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 September 30, 2022
(the "Reporting Period")

The number of shares outstanding of our Common Stock was 9,683,414 as of September 30, 2022 (the end of reporting period)

The number of shares outstanding of our Common Stock was 9,683,414 as of June 30, 2022 (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, agents, and employees;
- 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;
- The availability and effectiveness of reinsurance arrangements;
- 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

	September 30, 2022
Number of Shares Authorized	36,000,000
Number of Shares Outstanding	9,683,414
Freely Tradable Shares (Public Float)	2,564,008
Total Number of Shareholders of Record	124

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

Item 3. Interim Consolidated Financial Statements

The interim consolidated financial statements of Kansas City Life Insurance Company as of and for the period ending September 30, 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 and nine months ended September 30, 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. Sunset Life is now Ibexis Life & Annuity Insurance Company. We also have non-insurance subsidiaries that individually and collectively are not material.

On May 25, 2022, retroactive to April 1, 2022, we entered into a reinsurance arrangement whereby we reinsured a sizeable block of fixed annuity contracts to a certified reinsurer. This closed block of contracts reflected business issued prior to 2015 and consisted entirely of higher guaranteed interest rate products. We are accounting for this transaction as a deposit-type contract. The contract reinsured $516.2 million in policyholder account balance liabilities in exchange for fixed maturity securities and cash, less deferred revenue. We immediately recognized $11.6 million of certain non-refundable premiums associated with the transaction in investment income. The remaining deferred revenue will be amortized in future periods. The net consideration transferred to the reinsurer was $493.9 million. This resulted in recognizing a deposit asset on reinsurance of $516.2 million at April 1, 2022. The related pre-tax net realized investment loss from the sale of the fixed maturity securities associated with the transaction was $12.3 million. We will continue to administer this business on an ongoing basis, and we will receive an ongoing expense allowance associated with these efforts. For additional information on this reinsurance arrangement, please see Note 13 - Deposit Asset on Reinsurance.

The following is a discussion and analysis of the results of operations for the quarters and nine months ended September 30, 2022 and 2021 and our financial condition at September 30, 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, equity risk, and inflation 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 increased inflationary environment and volatile equity markets have presented significant challenges to the interest rate environment, 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 and other events have 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

Net income for the third quarter of 2022 was $4.3 million compared to a net loss of $6.0 million in the third quarter of 2021. Net income per share was $0.45 in the third quarter of 2022 compared to a net loss per share of $0.62 for the same period in the prior year. Net income for the first nine months of 2022 was $1.1 million compared to a net loss of $2.4 million in the first nine months of 2021. Net income per share was $0.12 in the first nine months of 2022 compared to a net loss per share of $0.25 one year earlier.

The following table presents condensed consolidated results of operations for the quarters and nine months ended September 30, 2022 and 2021.

	Quarter Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
Revenues:						
Insurance and other revenues	$ 84,123	$ 85,094	(1)%	$ 254,334	$ 254,987	— %
Net investment income	35,759	36,016	(1)%	115,851	108,117	7 %
Net investment gains (losses)	116	172	(33)%	(16,377)	5,313	(408)%
Benefits and expenses:						
Policyholder benefits and interest credited to policyholder account balances	80,869	93,466	(13)%	247,950	267,903	(7)%
Amortization of deferred acquisition costs	9,687	9,054	7 %	31,798	25,313	26 %
Operating expenses	24,133	25,751	(6)%	73,144	77,566	(6)%
Income tax expense (benefit)	994	(983)	(201)%	(208)	23	(1,004)%
Net income (loss)	$ 4,315	$ (6,006)	(172)%	$ 1,124	$ (2,388)	(147)%

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. The environment continues to evolve as the pandemic lengthens and in many ways 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 on an ongoing basis to ensure that they comply with regulatory requirements, remain profitable, and continue to fulfill the needs of our clients. We also periodically 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 September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
New premiums:						
Traditional life insurance	$ 4,512	$ 5,332	(15)%	$ 14,483	$ 16,095	(10)%
Immediate annuities	3,483	5,015	(31)%	13,495	10,691	26 %
Group life insurance	588	567	4 %	1,869	1,852	1 %
Group accident and health insurance	2,255	1,882	20 %	6,601	5,663	17 %
Total new premiums	10,838	12,796	(15)%	36,448	34,301	6 %
Renewal premiums	68,688	67,905	1 %	204,952	203,688	1 %
Total premiums	79,526	80,701	(1)%	241,400	237,989	1 %
Reinsurance ceded	(28,042)	(27,102)	3 %	(85,329)	(80,232)	6 %
Net premiums	$ 51,484	$ 53,599	(4)%	$ 156,071	$ 157,757	(1)%

Consolidated total premiums decreased $1.2 million or 1% in the third quarter of 2022 compared with the third quarter of 2021, as a $2.0 million or 15% decline in new premiums was partially offset by a $0.8 million or 1% increase in renewal premiums. The decline in new premiums reflected a $1.5 million or 31% decrease in new immediate annuity premiums. Immediate annuity receipts can have sizeable fluctuations, as receipts from policyholders largely result from one-time premiums. Internal rollovers from various individual annuity products decreased $1.6 million in the third quarter of 2022 versus the third quarter of 2021. In addition, new traditional life insurance premiums declined $0.8 million or 15% compared to the prior year. Partially offsetting these decreases in premiums, new group accident and health insurance premiums increased $0.4 million or 20% compared to the prior year, largely from the disability lines of business. The increase in renewal premiums was largely due to a $0.6 million or 1% increase in renewal traditional life premiums, primarily from the Individual Insurance segment. In addition, renewal group accident and health insurance premiums increased $0.2 million or 1%, primarily from the disability and vision lines of business.

Consolidated total premiums increased $3.4 million or 1% in the first nine months of 2022 compared with the first nine months of 2021. This improvement included a $2.1 million or 6% increase in new premiums and a $1.3 million or 1% increase in renewal premiums. The growth in new premiums largely resulted from a $2.8 million or 26% increase in new immediate annuity premiums. Internal rollovers from various individual annuity products were $0.4 million higher in the first nine months of 2022 than in the first nine months of 2021. In addition, new group accident and health insurance premiums increased $0.9 million or 17% compared to the prior year, largely from the disability lines of business. Partially offsetting these premium improvements, new individual life insurance premiums decreased $1.6 million or 10% compared to the prior year. The increase in renewal premiums reflected a $0.7 million or less than 1% increase in renewal traditional life insurance premiums and a $0.2 million or 1% increase in renewal group life premiums. In addition, renewal group accident and health insurance premiums increased $0.4 million or 1%, primarily from the vision line of business.

Reinsurance ceded premiums increased $0.9 million or 3% in the third quarter and $5.1 million or 6% in the first nine months of 2022 over the same periods in the prior year. These increases reflected a reinsurance agreement that 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 September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
New deposits:						
Interest sensitive life	$ 2,174	$ 2,262	(4)%	$ 8,190	$ 7,876	4 %
Fixed annuities	10,602	11,770	(10)%	29,550	29,148	1 %
Variable annuities	722	3,187	(77)%	8,869	11,552	(23)%
Total new deposits	13,498	17,219	(22)%	46,609	48,576	(4)%
Renewal deposits	36,328	35,571	2 %	112,767	112,185	1 %
Total deposits	49,826	52,790	(6)%	159,376	160,761	(1)%
Reinsurance ceded	(1,975)	—	— %	(4,808)	—	— %
Net deposits	$ 47,851	$ 52,790	(9)%	$ 154,568	$ 160,761	(4)%

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 and increased inflationary 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, as well as general economic conditions, have affected both new and renewal deposits.

Total new deposits decreased $3.7 million or 22% in the third quarter of 2022 compared with the third quarter of 2021. This was primarily due to a $2.5 million or 77% decline in new variable annuity deposits and a $1.2 million or 10% decline in new fixed annuity deposits. Total renewal deposits increased $0.8 million or 2% in the third quarter of 2022 compared to the prior year, largely resulting from a $0.5 million or 2% increase in renewal interest sensitive life deposits and a $0.3 million or 18% increase in renewal variable annuity deposits.

Total new deposits declined $2.0 million or 4% in the first nine months of 2022 compared with the first nine months of 2021. This decline largely resulted from a $2.7 million or 23% decrease in new variable annuity deposits compared to the prior year. Partially offsetting this, new interest sensitive life deposits increased $0.3 million or 4% and new fixed annuity deposits increased $0.4 million or 1%. Total renewal deposits increased $0.6 million or 1% in the first nine months of 2022 compared to one year earlier, primarily reflecting a $0.6 million or 5% increase in renewal fixed annuity deposits.

Reinsurance ceded on deposits totaled $2.0 million in the third quarter and $4.8 million in the first nine months of 2022, resulting from the deposit-type reinsurance agreement previously mentioned that became effective April 1, 2022.

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

Total contract charges increased $1.0 million or 4% in the third quarter of 2022 compared to the third quarter of 2021. Contract charges on open blocks rose $1.2 million or 7%, largely from an increase in deferred revenue. Contract charges on closed blocks decreased $0.2 million or 1%, reflecting the runoff of the closed blocks of business. Total contract charges on closed blocks equaled 41% of total consolidated contract charges during the third quarter of 2022, down from 43% during the third quarter of 2021.

Total contract charges increased $0.5 million or 1% in the first nine months of 2022 compared to the prior year. Contract charges on open blocks increased $1.0 million or 2%, reflecting higher deferred revenue. Contract charges on closed blocks decreased $0.6 million or 1%, reflecting the runoff of the closed blocks of business. Total contract charges on closed blocks equaled 41% of total consolidated contract charges during the first nine months of 2022, down from 42% during the first nine months of 2021.

Unlocking increased deferred revenue $1.0 million in the first nine months of 2022, compared to an increase of $1.1 million in the first nine months of 2021.

Investment Revenues
Total net investment income decreased $0.3 million or 1% in the third quarter and increased $7.7 million or 7% in the first nine months of 2022 compared with the same periods in 2021.

Net investment income resulting from the deposit-type reinsurance agreement which was effective April 1, 2022, was $4.7 million in the third quarter and $17.3 million in the first nine months of 2022.

Net investment income on invested assets decreased $5.0 million or 14% in the third quarter and $9.5 million or 9% in the first nine months of 2022 compared with the same periods in the prior year. These results reflected lower average invested assets and a decrease in prepayment fees on mortgage loans. The lower invested assets primarily resulted from the sale of fixed maturity securities with a book value of approximately $502.0 million during the second quarter of 2022 as part of the deposit-type reinsurance transaction.

Fixed maturity securities provide a majority of our investment income. Net investment income from these investments decreased $2.9 million or 11% in the third quarter versus one year earlier, reflecting lower average invested assets. Net investment income from these investments decreased $4.9 million or 6% of the first nine months of 2022 compared to the prior year, as lower average invested assets were partially offset by higher yields earned. The lower invested assets primarily resulted from the sale of fixed maturity securities as part of the deposit-type reinsurance transaction.

Net investment income from commercial mortgage loans declined $1.3 million or 18% in the third quarter and $3.3 million or 16% in the first nine months of 2022 compared with the same periods in the prior year, primarily from lower prepayment fees as well as lower yields earned. As interest rates have increased in 2022, fewer mortgage loans have refinanced. This has resulted in decreases in prepayment fees of $1.0 million in the third quarter and $2.3 million in the first nine months of 2022 compared to the same periods in the prior year.

Net investment income from real estate decreased $0.7 million or 29% in the third quarter and $1.4 million or 22% in the first nine months of 2022 compared to the same prior year periods. These declines largely resulted from the loss of revenue from a real estate property that was sold in the fourth quarter of 2021.

Investment Gains (Losses)
Net investment gains for the third quarter of 2022 totaled $0.1 million compared to $0.2 million in the third quarter of 2021. The change in fair value of other invested assets resulted in a gain of $1.6 million in the third quarter of 2022, with no comparable amount in the prior year as those investments were purchased during the second quarter of 2022. The change in fair value of derivative instruments resulted in a $1.2 million loss compared to a gain of $0.1 million one year earlier. In addition, sales of investment securities in the third quarter of 2022 generated a net loss of $0.2 million, with no comparable sales in the third quarter of 2021. Sales of real estate and joint ventures in the third quarter of 2021 generated a net gain of $0.3 million, with no comparable sales in the third quarter of 2022.

Net investment losses for the first nine months of 2022 totaled $16.4 million compared to net investment gains of $5.3 million for the first nine months of 2021. The largest factor in the net investment losses in 2022 was the sale of investment securities for the deposit-type reinsurance agreement that generated a pretax net loss of $12.3 million. In addition, the change in fair value of derivative instruments resulted in a loss of $7.1 million in the first nine months of 2022 compared to a gain of $2.6 million in the prior year. Also, the change in fair value of other invested assets generated a $1.9 million gain during 2022, with no comparable amount in the prior year. As well, sales of real estate and joint ventures in the first nine months of 2021 generated a net gain of $0.5 million, with no comparable sales in the first nine months of 2022.

No other-than-temporary impairment losses were recognized in earnings in the third quarter of 2022. Net impairment losses were not material during nine months ended September 30, 2022. We recognized impairments on the securities portfolio totaling $0.4 million during the third quarter and nine months ended September 30, 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 decreased $10.3 million or 14% in the third quarter of 2022 compared to the prior year. The largest factor in this decline was a $9.2 million or 19% decrease 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 2% of the total mortality cost for the third quarter of 2022, down from 8% for the third quarter of 2021. Mortality cost is defined as death benefits net of reinsurance and reserves released. Also contributing to the decrease in policyholder benefits was a $2.5 million or 50% decrease in benefit and contract reserves in the third quarter of 2022 compared to one year earlier. Contributing to the decrease in reserves was the decline 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 increases in interest rates and spreads that were partially offset by unfavorable capital market returns. In addition, reserves decreased at the Old American segment due to ceded reserves on the reinsurance arrangement that became effective January 1, 2022 and more reserves released for surrenders. Also, contributing to the decrease was a decline in supplemental contract reserves, reflecting less considerations compared to one year earlier. Partially offsetting these, the change in the fair value of derivative instruments increased reserves compared to the prior year. Partially offsetting the decreases in benefit and contract reserves and death benefits, group accident and health benefits increased $1.1 million or 19% in the third quarter of 2022 compared to the prior year, largely from the dental and disability lines.

Policyholder benefits decreased $15.4 million or 7% in the first nine months of 2022 compared to the first nine months of 2021. The largest factor in this decrease was an $8.7 million or 73% decline in benefit and contract reserves. 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 reinsurance arrangement mentioned above and more reserves released for death benefits and surrenders. Also contributing to the decrease in reserves was the decline in the fair value of the GMWB rider compared with the prior year. The change in fair value of the GMWB rider reflected increases in interest rates and spreads that were partially offset by unfavorable capital market returns. Partially offsetting these items was an increase in annuity reserves, reflecting higher annuity premiums. Also contributing to the decrease in policyholder benefits was a $7.1 million or 5% decline in death benefits, net of reinsurance, in the first nine months of 2022 compared to the prior year. Mortality cost resulting specifically from the COVID-19 pandemic was 8% of the total mortality cost for the first nine months of 2022, down from 11% for the first nine months of 2021.

Interest Credited to Policyholder Account Balances
Interest is credited to policyholder account balances according to terms of the policies or contracts for universal life, fixed deferred annuities, and other investment-type products. There are minimum levels of interest crediting stipulated in certain policies or contracts, as well as allowances for adjustments to be made to reflect current market conditions in certain policies or contracts. Accordingly, the Company reviews and adjusts crediting rates as necessary and appropriate. Amounts credited are a function of account balances and current period crediting rates. As account balances fluctuate, so will the amount of interest credited to policyholder account balances. Interest credited to policyholder account balances decreased $2.3 million or 12% in the third quarter and $4.5 million or 8% in the first nine months of 2022 compared to the same periods one year earlier. These declines reflected lower interest crediting on the indexed universal life product.

Amortization of DAC
The amortization of DAC increased $0.6 million or 7% in the third quarter and $6.5 million or 26% in the first nine months of 2022 over the same periods in the prior year. The increase in the third quarter was primarily due to better mortality experience than in the prior year. The increase in the first nine months reflected the impact of unlocking, better mortality experience, and decreased investment performance in the separate accounts. Unlocking increased amortization of DAC $1.7 million in the second quarter of 2022 compared to a decrease of $0.4 million in the second quarter of 2021. In addition, DAC amortization increased in 2022 due to the write-off of DAC resulting from the deposit-type reinsurance arrangement.

Unlocking
At least annually, we review the models and the assumptions used to develop expected gross profits for interest sensitive and variable insurance products based upon management's current view of future events. Key assumptions analyzed include net interest income, net realized investment gains and losses, fees, surrender charges, expenses, and mortality gains and losses, net of reinsurance.

The following tables summarize the effects of unlocking of assumptions on interest sensitive products in the Consolidated Statements of Comprehensive Income. Positive numbers are increases to income and negative numbers are reductions to income. The unlocking occurred during the second quarters of 2022 and 2021. No unlocking occurred in the first or third quarters of 2022 or 2021.

	Nine Months Ended September 30, 2022			
	DAC Amortization	VOBA Amortization	DRL Contract Charges	Net Impact to Pre-Tax Income
Unlocking	$ (1,744)	$ (26)	$ 953	$ (817)

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

The unlocking in 2022 resulted in a net $0.8 million decrease to pre-tax income in the first nine months of 2022. The unlocking in 2021 resulted in a net $0.7 million increase to pre-tax income in the first nine months of 2021. The adjustments in both periods primarily resulted from interest rate fluctuations and the impact of management actions in the current interest rate environment.

In addition, we had a $1.4 million decrease in benefit and contract reserves related to the impacts of unlocking in the first nine months of 2022 compared to a $0.7 million decrease in the first nine months of 2021. The pre-tax impact of all adjustments related to unlocking, including insurance revenues, amortization of DAC and VOBA, and policyholder benefits, was an increase to pretax income of $0.6 million in the first nine months of 2022 and an increase to pretax income of $1.4 million in the first nine months of 2021.

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 decreased $1.6 million or 6% in the third quarter of 2022 compared to the prior year. This reflected decreases in agent compensation expenses, software amortization, expense accruals, and premium taxes. These were partially offset by increases in legal fees and agent meeting expenses.

Operating expenses decreased $4.4 million or 6% in the first nine months of 2022 versus one year earlier. This largely resulted from a decline in employee compensation expenses, in part due to staffing fluctuations and a decline in the market value of deferred compensation benefits. In addition, medical examination fees, software amortization, and premium taxes declined. Partially offsetting these declines, legal fees, consulting fees, travel expenses, and agent meeting expenses increased.

The amortization of VOBA increased $0.2 million or 64% in the third quarter of 2022 compared to the third quarter of 2021, reflecting better mortality experience. The amortization of VOBA decreased $0.5 million or 27% in the first nine months of 2022 versus the first nine months of 2021, primarily due to unlocking, as discussed above. Unlocking increased operating expenses less than $0.1 million in the second quarter of 2022 compared to an increase of $0.8 million in the second quarter of 2021.

Income Taxes
We recorded an income tax expense of $1.0 million in the third quarter of 2022 compared to an income tax benefit of $1.0 million in the third quarter of 2021. The increase in income tax expense in the third quarter of 2022 primarily occurred because of an increase in pretax income in the third quarter of 2022 as compared to the third quarter in 2021.

We recorded an income tax benefit for the nine months ended September 30, 2022 of $0.2 million compared to income tax expense of less than $0.1 million for the prior year period. The decrease in income tax expense in the first nine months of 2022 was primarily related to capital losses incurred in the first nine months of 2022 as compared to capital gains in the first nine months of 2021.

The effective income tax rate was lower than the prevailing corporate federal income tax rate of 21% for both the third quarters of 2022 and 2021. The lower effective income tax rate in both periods was primarily due to tax credits from affordable housing investments, research and development credits, and permanent differences, which includes the dividend-received deduction.

The effective income tax rate was lower than the prevailing corporate federal income tax rate of 21% for the nine months ended September 30, 2022. The lower effective income tax rate was primarily due to the effect of favorable tax adjustments relative to a pretax loss, and capital losses incurred in the first nine months of 2022. Favorable tax adjustments include tax credits from affordable housing investments, research and development credits, and permanent differences, which includes the dividend-received deduction. The effective income tax rate was lower than the prevailing corporate federal income tax rate of 21% for the nine months ended September 30, 2021. The lower effective income tax rate was primarily due to tax on capital gains that was partially offset by a net loss on operating income.

Analysis of Investments

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

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

	September 30, 2022	% of Total	December 31, 2021	% of Total
Fixed maturity securities	$ 2,165,590	71 %	$ 3,088,197	77 %
Equity securities	9,822	— %	3,676	— %
Mortgage loans	612,359	20 %	596,037	15 %
Real estate	142,545	5 %	142,278	4 %
Policy loans	82,378	3 %	82,060	2 %
Short-term investments	42,219	1 %	74,501	2 %
Other investments	10,487	— %	12,840	—
Total	$ 3,065,400	100 %	$ 3,999,589	100 %

Fixed maturity securities were the largest component of total investments at both September 30, 2022 and December 31, 2021. Fixed maturity securities declined from 77% of total investments at December 31, 2021 to 71% of total investments at September 30, 2022. This decline was primarily from an increase in unrealized losses on the portfolio due to increasing interest rates as well as from the sale of fixed maturity securities with a book value of approximately $502.0 million during the second quarter of 2022 as part of the deposit-type reinsurance transaction. The largest categories of fixed maturity securities at September 30, 2022 consisted of 71% in corporate obligations, 12% in municipal securities, and 5% in U.S. Treasury securities and obligations of the U.S. Government. We had 25% of the fixed maturity securities in private placements at September 30, 2022 and 22% at 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 September 30, 2022 and December 31, 2021.

The fair value of fixed maturity securities with unrealized losses was $2.0 billion at September 30, 2022 compared with $366.6 million at December 31, 2021. This increase primarily reflected higher interest rates at September 30, 2022. At both September 30, 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 September 30, 2022, we had $7.5 million in gross unrealized gains on fixed maturity securities that were offset by gross unrealized losses of $306.4 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 September 30, 2022, 9% 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 all categories from December 31, 2021 to September 30, 2022, primarily due to changes in interest rates. Gross unrealized losses on fixed maturity securities for less than 12 months totaled $232.3 million and accounted for 89% of the security values in a gross unrealized loss position at September 30, 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 $74.0 million at September 30, 2022.

We have written down certain investments in previous periods. There were no fixed maturity securities written down and still owned at September 30, 2022. Fixed maturity securities written down and still owned at December 31, 2021 had a 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.

Investments in mortgage loans totaled $612.4 million at September 30, 2022, up from $596.0 million at December 31, 2021. The commercial mortgage loan portfolio increased by $16.3 million during the first nine months 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. This allowance was $2.9 million at September 30, 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 $43.3 million for the nine months ended September 30, 2022. Net cash used from investing activities was $79.7 million for the nine months ended September 30, 2022. The primary sources of cash provided by investing activities were sales, maturities, calls, and principal paydowns of investments totaling $355.6 million. Investment purchases, including new fixed maturities and mortgage loans, totaled $467.1 million. Net cash provided by financing activities for the nine months ended September 30, 2022, was $124.8 million, including $70.0 million of receipts from the FHLB funding agreement, $33.9 million of deposits, net of withdrawals, on policyholder account balances, $6.7 million of net transfers from separate accounts, and $23.7 million change in deposit asset on reinsurance. These were partially offset by the payment of $5.3 million of stockholder dividends.

Capital Resources

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

	September 30, 2022	December 31, 2021
Total assets, excluding separate accounts	$ 4,585,099	$ 4,928,454
Total stockholders' equity	497,842	830,434
Ratio of stockholders' equity to assets, excluding separate accounts	11%	17%

Stockholders’ equity decreased $332.6 million from year-end 2021, primarily due to an increase in net unrealized losses, reflecting higher interest rates at September 30, 2022. Stockholders’ equity per share, or book value, equaled $51.41 at September 30, 2022, a decrease from $85.76 at year-end 2021, largely due to an increase in unrealized losses 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 $215.0 million at September 30, 2022, a $328.4 million change from net unrealized gains on available securities of $113.4 million at December 31, 2021. This decline reflected higher interest rates at September 30, 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 $100.0 million at September 30, 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 were $0.4 million during the quarter and $0.6 million during the nine months ended September 30, 2022.

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 nine months of 2022.

On October 24, 2022, the Board of Directors declared a quarterly dividend of $0.14 per share payable on November 9, 2022 to stockholders of record on November 3, 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 17 - Commitments, Contingent Liabilities, Guarantees, and Indemnifications of the financial statements in Exhibit 3.1.

Item 6. Defaults upon Senior Securities

None

Item 7. Other Information

None

Item 8. Exhibits

3.1 Interim Consolidated Financial Statements

Item 9. Issuer's Certifications

I, 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: October 28, 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: October 28, 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

	September 30, 2022	December 31, 2021
	(Unaudited)	
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value (amortized cost: 2022 - $2,464,403; 2021 - $2,894,877)	$ 2,165,590	$ 3,088,197
Equity securities, at fair value (cost: 2022 - $3,671 and 2021 - $3,097)	9,822	3,676
Mortgage loans	612,359	596,037
Real estate	142,545	142,278
Policy loans	82,378	82,060
Short-term investments	42,219	74,501
Other investments	10,487	12,840
Total investments	3,065,400	3,999,589
Cash	7,276	5,419
Accrued investment income	28,166	30,298
Deferred acquisition costs	333,703	292,027
Reinsurance recoverables	390,766	399,951
Deposit asset on reinsurance	501,957	—
Other assets	257,831	201,170
Separate account assets	367,340	504,976
Total assets	$ 4,952,439	$ 5,433,430
LIABILITIES		
Future policy benefits	$ 1,380,026	$ 1,397,111
Policyholder account balances	2,300,571	2,247,392
Policy and contract claims	64,814	69,787
Other policyholder funds	207,067	185,713
Other liabilities	134,779	198,017
Separate account liabilities	367,340	504,976
Total liabilities	4,454,597	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	929,136	933,338
Accumulated other comprehensive income (loss)	(254,139)	74,251
Treasury stock, at cost (2022 and 2021 - 8,813,266 shares)	(241,301)	(241,301)
Total stockholders’ equity	497,842	830,434
Total liabilities and stockholders’ equity	$ 4,952,439	$ 5,433,430

See accompanying Notes to Consolidated Financial Statements (Unaudited)

Kansas City Life Insurance Company
Consolidated Statements of Comprehensive Income

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Unaudited)		(Unaudited)	
REVENUES				
Insurance revenues:				
Net premiums	$ 51,484	$ 53,599	$ 156,071	$ 157,757
Contract charges	30,926	29,877	93,010	92,535
Total insurance revenues	82,410	83,476	249,081	250,292
Investment revenues:				
Net investment income	35,759	36,016	115,851	108,117
Net investment gains (losses)	116	172	(16,377)	5,313
Total investment revenues	35,875	36,188	99,474	113,430
Other revenues	1,713	1,618	5,253	4,695
Total revenues	119,998	121,282	353,808	368,417
BENEFITS AND EXPENSES				
Policyholder benefits	62,995	73,269	192,727	208,161
Interest credited to policyholder account balances	17,874	20,197	55,223	59,742
Amortization of deferred acquisition costs	9,687	9,054	31,798	25,313
Operating expenses	24,133	25,751	73,144	77,566
Total benefits and expenses	114,689	128,271	352,892	370,782
Income (loss) before income tax expense (benefit)	5,309	(6,989)	916	(2,365)
Income tax expense (benefit)	994	(983)	(208)	23
NET INCOME (LOSS)	$ 4,315	$ (6,006)	$ 1,124	$ (2,388)
COMPREHENSIVE LOSS, NET OF TAXES				
Changes in:				
Net unrealized losses on securities available for sale	$ (101,025)	$ (15,654)	$ (388,786)	$ (74,843)
Effect on deferred acquisition costs, value of business acquired, and deferred revenue liabilities	11,969	1,143	33,634	5,871
Policyholder liabilities	—	1,913	26,762	6,264
Other comprehensive loss	(89,056)	(12,598)	(328,390)	(62,708)
COMPREHENSIVE LOSS	$ (84,741)	$ (18,604)	$ (327,266)	$ (65,096)
Basic and diluted earnings per share:				
Net income (loss)	$ 0.45	$ (0.62)	$ 0.12	$ (0.25)

See accompanying Notes to Consolidated Financial Statements (Unaudited)

Kansas City Life Insurance Company
Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
	2022	2021
	(Unaudited)	
OPERATING ACTIVITIES		
Net income (loss)	$ 1,124	$ (2,388)
Adjustments to reconcile net income (loss) to net cash used from operating activities:		
Amortization of investment premium and discount	2,130	1,079
Depreciation and amortization	5,113	5,935
Acquisition costs capitalized	(20,397)	(28,056)
Amortization of deferred acquisition costs	31,798	25,313
Net investment losses (gains)	16,377	(5,313)
Changes in assets and liabilities:		
Reinsurance recoverables	9,185	1,692
Future policy benefits	15,963	21,705
Policyholder account balances	(66,264)	(29,194)
Income taxes payable and deferred	(2,491)	(7,271)
Other, net	(35,807)	(4,914)
Net cash used	(43,269)	(21,412)
INVESTING ACTIVITIES		
Purchases:		
Fixed maturity securities	(380,301)	(287,954)
Equity securities	(4,808)	(259)
Mortgage loans	(66,124)	(93,042)
Real estate	(2,773)	(776)
Policy loans	(6,073)	(6,175)
Other investments	(7,023)	(3,911)
Property and equipment	(505)	(560)
Sales or maturities, calls, and principal paydowns:		
Fixed maturity securities	296,965	215,249
Equity securities	828	—
Mortgage loans	49,707	81,301
Real estate	136	4,202
Policy loans	5,755	7,984
Other investments	2,237	6,616
Property and equipment	4	70
Net sales of short-term investments	32,282	68,229
Net cash used	(79,693)	(9,026)

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

	Nine Months Ended September 30,	
	2022	2021
	(Unaudited)	
FINANCING ACTIVITIES		
Policyholder account balances - deposits	$ 159,376	$ 160,761
Policyholder account balances - receipts from funding agreement	70,000	10,000
Withdrawals from policyholder account balances	(125,480)	(142,280)
Change in deposit asset on reinsurance, net	23,705	—
Net transfers from separate accounts	6,664	5,042
Change in other deposits	(4,120)	2,091
Cash dividends to stockholders	(5,326)	(7,844)
Net cash provided	124,819	27,770
Increase (decrease) in cash	1,857	(2,668)
Cash at beginning of year	5,419	7,203
Cash at end of period	$ 7,276	$ 4,535

Non-Cash Activity

In the second quarter of 2022, we had a non-cash investing transaction that consisted of the receipt of a $0.6 million equity security and a $1.0 million fixed maturity security in exchange for a $1.6 million fixed maturity security as a result of the Chapter 11 Bankruptcy of the issuer of one of our fixed maturity securities. The new equity and fixed maturity securities were recorded at fair value, which equaled the fair value of the fixed maturity security that was extinguished.

In the second quarter of 2022, we entered into a reinsurance arrangement that resulted in the non-cash transfer of $493.9 million of fixed maturity securities and $516.2 million of policyholder account balance liabilities to a certified reinsurer. See the Business Changes section of Note 1 - Nature of Operations and Significant Accounting Policies for further information.

There was no non-cash activity during the third quarter of 2022.

See accompanying Notes to Consolidated Financial Statements (Unaudited)

1. Nature of Operations and Significant Accounting Policies

Basis of Presentation

The interim consolidated financial statements and the accompanying notes include the accounts of the consolidated entity (the Company) 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 (now Ibexis Life & Annuity Insurance Company) 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 16 - 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 and nine months ended September 30, 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 May 25, 2022, retroactive to April 1, 2022, we entered into a reinsurance arrangement whereby we reinsured a sizeable block of fixed annuity contracts to a certified reinsurer. This closed block of contracts reflected business issued prior to 2015 and consisted entirely of higher guaranteed interest rate products. We are accounting for this transaction as a deposit-type contract. The contract reinsured $516.2 million in policyholder account balance liabilities in exchange for fixed maturity securities and cash, less deferred revenue. We immediately recognized $11.6 million of certain non-refundable premiums associated with the transaction in investment income. The remaining deferred revenue will be amortized in future periods. The net consideration transferred to the reinsurer was $493.9 million. This resulted in recognizing a deposit asset on reinsurance of $516.2 million at April 1, 2022. The related pre-tax net realized investment loss from the sale of the fixed maturity securities associated with the transaction was $12.3 million. We will continue to administer this business on an ongoing basis, and we will receive an ongoing expense allowance associated with these efforts. For additional information on this reinsurance arrangement, please see Note 13 - Deposit Asset on Reinsurance.

On November 1, 2021, we sold 100% of the capital and surplus of Sunset Life (now Ibexis Life & Annuity Insurance Company) 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 services associated with this transaction.

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 from the COVID-19 pandemic, as well as from deteriorating general economic conditions, 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 or nine months ended September 30, 2022. For a discussion of our accounting policies related to reinsurance on deposit-type contracts, please see Note 13 - Deposit Asset on Reinsurance.

2. New Accounting Pronouncements

Accounting Pronouncements Issued, Not Yet Adopted
In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13 Measurement of Credit Losses on Financial Instruments. Under this guidance, the incurred loss impairment methodology currently used for loans and other financial instruments will be replaced by a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information concerning credit loss estimates. The measurement of expected credit losses will be based on current, historical, and forecasted information that impacts the collectability of the reported amount. Any credit losses related to available for sale debt securities will be recorded through a valuation allowance that is established and adjusted over time. The valuation allowance will be based on the probability of loss over the life of the instrument. Our assets subject to this guidance include, but are not limited to, fixed maturity securities available for sale, mortgage loans, and reinsurance recoverables. Additional disclosures will be required to provide information regarding significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. The original effective date for this guidance, including subsequently issued amendments, for public business entities that are not U.S. Securities and Exchange Commission (SEC) filers was for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. The FASB deferred the effective date of this guidance for public business entities that do not meet the definition of an SEC filer to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. We are currently evaluating this guidance.

In August 2018, the FASB issued ASU No. 2018-12 Targeted Improvements to the Accounting for Long-Duration Contracts. This update modifies the existing recognition, measurement, presentation, and disclosure requirements in ASC 944 Financial Services - Insurance (Topic 944).

- It requires insurance entities to (1) review and update the assumptions used to measure cash flows at least annually and (2) update the discount rate assumption at each reporting date. The change in the liability estimate as a result of updating cash flow assumptions is required to be recognized in net income. The change in the liability estimate as a result of updating the discount rate assumption is required to be recognized in other comprehensive income. Expected future cash flows are required to be discounted at an upper-medium grade (low-credit-risk) fixed income instrument yield that maximizes the use of observable market inputs.

- It simplifies the accounting for certain market-based options or guarantees associated with deposit contracts by requiring insurance entities to measure them at fair value. The portion of any change in fair value attributable to a change in the instrument-specific credit risk is required to be recognized in other comprehensive income.

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

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

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

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

3. Investments

Fixed Maturity Securities

Securities by Asset Class

The following table provides amortized cost and fair value of fixed maturity securities by asset class at September 30, 2022. We sold all of our corporate private-labeled residential mortgage-backed securities during the third quarter of 2022.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 124,110	$ 95	$ 6,381	$ 117,824
Federal agency issued residential mortgage-backed securities [1]	64,176	148	5,197	59,127
Subtotal	188,286	243	11,578	176,951
Corporate obligations:				
Industrial	345,170	781	47,902	298,049
Energy	80,853	977	3,691	78,139
Communications and technology	177,904	1,049	24,698	154,255
Financial	393,376	518	56,293	337,601
Consumer	487,008	11	70,401	416,618
Public utilities	295,730	702	46,272	250,160
Subtotal	1,780,041	4,038	249,257	1,534,822
Municipal securities	273,879	3,263	27,995	249,147
Other	216,197	—	16,774	199,423
Redeemable preferred stocks	6,000	—	753	5,247
Total	$ 2,464,403	$ 7,544	$ 306,357	$ 2,165,590

[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 September 30, 2022 with the percent of total unrealized losses identified.

	Amortized Cost	Fair Value	Unrealized Losses	% of Total
AAA	$ 198,548	$ 184,021	$ (14,527)	5 %
AA	560,354	506,831	(53,523)	18 %
A	793,193	677,556	(115,637)	39 %
BBB	886,951	775,307	(111,644)	36 %
Total investment grade	2,439,046	2,143,715	(295,331)	98 %
BB	19,138	17,250	(1,888)	1 %
B and below	6,219	4,625	(1,594)	1 %
Total below investment grade	25,357	21,875	(3,482)	2 %
Total	$ 2,464,403	$ 2,165,590	$ (298,813)	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 identified.

	Amortized Cost	Fair Value	Unrealized Gains	% 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.

	September 30, 2022		December 31, 2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 94,555	$ 94,025	$ 121,297	$ 122,979
Due after one year through five years	469,228	450,071	843,382	893,131
Due after five years through ten years	719,374	631,123	851,116	904,165
Due after ten years	1,047,829	866,594	918,209	994,023
Securities with variable principal payments	127,417	118,530	154,873	167,851
Redeemable preferred stocks	6,000	5,247	6,000	6,048
Total	$ 2,464,403	$ 2,165,590	$ 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 September 30, 2022. We sold all of our corporate private-labeled residential mortgage-backed securities during the third quarter of 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	$ 106,704	$ 5,855	$ 3,819	$ 526	$ 110,523	$ 6,381
Federal agency issued residential mortgage-backed securities [1]	53,203	5,197	1	—	53,204	5,197
Subtotal	159,907	11,052	3,820	526	163,727	11,578
Corporate obligations:						
Industrial	245,094	36,532	29,970	11,370	275,064	47,902
Energy	51,173	3,691	—	—	51,173	3,691
Communications and technology	109,199	16,011	22,135	8,687	131,334	24,698
Financial	274,665	43,513	37,566	12,780	312,231	56,293
Consumer	348,520	47,884	60,208	22,517	408,728	70,401
Public utilities	200,995	33,929	28,987	12,343	229,982	46,272
Subtotal	1,229,646	181,560	178,866	67,697	1,408,512	249,257
Municipal securities	169,795	23,550	13,155	4,445	182,950	27,995
Other	180,405	15,399	19,018	1,375	199,423	16,774
Redeemable preferred stocks	5,247	753	—	—	5,247	753
Total	$1,745,000	$ 232,314	$ 214,859	$ 74,043	$ 1,959,859	$ 306,357

[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.

	September 30, 2022	December 31, 2021
Below cost for less than one year	1,162	185
Below cost for one year or more and less than three years	160	36
Total	1,322	221

We do not consider the unrealized losses related to these securities to be credit-related. The unrealized losses at both September 30, 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 September 30, 2022.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	$ 1,049,894	$ 994,507	$ 55,387
Unrealized losses of 20% or less and greater than 10%	599,865	513,203	86,662
Subtotal	1,649,759	1,507,710	142,049
Unrealized losses greater than 20%:			
Investment grade	610,625	447,907	162,718
Below investment grade	5,832	4,242	1,590
Total securities owned without realized impairment	2,266,216	1,959,859	306,357
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	$ 2,266,216	$ 1,959,859	$ 306,357

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 September 30, 2022.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	$ 161,673	8 %	$ 15,757	6 %
AA	443,857	23 %	55,874	18 %
A	628,892	32 %	117,603	38 %
BBB	705,062	36 %	113,636	37 %
Total investment grade	1,939,484	99 %	302,870	99 %
BB	15,750	1 %	1,893	1 %
B and below	4,625	— %	1,594	— %
Total below investment grade	20,375	1 %	3,487	1 %
	$ 1,959,859	100 %	$ 306,357	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 %
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. We sold all of our corporate private-labeled residential mortgage-backed securities during the third quarter of 2022.

	September 30, 2022		
	Fair Value	Amortized Cost	Unrealized Losses
Other structured securities:			
Investment grade	$ 199,423	$ 216,197	$ (16,774)
Below investment grade	—	—	—
Total other structured securities	199,423	216,197	(16,774)
Total structured securities	$ 199,423	$ 216,197	$ (16,774)

	December 31, 2021		
	Fair Value	Amortized Cost	Unrealized 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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Credit losses on securities held at beginning of the period	$ 3,563	$ 3,899	$ 3,996	$ 3,884
Additional credit losses on securities for which an other-than-temporary impairment was recognized	—	387	34	402
Reductions for securities sold	(3,563)	(370)	(4,030)	(370)
Credit losses on securities held at the end of the period	$ —	$ 3,916	$ —	$ 3,916

Investment Revenues
The following table provides net investment income by income associated with invested assets and income associated with deposit-type reinsurance.

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Invested assets	$ 31,026	$ 36,016	$ 98,576	$ 108,117
Deposit-type reinsurance	4,733	—	17,275	—
Net investment income	$ 35,759	$ 36,016	$ 115,851	$ 108,117

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Gross gains resulting from:				
Sales of investment securities	$ 563	$ —	$ 2,524	$ 311
Investment securities called and other	42	191	1,234	2,727
Sales of real estate and joint ventures	—	279	—	518
Total gross gains	605	470	3,758	3,556
Gross losses resulting from:				
Sales of investment securities	(741)	—	(14,455)	(6)
Investment securities called and other	(1)	(5)	(24)	(324)
Sales of real estate and joint ventures	—	—	—	(50)
Total gross losses	(742)	(5)	(14,479)	(380)
Change in allowance for loan losses	(49)	72	(84)	(17)
Change in fair value:				
Equity securities	(89)	(69)	(312)	(71)
Derivative instruments	(1,170)	91	(7,138)	2,627
Other invested assets	1,561	—	1,912	—
Total change in fair value	302	22	(5,538)	2,556
Net realized investment gains (losses), excluding other-than-temporary impairment losses	116	559	(16,343)	5,715
Net impairment losses recognized in earnings:				
Other-than-temporary impairment losses on fixed maturity securities	—	(387)	—	(387)
Portion of loss recognized in other comprehensive loss	—	—	(34)	(15)
Net other-than-temporary impairment losses recognized in earnings	—	(387)	(34)	(402)
Net investment gains (losses)	$ 116	$ 172	$ (16,377)	$ 5,313

Gains and losses from sales of investment securities in the above table includes a net loss related to the deposit-type reinsurance agreement of $12.3 million during the first nine months of September 30, 2022.

The portion of loss recognized in other comprehensive loss represents the non-credit portion of current or prior other-than-temporary impairment. No other-than-temporary impairments were recorded in earnings during the quarter ended September 30, 2022. Other-than-temporary impairments recorded in earnings during the nine months ended September 30, 2022 totaled less than $0.1 million. Other-than-temporary impairments recorded in earnings during the quarter and nine months ended September 30, 2021 totaled $0.4 million.

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Proceeds	$ 52,540	$ —	$ 635,322	$ 8,882

The increase in proceeds in the nine months ended September 30, 2022 largely resulted from the deposit-type reinsurance agreement.

Mortgage Loans
Investments in mortgage loans totaled $612.4 million at September 30, 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. This allowance was $2.9 million at September 30, 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 20% of our total investments at September 30, 2022, up 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 45% at September 30, 2022 and 46% at 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 one loan with a total outstanding balance of $1.3 million during the quarter ended September 30, 2022. We refinanced six loans with a total outstanding balance of $18.3 million during the nine months ended September 30, 2022. We refinanced two loans with a total outstanding balance of $2.1 million during the quarter ended September 30, 2021. We refinanced nine loans with a total outstanding balance of $14.5 million during the nine months ended September 30, 2021.

At September 30, 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 September 30, 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 17 - 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 2021 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.

Beginning in the third quarter of 2022, the fair value of the GMWB embedded derivative calculation has been changed to use Treasury (CMT) rates instead of London Interbank Offered Rate (LIBOR) swap rates. This was due to the anticipated change in publication and relevance of LIBOR rates. The change in rates did not result in a material impact to the consolidated financial statements in the third quarter or nine months ended September 30, 2022.

The following tables present the fair value hierarchy for those assets and liabilities reported at fair value on a recurring basis. We sold all of our corporate private-labeled residential mortgage-backed securities during the third quarter of 2022.

	September 30, 2022			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 9,039	$ 108,785	$ —	$ 117,824
Federal agency issued residential mortgage-backed securities [1]	—	59,127	—	59,127
Subtotal	9,039	167,912	—	176,951
Corporate obligations:				
Industrial	—	298,049	—	298,049
Energy	—	78,139	—	78,139
Communications and technology	—	154,255	—	154,255
Financial	—	337,601	—	337,601
Consumer	—	416,618	—	416,618
Public utilities	—	250,160	—	250,160
Subtotal	—	1,534,822	—	1,534,822
Municipal securities	—	249,147	—	249,147
Other	—	199,423	—	199,423
Redeemable preferred stocks	—	5,247	—	5,247
Fixed maturity securities	9,039	2,156,551	—	2,165,590
Equity securities	420	3,176	6,226	9,822
Short-term investments	42,219	—	—	42,219
Other investments	—	1,443	—	1,443
Separate account assets	—	367,340	—	367,340
Total	$ 51,678	$ 2,528,510	$ 6,226	$ 2,586,414
Percent of total	2 %	98 %	— %	100 %
Liabilities:				
Policyholder account balances:				
Indexed universal life	$ —	$ —	$ 1,385	$ 1,385
Other policyholder funds:				
Guaranteed minimum withdrawal benefits	—	—	(3,323)	(3,323)
Separate account liabilities	—	367,340	—	367,340
Total	$ —	$ 367,340	$ (1,938)	$ 365,402

[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
Other policyholder funds:				
Guaranteed minimum withdrawal benefits	—	—	(149)	(149)
Separate account liabilities	—	504,976	—	504,976
Total	$ —	$ 504,976	$ 6,115	$ 511,091

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

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

	Quarter Ended September 30, 2022		
	Assets	Liabilities	
	Equity Securities	Indexed Universal Life	GMWB
Beginning balance	$ 5,279	$ 1,270	$ (2,232)
Included in earnings	1,527	115	(1,071)
Included in other comprehensive loss	—	—	—
Purchases, issuances, sales and other dispositions:			
Purchases	—	—	—
Issuances	—	—	45
Sales	—	—	—
Other dispositions	(580)	—	(65)
Transfers out of Level 3	—	—	—
Ending balance	$ 6,226	$ 1,385	$ (3,323)

	Nine Months Ended September 30, 2022		
	Assets	Liabilities	
	Equity Securities	Indexed Universal Life	GMWB
Beginning balance	$ —	$ 6,264	$ (149)
Included in earnings	1,688	(4,879)	(3,280)
Included in other comprehensive loss	—	—	—
Purchases, issuances, sales and other dispositions:			
Purchases	5,366	—	—
Issuances	—	—	280
Sales	—	—	—
Other dispositions	(828)	—	(174)
Transfers out of Level 3	—	—	—
Ending balance	$ 6,226	$ 1,385	$ (3,323)

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

We did not have any transfers between any levels during the quarters or nine months ended September 30, 2022 or 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 September 30, 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.

	September 30, 2022				
	Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Fixed maturity securities	$ 9,039	$ 2,156,551	$ —	$ 2,165,590	$ 2,165,590
Equity securities	420	3,176	6,226	9,822	9,822
Mortgage loans	—	—	552,906	552,906	612,359
Policy loans	—	—	82,378	82,378	82,378
Short-term investments	42,219	—	—	42,219	42,219
Other investments	—	1,443	—	1,443	1,443
Separate account assets	—	367,340	—	367,340	367,340
Liabilities:					
Individual and group annuities	—	—	1,144,304	1,144,304	1,161,378
Supplementary contracts and annuities without life contingencies	—	—	52,082	52,082	56,202
Policyholder account balances:					
Indexed universal life	—	—	1,385	1,385	1,385
Funding agreement	—	—	100,363	100,363	100,363
Other policyholder funds - GMWB	—	—	(3,323)	(3,323)	(3,323)
Separate account liabilities	—	367,340	—	367,340	367,340

	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.

	September 30, 2022	December 31, 2021
Agent receivables, net (allowance $859; 2021 - $912)	$ 1,281	$ 1,819
Investment-related financing receivables:		
Mortgage loans, net (allowance $2,876; 2021 - $2,792)	612,359	596,037
Total financing receivables	$ 613,640	$ 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. Agent receivables are included in Other Assets in the Consolidated Balance Sheets.

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

	September 30, 2022			December 31, 2021		
	Gross Receivables	Allowance	Net Receivables	Gross Receivables	Allowance	Net Receivables
Agent specific loans	$ 725	$ 267	$ 458	$ 833	$ 266	$ 567
Other agent receivables	1,415	592	823	1,898	646	1,252
Total	$ 2,140	$ 859	$ 1,281	$ 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.

	September 30, 2022	December 31, 2021
Beginning of year	$ 912	$ 1,084
Additions	106	58
Deductions	(159)	(230)
End of period	$ 859	$ 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.

	September 30, 2022	December 31, 2021
Mortgage loans collectively evaluated for impairment	$ 580,769	$ 563,196
Mortgage loans individually evaluated for impairment	34,466	35,633
Allowance for loan losses	(2,876)	(2,792)
Carrying value	$ 612,359	$ 596,037

There were no mortgage loans that were past due at September 30, 2022 or at December 31, 2021.

We had no troubled debt restructurings during the quarters or nine months ended September 30, 2022 or 2021.

The following table details the activity within the allowance for mortgage loan losses. The provision reflects new loans and maturities and the deductions reflect payments on loans and recoveries received.

	September 30, 2022	December 31, 2021
Beginning of year	$ 2,792	$ 2,854
Provision	393	539
Deductions	(309)	(601)
End of period	$ 2,876	$ 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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Federal income tax credits realized	$ 101	$ 230	$ 303	$ 690
Amortization	52	206	156	620

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

The following table presents the carrying amount and maximum exposure to loss relating to VIEs for which we hold a variable interest, but are not the primary beneficiary, and which had not been consolidated at September 30, 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 September 30, 2022 and December 31, 2021.

	September 30, 2022		December 31, 2021	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Real estate joint ventures	$ 1,743	$ 1,743	$ 978	$ 978
Affordable housing real estate joint ventures	1,838	10,065	1,996	10,223
Total	$ 3,581	$ 11,808	$ 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 September 30, 2022 and December 31, 2021, we had no equity commitments outstanding to the real estate joint venture VIEs. At September 30, 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 September 30, 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 $93.2 million at September 30, 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 $(3.3) million at September 30, 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 $367.3 million at September 30, 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 September 30, 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 $294.4 million at September 30, 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 $36.8 million at September 30, 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 September 30, 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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Gross liability at beginning of the period	$ 32,137	$ 34,350	$ 33,632	$ 34,773
Less reinsurance recoverable	(23,730)	(25,926)	(24,607)	(26,542)
Net liability at beginning of the period	8,407	8,424	9,025	8,231
Incurred benefits related to:				
Current year	8,029	6,646	21,121	20,906
Prior years [1]	(1,250)	(758)	(425)	(669)
Total incurred benefits	6,779	5,888	20,696	20,237
Paid benefits related to:				
Current year	7,576	6,008	16,943	16,674
Prior years	(464)	81	4,704	3,571
Total paid benefits	7,112	6,089	21,647	20,245
Net liability at end of the period	8,074	8,223	8,074	8,223
Reinsurance recoverable	22,732	25,095	22,732	25,095
Gross liability at end of the period	$ 30,806	$ 33,318	$ 30,806	$ 33,318

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

	Group Insurance Segment			
	Quarter Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Gross liability at beginning of the period	$ 29,202	$ 31,246	$ 30,670	$ 31,572
Less reinsurance recoverable	(21,107)	(23,143)	(21,991)	(23,565)
Net liability at beginning of the period	8,095	8,103	8,679	8,007
Incurred benefits related to:				
Current year	8,028	6,567	21,081	20,689
Prior years [1]	(1,249)	(690)	(398)	(618)
Total incurred benefits	6,779	5,877	20,683	20,071
Paid benefits related to:				
Current year	7,588	5,954	16,940	16,610
Prior years	(493)	95	4,643	3,537
Total paid benefits	7,095	6,049	21,583	20,147
Net liability at end of the period	7,779	7,931	7,779	7,931
Reinsurance recoverable	20,135	22,359	20,135	22,359
Gross liability at end of the period	$ 27,914	$ 30,290	$ 27,914	$ 30,290

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

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

	September 30,	
	2022	2021
Individual Insurance Segment:		
Individual accident and health	$ 580	$ 649
Individual life	40,492	41,911
Deferred annuity	3,105	4,169
Subtotal	44,177	46,729
Group Insurance Segment:		
Group accident and health	27,914	30,290
Group life	3,624	4,120
Subtotal	31,538	34,410
Old American Segment:		
Individual accident and health	2,312	2,379
Individual life	10,437	10,841
Subtotal	12,749	13,220
Total	$ 88,464	$ 94,359

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 September 30, 2022 and December 31, 2021.

9. Debt

Notes Payable
We had no notes payable outstanding at September 30, 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 September 30, 2022, securities and mortgages in the amount of $292.5 million, with a fair value of $268.6 million, were pledged to the FHLB, providing a borrowing capacity of $211.7 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 $9.0 million at September 30, 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 $0.1 million in the quarter ended September 30, 2022 and less than $0.1 million in the quarter ended September 30, 2021. Dividends received on the capital investment totaled $0.2 million in the nine months ended September 30, 2022 and $0.1 million in the nine months ended September 30, 2021.

We had unsecured revolving lines of credit with two major commercial banks that totaled $80.0 million at September 30, 2022, with no balances outstanding. We had unsecured revolving lines of credit with three major commercial banks that totaled $70.0 million at December 31, 2021, with no balances outstanding. The lines of credit are at variable interest rates based upon short-term indices, maturing in June of 2023. We anticipate renewing these lines of credit as they come due. One line of credit includes a $20.0 million portion that can be unconditionally canceled by the lending institution at its discretion at any time.

The Company has access to secured borrowings through repurchase agreements with two major financial counterparties. The Company had no transactions that occurred under these agreements during the first nine months of 2022 and had no outstanding borrowings as of September 30, 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. We have established a maximum participation of $100.0 million with this program. Total obligations outstanding under these agreements, which mature between 2024 and 2027, were $100.0 million at September 30, 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 were $0.4 million during the quarter ended September 30, 2022 and $0.6 million during the nine months ended September 30, 2022. Interest payments were not material during the quarter and nine months ended September 30, 2021.

10. Income Taxes

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Federal income tax rate	21 %	21 %	21 %	21 %
Tax credits, net of equity adjustment	(2)%	1 %	(27)%	8 %
Permanent differences and other	— %	(8)%	(17)%	(30)%
Effective income tax rate	19 %	14 %	(23)%	(1)%

The following table provides information about taxes paid.

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cash paid for income taxes	$ 6	$ 2,750	$ 2,283	$ 7,295

We had no material uncertain tax positions at September 30, 2022 or December 31, 2021.

At September 30, 2022, we had a $1.1 million current tax asset and a $44.0 million net deferred tax asset, 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 September 30,		Quarter Ended September 30,	
	2022	2021	2022	2021
Service cost	$ —	$ —	$ 31	$ 46
Interest cost	735	627	125	115
Expected return on plan assets	(2,416)	(2,319)	—	—
Amortization of:				
Unrecognized actuarial net (gain) loss	517	593	(226)	(216)
Unrecognized prior service credit	(17)	(17)	—	—
Net periodic benefit credit	$ (1,181)	$ (1,116)	$ (70)	$ (55)

	Pension Benefits		OPEB	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Service cost	$ —	$ —	$ 93	$ 136
Interest cost	2,206	1,879	373	345
Expected return on plan assets	(7,250)	(6,958)	—	—
Amortization of:				
Unrecognized actuarial net (gain) loss	1,549	1,780	(676)	(647)
Unrecognized prior service credit	(49)	(50)	—	—
Net periodic benefit credit	$ (3,544)	$ (3,349)	$ (210)	$ (166)

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 nine months 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 nine months 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 change in accrual that reduced operating expense was $0.2 million, net of tax, in the third quarter and $1.0 million, net of tax, in the first nine months of 2022. The change in accrual that reduced operating expense in the third quarter of 2021 was $0.1 million, net of tax. The cost of share-based compensation accrued as an operating expense was $1.2 million, net of tax, in the first nine months of 2021.

13. Deposit Asset on Reinsurance

In the second quarter of 2022, the Company reinsured a block of fixed annuity business with an average crediting rate of 3.75% to a certified reinsurer. This reinsurance arrangement was effective April 1, 2022.

The contract reinsured $516.2 million in policyholder account balance liabilities in exchange for fixed maturity securities and cash, less deferred revenue. We immediately recognized $11.6 million of certain non-refundable premiums associated with the transaction in investment income. The remaining deferred revenue will be amortized in future periods. The net consideration transferred to the reinsurer was $493.9 million. This resulted in recognizing a deposit asset on reinsurance of $516.2 million at April 1, 2022. The related pre-tax net realized investment loss from the sale of the fixed maturity securities associated with the transaction was $12.3 million. We will continue to administer this business on an ongoing basis, and we will receive an ongoing expense allowance associated with these efforts. The remaining liability is included in Other Liabilities in the Consolidated Balances Sheets and will be amortized over future periods consistent with the amortization of the Deposit Asset on Reinsurance.

The Company determined that the reinsurance agreement does not expose the reinsurer to a significant loss from insurance risk. Therefore, the Company has recognized the reinsurance agreement using the deposit-type method of accounting. The reserve credit transferred to the reinsurer is reported as Deposit Asset on Reinsurance in the Consolidated Balance Sheets. As amounts are received or paid, consistent with the underlying reinsured contracts, the Deposit Asset on Reinsurance is adjusted. The Deposit Asset on Reinsurance is also accreted to the estimated ultimate cash flows using the interest method and the adjustment is reported as Net Investment Income in the Consolidated Statements of Comprehensive Income. In the third quarter of 2022, the investment income recognized was $4.7 million and the interest credited on the block was $4.7 million. In the first nine months of 2022, the investment income recognized was $21.1 million and the interest credited on the block was $9.4 million. As of September 30, 2022, the Deposit Asset on Reinsurance balance was $502.0 million.

14. Comprehensive Loss

Comprehensive Loss is comprised of Net Income (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 September 30, 2022		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized losses arising during the period:			
Fixed maturity securities	$ (128,016)	$ (26,882)	$ (101,134)
Less reclassification adjustments:			
Net realized investment losses, excluding impairment losses	(138)	(29)	(109)
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive loss	—	—	—
Net unrealized losses excluding impairment losses	(127,878)	(26,853)	(101,025)
Effect on DAC, VOBA, and DRL	15,150	3,181	11,969
Other comprehensive loss	$ (112,728)	$ (23,672)	$ (89,056)
Net income			4,315
Comprehensive loss			$ (84,741)

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

	Nine Months Ended September 30, 2022		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized losses arising during the period:			
Fixed maturity securities	$ (502,889)	$ (105,606)	$ (397,283)
Less reclassification adjustments:			
Net realized investment losses, excluding impairment losses	(10,722)	(2,252)	(8,470)
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive loss	(34)	(7)	(27)
Net unrealized losses excluding impairment losses	(492,133)	(103,347)	(388,786)
Effect on DAC, VOBA, and DRL	42,575	8,941	33,634
Change in policyholder liabilities	33,875	7,113	26,762
Other comprehensive loss	$ (415,683)	$ (87,293)	$ (328,390)
Net income			1,124
Comprehensive loss			$ (327,266)

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

The following table provides accumulated balances related to each component of Accumulated Other Comprehensive Income (Loss) at September 30, 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	(396,194)	(1,089)	—	33,634	26,762	(336,887)
Amounts reclassified from accumulated other comprehensive income (loss)	8,470	27	—	—	—	8,497
Net current-period other comprehensive income (loss)	(387,724)	(1,062)	—	33,634	26,762	(328,390)
End of period	$ (236,064)	$ —	$ (39,128)	$ 21,056	$ (3)	$ (254,139)

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 (Loss) to the Consolidated Statements of Comprehensive Income.

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Reclassification adjustments related to unrealized gains (losses) on investment securities:				
Net realized investment gains (losses), excluding impairment losses[1]	$ (138)	$ 188	$ (10,722)	$ 2,711
Income tax benefit (expense)[2]	29	(39)	2,252	(569)
Net of taxes	(109)	149	(8,470)	2,142
Other-than-temporary impairment losses[1]	—	(387)	(34)	(402)
Income tax benefit[2]	—	81	7	84
Net of taxes	—	(306)	(27)	(318)
Total pre-tax reclassifications	(138)	(199)	(10,756)	2,309
Total income tax benefit (expense)	29	42	2,259	(485)
Total reclassification, net taxes	$ (109)	$ (157)	$ (8,497)	$ 1,824

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

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

15. Earnings Per Share

Due to our capital structure and the absence of other potentially dilutive securities, there is no difference between basic and diluted earnings per common share for any of the periods reported. The average number of shares outstanding for both the third quarters and nine months ended September 30, 2022 and 2021 was 9,683,414. The number of shares outstanding at both September 30, 2022 and December 31, 2021 was 9,683,414.

16. Segment Information

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

	Quarter Ended September 30, 2022			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 42,778	$ 16,115	$ 23,517	$ 82,410
Interest credited to policyholder account balances	17,874	—	—	17,874
Amortization of deferred acquisition costs	4,650	—	5,037	9,687
Income tax expense (benefit)	823	263	(92)	994
Net income (loss)	3,673	989	(347)	4,315

	Quarter Ended September 30, 2021			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 42,947	$ 15,488	$ 25,041	$ 83,476
Interest credited to policyholder account balances	20,197	—	—	20,197
Amortization of deferred acquisition costs	3,242	—	5,812	9,054
Income tax expense (benefit)	(646)	146	(483)	(983)
Net income (loss)	(4,622)	551	(1,935)	(6,006)

	Nine Months Ended September 30, 2022			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 130,212	$ 48,190	$ 70,679	$ 249,081
Interest credited to policyholder account balances	55,223	—	—	55,223
Amortization of deferred acquisition costs	16,696	—	15,102	31,798
Income tax expense (benefit)	441	301	(950)	(208)
Net income (loss)	3,557	1,133	(3,566)	1,124

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

17. Commitments, Contingent Liabilities, Guarantees, and Indemnifications

Commitments

In the normal course of business, we have open purchase and sale commitments. At September 30, 2022, we had purchase commitments to fund mortgage loans of $3.9 million. At September 30, 2022, we had commitments to fund investments in private equity security interests of $27.2 million.

Contingent Liabilities

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

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

Due to the unpredictable nature of litigation, the 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 September 30, 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 five related litigation matters (including three certified 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 five matters are:

- Meek v. Kansas City Life, 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. The Court has not ruled on the merits of plaintiff's claims.
- Karr v. Kansas City Life, 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. The Court has not determined an amount, if any, that plaintiff's may be entitled to receive in the case, with that issue being reserved for determination by a jury.
- Sheldon v. Kansas City Life, 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 variable universal life policies in the State of Missouri. As discussed below, the Court in the Sheldon case has certified a class of policyholders for the action and identified the policies at issue. The Court has not ruled on the merits of the plaintiff's claims.
- Fine v. Kansas City Life, which is a putative 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 and certain variable 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.
- McMillan v. Kansas City Life, which is a putative class action filed in the U.S. District Court for the District of Maryland, including current and former policyholders who purchased certain universal life and certain variable universal life policies originally issued in the State of Maryland. This case was filed on May 5, 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 Court in Karr v. Kansas City Life 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. Kansas City Life has moved to decertify the class, will continue to 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. Kansas City Life 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. Kansas City Life 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.

In both the Karr v. Kansas City Life and the Meek v. Kansas City Life class actions, the Court has identified the following policies as those being at issue in the case: 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 Sheldon v. Kansas City Life certified a class of policyholders to be represented by the named plaintiff on May 11, 2022, for four of the five counts at issue in the class action. The Court also limited the class to Missouri policyholders holding the Century II Variable Universal Life policy rather than the multi-state class sought by plaintiff. The Missouri-only class that was certified in the Sheldon matter includes current and former Missouri resident policyholders whose policies were issued in Missouri and whose policies were active on or after January 1, 2002. The Court's decision means that the class of policyholders certified in the Sheldon v. Kansas City Life 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, Fine, and McMillan 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, Fine, or McMillan matters is probable, nor have we accrued any liability relating to those four 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.

18. Subsequent Events

We evaluated events that occurred subsequent to September 30, 2022 through October 28, 2022, the date the consolidated financial statements were issued, and have identified the following subsequent event.

On October 24, 2022, the Kansas City Life Board of Directors declared a quarterly dividend of $0.14 per share, payable on November 9, 2022 to stockholders of record on November 3, 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 and nine months ended September 30, 2022.