIES		
Policyholder account balances - deposits	$ 52,684	$ 51,354
Policyholder account balances - receipts from funding agreement	20,000	—
Withdrawals from policyholder account balances	(36,020)	(46,166)
Net transfers from separate accounts	2,178	2,549
Change in other deposits	(18)	4,882
Cash dividends to stockholders	(2,615)	(2,615)
Net cash provided	36,209	10,004
Decrease in cash	(1,050)	(701)
Cash at beginning of year	5,419	7,203
Cash at end of period	$ 4,369	$ 6,502

See accompanying Notes to Consolidated Financial Statements (Unaudited)

Kansas City Life Insurance Company
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) and its subsidiaries. Kansas City Life Insurance Company (Kansas City Life) is the parent company. Old American Insurance Company (Old American) and Grange Life Insurance Company (Grange Life) are wholly-owned insurance subsidiaries. Sunset Life Insurance Company of America (Sunset Life) was an insurance subsidiary that was wholly-owned by the Company until it was sold on November 1, 2021 - see Business Changes section below. 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 2021 Annual Report, which is available on the OTC Markets Group website (*www.otcmarkets.com/stock/KCLI/filings*). The interim consolidated financial statements and the accompanying notes for the quarters ended March 31, 2022 and 2021 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.

Business Changes

On November 1, 2021, we sold 100% of the capital and surplus of Sunset Life to Bona Holdings, LLC for $29.5 million, resulting in a net gain of approximately $5.5 million. In addition, we received $1.0 million for providing certain transition support associated with this transaction. Further, we are providing additional administrative support for a period of up to one year. We will be reimbursed for those expenses as they occur. Further, we completed a 100% reinsurance assumption of the insurance business prior to the sale of Sunset Life on December 31, 2020.

There were no business changes during the first quarter of 2022.

COVID-19 Pandemic

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 negative financial impacts occurred as a result of the COVID-19 pandemic, including increased policyholder benefit payments, largely from death benefits; deferrals of interest and principal on certain investments; reduced investment income from lower available interest rates; and fluctuations in certain operating expenses. Other negative financial impacts could occur including, but not limited to: asset impairments; defaults, delinquencies or additional deferrals on the Company's mortgage loan and real estate portfolios; a reduction in sales; additional increases in policyholder benefits; and continued increases in certain expenses.

Significant Accounting Policies

Please refer to our 2021 Annual Report for a full discussion of our significant accounting policies. No significant updates or changes to these policies occurred during the quarter ended March 31, 2022.

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 March 31, 2022.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 137,038	$ 4,587	$ 775	$ 140,850
Federal agency issued residential mortgage-backed securities [1]	70,898	1,533	1,022	71,409
Subtotal	207,936	6,120	1,797	212,259
Corporate obligations:				
Industrial	434,138	6,783	13,531	427,390
Energy	140,743	3,880	483	144,140
Communications and technology	235,246	6,307	7,084	234,469
Financial	475,910	5,558	15,652	465,816
Consumer	655,563	7,580	19,178	643,965
Public utilities	349,530	6,384	11,950	343,964
Subtotal	2,291,130	36,492	67,878	2,259,744
Corporate private-labeled residential mortgage-backed securities	10,230	1,033	68	11,195
Municipal securities	236,289	19,231	5,405	250,115
Other	178,142	170	3,886	174,426
Redeemable preferred stocks	6,000	—	193	5,807
Total	$ 2,929,727	$ 63,046	$ 79,227	$ 2,913,546

[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, 2021.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 147,884	$ 12,696	$ 140	$ 160,440
Federal agency issued residential mortgage-backed securities [1]	70,838	4,873	13	75,698
Subtotal	218,722	17,569	153	236,138
Corporate obligations:				
Industrial	414,391	24,897	1,570	437,718
Energy	146,181	10,049	39	156,191
Communications and technology	233,390	17,208	1,046	249,552
Financial	461,740	27,974	1,372	488,342
Consumer	647,861	39,707	3,107	684,461
Public utilities	348,164	26,765	1,578	373,351
Subtotal	2,251,727	146,600	8,712	2,389,615
Corporate private-labeled residential mortgage-backed securities	10,641	1,403	—	12,044
Municipal securities	232,470	36,913	428	268,955
Other	175,317	1,162	1,082	175,397
Redeemable preferred stocks	6,000	48	—	6,048
Total	$ 2,894,877	$ 203,695	$ 10,375	$ 3,088,197

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

The following table provides information on fixed maturity securities available for sale by actual or equivalent Standard & Poor's rating at March 31, 2022 with the percent of total unrealized gains (losses) identified.

	Amortized Cost	Fair Value	Unrealized Gains (Losses)	% of Total
AAA	$ 183,560	$ 187,403	$ 3,843	(24)%
AA	593,733	604,288	10,555	(65)%
A	1,037,691	1,026,199	(11,492)	71 %
BBB	1,082,618	1,062,977	(19,641)	121 %
Total investment grade	2,897,602	2,880,867	(16,735)	103 %
BB	19,013	18,640	(373)	2 %
B and below	13,112	14,039	927	(5)%
Total below investment grade	32,125	32,679	554	(3)%
Total	$ 2,929,727	$ 2,913,546	$ (16,181)	100 %

The following table provides information on fixed maturity securities available for sale by actual or equivalent Standard & Poor's rating at December 31, 2021 with the percent of total unrealized gains (losses) identified.

	Amortized Cost	Fair Value	Unrealized Gains (Losses)	% of Total
AAA	$ 183,920	$ 197,319	$ 13,399	7 %
AA	588,506	641,837	53,331	28 %
A	1,043,384	1,114,086	70,702	37 %
BBB	1,046,200	1,100,183	53,983	27 %
Total investment grade	2,862,010	3,053,425	191,415	99 %
BB	18,424	18,720	296	— %
B and below	14,443	16,052	1,609	1 %
Total below investment grade	32,867	34,772	1,905	1 %
Total	$ 2,894,877	$ 3,088,197	$ 193,320	100 %

Contractual Maturities

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

	March 31, 2022		December 31, 2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 158,520	$ 159,344	$ 121,297	$ 122,979
Due after one year through five years	832,572	844,034	843,382	893,131
Due after five years through ten years	858,284	844,641	851,116	904,165
Due after ten years	925,976	907,772	918,209	994,023
Securities with variable principal payments	148,375	151,948	154,873	167,851
Redeemable preferred stocks	6,000	5,807	6,000	6,048
Total	$ 2,929,727	$ 2,913,546	$ 2,894,877	$ 3,088,197

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 2021 Annual Report.

The following table provides information regarding fixed maturity securities available for sale with unrealized losses by asset class and by length of time that individual securities have been in a continuous unrealized loss position at March 31, 2022.

	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	$ 19,562	$ 457	$ 3,708	$ 318	$ 23,270	$ 775
Federal agency issued residential mortgage-backed securities [1]	23,740	1,022	2	—	23,742	1,022
Subtotal	43,302	1,479	3,710	318	47,012	1,797
Corporate obligations:						
Industrial	150,903	7,998	44,729	5,533	195,632	13,531
Energy	9,783	210	7,894	273	17,677	483
Communications and technology	48,022	3,480	26,831	3,604	74,853	7,084
Financial	200,449	9,343	55,659	6,309	256,108	15,652
Consumer	199,807	9,206	78,973	9,972	278,780	19,178
Public utilities	145,982	5,743	44,215	6,207	190,197	11,950
Subtotal	754,946	35,980	258,301	31,898	1,013,247	67,878
Corporate private-labeled residential mortgage-backed securities	4,078	68	—	—	4,078	68
Municipal securities	52,724	3,501	12,733	1,904	65,457	5,405
Other	117,233	2,306	24,603	1,580	141,836	3,886
Redeemable preferred stocks	2,807	193	—	—	2,807	193
Total	$ 975,090	$ 43,527	$ 299,347	$ 35,700	$ 1,274,437	$ 79,227

[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, 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	$ 2,973	$ 60	$ 1,843	$ 80	$ 4,816	$ 140
Federal agency issued residential mortgage-backed securities [1]	2,828	13	3	—	2,831	13
Subtotal	5,801	73	1,846	80	7,647	153
Corporate obligations:						
Industrial	56,250	1,146	7,070	424	63,320	1,570
Energy	1,045	39	—	—	1,045	39
Communications and technology	30,492	909	2,297	137	32,789	1,046
Financial	46,844	727	19,592	645	66,436	1,372
Consumer	80,069	2,535	9,722	572	89,791	3,107
Public utilities	35,473	969	11,702	609	47,175	1,578
Subtotal	250,173	6,325	50,383	2,387	300,556	8,712
Municipal securities	16,300	308	2,258	120	18,558	428
Other	26,604	135	13,278	947	39,882	1,082
Total	$ 298,878	$ 6,841	$ 67,765	$ 3,534	$ 366,643	$ 10,375

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

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

	March 31, 2022	December 31, 2021
Below cost for less than one year	524	185
Below cost for one year or more and less than three years	193	36
Total	717	221

We do not consider the unrealized losses related to these securities to be credit-related. The unrealized losses at both March 31, 2022 and December 31, 2021 primarily related to changes in interest rates and market spreads subsequent to purchase. A substantial portion of investment securities that have unrealized losses are either corporate debt issued with investment grade credit ratings or other investment securities. Included in other investment securities are commercial mortgage-backed securities and asset-backed securities.

The following table summarizes investments in fixed maturity securities available for sale with unrealized losses at March 31, 2022.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	$ 1,021,026	$ 985,562	$ 35,464
Unrealized losses of 20% or less and greater than 10%	329,667	286,556	43,111
Subtotal	1,350,693	1,272,118	78,575
Unrealized losses greater than 20%:			
Investment grade	2,971	2,319	652
Below investment grade	—	—	—
Total securities owned without realized impairment	1,353,664	1,274,437	79,227
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%	—	—	—
Total securities owned with realized impairment	—	—	—
Total	$ 1,353,664	$ 1,274,437	$ 79,227

The following table summarizes investments in fixed maturity securities available for sale with unrealized losses at December 31, 2021.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	$ 375,032	$ 364,870	$ 10,162
Unrealized losses of 20% or less and greater than 10%	1,986	1,773	213
Subtotal	377,018	366,643	10,375
Unrealized losses greater than 20%:			
Investment grade	—	—	—
Below investment grade	—	—	—
Total securities owned without realized impairment	377,018	366,643	10,375
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%	—	—	—
Total securities owned with realized impairment	—	—	—
Total	$ 377,018	$ 366,643	$ 10,375

The following table provides information on fixed maturity securities available for sale with unrealized losses by actual or equivalent Standard & Poor's rating at March 31, 2022.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	$ 74,300	6 %	$ 2,615	3 %
AA	210,552	17 %	10,835	14 %
A	456,637	36 %	30,205	38 %
BBB	514,140	40 %	35,046	44 %
Total investment grade	1,255,629	99 %	78,701	99 %
BB	12,117	1 %	440	1 %
B and below	6,691	— %	86	— %
Total below investment grade	18,808	1 %	526	1 %
	$ 1,274,437	100 %	$ 79,227	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, 2021.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	$ 11,121	3 %	$ 326	3 %
AA	51,904	14 %	1,537	15 %
A	145,334	40 %	4,308	41 %
BBB	156,235	42 %	4,134	40 %
Total investment grade	364,594	99 %	10,305	99 %
BB	2,049	1 %	70	1 %
B and below	—	— %	—	— %
Total below investment grade	2,049	1 %	70	1 %
	$ 366,643	100 %	$ 10,375	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.

	March 31, 2022		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Corporate private-labeled residential mortgage-backed securities:			
Investment grade	$ 1,431	$ 1,478	$ (47)
Below investment grade	9,764	8,752	1,012
Total residential & non-agency mortgage-backed securities	11,195	10,230	965
Other structured securities:			
Investment grade	174,426	178,142	(3,716)
Below investment grade	—	—	—
Total other structured securities	174,426	178,142	(3,716)
Total structured securities	$ 185,621	$ 188,372	$ (2,751)

	December 31, 2021		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Corporate private-labeled residential mortgage-backed securities:			
Investment grade	$ 1,506	$ 1,498	$ 8
Below investment grade	10,538	9,143	1,395
Total residential & non-agency mortgage-backed securities	12,044	10,641	1,403
Other structured securities:			
Investment grade	175,397	175,317	80
Below investment grade	—	—	—
Total other structured securities	175,397	175,317	80
Total structured securities	$ 187,441	$ 185,958	$ 1,483

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 Loss.

	Quarter Ended March 31,	
	2022	2021
Credit losses on securities held at beginning of the period	$ 3,996	$ 3,884
Additional credit losses on securities for which an other-than-temporary impairment was recognized	7	15
Credit losses on securities held at the end of the period	$ 4,003	$ 3,899

Investment Gains (Losses)

The following table provides detail concerning investment gains and losses.

	Quarter Ended March 31, 2022	Quarter Ended March 31, 2021
Gross gains resulting from:		
Sales of investment securities	$ 124	$ —
Investment securities called and other	1,103	954
Sales of real estate and joint ventures	—	134
Total gross gains	1,227	1,088
Gross losses resulting from:		
Investment securities called and other	—	(318)
Total gross losses	—	(318)
Change in allowance for loan losses	(66)	(2)
Change in fair value:		
Equity securities	(34)	5
Derivative instruments	(1,066)	1,014
Total change in fair value	(1,100)	1,019
Net realized investment gains, excluding other-than-temporary impairment losses	61	1,787
Net impairment losses recognized in earnings:		
Other-than-temporary impairment losses on fixed maturity securities	—	—
Portion of loss recognized in other comprehensive loss	(7)	(15)
Net other-than-temporary impairment losses recognized in earnings	(7)	(15)
Net investment gains	$ 54	$ 1,772

The portion of loss recognized in other comprehensive loss represents the non-credit portion of current or prior other-than-temporary impairment. Other-than-temporary impairments recorded in earnings during the quarters ended March 31, 2022 and 2021 totaled less than $0.1 million.

Proceeds from Sales of Investment Securities

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

	Quarter Ended March 31, 2022	Quarter Ended March 31, 2021
Proceeds	$ 6,643	$ —

Mortgage Loans

Investments in mortgage loans totaled $610.7 million at March 31, 2022, compared to $596.0 million at December 31, 2021. 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 March 31, 2022 and $2.8 million at December 31, 2021. Our periodic evaluation and assessment of the adequacy of the allowance is based on known and inherent risks in the portfolio, historical and industry data, current economic conditions, and other relevant factors.

Commercial mortgage loans represented 16% of our total investments at March 31, 2022, up slightly from 15% at December 31, 2021. 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 46% at both March 31, 2022 and December 31, 2021. 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 three loans with a total outstanding balance of $8.6 million during the quarter ended March 31, 2022. We refinanced two loans with a total outstanding balance of $2.3 million during the quarter ended March 31, 2021.

At March 31, 2022, 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 March 31, 2022, there were no material contract modifications, deferrals, or forbearance agreements with any of our borrowers.

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

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 2021 Annual Report for a full discussion of the fair value hierarchy and our policies regarding fair value measurements.

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements - (Continued) (Unaudited)

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

	March 31, 2022			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 9,138	$ 131,712	$ —	$ 140,850
Federal agency issued residential mortgage-backed securities [1]	—	71,409	—	71,409
Subtotal	9,138	203,121	—	212,259
Corporate obligations:				
Industrial	—	427,390	—	427,390
Energy	—	144,140	—	144,140
Communications and technology	—	234,469	—	234,469
Financial	—	465,816	—	465,816
Consumer	—	643,965	—	643,965
Public utilities	—	343,964	—	343,964
Subtotal	—	2,259,744	—	2,259,744
Corporate private-labeled residential mortgage-backed securities	—	11,195	—	11,195
Municipal securities	—	250,115	—	250,115
Other	—	174,426	—	174,426
Redeemable preferred stocks	—	5,807	—	5,807
Fixed maturity securities	9,138	2,904,408	—	2,913,546
Equity securities	426	3,216	—	3,642
Short-term investments	42,048	—	—	42,048
Other investments	—	5,013	—	5,013
Separate account assets	—	467,074	—	467,074
Total	$ 51,612	$ 3,379,711	$ —	$ 3,431,323
Percent of total	2 %	98 %	— %	100 %
Liabilities:				
Policyholder account balances:				
Indexed universal life	$ —	$ —	$ 4,741	$ 4,741
Funding agreement	—	—	50,031	50,031
Other policyholder funds:				
Guaranteed minimum withdrawal benefits	—	—	(1,849)	(1,849)
Separate account liabilities	—	467,074	—	467,074
Total	$ —	$ 467,074	$ 52,923	$ 519,997

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

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 9,489	$ 150,951	$ —	$ 160,440
Federal agency issued residential mortgage-backed securities [1]	—	75,698	—	75,698
Subtotal	9,489	226,649	—	236,138
Corporate obligations:				
Industrial	—	437,718	—	437,718
Energy	—	156,191	—	156,191
Communications and technology	—	249,552	—	249,552
Financial	—	488,342	—	488,342
Consumer	—	684,461	—	684,461
Public utilities	—	373,351	—	373,351
Subtotal	—	2,389,615	—	2,389,615
Corporate private-labeled residential mortgage-backed securities	—	12,044	—	12,044
Municipal securities	—	268,955	—	268,955
Other	—	175,397	—	175,397
Redeemable preferred stocks	—	6,048	—	6,048
Fixed maturity securities	9,489	3,078,708	—	3,088,197
Equity securities	406	3,270	—	3,676
Short-term investments	74,501	—	—	74,501
Other investments	—	6,688	—	6,688
Separate account assets	—	504,976	—	504,976
Total	$ 84,396	$ 3,593,642	$ —	$ 3,678,038
Percent of total	2 %	98 %	— %	100 %
Liabilities:				
Policyholder account balances:				
Indexed universal life	$ —	$ —	$ 6,264	$ 6,264
Funding agreement	—	—	30,023	30,023
Other policyholder funds:				
Guaranteed minimum withdrawal benefits	—	—	(149)	(149)
Separate account liabilities	—	504,976	—	504,976
Total	$ —	$ 504,976	$ 36,138	$ 541,114

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

The changes in Level 3 liabilities measured at fair value on a recurring basis are summarized below.

	Quarter Ended March 31, 2022		
	Indexed Universal Life	Funding Agreement	GMWB
Beginning balance	$ 6,264	$ 30,023	$ (149)
Included in earnings	(1,523)	8	(1,750)
Included in other comprehensive loss	—	—	—
Purchases, issuances, sales and other dispositions:			
Purchases	—	20,000	—
Issuances	—	—	143
Sales	—	—	—
Other dispositions	—	—	(93)
Transfers out of Level 3	—	—	—
Ending balance	$ 4,741	$ 50,031	$ (1,849)

	Quarter Ended March 31, 2021	
	Indexed Universal Life	GMWB
Beginning balance	$ 5,402	$ 2,201
Included in earnings	309	(3,646)
Included in other comprehensive loss	—	—
Purchases, issuances, sales and other dispositions:		
Purchases	—	—
Issuances	—	301
Sales	—	—
Other dispositions	—	(18)
Transfers out of Level 3	—	—
Ending balance	$ 5,711	$ (1,162)

We did not have any transfers between any levels during the quarters ended March 31, 2022 or March 31, 2021.

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 2021 Annual Report for information regarding the valuation method for the GMWB liability and the unobservable inputs and ranges used in the valuation of those financial instruments. The valuation method, unobservable inputs, and ranges used had not materially changed at March 31, 2022.

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

	March 31, 2022				
	Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Fixed maturity securities	$ 9,138	$ 2,904,408	$ —	$ 2,913,546	$ 2,913,546
Equity securities	426	3,216	—	3,642	3,642
Mortgage loans	—	—	597,012	597,012	610,727
Policy loans	—	—	82,272	82,272	82,272
Short-term investments	42,048	—	—	42,048	42,048
Other investments	—	5,013	—	5,013	5,013
Separate account assets	—	467,074	—	467,074	467,074
Liabilities:					
Individual and group annuities	—	—	1,102,328	1,102,328	1,119,513
Supplementary contracts and annuities without life contingencies	—	—	52,568	52,568	54,404
Policyholder account balances:					
Indexed universal life	—	—	4,741	4,741	4,741
Funding agreement	—	—	50,031	50,031	50,031
Other policyholder funds - GMWB	—	—	(1,849)	(1,849)	(1,849)
Separate account liabilities	—	467,074	—	467,074	467,074

	December 31, 2021				
	Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Fixed maturity securities	$ 9,489	$ 3,078,708	$ —	$ 3,088,197	$ 3,088,197
Equity securities	406	3,270	—	3,676	3,676
Mortgage loans	—	—	613,829	613,829	596,037
Policy loans	—	—	82,060	82,060	82,060
Short-term investments	74,501	—	—	74,501	74,501
Other investments	—	6,688	—	6,688	6,688
Separate account assets	—	504,976	—	504,976	504,976
Liabilities:					
Individual and group annuities	—	—	1,088,328	1,088,328	1,106,065
Supplementary contracts and annuities without life contingencies	—	—	54,248	54,248	54,899
Policyholder account balances:					
Indexed universal life	—	—	6,264	6,264	6,264
Funding agreement	—	—	30,023	30,023	30,023
Other policyholder funds - GMWB	—	—	(149)	(149)	(149)
Separate account liabilities	—	504,976	—	504,976	504,976

5. Financing Receivables

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

The following table identifies financing receivables by classification amount.

	March 31, 2022	December 31, 2021
Agent receivables, net (allowance $869; 2021 - $912)	$ 1,614	$ 1,819
Investment-related financing receivables:		
Mortgage loans, net (allowance $2,858; 2021 - $2,792)	610,727	596,037
Total financing receivables	$ 612,341	$ 597,856

Agent Receivables

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

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

	March 31, 2022			December 31, 2021		
	Gross Receivables	Allowance	Net Receivables	Gross Receivables	Allowance	Net Receivables
Agent specific loans	$ 802	$ 263	$ 539	$ 833	$ 266	$ 567
Other agent receivables	1,681	606	1,075	1,898	646	1,252
Total	$ 2,483	$ 869	$ 1,614	$ 2,731	$ 912	$ 1,819

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

	March 31, 2022	December 31, 2021
Beginning of year	$ 912	$ 1,084
Additions	—	58
Deductions	(43)	(230)
End of period	$ 869	$ 912

Mortgage Loans

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

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

	March 31, 2022	December 31, 2021
Mortgage loans collectively evaluated for impairment	$ 578,336	$ 563,196
Mortgage loans individually evaluated for impairment	35,249	35,633
Allowance for loan losses	(2,858)	(2,792)
Carrying value	$ 610,727	$ 596,037

There were no mortgage loans that were past due at March 31, 2022 or at December 31, 2021.

We had no troubled debt restructurings during the quarters ended March 31, 2022 or 2021.

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

	March 31, 2022	December 31, 2021
Beginning of year	$ 2,792	$ 2,854
Provision	175	539
Deductions	(109)	(601)
End of period	$ 2,858	$ 2,792

Please refer to our 2021 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 2021 Annual Report for a full discussion of our VIEs.

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

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

	Quarter Ended March 31,	
	2022	2021
Federal income tax credits realized	$ (101)	$ (230)
Amortization	52	207

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

The following table presents the carrying amount and maximum exposure to loss relating to VIEs for which we hold a variable interest, but are not the primary beneficiary, and which had not been consolidated at March 31, 2022 and December 31, 2021. The table includes investments in two real estate joint ventures and seven affordable housing real estate joint ventures at both March 31, 2022 and December 31, 2021.

	March 31, 2022		December 31, 2021	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Real estate joint ventures	$ 1,837	$ 1,837	$ 978	$ 978
Affordable housing real estate joint ventures	1,943	10,169	1,996	10,223
Total	$ 3,780	$ 12,006	$ 2,974	$ 11,201

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

At March 31, 2022 and December 31, 2021, we had no equity commitments outstanding to the real estate joint venture VIEs. At March 31, 2022 and December 31, 2021, 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 $6.3 million of losses which could be realized if the tax credits received by the VIEs were recaptured at March 31, 2022, compared to $6.2 million at December 31, 2021. 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 $113.3 million at March 31, 2022. The fair value of the separate accounts with the GMWB rider was $122.5 million at December 31, 2021. The GMWB guarantee liability was $(1.8) million at March 31, 2022 and $(0.1) million December 31, 2021. 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 $467.1 million at March 31, 2022 and $505.0 million at December 31, 2021, and corresponding Separate Account Liabilities of an equal amount. The fixed-rate funds for these policies are included in our general account as policyholder account balances. The future policy benefits for the direct block approximated $0.5 million at March 31, 2022 and $0.4 million at December 31, 2021.

In addition, we have an assumed closed block of variable universal life and variable annuity business that totaled $362.9 million at March 31, 2022 and $392.7 million at December 31, 2021. 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 $35.9 million at March 31, 2022 and $34.1 million at December 31, 2021 are included in our general account as policyholder account balances. The future policy benefits for the assumed block approximated $0.5 million at both March 31, 2022 and December 31, 2021.

8. Unpaid Claims Liability and Short-Duration Contracts

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

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

	Consolidated	
	Quarter Ended March 31,	
	2022	2021
Gross liability at beginning of the period	$ 33,632	$ 34,773
Less reinsurance recoverable	(24,607)	(26,542)
Net liability at beginning of the period	9,025	8,231
Incurred benefits related to:		
Current year	7,360	6,988
Prior years [1]	142	5
Total incurred benefits	7,502	6,993
Paid benefits related to:		
Current year	4,313	4,305
Prior years	3,722	2,656
Total paid benefits	8,035	6,961
Net liability at end of the period	8,492	8,263
Reinsurance recoverable	24,583	26,748
Gross liability at end of the period	$ 33,075	$ 35,011

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

	Group Insurance Segment	
	Quarter Ended March 31,	
	2022	2021
Gross liability at beginning of the period	$ 30,670	$ 31,572
Less reinsurance recoverable	(21,991)	(23,565)
Net liability at beginning of the period	8,679	8,007
Incurred benefits related to:		
Current year	7,347	6,964
Prior years [1]	159	31
Total incurred benefits	7,506	6,995
Paid benefits related to:		
Current year	4,313	4,303
Prior years	3,700	2,634
Total paid benefits	8,013	6,937
Net liability at end of the period	8,172	8,065
Reinsurance recoverable	22,001	23,876
Gross liability at end of the period	$ 30,173	$ 31,941

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

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

	March 31,	
	2022	2021
Individual Insurance Segment:		
Individual accident and health	$ 636	$ 544
Individual life	50,913	40,824
Deferred annuity	7,307	6,490
Subtotal	58,856	47,858
Group Insurance Segment:		
Group accident and health	30,173	31,941
Group life	3,847	2,516
Subtotal	34,020	34,457
Old American Segment:		
Individual accident and health	2,266	2,526
Individual life	12,174	11,122
Subtotal	14,440	13,648
Total	$ 107,316	$ 95,963

For short-duration contracts, incurred-but-not-reported liabilities for the group long-term disability product that were included in the liability for unpaid claims and claim adjustment expenses, net of reinsurance, totaled $0.6 million at both March 31, 2022 and December 31, 2021.

9. Debt

Notes Payable

We had no notes payable outstanding at March 31, 2022 or December 31, 2021.

As a member of the Federal Home Loan Bank of Des Moines (FHLB), we have the ability to borrow on a collateralized basis from the FHLB. Through this membership, we will have a specific borrowing capacity based upon the amount of collateral we establish. At March 31, 2022, securities and mortgages in the amount of $250.4 million, with a fair value of $246.3 million, were pledged to the FHLB, providing a borrowing capacity of $193.1 million. At December 31, 2021, securities and mortgages in the amount of $254.5 million, with a fair value of $254.6 million, were pledged to the FHLB, providing a borrowing capacity of $196.3 million. The rates of interest are variable and set by the FHLB at the time of the advance. The Company's capital investment totaled $7.0 million at March 31, 2022 and $6.2 million at December 31, 2021 and is included in Other Investments in the Consolidated Balance Sheets. Dividends received on the capital investment totaled less than $0.1 million in both the quarters ended March 31, 2022 and 2021.

We had unsecured revolving lines of credit with three major commercial banks that totaled $70.0 million at both March 31, 2022 and December 31, 2021, with no balances outstanding. The lines of credit are at variable interest rates based upon short-term indices with $60.0 million maturing in June of 2022 and $10.0 million maturing in July 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 quarter of 2022 and had no outstanding borrowings as of March 31, 2022. The Company had no transactions that occurred under these agreements during the year ended December 31, 2021 and had no outstanding borrowings as of December 31, 2021. 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

In 2021, the Company began entering into advance funding agreements with the FHLB. Under the agreements, 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. The investments pledged and outstanding advance agreements are included in the overall borrowing capacity established with the FHLB. Total obligations outstanding under these agreements, which mature between 2024 and 2027, were $50.0 million at March 31, 2022 and $30.0 million at December 31, 2021 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 quarter ended March 31, 2022 were less than $0.1 million.

10. Income Taxes

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

	Quarter Ended March 31,	
	2022	2021
Federal income tax rate	21 %	21 %
Tax credits, net of equity adjustment	1 %	9 %
Permanent differences and other	(3)%	(34)%
Effective income tax rate	19 %	(4)%

The following table provides information about taxes paid.

	Quarter Ended March 31, 2022	Quarter Ended March 31, 2021
Cash paid for income taxes	$ 85	$ —

We had no material uncertain tax positions at March 31, 2022 or December 31, 2021.

At March 31, 2022, we had a current tax asset of $0.4 million and an $8.5 million net deferred tax liability, compared to a $1.5 million current tax liability and a $43.3 million net deferred tax liability at December 31, 2021.

11. Pensions and Other Postemployment Benefits (OPEB)

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

	Pension Benefits		OPEB	
	Quarter Ended March 31,		Quarter Ended March 31,	
	2022	2021	2022	2021
Service cost	$ —	$ —	$ 31	$ 45
Interest cost	735	626	124	115
Expected return on plan assets	(2,417)	(2,320)	—	—
Amortization of:				
Unrecognized actuarial net (gain) loss	516	594	(225)	(216)
Unrecognized prior service credit	(16)	(16)	—	—
Net periodic benefit credit	$ (1,182)	$ (1,116)	$ (70)	$ (56)

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 2021 Annual Report for additional information regarding this plan.

The Company made a cash payment of $1.3 million under the long-term incentive plan during the first quarter of 2022 for the three-year interval ended December 31, 2021. The Company did not make any cash payments under the long-term incentive plan during the first quarter of 2021 for the three-year interval ended December 31, 2020.

At each reporting period, an estimate of the share-based compensation expense is accrued, utilizing the share price at the period end. The cost of share-based compensation accrued as an operating expense in the first quarter of 2022 was $0.1 million, net of tax. The cost of share-based compensation accrued as an operating expense in the first quarter of 2021 was $1.0 million, net of tax.

13. Comprehensive Loss

Comprehensive Loss is comprised of Net Loss and Other Comprehensive Loss. Other Comprehensive 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 Loss includes the change in the liability for benefit plan obligations. Other Comprehensive Loss reflects these items net of tax.

The following tables provide information about Comprehensive Loss.

	Quarter Ended March 31, 2022		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized losses arising during the period:			
Fixed maturity securities	$ (208,282)	$ (43,739)	$ (164,543)
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	1,226	258	968
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive loss	(7)	(2)	(5)
Net unrealized losses excluding impairment losses	(209,501)	(43,995)	(165,506)
Effect on DAC, VOBA, and DRL	17,277	3,628	13,649
Change in policyholder liabilities	26,354	5,534	20,820
Other comprehensive loss	$ (165,870)	$ (34,833)	$ (131,037)
Net loss			(7,676)
Comprehensive loss			$ (138,713)

	Quarter Ended March 31, 2021		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized losses arising during the period:			
Fixed maturity securities	$ (121,124)	$ (25,283)	$ (95,841)
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	635	133	502
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive loss	(15)	(3)	(12)
Net unrealized losses excluding impairment losses	(121,744)	(25,413)	(96,331)
Effect on DAC, VOBA, and DRL	7,989	1,678	6,311
Change in policyholder liabilities	11,177	2,347	8,830
Other comprehensive loss	$ (102,578)	$ (21,388)	$ (81,190)
Net loss			(668)
Comprehensive loss			$ (81,858)

The following table provides accumulated balances related to each component of Accumulated Other Comprehensive Loss at March 31, 2022, net of tax.

	Unrealized Gain (Loss) on Non-Impaired Securities	Unrealized Gain on Impaired Securities	Benefit Plan Obligations	DAC/ VOBA/DRL Impact	Policyholder Liabilities	Total
Beginning of year	$ 151,660	$ 1,062	$ (39,128)	$ (12,578)	$ (26,765)	$ 74,251
Other comprehensive income (loss) before reclassification	(164,238)	(305)	—	13,649	20,820	(130,074)
Amounts reclassified from accumulated other comprehensive income (loss)	(968)	5	—	—	—	(963)
Net current-period other comprehensive income (loss)	(165,206)	(300)	—	13,649	20,820	(131,037)
End of period	(13,546)	762	(39,128)	1,071	(5,945)	(56,786)

The following table provides accumulated balances related to each component of Accumulated Other Comprehensive Income (Loss) at December 31, 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	(96,874)	(566)	5,115	7,946	9,247	(75,132)
Amounts reclassified from accumulated other comprehensive income (loss)	(3,800)	381	—	—	—	(3,419)
Net current-period other comprehensive income (loss)	(100,674)	(185)	5,115	7,946	9,247	(78,551)
End of period	$ 151,660	$ 1,062	$ (39,128)	$ (12,578)	$ (26,765)	$ 74,251

The following table presents the pre-tax and the related Income Tax Benefit (Expense) components of the amounts reclassified from Accumulated Other Comprehensive Income to the Consolidated Statements of Comprehensive Income.

	Quarter Ended March 31,	
	2022	2021
Reclassification adjustments related to unrealized gains (losses) on investment securities:		
Net realized investment gains, excluding impairment losses[1]	$ 1,226	$ 635
Income tax expense[2]	(258)	(133)
Net of taxes	968	502
Other-than-temporary impairment losses[1]	(7)	(15)
Income tax benefit[2]	2	3
Net of taxes	(5)	(12)
Total pre-tax reclassifications	1,219	620
Total income tax expense	(256)	(130)
Total reclassification, net taxes	$ 963	$ 490

[1] (Increases) decreases Net Investment Gains in the Consolidated Statements of Comprehensive Income.

[2] (Increases) decreases Income Tax Expense in the Consolidated Statements of Comprehensive Income.

14. Earnings Per Share

Due to our capital structure and the absence of other potentially dilutive securities, there is no difference between basic and diluted earnings per common share for any of the periods reported. The average number of shares outstanding for both the first quarters ended March 31, 2022 and 2021 was 9,683,414. The number of shares outstanding at both March 31, 2022 and December 31, 2021 was 9,683,414.

15. Segment Information

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

	Quarter Ended March 31, 2022			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 43,565	$ 15,944	$ 23,674	$ 83,183
Interest credited to policyholder account balances	19,340	—	—	19,340
Amortization of deferred acquisition costs	4,349	—	5,285	9,634
Income tax benefit	(483)	(250)	(1,025)	(1,758)
Net loss	(2,877)	(953)	(3,846)	(7,676)

	Quarter Ended March 31, 2021			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 42,738	$ 15,564	$ 24,829	$ 83,131
Interest credited to policyholder account balances	19,525	—	—	19,525
Amortization of deferred acquisition costs	3,060	—	5,079	8,139
Income tax expense (benefit)	356	124	(455)	25
Net income (loss)	693	467	(1,828)	(668)

16. Commitments, Contingent Liabilities, Guarantees, and Indemnifications

Commitments

In the normal course of business, we have open purchase and sale commitments. At March 31, 2022, we had purchase commitments to fund mortgage loans of $16.3 million.

Subsequent to March 31, 2022, we entered into commitments to fund additional mortgage loans of $8.6 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 probable outcome of a litigation matter and the amount or range of potential loss can be difficult to ascertain. We establish liabilities for litigation and other loss contingencies when available information indicates both that a loss is probable and the amount of the loss can be reasonably estimated. Some matters could require us to pay damages or make other expenditures or establish accruals in amounts that cannot be estimated as of March 31, 2022. 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 the defendant in four related litigation matters (including two class actions and two putative class actions) that allege that we determined cost of insurance rates in excess of amounts permitted by the terms of certain life insurance policies.

The four matters are:

- Meek v. KCL, which is a class action filed in the U.S. District Court for the Western District of Missouri, including current and former policyholders who purchased certain universal life policies originally issued in the State of Kansas. As discussed below, the Court in the Meek case has certified a class of policyholders for the action and identified the policies at issue.

- Karr v. KCL, which is a class action filed in the 16th Circuit Court for the State of Missouri (Jackson County), including current Missouri residents who purchased certain universal life policies in the State of Missouri. As discussed below, the Court in Karr has certified a class of policyholders for the action, identified the policies at issue, and issued partial summary judgment on three of the five counts.

- Sheldon v. KCL, which is a putative class action filed in the 16th Circuit Court for the State of Missouri (Jackson County), where plaintiff seeks to represent all similar current and former policyholders who purchased certain variable universal life products in any state where the policies were issued. The plaintiff is seeking damages and declaratory relief on behalf of all such policyholders. The Court in Sheldon has not certified a class or identified the variable universal life products at issue.

- Fine v. KCL, which is a class action filed in the U.S. District Court for the Central District of California, including current and former policyholders who purchased certain universal life policies originally issued in the State of California. This case was filed on March 29, 2022, and is in preliminary stages. The Court has not certified a class of policyholders or identified the policies at issue in this matter.

The certain universal life insurance policies at issue in both the Meek v. KCL and the Karr v. KCL matters are the 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).

The Court in Karr v. KCL certified a class of policyholders to be represented by the named plaintiff on July 12, 2021. The class in the Karr lawsuit includes current Missouri citizens whose life insurance policies were issued in Missouri and were active on or after January 1, 2002. On February 22, 2022, the Court granted partial Summary Judgment to plaintiffs on three of the five counts at issue in the class action. The three counts will be submitted to a jury to determine what damages, if any, have been incurred by the Class. The remaining two counts have not yet been adjudicated. KCL has moved to decertify the class, will vigorously defend the damages claims and remaining claims at trial, and intends to pursue any appeals that may be available at the appropriate times.

The Court in Meek v. KCL certified a class of policyholders to be represented by the named plaintiff on February 7, 2022, for four of the five counts at issue in the class action. The Court also limited the class to Kansas policyholders rather than the multi-state class sought by plaintiff. The Kansas-only class that was certified in the Meek lawsuit includes current and former policyholders whose life insurance policies were issued in Kansas and whose policies were active on or after January 1, 2002. The Court's decision means that the class of policyholders certified in the Meek v. KCL lawsuit meets the requirements of Federal Rule of Civil Procedure 23(b)(3), which governs class actions in federal courts. While the ruling establishes a class at this stage of the litigation and permits the future issuance of a notice to class members, the Court has not decided who will win this case.

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

We have not concluded that a loss related the Meek, Sheldon, or Fine matters is probable, nor have we accrued any liability relating to those three matters.

With respect to the damages claims related to the three Counts subject to the partial summary judgment ruling in Karr, the circumstances of our defenses and the potential damages claims by plaintiff, including the potential for compensatory damages, interest and punitive damages, as well as our intent to pursue any available appeals, make it impossible to estimate a potential range of potential losses in this matter. As a result, we have not accrued a liability for this loss contingency at this time.

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.

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

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

17. Subsequent Events

We evaluated events that occurred subsequent to March 31, 2022 through April 29, 2022, the date the consolidated financial statements were issued, and have identified the following subsequent events.

On April 25, 2022, Mr. R. Philip Bixby retired as President and Chief Executive Officer. He will remain as Chairman of the Board of Directors.

On April 25, 2022, the Board of Directors elected Walter E. Bixby to serve as President and Chief Executive Officer. He also serves as Vice Chairman of the Board of Directors.

On April 25, 2022, the Kansas City Life Board of Directors declared a quarterly dividend of $0.14 per share, payable on May 11, 2022 to stockholders of record on May 5, 2022.

There have been no other subsequent events that occurred during such period that require disclosure in, or adjustment to, the consolidated financial statements as of and for the quarter ended March 31, 2022.