KANSAS CITY LIFE INSURANCE COMPANY

A Missouri Corporation

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Kansas City, MO 64111-2565
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www.kclife.com

Investor Relations: Craig.Mason@kclife.com

SIC Code: 6311

QUARTERLY REPORT

For the Period Ending September 30, 2023
(the "Reporting Period")

The number of shares outstanding of our Common Stock was 9,683,414 as of September 30, 2023 (the end of reporting period)

The number of shares outstanding of our Common Stock was 9,683,414 as of June 30, 2023 (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, interest rates, recessionary risks, and systemic pressures in the banking system, including potential disruptions in the credit markets;
- 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;
- Potential changes in 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, cyber-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, 2023
Number of Shares Authorized	36,000,000
Number of Shares Outstanding	9,683,414
Freely Tradable Shares (Public Float)	2,566,616
Total Number of Shareholders of Record	122

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, 2023 are attached hereto as Exhibit 3.1 and are hereby incorporated by reference into this Quarterly Report, including:

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

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 2022 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, 2023 and 2022 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, 2023.

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. 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 domestic 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. For additional information on this reinsurance arrangement, please see Note 13 - Reinsurance in the Notes to Consolidated Financial Statements - (Unaudited).

The following is a discussion and analysis of the results of operations for the quarters and nine months ended September 30, 2023 and 2022 and our financial condition at September 30, 2023. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes included in this document, as well as our 2022 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, credit, equity, and inflation;
- Timely and cost-effective access to liquidity;
- Management of distribution costs and operating expenses;
- Management of the operations of our affiliates;
- Changes to regulations and accounting standards;
- Management of blocks of business associated with reinsurance transactions;
- The ability to successfully resolve litigation;
- The ability to integrate acquisitions to achieve anticipated operating efficiencies; and

- The ability to mitigate cybersecurity risks and implement information technology effectively.

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, financial markets as a whole, and specifically to companies invested in fixed maturity securities and other fixed income investments. In addition, the lingering impacts of the pandemic along with the increased inflationary environment, systemic pressures in the banking system, and other events have caused increased economic uncertainty, financial market volatility, significant stress to businesses, supply chain shortages, decreased consumer confidence, increased labor shortages, and credit market disruptions. 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 2023 was $4.6 million compared to net income of $4.3 million in the third quarter of 2022. Net income per share was $0.47 in the third quarter of 2023 compared to net income per share of $0.45 in the third quarter of 2022. Net income for the first nine months of 2023 was $5.8 million compared to $1.1 million in the same period in the prior year. Net income per share for the first nine months of 2023 was $0.60 compared to $0.12 one year earlier.

The following tables present condensed consolidated results of operations for the quarters and nine months ended September 30, 2023 and 2022.

	Quarter Ended September 30,			
	2023	2022	$ Change	% Change
Revenues:				
Insurance and other revenues	$ 84,403	$ 84,123	$ 280	— %
Net investment income	39,807	35,759	4,048	11 %
Net investment gains (losses)	(1,584)	116	(1,700)	(1,466)%
Benefits and expenses:				
Policyholder benefits and interest credited to policyholder account balances	80,101	80,869	(768)	(1)%
Amortization of deferred acquisition costs	8,769	9,687	(918)	(9)%
Operating expenses	27,915	24,133	3,782	16 %
Income tax expense	1,242	994	248	25 %
Net income	$ 4,599	$ 4,315	$ 284	7 %

	Nine Months Ended September 30,			
	2023	2022	$ Change	% Change
Revenues:				
Insurance and other revenues	$ 254,130	$ 254,334	$ (204)	— %
Net investment income	117,771	115,851	1,920	2 %
Net investment gains (losses)	646	(16,377)	17,023	104 %
Benefits and expenses:				
Policyholder benefits and interest credited to policyholder account balances	256,579	247,950	8,629	3 %
Amortization of deferred acquisition costs	26,089	31,798	(5,709)	(18)%
Operating expenses	82,493	73,144	9,349	13 %
Income tax expense (benefit)	1,565	(208)	1,773	852 %
Net income	$ 5,821	$ 1,124	$ 4,697	418 %

Insurance Revenues

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

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

	Quarter Ended September 30,			
	2023	2022	$ Change	% Change
New premiums:				
Traditional life insurance	$ 4,039	$ 4,512	$ (473)	(10)%
Immediate annuities	6,579	3,483	3,096	89 %
Group life insurance	603	588	15	3 %
Group accident and health insurance	2,652	2,255	397	18 %
Total new premiums	13,873	10,838	3,035	28 %
Renewal premiums	68,492	68,688	(196)	— %
Total premiums	82,365	79,526	2,839	4 %
Reinsurance ceded	(29,900)	(28,042)	(1,858)	(7)%
Net premiums	$ 52,465	$ 51,484	$ 981	2 %

	Nine Months Ended September 30,			
	2023	2022	$ Change	% Change
New premiums:				
Traditional life insurance	$ 12,976	$ 14,483	$ (1,507)	(10)%
Immediate annuities	19,718	13,495	6,223	46 %
Group life insurance	1,934	1,869	65	3 %
Group accident and health insurance	8,093	6,601	1,492	23 %
Total new premiums	42,721	36,448	6,273	17 %
Renewal premiums	205,840	204,952	888	— %
Total premiums	248,561	241,400	7,161	3 %
Reinsurance ceded	(90,047)	(85,329)	(4,718)	(6)%
Net premiums	$ 158,514	$ 156,071	$ 2,443	2 %

Consolidated total premiums increased $2.8 million or 4% in the third quarter of 2023 compared with the third quarter of 2022, as new premiums increased $3.0 million or 28% and renewal premiums decreased $0.2 million or less than 1%. The improvement in new premiums resulted from a $3.1 million or 89% increase in new immediate annuity premiums and a $0.4 million or 18% increase in new group accident and health 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 increased $0.3 million or 14% in the third quarter of 2023 compared to the third quarter of 2022. The increase in new group accident and health premiums was primarily from the dental line of business. Partially offsetting these increases, new traditional life insurance premiums declined $0.5 million or 10% compared to the prior year quarter. The decrease in renewal premiums was largely due to a $0.2 million or less than 1% decline in renewal traditional life insurance premiums. In addition, renewal group accident and health premiums decreased $0.1 million or less than 1%. Partially offsetting these declines, renewal group life premiums increased $0.1 million or 3%.

Consolidated total premiums increased $7.2 million or 3% in the first nine months of 2023 over the same period in the prior year, as new premiums increased $6.3 million or 17% and renewal premiums increased $0.9 million or less than 1%. The largest factor in the improvement in new premiums was a $6.2 million or 46% increase in new immediate annuity premiums. In addition, new group accident and health insurance premiums increased $1.5 million or 23% compared to the prior year, resulting from improvements in each line of business. Partially offsetting these increases, new traditional life insurance premiums decreased $1.5 million or 10% compared to the prior year. The increase in renewal premiums reflected a $0.4 million or 4% increase in renewal group life premiums and a $0.5 million or 1% increase in renewal group accident and health insurance premiums. The increase in renewal group accident and health insurance premiums reflected increases in the disability and vision lines of business that were partially offset by a decrease in the dental line of business.

Reinsurance ceded premiums increased $1.9 million or 7% in the third quarter and $4.7 million or 6% in the first nine months of 2023 compared with the same periods in the prior year. The reinsurance agreement that became effective January 1, 2022, whereby Old American began reinsuring 50% of new business on selected products was modified effective October 1, 2022, to reinsure 75% 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 - (Unaudited). The following tables provide detail by new and renewal deposits. New deposits are also detailed by product.

	Quarter Ended September 30,			
	2023	2022	$ Change	% Change
New deposits:				
Interest sensitive life	$ 2,196	$ 2,174	$ 22	1 %
Fixed annuities	8,992	10,602	(1,610)	(15)%
Variable annuities	602	722	(120)	(17)%
Total new deposits	11,790	13,498	(1,708)	(13)%
Renewal deposits	32,618	36,328	(3,710)	(10)%
Total deposits	44,408	49,826	(5,418)	(11)%
Reinsurance ceded	(553)	(1,975)	1,422	72 %
Net deposits	$ 43,855	$ 47,851	$ (3,996)	(8)%

	Nine Months Ended September 30,			
	2023	2022	$ Change	% Change
New deposits:				
Interest sensitive life	$ 7,410	$ 8,190	$ (780)	(10)%
Fixed annuities	36,424	29,550	6,874	23 %
Variable annuities	3,237	8,869	(5,632)	(64)%
Total new deposits	47,071	46,609	462	1 %
Renewal deposits	101,802	112,767	(10,965)	(10)%
Total deposits	148,873	159,376	(10,503)	(7)%
Reinsurance ceded	(3,255)	(4,808)	1,553	32 %
Net deposits	$ 145,618	$ 154,568	$ (8,950)	(6)%

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, volatile 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 lingering impacts of the pandemic and general economic conditions have affected both new and renewal deposits.

Total new deposits declined $1.7 million or 13% in the third quarter of 2023 compared with the third quarter of 2022, reflecting a $1.6 million or 15% decrease in new fixed annuity deposits and a $0.1 million decrease in new variable annuity deposits. Total renewal deposits declined $3.7 million or 10% in the third quarter of 2023 compared to the prior year, as renewal interest sensitive deposits decreased $1.5 million or 5%, renewal fixed annuity deposits decreased $1.3 million or 40%, and renewal variable annuity deposits decreased $0.9 million or 41%. The decline in renewal interest sensitive life deposits was primarily due to lower renewal universal life deposits.

Total new deposits increased $0.5 million or 1% in the first nine months of 2023 compared with the first nine months of 2022. New fixed annuity deposits increased $6.9 million or 23% compared to the prior year. This improvement was partially offset by a $5.6 million or 64% decline in new variable annuity deposits and a $0.8 million or 10% decline in new interest sensitive life deposits. The decline in new interest sensitive life deposits was largely due to lower new indexed universal life deposits. Total renewal deposits decreased $11.0 million or 10% in the first nine months of 2023 compared to the prior year, reflecting a $6.0 million or 44% decline in renewal fixed annuity deposits, a $3.2 million or 3% decline in renewal interest sensitive life deposits, and a $1.8 million or 26% decline in renewal variable annuity deposits. The decline in renewal interest sensitive life deposits was primarily due to lower renewal universal life deposits.

Reinsurance ceded on deposits totaled $0.6 million in the third quarter of 2023, down from $2.0 million in the third quarter of 2022. Reinsurance ceded on deposits totaled $3.3 million in the first nine months of 2023 compared to $4.8 million in the first nine months of 2022. This reinsurance resulted from additional deposits on the closed block of policies included in 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 decreased $0.4 million or 1% in the third quarter of 2023 compared to the third quarter of 2022. Contract charges on open blocks declined $0.3 million or 2%, as a decrease in deferred revenue was partially offset by an increase in cost of insurance charges. Contract charges on closed blocks decreased $0.1 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 quarters of both 2023 and 2022.

Total contract charges decreased $1.5 million or 2% in the first nine months of 2023 compared to the prior year. Contract charges on open blocks declined $1.0 million or 2%. This increase was largely from a decrease in deferred revenue that was partially offset by an increase in cost of insurance charges. Contract charges on closed blocks decreased $0.5 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 both 2023 and 2022.

Unlocking decreased deferred revenue $0.4 million in the first nine months of 2023 compared to an increase of $1.0 million in the first nine months of 2022.

Investment Revenues

Total net investment income increased $4.0 million or 11% in the third quarter and $1.9 million or 2% in the first nine months of 2023 compared with the same periods in 2022.

Net investment income from invested assets increased $4.7 million or 15% in the third quarter and $6.7 million or 7% in the first nine months of 2023 compared with the same periods in the prior year. These results reflected an increase in overall yields earned on certain investments that were partially offset by lower average invested assets. 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 increased $3.5 million or 15% in the third quarter and $4.8 million or 7% in the first nine months of 2023 compared to one year earlier, reflecting higher overall yields earned that were offset by lower average invested assets. 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 $0.2 million or 3% in the third quarter and $0.9 million or 5% in the first nine months of 2023 compared with the same periods in the prior year. The declines in both the third quarter and nine months resulted from lower prepayment fees and a lower mortgage loan portfolio balance, that were partially offset by an increase in yields earned.

Net investment income from real estate increased $0.4 million or 26% in the third quarter and less than $0.1 million or 1% in the first nine months of 2023 compared to the same periods in the prior year. These results reflected new tenants, rent renewals, and rising rental rates. These were partially offset by higher expenses from tenant improvements and leasing commissions.

Net investment income from short-term investments increased $0.2 million in the third quarter and $1.0 million in the first nine months of 2023 compared to the same periods in the prior year. These improvements were primarily due to higher interest rates.

Net investment income resulting from the deposit-type reinsurance agreement which was effective April 1, 2022, was $4.0 million in the third quarter and $12.5 million in the first nine months of 2023 compared to $4.7 million in the third quarter and $17.3 million in the first nine months of 2022.

Investment Gains (Losses)
Net investment losses for the third quarter of 2023 totaled $1.6 million compared to net investment gains of $0.1 million in the third quarter of 2022. The change in fair value of other invested assets resulted in a loss of $1.4 million in the third quarter of 2023 compared to a gain of $0.4 million in the third quarter of 2022, reflecting the change in fair value of other investments in the two periods.

Net investment gains for the first nine months of 2023 totaled $0.6 million compared to net investment losses of $16.4 million in the first nine months of 2022. The change in fair value of other invested assets resulted in a gain of $1.9 million in the first nine months of 2023 compared to a loss of $5.2 million in the first nine months of 2022, reflecting the change in fair value of other investments in the two periods. As well, investment security sales and calls in the first nine months of 2023 generated a net loss of $0.7 million, compared to a net loss of $10.7 million in the first nine months of 2022. The net loss in 2022 included the sale of investment securities for the deposit-type reinsurance agreement.

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 $1.8 million or 3% in the third quarter of 2023 compared to the prior year. This decline largely resulted from a $3.6 million or 9% decrease in death benefits, net of reinsurance. Partially offsetting this, surrenders increased $0.4 million or 14% and other benefits, net of reinsurance, increased $1.1 million or 6%. The increase in other benefits, net of reinsurance, included $0.8 million more interest expense from the advance funding agreements with the Federal Home Loan Bank (FHLB) compared to the prior year and higher supplementary contract payments. In addition, benefit and contract reserves increased $0.3 million or 11% compared to the prior year. This reflected an increase in annuity reserves due to higher annuity premiums and the change in the fair value of the guaranteed minimum withdrawal benefits (GMWB) rider compared to the prior year. The change in the fair value of the GMWB rider resulted from increases in interest rates that were partially offset by decreases in issuer discount spreads and declines in market returns. These increases to benefit and contract reserves were partially offset by the change in the fair value of embedded derivatives compared to the prior year.

Policyholder benefits increased $8.9 million or 5% in the first nine months of 2023 compared to the first nine months of 2022. The largest factor in this result was a $12.3 million increase in benefit and contract reserves compared to one year earlier. Contributing to this increase was the change in the fair value of embedded derivatives compared to the prior year as well as an increase in annuity reserves that resulted from higher annuity premiums. Furthermore, the change in the fair value of the GMWB rider compared to the prior year contributed to the increase in reserves. The change in the fair value of the GMWB rider reflected increases in interest rates that were partially offset by decreases in issuer discount spreads and declines in market returns. Partially offsetting these increases to reserves, ceded reserves increased for the Old American segment due to the reinsurance agreement that became effective January 1, 2022. Also contributing to the increase in policyholder benefits, surrenders rose $1.7 million or 23% and other benefits, net of reinsurance, increased $4.8 million or 9% compared to the prior year. Other benefits, net of reinsurance, increased as interest expense from the advance funding agreements with the FHLB was $3.3 million higher than the prior year. Also, group accident and health benefits increased, largely from the dental and vision lines of business. Partially offsetting these increases, death benefits, net of reinsurance, decreased $9.9 million or 8% compared to one year earlier.

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, which are significantly impacted by rates available in the market. As account balances fluctuate, so will the amount of interest credited to policyholder account balances. Interest credited to policyholder account balances increased $1.1 million or 6% in the third quarter but decreased $0.2 million or less

than 1% in the first nine months of 2023 compared to the same periods one year earlier. Index credits for the indexed universal life product were higher in both the third quarter and first nine months of 2023 compared with the same periods in the prior year. This was partially offset by lower interest credited on universal life and fixed annuity products in the first nine months of 2023.

Amortization of DAC

The amortization of DAC decreased $0.9 million or 9% in the third quarter and $5.7 million or 18% in the first nine months of 2023 compared to the same periods in the prior year. The decline in the third quarter was largely from less DAC released on terminations. The decline in the first nine months reflected the impact of unlocking and improved investment performance in the separate accounts. Unlocking decreased amortization of DAC $0.2 million in the second quarter of 2023 compared to an increase of $1.7 million in the second quarter of 2022. Furthermore, 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 - (Unaudited). Positive numbers are increases to income and negative numbers are reductions to income. The unlocking occurred during the second quarters of 2023 and 2022. No unlocking occurred in the first or third quarters of 2023 or 2022.

	Nine Months Ended September 30, 2023			
	DAC Amortization	VOBA Amortization	DRL Contract Charges	Net Impact to Pre-Tax Income
Unlocking	$ 179	$ 276	$ (436)	$ 19

	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)

The unlocking in 2023 resulted in a net increase to pretax income of less than $0.1 million in the first nine months of 2023. The unlocking in 2022 resulted in a net $0.8 million decrease to pretax income in the first nine months of 2022. The adjustments in 2023 resulted from the true-up of reinsurance and interest assumptions as long-term outlooks and assumptions remain unchanged. The adjustments in 2022 primarily resulted from interest rate fluctuations and the impact of management actions in the various interest rate environments.

Operating Expenses

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

Operating expenses increased $3.8 million or 16% in the third quarter and $9.3 million or 13% in the first nine months of 2023 compared to the same periods in the prior year. The increases for both the third quarter and nine months were largely due to higher employee compensation expenses, market rate impacts on various employee benefits, and legal fees.

Income Taxes

We recorded an income tax expense of $1.2 million in the third quarter of 2023 compared to an income tax expense of $1.0 million in the third quarter of 2022. The increase in income tax expense in the third quarter of 2023 primarily occurred because of higher pretax income in comparison to the third quarter of 2022.

We recorded an income tax expense for the first nine months of September 30, 2023 of $1.6 million compared to an income tax benefit of $0.2 million for the prior-year period. The increase in income tax expense in the first nine months was primarily related to an increase in pretax income in the first nine months of 2023 as compared to the first nine months of 2022.

The effective income tax rate was equal to the prevailing corporate federal income tax rate of 21% for the third quarter of 2023. The effective income tax rate was lower than the prevailing corporate of 21% for the third quarter of 2022. The lower effective income tax rate for 2022 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 equal to the prevailing corporate federal income tax rate of 21% for the nine months ended September 30, 2023. The effective income tax rate was lower than the prevailing corporate of 21% for the nine months ended September 30, 2022. The lower effective income tax rate for nine months ended September 30, 2022 was primarily due to the effect of favorable tax adjustments relative to pretax income and capital losses incurred for 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 dividends-received deduction.

Analysis of Investments

This analysis of investments should be read in conjunction with Note 3 - Investments in the Notes to Consolidated Financial Statements - (Unaudited).

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

	September 30, 2023	% of Total	December 31, 2022	% of Total
Fixed maturity securities	$ 2,186,508	72 %	$ 2,204,819	71 %
Equity securities	1,561	— %	1,918	— %
Mortgage loans	558,718	18 %	591,928	19 %
Real estate	141,211	5 %	141,649	4 %
Policy loans	82,838	3 %	82,739	3 %
Short-term investments	30,215	1 %	58,497	2 %
Other investments	25,269	1 %	18,749	1 %
Total	$ 3,026,320	100 %	$ 3,100,299	100 %

Fixed maturity securities were the largest component of total investments at both September 30, 2023 and December 31, 2022. Fixed maturity securities increased from 71% of total investments at December 31, 2022 to 72% of total investments at September 30, 2023. The largest categories of fixed maturity securities at September 30, 2023 consisted of 72% in corporate obligations, 11% in municipal securities, and 4% in U.S. Treasury securities and obligations of the U.S. Government. We had 26% of the fixed maturity securities in private placements at both September 30, 2023 and December 31, 2022. The use of private placements offers an enhancement to our portfolio returns by providing access to higher yielding securities that 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, 2023 and December 31, 2022.

The fair value of fixed maturity securities with unrealized losses was $2.0 billion at both September 30, 2023 and December 31, 2022. At both September 30, 2023 and December 31, 2022, 99% of security investments with an unrealized loss were investment grade and accounted for 99% of the total unrealized losses.

At September 30, 2023, we had $2.7 million in gross unrealized gains on fixed maturity securities that were offset by gross unrealized losses of $335.5 million. At December 31, 2022, we had $8.3 million in gross unrealized gains on fixed maturity securities that were offset by $278.9 million in gross unrealized losses. At September 30, 2023, 9% of the fixed maturity securities portfolio had unrealized gains, a decrease from 11% at December 31, 2022. Gross unrealized losses on fixed maturity securities for less than 12 months totaled $13.1 million and accounted for 11% of the security values in a gross unrealized loss position at September 30, 2023. Gross unrealized losses on fixed maturity securities for less than 12 months totaled $194.3 million and accounted for 85% of the security values in a gross unrealized loss position at December 31, 2022. Gross unrealized losses on fixed maturity security investments of 12 months or longer increased from $84.6 million at December 31, 2022 to $322.3 million at September 30, 2023.

Investments in mortgage loans totaled $558.7 million at September 30, 2023, down from $591.9 million at December 31, 2022. The commercial mortgage loan portfolio decreased during the first nine months of 2023, as new loan originations and refinancing activity were lower than 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 credit losses. We believe this allowance is at a level adequate to absorb estimated credit losses. This allowance was $1.7 million at September 30, 2023 and $2.8 million at December 31, 2022. This decrease reflects the assessment of the necessary allowance under Accounting Standards Update (ASU) No. 2016-13. For additional information, please see Note 2 - New Accounting Pronouncements in the Notes to Consolidated Financial Statements - (Unaudited).

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, sales and maturities of investments, and investment income. We have access to additional liquidity through our ability to borrow on a collateralized basis from the FHLB. We also have credit facilities that are available for additional working capital needs or investment opportunities. The principal uses of cash are for the insurance operations, including the purchase of investments, payment of insurance benefits, operating expenses, policyholder dividends, withdrawals from policyholder accounts, and costs related to acquiring new business. 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 $53.7 million for the nine months ended September 30, 2023. Net cash provided by investing activities was $9.4 million for the nine months ended September 30, 2023. The primary sources of cash provided by investing activities were from sales, maturities, calls, and principal paydowns of investments totaling $164.6 million. Investment purchases, including new fixed maturities and mortgage loans, totaled $183.5 million. Net cash provided by financing activities for the nine months ended September 30, 2023 was $44.6 million, including a $62.3 million change in deposit asset on reinsurance and $2.1 million of net transfers from separate accounts. These were partially offset by the payment of $4.1 million of stockholder dividends, a $10.9 million change in other deposits, and $4.7 million of withdrawals, net of deposits, on policyholder account balances.

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, 2023	December 31, 2022
Total assets, excluding separate accounts	$ 4,485,340	$ 4,583,568
Total stockholders' equity	448,346	491,693
Ratio of stockholders' equity to assets, excluding separate accounts	10%	11%

Stockholders’ equity decreased $43.3 million from year-end 2022, primarily due to an increase in net unrealized losses, reflecting fluctuations in interest rates during 2023. Stockholders’ equity per share, or book value, equaled $46.30 at September 30, 2023, a decline from $50.78 at year-end 2022.

Net unrealized losses on available for sale securities, which are included as part of Accumulated Other Comprehensive 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 $239.4 million at September 30, 2023, a $44.4 million increase from $195.0 million at December 31, 2022. The increase in unrealized losses reflected fluctuations in interest rates at September 30, 2023 compared to December 31, 2022.

The Company has advance funding agreements with the FHLB. These funds are used in an arbitrage program. Interest earned from this program was $1.9 million during the quarter ended September 30, 2023 and $1.2 million during the quarter ended September 30, 2022. Interest earned from this program was $5.2 million during the nine months ended September 30, 2023 and $1.9 million during the nine months ended September 30, 2022. Total obligations outstanding under these agreements, which mature between 2024 and 2027, were $100.0 million at both September 30, 2023 and December 31, 2022, and are reported as Policyholder Account Balances in the Consolidated Balance Sheets - (Unaudited). Accrued interest totaled $1.1 million at September 30, 2023 and $0.4 million at December 31, 2022. Interest is credited based on variable rates set by the FHLB. Cash interest payments were $1.2 million during the quarter ended September 30, 2023 and $0.4 million during the quarter ended September 30, 2022. Cash interest payments were $3.8 million during the nine months ended September 30, 2023 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 2023, the Board of Directors authorized the purchase of up to one million of our shares on the open market through January 2024. No shares were purchased under this authorization during the first nine months of 2023.

On October 23, 2023, the Board of Directors declared a quarterly dividend of $0.14 per share payable on November 8, 2023 to stockholders of record on November 2, 2023.

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 27, 2023

/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 27, 2023

/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 - (Unaudited)

	September 30, 2023	December 31, 2022
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value (amortized cost: 2023 - $2,519,248; 2022 - $2,475,443)	$ 2,186,508	$ 2,204,819
Equity securities, at fair value (cost: 2023 and 2022 - $1,699)	1,561	1,918
Mortgage loans (net allowance for credit losses: 2023 - $1,705; 2022 - $2,753)	558,718	591,928
Real estate	141,211	141,649
Policy loans	82,838	82,739
Short-term investments	30,215	58,497
Other investments	25,269	18,749
Total investments	3,026,320	3,100,299
Cash	8,152	7,768
Accrued investment income	29,366	27,516
Deferred acquisition costs	327,947	327,544
Reinsurance recoverables (net of allowance for credit losses: 2023 - $2,164; 2022 - $0)	403,334	402,323
Deposit asset on reinsurance	434,728	484,410
Other assets	255,493	233,708
Separate account assets	370,338	381,581
Total assets	$ 4,855,678	$ 4,965,149
LIABILITIES		
Future policy benefits	$ 1,410,258	$ 1,388,924
Policyholder account balances	2,217,241	2,280,917
Policy and contract claims	50,213	56,975
Other policyholder funds	203,032	204,788
Other liabilities	156,250	160,271
Separate account liabilities	370,338	381,581
Total liabilities	4,407,332	4,473,456
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	911,480	910,438
Accumulated other comprehensive loss	(285,979)	(241,590)
Treasury stock, at cost (2023 and 2022 - 8,813,266 shares)	(241,301)	(241,301)
Total stockholders' equity	448,346	491,693
Total liabilities and stockholders' equity	$ 4,855,678	$ 4,965,149

See accompanying Notes to Consolidated Financial Statements - (Unaudited)

Kansas City Life Insurance Company
Consolidated Statements of Comprehensive Income - (Unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
REVENUES				
Insurance revenues:				
Net premiums	$ 52,465	$ 51,484	$ 158,514	$ 156,071
Contract charges	30,513	30,926	91,510	93,010
Total insurance revenues	82,978	82,410	250,024	249,081
Investment revenues:				
Net investment income	39,807	35,759	117,771	115,851
Net investment gains (losses)	(1,584)	116	646	(16,377)
Total investment revenues	38,223	35,875	118,417	99,474
Other revenues	1,425	1,713	4,106	5,253
Total revenues	122,626	119,998	372,547	353,808
BENEFITS AND EXPENSES				
Policyholder benefits	61,162	62,995	201,595	192,727
Interest credited to policyholder account balances	18,939	17,874	54,984	55,223
Amortization of deferred acquisition costs	8,769	9,687	26,089	31,798
Operating expenses	27,915	24,133	82,493	73,144
Total benefits and expenses	116,785	114,689	365,161	352,892
Income before income tax expense (benefit)	5,841	5,309	7,386	916
Income tax expense (benefit)	1,242	994	1,565	(208)
NET INCOME	$ 4,599	$ 4,315	$ 5,821	$ 1,124
COMPREHENSIVE LOSS, NET OF TAXES				
Changes in:				
Net unrealized gains (losses) on securities available for sale	$ (67,235)	$ (101,025)	$ (49,071)	$ (388,786)
Effect on deferred acquisition costs, value of business acquired, and deferred revenue liabilities	6,459	11,969	4,682	33,634
Policyholder liabilities	—	—	—	26,762
Other comprehensive loss	(60,776)	(89,056)	(44,389)	(328,390)
COMPREHENSIVE LOSS	$ (56,177)	$ (84,741)	$ (38,568)	$ (327,266)
Basic and diluted earnings per share:				
Net income	$ 0.47	$ 0.45	$ 0.60	$ 0.12

See accompanying Notes to Consolidated Financial Statements - (Unaudited)

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

	Nine Months Ended September 30,	
	2023	2022
OPERATING ACTIVITIES		
Net income	$ 5,821	$ 1,124
Adjustments to reconcile net income to net cash used from operating activities:		
Amortization of investment premium and discount	1,663	2,130
Depreciation and amortization	4,158	5,113
Acquisition costs capitalized	(17,587)	(20,397)
Amortization of deferred acquisition costs	26,089	31,798
Net investment losses (gains)	(646)	16,377
Changes in assets and liabilities:		
Reinsurance recoverables	(2,783)	9,185
Future policy benefits	21,333	15,963
Policyholder account balances	(73,230)	(66,264)
Income taxes payable and deferred	(9,808)	(2,491)
Other, net	(8,697)	(35,807)
Net cash used	(53,687)	(43,269)
INVESTING ACTIVITIES		
Purchases:		
Fixed maturity securities	(154,036)	(380,301)
Equity securities	—	(4,808)
Mortgage loans	(15,605)	(66,124)
Real estate	(2,139)	(2,773)
Policy loans	(2,757)	(6,073)
Other investments	(7,847)	(7,023)
Property and equipment	(1,067)	(505)
Sales or maturities, calls, and principal paydowns:		
Fixed maturity securities	107,836	296,965
Equity securities	—	828
Mortgage loans	49,850	49,707
Real estate	270	136
Policy loans	2,659	5,755
Other investments	3,916	2,237
Property and equipment	68	4
Net sales of short-term investments	28,282	32,282
Net cash provided (used)	9,430	(79,693)

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

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
FINANCING ACTIVITIES		
Policyholder account balances - deposits	$ 148,873	$ 159,376
Policyholder account balances - receipts from funding agreement	—	70,000
Withdrawals from policyholder account balances	(153,609)	(125,480)
Change in deposit asset on reinsurance, net	62,307	23,705
Net transfers from separate accounts	2,061	6,664
Change in other deposits	(10,924)	(4,120)
Cash dividends to stockholders	(4,067)	(5,326)
Net cash provided	44,641	124,819
Increase in cash	384	1,857
Cash at beginning of year	7,768	5,419
Cash at end of period	$ 8,152	$ 7,276

Non-Cash Activity
In the first nine months of 2023, we had a non-cash investing transaction that consisted of a transfer of $4.7 million of land from real estate to real estate joint ventures.

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 result of the Chapter 11 Bankruptcy of one of our issuers. The new equity security and fixed maturity security 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 Note 13 - Reinsurance for further information.

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 of Kansas City Life. 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 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 2022 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, 2023 and 2022 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
There were no business changes during 2023.

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 domestic 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. For additional information on this reinsurance arrangement, please see Note 13 - Reinsurance.

Current Economic Environment
While the pandemic has largely waned, there are still lingering impacts to the current economic environment. Inflation jumped in 2022 and has declined over the past year but remains persistent and above the Federal Reserve's target of 2%. Furthermore, there are ongoing supply chain disruptions and an under supply of labor, due to early retirements, lower rates of immigration, and a slow recovery of labor participation rates. Additionally, the ongoing Russia-Ukraine War has caused oil, gas, and agricultural product supply disruptions. Inflation jumped significantly due to the supply chain disruptions and under supply of labor with year-over-year CPI (consumer price index) and Core PCE (personal consumption expenditures) peaking in 2022 at 9.1% and 5.4%, respectively. In response, Global Central Banks increased rates and initiated quantitative tightening, with the Federal Reserve raising its benchmark overnight rate by 525 basis points (bps) from March 15, 2022 through September 30, 2023. The bond market responded with the 10-year Treasury yield increasing 306 bps from 1.51% at December 31, 2021 to 4.57% at September 30, 2023. The jump in rates has tightened credit markets, moderated growth, and increased the risk of a recession. The investment environment has been both positively and negatively impacted. While it has created a better environment for reinvestment into fixed income assets at higher yields, it has also resulted in a significant decline in the market value of existing fixed income assets. Additionally, if the economy experiences a “hard landing” and enters a recession, risk of asset impairments, defaults, and delinquencies will increase.

Significant Accounting Policies

Please refer to our 2022 Annual Report for a full discussion of our significant accounting policies. Other than as described below, no significant updates or changes to these policies occurred during the quarter or nine months ended September 30, 2023.

Credit Losses on Fixed Maturity Securities

The Company periodically evaluates securities for credit loss when fair value is less than amortized cost, interest payments are missed, and the security is experiencing credit issues. The assessment of whether credit losses have occurred is based on management's case-by-case evaluation of the underlying reasons for the decline in estimated fair value as described in Note 3 - Investments.

The Company adopted ASU No. 2016-13 Measurement of Credit Losses on Financial Instruments effective January 1, 2023. After adoption of this guidance, a credit loss is recognized in Net Investment Gains (Losses) in the Consolidated Statements of Comprehensive Income - (Unaudited) for securities in an unrealized loss position when it is anticipated that the amortized cost, excluding accrued investment income, will not be recovered. When either the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security before recovery, the reduction of amortized cost and the loss recognized in earnings is the difference between the security's amortized cost and estimated fair value. If neither of these conditions exists, the difference between the amortized cost of the security and the present value of projected future cash flows expected to be collected is recognized in earnings as a credit loss by establishing an allowance for credit losses with a corresponding charge recorded in net investment gains (losses). However, the allowance for credit losses is limited by the amount that the fair value is less than the amortized cost. If the estimated fair value is less than the present value of projected future cash flows expected to be collected, this portion of the decline in value related to other-than-credit factors is recorded in Other Comprehensive Income (Loss) as an unrealized loss.

During the year ended December 31, 2022, prior to the adoption of credit loss guidance on January 1, 2023, the Company applied other-than-temporary impairment loss guidance for securities in an unrealized loss position. An other-than-temporary impairment was recognized in investment revenues within net investment gains (losses) when it was anticipated that the amortized cost would not be recovered. When either the Company had the intent to sell the security, or it was more likely than not that the Company would be required to sell the security before recovery, the reduction of amortized cost and the other-than-temporary impairment loss recognized in earnings was the difference between the security's amortized cost and estimated fair value. If neither of these conditions existed, the difference between the amortized cost of the security and the present value of projected future cash flows expected to be collected was recognized as a reduction of amortized cost and an other-than-temporary impairment loss in earnings. If the estimated fair value was less than the present value of projected future cash flows expected to be collected, this portion of other-than-temporary impairment loss related to noncredit loss was recorded in Other Comprehensive Income (Loss) as an unrecognized loss.

Credit Losses on Mortgage Loans

Upon adoption of ASU No. 2016-13, credit losses on mortgage loans are recognized in Net Investment Gains (Losses) in the Consolidated Statements of Comprehensive Income - (Unaudited). For mortgage loan investments, we use the Weighted Average Remaining Maturity method, which utilizes an average annual charge-off rate applied to the mortgage loan's remaining maturity schedule. In determining the Company's expected credit loss, management applies significant judgment to estimate expected lifetime credit losses, including pooling mortgage loans that share similar risk characteristics and past events and current and forecasted economic conditions. The expected credit loss is calculated based on inputs unique to the individual loan portfolio. On an ongoing basis, mortgage loans with dissimilar risk characteristics are evaluated individually for credit loss, such as loans with significant declines in credit quality, collateral dependent mortgage loans (for example when the borrower is experiencing financial difficulty, including when foreclosure is reasonably possible or probable), and reasonably expected troubled debt restructurings. The expected credit loss for mortgage loans evaluated individually are established using specific cash flow assessments. For example, the expected credit loss for a collateral dependent loan is established as the excess of amortized cost over the estimated fair value of the loan's underlying collateral, less selling costs when foreclosure is probable.

Credit Losses on Reinsurance Recoverables

The Company's reinsurance recoverables are financial assets that are subject to the credit loss requirements of ASU No. 2016-13. Our credit loss analysis includes historical loss information, historical credit rating data, and existing collateral arrangements to estimate expected credit losses over the life of the reinsurance recoverables. Upon adoption of this guidance, credit losses on reinsurance recoverables are recognized in Policyholder Benefits in the Consolidated Statements of Comprehensive Income - (Unaudited).

2. New Accounting Pronouncements

Accounting Pronouncements Adopted During 2023

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-13 Measurement of Credit Losses on Financial Instruments. Under this guidance, the incurred loss impairment methodology used for loans and other financial instruments was 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 is 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 are recorded through a valuation allowance that is established and adjusted over time. The valuation allowance is 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, agent receivables, and reinsurance recoverables. Additional disclosures are 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. Effective January 1, 2023, we adopted this guidance related to fixed maturity securities available for sale, mortgage loans, agent receivables, and reinsurance recoverables using a modified retrospective approach. The impact of this change in accounting principle was $0.7 million and was recorded as a charge to retained earnings in the first quarter of 2023, reflecting an initial allowance reduction for estimated credit losses of $1.1 million on mortgage loans and reserve increase of $1.8 million on reinsurance recoverables. For additional information on the adoption of this guidance, please see Note 3 - Investments, Note 5 - Financing Receivables, and Note 13 - Reinsurance. Certain disclosures required by ASU 2016-13 are not included in the Interim Consolidated Financial Statements as the impact of this standard was not material.

Accounting Pronouncements Issued, Not Yet Adopted

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, 2023.

	Amortized Cost	Gross Unrealized		Allowance for Credit Losses	Fair Value
		Gains	Losses		
U.S. Treasury securities and obligations of U.S. Government	$ 105,305	$ 18	$ 10,137	$ —	$ 95,186
Federal agency issued residential mortgage-backed securities [1]	55,350	24	7,105	—	48,269
Subtotal	160,655	42	17,242	—	143,455
Corporate obligations:					
Industrial	338,173	333	49,636	—	288,870
Energy	78,783	640	3,874	—	75,549
Communications and technology	192,367	448	26,252	—	166,563
Financial	416,326	40	63,810	—	352,556
Consumer	478,555	52	73,428	—	405,179
Public utilities	329,931	285	54,642	—	275,574
Subtotal	1,834,135	1,798	271,642	—	1,564,291
Municipal securities	277,386	632	34,341	—	243,677
Other	244,072	249	11,473	—	232,848
Redeemable preferred stocks	3,000	—	763	—	2,237
Total	$ 2,519,248	$ 2,721	$ 335,461	$ —	$ 2,186,508

[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, 2022.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 108,928	$ 58	$ 6,147	$ 102,839
Federal agency issued residential mortgage-backed securities [1]	61,753	113	5,373	56,493
Subtotal	170,681	171	11,520	159,332
Corporate obligations:				
Industrial	340,954	1,116	41,768	300,302
Energy	77,317	905	3,056	75,166
Communications and technology	179,731	1,143	21,158	159,716
Financial	400,705	891	51,941	349,655
Consumer	490,378	416	62,472	428,322
Public utilities	314,428	1,079	43,260	272,247
Subtotal	1,803,513	5,550	223,655	1,585,408
Municipal securities	275,726	2,529	28,429	249,826
Other	219,523	36	14,532	205,027
Redeemable preferred stocks	6,000	—	774	5,226
Total	$ 2,475,443	$ 8,286	$ 278,910	$ 2,204,819

[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, 2023 with the percent of total unrealized losses identified. Fair value has been adjusted to include any allowance for credit losses.

	Amortized Cost	Fair Value	Net Unrealized Losses	% of Total
AAA	$ 217,783	$ 201,942	$ (15,841)	5 %
AA	541,199	475,274	(65,925)	20 %
A	841,541	714,545	(126,996)	38 %
BBB	890,364	769,339	(121,025)	36 %
Total investment grade	2,490,887	2,161,100	(329,787)	99 %
BB	21,932	19,636	(2,296)	1 %
B and below	6,429	5,772	(657)	— %
Total below investment grade	28,361	25,408	(2,953)	1 %
Total	$ 2,519,248	$ 2,186,508	$ (332,740)	100 %

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

	Amortized Cost	Fair Value	Net Unrealized Losses	% of Total
AAA	$ 208,729	$ 194,405	$ (14,324)	5 %
AA	546,851	496,436	(50,415)	19 %
A	802,345	698,467	(103,878)	38 %
BBB	896,722	797,573	(99,149)	37 %
Total investment grade	2,454,647	2,186,881	(267,766)	99 %
BB	14,643	13,386	(1,257)	— %
B and below	6,153	4,552	(1,601)	1 %
Total below investment grade	20,796	17,938	(2,858)	1 %
Total	$ 2,475,443	$ 2,204,819	$ (270,624)	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, 2023		December 31, 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 93,693	$ 92,853	$ 90,979	$ 90,357
Due after one year through five years	516,510	488,406	484,320	465,698
Due after five years through ten years	758,176	664,063	734,071	653,998
Due after ten years	1,032,573	838,336	1,036,509	875,295
Securities with variable principal payments	115,296	100,613	123,564	114,245
Redeemable preferred stocks	3,000	2,237	6,000	5,226
Total	$ 2,519,248	$ 2,186,508	$ 2,475,443	$ 2,204,819

Unrealized Losses on Investments
At the end of each quarter, all fixed maturity securities are reviewed to determine the cause of the decline in the estimated fair value of the security and to assess the prospects for near-term recovery. This quarterly process includes an assessment of the credit quality of each investment in the entire securities portfolio.

We consider relevant facts and circumstances in performing the credit loss evaluation of a security. Relevant facts and circumstances considered include but are not limited to:

- The current fair value of the security as compared to amortized cost;
- The credit rating of the security;
- The extent the fair value has been below amortized cost;
- The financial position of the issuer, including the current and future impact of any specific events, material declines in the issuer's revenues, margins, cash positions, liquidity issues, asset quality, debt levels, and income results;
- Significant management or organizational changes of the issuer;
- Significant uncertainty regarding the issuer's industry;
- Violation of financial covenants;
- Consideration of information or evidence that supports recovery;
- The intent and ability to hold a security until it recovers in value;
- Whether we intend to sell the security and whether it is more likely than not that we will be required to sell the security before recovery of the amortized cost basis; and
- Other business factors related to the issuer's industry.

Once a security is determined to have met certain of the criteria for credit loss, further information is gathered and evaluated pertaining to the particular security. If the security is an unsecured obligation, the additional research is a top-down approach with particular emphasis on the likelihood of the issuer to meet the contractual terms of the obligation. If the security is secured by an asset or guaranteed by another party, the value of the underlying secured asset or the financial ability of the third-party guarantor is evaluated as a secondary source of repayment. Such research is based upon a top-down approach, narrowing to the specific estimates of value and cash flow of the underlying secured asset or guarantor. If the security is a collateralized obligation, such as a mortgage-backed or other asset-backed instrument, research is also conducted to obtain and analyze the performance of the collateral relative to expectations at the time of acquisition and with regard to projections for the future. Such analyses are based upon historical results, trends, comparisons to collateral performance of similar securities, and analyses performed by third parties. This information is used to develop projected cash flows that are compared to the amortized cost of the security.

We may selectively determine that we no longer intend to retain a specific issue to its maturity. If we make this determination and the fair value is less than the cost basis, the investment is written down to the fair value. Subsequently, we seek to obtain the best possible outcome available for this specific issue and record an investment gain or loss at the disposal date.

To the extent we determine a credit loss exists for a fixed maturity security, the portion of the impairment that is deemed to be due to credit is charged to earnings in the Consolidated Statements of Comprehensive Income - (Unaudited). The portion of such impairment that is determined to be non-credit related is reflected in Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Loss.

After the adoption of ASU No. 2016-13 on January 1, 2023, in periods subsequent to the recognition of an initial allowance for credit losses on a security, the Company reassesses credit loss quarterly. Subsequent increases or decreases in the expected cash flow from the security result in corresponding decreases or increases in the allowance which are recognized in earnings and reported within investment revenues. However, the previously recorded allowance is not reduced to an amount below zero. Full or partial write-offs are deducted from the allowance in the period the security, or a portion thereof, is considered uncollectible. Recoveries of amounts previously written down are recorded to the allowance in the period determined. When the Company has the intent to sell the security, or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost, any allowance is written off and the amortized cost is written down to estimated fair value through a charge to realized investment gains or losses, which becomes the new amortized cost of the security.

Methodologies used during the year ended December 31, 2022 to evaluate the recoverability of a security in an unrealized loss position using other-than-temporary impairment guidance were similar to those used after the adoption of credit loss guidance on January 1, 2023, except for consideration of the length of time estimated fair value had been below amortized cost was also considered for securities. In addition, measurement methodologies were similar, except a fair value floor was not utilized to limit the credit loss recognized in earnings; an allowance for credit losses was not utilized; and subsequent to a credit loss being recognized, increases in expected cash flows from the security did not result in an immediate increase in valuation recognized in earnings through investment revenues from a reduction of the allowance.

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, 2023. Fair value has been adjusted to include any allowance for credit losses.

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government	$ 6,162	$ 270	$ 88,147	$ 9,867	$ 94,309	$ 10,137
Federal agency issued residential mortgage-backed securities [1]	3,303	60	43,637	7,045	46,940	7,105
Subtotal	9,465	330	131,784	16,912	141,249	17,242
Corporate obligations:						
Industrial	19,873	1,238	240,744	48,398	260,617	49,636
Energy	10,404	464	40,303	3,410	50,707	3,874
Communications and technology	21,379	1,534	123,631	24,718	145,010	26,252
Financial	44,343	3,017	296,057	60,793	340,400	63,810
Consumer	23,604	1,630	372,094	71,798	395,698	73,428
Public utilities	40,618	2,419	219,146	52,223	259,764	54,642
Subtotal	160,221	10,302	1,291,975	261,340	1,452,196	271,642
Municipal securities	33,729	1,486	171,847	32,855	205,576	34,341
Other	11,875	234	183,345	11,239	195,220	11,473
Redeemable preferred stocks	2,237	763	—	—	2,237	763
Total	$ 217,527	$ 13,115	$1,778,951	$ 322,346	$1,996,478	$ 335,461

[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, 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	$ 96,610	$ 5,625	$ 4,428	$ 522	$ 101,038	$ 6,147
Federal agency issued residential mortgage-backed securities [1]	48,576	4,594	2,079	779	50,655	5,373
Subtotal	145,186	10,219	6,507	1,301	151,693	11,520
Corporate obligations:						
Industrial	223,458	28,273	46,186	13,495	269,644	41,768
Energy	49,781	3,056	—	—	49,781	3,056
Communications and technology	111,704	13,322	22,710	7,836	134,414	21,158
Financial	265,816	35,260	52,654	16,681	318,470	51,941
Consumer	346,834	39,723	67,996	22,749	414,830	62,472
Public utilities	206,984	29,528	34,933	13,732	241,917	43,260
Subtotal	1,204,577	149,162	224,479	74,493	1,429,056	223,655
Municipal securities	173,299	23,719	13,582	4,710	186,881	28,429
Other	157,759	10,426	41,520	4,106	199,279	14,532
Redeemable preferred stocks	5,226	774	—	—	5,226	774
Total	$1,686,047	$ 194,300	$ 286,088	$ 84,610	$1,972,135	$ 278,910

[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, 2023	December 31, 2022
Below cost for less than one year	165	1,120
Below cost for one year or more and less than three years	1,221	201
Below cost for three years or more	33	3
Total	1,419	1,324

We do not consider the unrealized losses related to these securities to be credit-related. The unrealized losses at both September 30, 2023 and December 31, 2022 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, 2023. Fair value has been adjusted to include any allowance for credit losses.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Unrealized losses of 10% or less	$ 995,667	$ 944,826	$ 50,841
Unrealized losses of 20% or less and greater than 10%	640,192	546,953	93,239
Subtotal	1,635,859	1,491,779	144,080
Unrealized losses greater than 20%:			
Investment grade	691,080	500,802	190,278
Below investment grade	5,000	3,897	1,103
Total securities owned without realized impairment	$ 2,331,939	$ 1,996,478	$ 335,461

The following table summarizes investments in fixed maturity securities available for sale with unrealized losses at December 31, 2022. We had no securities owned with realized impairment at December 31, 2022.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	$ 1,129,645	$ 1,073,851	$ 55,794
Unrealized losses of 20% or less and greater than 10%	619,416	528,146	91,270
Subtotal	1,749,061	1,601,997	147,064
Unrealized losses greater than 20%:			
Investment grade	498,145	367,483	130,662
Below investment grade	3,839	2,655	1,184
Total securities owned without realized impairment	$ 2,251,045	$ 1,972,135	$ 278,910

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, 2023. Fair value has been adjusted to include any allowance for credit losses.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	$ 169,569	8 %	$ 16,347	5 %
AA	437,916	22 %	66,401	20 %
A	654,694	33 %	127,846	38 %
BBB	710,602	36 %	121,898	36 %
Total investment grade	1,972,781	99 %	332,492	99 %
BB	17,925	1 %	2,312	1 %
B and below	5,772	— %	657	— %
Total below investment grade	23,697	1 %	2,969	1 %
	$ 1,996,478	100 %	$ 335,461	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, 2022.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	$ 169,198	9 %	$ 15,382	5 %
AA	433,563	22 %	52,351	19 %
A	634,047	32 %	106,442	38 %
BBB	717,389	36 %	101,877	37 %
Total investment grade	1,954,197	99 %	276,052	99 %
BB	13,386	1 %	1,257	— %
B and below	4,552	— %	1,601	1 %
Total below investment grade	17,938	1 %	2,858	1 %
	$ 1,972,135	100 %	$ 278,910	100 %

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

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

	September 30, 2023		
	Fair Value	Amortized Cost	Unrealized Losses
Structured securities:			
Investment grade	$ 232,848	$ 244,072	$ (11,224)
Below investment grade	—	—	—
Total structured securities	$ 232,848	$ 244,072	$ (11,224)

	December 31, 2022		
	Fair Value	Amortized Cost	Unrealized Losses
Structured securities:			
Investment grade	$ 205,027	$ 219,523	$ (14,496)
Below investment grade	—	—	—
Total structured securities	$ 205,027	$ 219,523	$ (14,496)

The following table provides a rollforward of the allowance for credit losses for fixed maturity securities.

	Quarter Ended September 30, 2023	Nine Months Ended September 30, 2023
Beginning balance	$ —	$ —
Provision for adoption of ASU No. 2016-13	—	—
Additions for credit losses not previously recorded	—	540
Additions (reductions) for credit losses recorded in a previous period	—	(540)
End of period	$ —	$ —

Investment Revenues

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Invested assets	$ 35,763	$ 31,026	$ 105,229	$ 98,576
Deposit-type reinsurance [1]	4,044	4,733	12,542	17,275
Net investment income	$ 39,807	$ 35,759	$ 117,771	$ 115,851

[1] See Note 13 - Reinsurance.

Investment Gains (Losses)

The following table provides detail concerning investment gains and losses for the quarter and nine months ended September 30, 2023.

	Quarter Ended September 30,	Nine Months Ended September 30,
	2023	2023
Gross gains resulting from:		
Sales of investment securities	$ —	$ 46
Investment securities called and other	—	259
Total gross gains	—	305
Gross losses resulting from:		
Sales of investment securities	—	(738)
Investment securities called and other	—	(313)
Sales of real estate and joint ventures	—	(89)
Total gross losses	—	(1,140)
Change in allowance for credit losses:		
Mortgage loans	30	(12)
Total change in allowance for credit losses	30	(12)
Change in fair value:		
Equity securities	(234)	(357)
Other investments	(1,380)	1,850
Total change in fair value	(1,614)	1,493
Net investment gains (losses)	$ (1,584)	$ 646

The following table provides detail concerning investment gains and losses for the quarter and nine months ended September 30, 2022.

	Quarter Ended September 30, 2022	Nine Months Ended September 30, 2022
Gross gains resulting from:		
Sales of investment securities	$ 563	$ 2,524
Investment securities called and other	42	1,234
Total gross gains	605	3,758
Gross losses resulting from:		
Sales of investment securities	(741)	(14,455)
Investment securities called and other	(1)	(24)
Total gross losses	(742)	(14,479)
Change in allowance for loan losses	(49)	(84)
Change in fair value:		
Equity securities	(89)	(312)
Other investments	391	(5,226)
Total change in fair value	302	(5,538)
Net realized investment gains (losses), excluding other-than-temporary impairment losses	116	(16,343)
Net impairment losses recognized in earnings:		
Other-than-temporary impairment losses on fixed maturity securities	—	—
Portion of loss recognized in other comprehensive loss	—	(34)
Net other-than-temporary impairment losses recognized in earnings	—	(34)
Net investment gains (losses)	$ 116	$ (16,377)

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

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,	
	2023	2022	2023	2022
Proceeds	$ —	$ 52,540	$ 10,284	$ 635,322

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

Mortgage Loans

Investments in mortgage loans totaled $558.7 million at September 30, 2023, compared to $591.9 million at December 31, 2022. 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 credit losses. We believe this allowance is at a level adequate to absorb estimated credit losses. This allowance was $1.7 million at September 30, 2023 and $2.8 million at December 31, 2022. The decrease in the allowance was due to factors considered under the adoption of ASU No. 2016-13 at January 1, 2023. 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 18% of our total investments at September 30, 2023, down slightly from 19% at December 31, 2022. In addition to the subject collateral underlying the mortgage, we may require some amount of recourse from borrowers as another potential source of repayment should the loan default. Any recourse requirement deemed necessary is determined as part of the underwriting requirements of each loan. The average loan-to-value ratio for the overall portfolio was 44% at September 30, 2023 and 45% at December 31, 2022. 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 no loans during the quarter ended September 30, 2023. We refinanced four loans with a total outstanding balance of $7.7 million during the nine months ended September 30, 2023. 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. At September 30, 2023 and December 31, 2022, we did not have any loan defaults and no material contract modifications, deferrals, or forbearance agreements had been executed. For additional information, please see Note 5 - Financing Receivables.

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 2022 Annual Report. Please refer to our 2022 Annual Report for a full discussion of the fair value hierarchy and our policies regarding fair value measurements.

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

	September 30, 2023			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 9,020	$ 86,166	$ —	$ 95,186
Federal agency issued residential mortgage-backed securities [1]	—	48,269	—	48,269
Subtotal	9,020	134,435	—	143,455
Corporate obligations:				
Industrial	—	288,870	—	288,870
Energy	—	75,549	—	75,549
Communications and technology	—	166,563	—	166,563
Financial	—	352,556	—	352,556
Consumer	—	405,179	—	405,179
Public utilities	—	275,574	—	275,574
Subtotal	—	1,564,291	—	1,564,291
Municipal securities	—	243,677	—	243,677
Other	—	232,848	—	232,848
Redeemable preferred stocks	—	2,237	—	2,237
Fixed maturity securities	9,020	2,177,488	—	2,186,508
Equity securities	170	1,109	282	1,561
Short-term investments	30,215	—	—	30,215
Other investments	—	6,175	309	6,484
Separate account assets	—	370,338	—	370,338
Total	$ 39,405	$ 2,555,110	$ 591	$ 2,595,106
Percent of total	2 %	98 %	— %	100 %
Liabilities:				
Policyholder account balances:				
Indexed universal life	$ —	$ —	$ 5,562	$ 5,562
Other policyholder funds:				
Guaranteed minimum withdrawal benefits	—	—	(3,358)	(3,358)
Separate account liabilities	—	370,338	—	370,338
Total	$ —	$ 370,338	$ 2,204	$ 372,542

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

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 8,837	$ 94,002	$ —	$ 102,839
Federal agency issued residential mortgage-backed securities [1]	—	56,493	—	56,493
Subtotal	8,837	150,495	—	159,332
Corporate obligations:				
Industrial	—	300,302	—	300,302
Energy	—	75,166	—	75,166
Communications and technology	—	159,716	—	159,716
Financial	—	349,655	—	349,655
Consumer	—	428,322	—	428,322
Public utilities	—	272,247	—	272,247
Subtotal	—	1,585,408	—	1,585,408
Municipal securities	—	249,826	—	249,826
Other	—	205,027	—	205,027
Redeemable preferred stocks	—	5,226	—	5,226
Fixed maturity securities	8,837	2,195,982	—	2,204,819
Equity securities	425	1,151	342	1,918
Short-term investments	58,497	—	—	58,497
Other investments	—	2,960	436	3,396
Separate account assets	—	381,581	—	381,581
Total	$ 67,759	$ 2,581,674	$ 778	$ 2,650,211
Percent of total	3 %	97 %	— %	100 %
Liabilities:				
Policyholder account balances:				
Indexed universal life	$ —	$ —	$ 2,802	$ 2,802
Other policyholder funds:				
Guaranteed minimum withdrawal benefits	—	—	(2,849)	(2,849)
Separate account liabilities	—	381,581	—	381,581
Total	$ —	$ 381,581	$ (47)	$ 381,534

[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, 2023		
	Assets	Liabilities	
	Equity Securities and Other Investments	Indexed Universal Life	GMWB
Beginning balance	$ 566	$ 7,350	$ (2,921)
Included in earnings	25	(1,788)	(513)
Included in other comprehensive loss	—	—	—
Purchases, issuances, sales and other dispositions:			
Purchases	—	—	—
Issuances	—	—	8
Sales	—	—	—
Other dispositions	—	—	68
Transfers out of Level 3	—	—	—
Ending balance	$ 591	$ 5,562	$ (3,358)

	Nine Months Ended September 30, 2023		
	Assets	Liabilities	
	Equity Securities and Other Investments	Indexed Universal Life	GMWB
Beginning balance	$ 778	$ 2,802	$ (2,849)
Included in earnings	(187)	2,760	(763)
Included in other comprehensive loss	—	—	—
Purchases, issuances, sales and other dispositions:			
Purchases	—	—	—
Issuances	—	—	42
Sales	—	—	—
Other dispositions	—	—	212
Transfers out of Level 3	—	—	—
Ending balance	$ 591	$ 5,562	$ (3,358)

	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)

We did not have any transfers between any levels during the quarters or nine months ended September 30, 2023 or 2022.

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 2022 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, 2023.

The following tables present a summary of fair value estimates for financial instruments not recorded at fair value on a recurring basis but required to be disclosed at fair value. 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, 2023				
	Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Mortgage loans	$ —	$ —	$ 495,145	$ 495,145	$ 558,718
Policy loans	—	—	82,838	82,838	82,838
Other investments	—	8,341	—	8,341	8,341
Liabilities:					
Individual and group annuities	—	—	1,066,937	1,066,937	1,083,744
Supplementary contracts and annuities without life contingencies	—	—	53,195	53,195	57,356
Policyholder account balances:					
Funding agreement	—	101,073	—	101,073	101,073

	December 31, 2022				
	Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Mortgage loans	$ —	$ —	$ 538,275	$ 538,275	$ 591,928
Policy loans	—	—	82,739	82,739	82,739
Other investments	—	9,044	—	9,044	9,044
Liabilities:					
Individual and group annuities	—	—	1,125,759	1,125,759	1,142,528
Supplementary contracts and annuities without life contingencies	—	—	52,242	52,242	56,407
Policyholder account balances:					
Funding agreement	—	100,614	—	100,614	100,614

5. Financing Receivables

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

The following table identifies financing receivables by classification amount.

	September 30, 2023	December 31, 2022
Agent receivables, net (allowance for credit losses: 2023 - $193) (allowance for doubtful accounts: 2022 - $198)	$ 1,576	$ 1,635
Investment-related financing receivables:		
Mortgage loans, net (allowance for credit losses: 2023 - $1,705; 2022 - $2,753)	558,718	591,928
Total financing receivables	$ 560,294	$ 593,563

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. Agent receivables are included in Other Assets in the Consolidated Balance Sheets - (Unaudited).

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

	September 30, 2023			December 31, 2022		
	Gross Receivables	Allowance for Credit Losses	Net Receivables	Gross Receivables	Allowance for Doubtful Accounts	Net Receivables
Agent specific loans	$ 503	$ 145	$ 358	$ 543	$ 150	$ 393
Other agent receivables	1,266	48	1,218	1,290	48	1,242
Total	$ 1,769	$ 193	$ 1,576	$ 1,833	$ 198	$ 1,635

The following table provides a rollforward of the allowance for credit losses for agent receivables. Upon the adoption of ASU No. 2016-13 on January 1, 2023, we changed from an allowance for doubtful accounts to an allowance for credit losses. We determined that no adjustments needed to be made to our allowance upon adoption of this guidance.

	Quarter Ended September 30, 2023	Nine Months Ended September 30, 2023
Beginning balance	$ 196	$ 198
Provision for adoption of ASU No. 2016-13	—	—
Additions for credit losses not previously recorded	—	—
Additions (reductions) for credit losses recorded in a previous period	(3)	(5)
End of period	$ 193	$ 193

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

	Quarter Ended September 30, 2022	Nine Months Ended September 30, 2022
Beginning balance	$ 863	$ 912
Additions	70	106
Deductions	(74)	(159)
End of period	$ 859	$ 859

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, 2023	December 31, 2022
Mortgage loans collectively evaluated for impairment	$ 560,423	$ 560,612
Mortgage loans individually evaluated for impairment	—	34,069
Allowance for credit losses	(1,705)	(2,753)
Carrying value	$ 558,718	$ 591,928

There were no mortgage loans that were past due at September 30, 2023 or at December 31, 2022.

We had no troubled debt restructurings during the quarters or nine months ended September 30, 2023 or 2022.

Effective January 1, 2023, the Company adopted ASU No. 2016-13, which revises the credit loss recognition criteria for mortgage loans by replacing the existing incurred loss recognition model with the current expected credit loss model. The objective of the current expected credit loss model is for the reporting entity to recognize its estimate of current expected credit losses for affected financial assets in an allowance for credit losses that is deducted from the amortized cost basis of the related financial assets. This results in presenting the net carrying value of the financial assets at the amount expected to be collected.

The following table provides a rollforward of the allowance for credit losses for mortgage loans. Upon the adoption of ASU No. 2016-13 on January 1, 2023, we changed from an allowance for mortgage loan losses to an allowance for credit losses.

	Quarter Ended September 30, 2023	Nine Months Ended September 30, 2023
Beginning of balance	$ 1,735	$ 2,753
Provision for adoption of ASU No. 2016-13	—	(1,060)
Additions for credit losses not previously recorded	—	—
Additions (reductions) for credit losses recorded in a previous period	(30)	12
End of period	$ 1,705	$ 1,705

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

	Quarter Ended September 30, 2022	Nine Months Ended September 30, 2022
Beginning balance	$ 2,827	$ 2,792
Provision	103	393
Deductions	(54)	(309)
End of period	$ 2,876	$ 2,876

Please refer to our 2022 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 that are classified as VIEs. These VIEs are included in Real Estate in the Consolidated Balance Sheets - (Unaudited). We also invest in certain private equity security interests. These VIEs are included in Other Investments in the Consolidated Balance Sheets - (Unaudited). Please refer to our 2022 Annual Report for a full discussion of our VIEs.

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.

We amortize the initial cost of affordable housing VIE investments in proportion to the tax credits and other tax benefits received and recognize the net investment performance in the Consolidated Statements of Comprehensive Income - (Unaudited) 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 affordable housing VIE investments that generate tax credits and related amortization.

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Federal income tax credits realized	$ —	$ 101	$ —	$ 303
Amortization	37	52	111	156

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, 2023 and December 31, 2022. The table includes investments in two real estate joint ventures, five affordable housing real estate joint ventures, and two private equity security interests at September 30, 2023. The table includes investments in one real estate joint venture, six affordable housing real estate joint ventures, and one private equity security interest at December 31, 2022.

	September 30, 2023		December 31, 2022	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Real estate joint ventures	$ 7,217	$ 9,030	$ 1,680	$ 1,680
Affordable housing real estate joint ventures	1,495	8,499	1,791	8,794
Private equity security interests	10,444	34,151	6,309	33,411
Total	$ 19,156	$ 51,680	$ 9,780	$ 43,885

The maximum exposure to loss relating to the real estate joint ventures, affordable housing real estate joint ventures, and private equity security interests 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, 2023 and December 31, 2022, we had no equity commitments outstanding to the real estate joint venture VIEs. At September 30, 2023 and December 31, 2022, we had no contingent commitments to fund additional equity contributions for operating support to real estate joint venture VIEs. At September 30, 2023, we had unfunded commitments of $23.7 million for additional private equity security interest contributions. At December 31, 2022, we had unfunded commitments of $27.1 million for additional private equity security interest contributions.

The maximum exposure to loss on affordable housing joint ventures included $7.0 million of losses which could be realized if the tax credits received by the VIEs were recaptured at both September 30, 2023 and December 31, 2022. 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 - (Unaudited). 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 $83.2 million at September 30, 2023. The fair value of the separate accounts with the GMWB rider was $92.8 million at December 31, 2022. The GMWB guarantee liability was $(3.4) million at September 30, 2023 and $(2.8) million at December 31, 2022. The change in this value is included in Policyholder Benefits in the Consolidated Statements of Comprehensive Income - (Unaudited). 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 - (Unaudited).

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 - (Unaudited) as Separate Account Assets, totaling $370.3 million at September 30, 2023 and $381.6 million at December 31, 2022, 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 $0.1 million at September 30, 2023 and $0.5 million at December 31, 2022.

In addition, we have an assumed closed block of variable universal life and variable annuity business that totaled $322.6 million at September 30, 2023 and $317.9 million at December 31, 2022. As required under modified coinsurance transaction accounting, the assumed separate account fund balances are not recorded as separate accounts on our consolidated financial statements. Rather, the assumed fixed-rate funds for these policies of $35.3 million at September 30, 2023 and $37.0 million at December 31, 2022 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, 2023 and December 31, 2022.

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 - (Unaudited). 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,	
	2023	2022	2023	2022
Gross liability at beginning of the period	$ 32,736	$ 32,137	$ 30,536	$ 33,632
Less reinsurance recoverable	(23,859)	(23,730)	(22,574)	(24,607)
Net liability at beginning of the period	8,877	8,407	7,962	9,025
Incurred benefits related to:				
Current year	7,421	8,029	22,590	21,121
Prior years [1]	(71)	(1,250)	99	(425)
Total incurred benefits	7,350	6,779	22,689	20,696
Paid benefits related to:				
Current year	6,975	7,576	17,824	16,943
Prior years	338	(464)	3,913	4,704
Total paid benefits	7,313	7,112	21,737	21,647
Net liability at end of the period	8,914	8,074	8,914	8,074
Reinsurance recoverable	23,856	22,732	23,856	22,732
Gross liability at end of the period	$ 32,770	$ 30,806	$ 32,770	$ 30,806

[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,	
	2023	2022	2023	2022
Gross liability at beginning of the period	$ 30,221	$ 29,202	$ 27,777	$ 30,670
Less reinsurance recoverable	(21,518)	(21,107)	(20,006)	(21,991)
Net liability at beginning of the period	8,703	8,095	7,771	8,679
Incurred benefits related to:				
Current year	7,408	8,028	22,553	21,081
Prior years [1]	(72)	(1,249)	96	(398)
Total incurred benefits	7,336	6,779	22,649	20,683
Paid benefits related to:				
Current year	6,975	7,588	17,824	16,940
Prior years	320	(493)	3,852	4,643
Total paid benefits	7,295	7,095	21,676	21,583
Net liability at end of the period	8,744	7,779	8,744	7,779
Reinsurance recoverable	21,777	20,135	21,777	20,135
Gross liability at end of the period	$ 30,521	$ 27,914	$ 30,521	$ 27,914

[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 - (Unaudited).

	September 30,	
	2023	2022
Individual Insurance Segment:		
Individual accident and health	$ 492	$ 580
Individual life	27,760	40,492
Deferred annuity	2,832	3,105
Subtotal	31,084	44,177
Group Insurance Segment:		
Group accident and health	30,521	27,914
Group life	2,789	3,624
Subtotal	33,310	31,538
Old American Segment:		
Individual accident and health	1,757	2,312
Individual life	8,805	10,437
Subtotal	10,562	12,749
Total	$ 74,956	$ 88,464

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 $0.7 million at September 30, 2023 and $0.6 million at December 31, 2022.

9. Debt

Notes Payable
We had no notes payable outstanding at September 30, 2023 or December 31, 2022.

We had unsecured revolving lines of credit with two major commercial banks that totaled $80.0 million at both September 30, 2023, and December 31, 2022, with no balances outstanding. The lines of credit are at variable interest rates based upon short-term indices and mature in June of 2024. 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 2023 and had no outstanding borrowings as of September 30, 2023. The Company had no transactions that occurred under these agreements during the year ended December 31, 2022 and had no outstanding borrowings as of December 31, 2022. 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.

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 have a specific borrowing capacity based upon the amount of collateral we establish. At September 30, 2023, collateral comprised primarily of securities and mortgages in the amount of $331.5 million, with a fair value of $291.3 million, were pledged to the FHLB, providing a borrowing capacity of $226.5 million. At December 31, 2022, collateral comprised primarily of securities and mortgages in the amount of $295.6 million, with a fair value of $264.2 million, were pledged to the FHLB, providing a borrowing capacity of $209.7 million. The interest rates are variable and set by the FHLB at the time of the advance. The Company's capital investment in the FHLB totaled $8.3 million at September 30, 2023 and $9.0 million at December 31, 2022 and is included in Other Investments in the Consolidated Balance Sheets - (Unaudited). Dividends received on this capital investment totaled $0.1 million for the third quarter of 2023 and $0.1 million for the third quarter of 2022. Dividends received on the capital investment totaled $0.3 million for the nine months ended September 30, 2023, and $0.2 million for the nine months ended September 30, 2022.

Funding Agreement
The Company has advance funding agreements with the FHLB. Under the agreements, the Company pledges collateral in the form of fixed maturity securities and commercial mortgage loans and receives cash, which is then reinvested, primarily into other fixed maturity securities that have a variable interest rate. 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. These agreements mature between 2024 and 2027 and are reported as Policyholder Account Balances in the Consolidated Balance Sheets - (Unaudited). Interest is credited based on variable rates set by the FHLB.

The following tables provide information regarding our funding agreements with the FHLB.

	September 30, 2023	December 31, 2022
Total obligations outstanding	$ 100,000	$ 100,000
Accrued interest	1,073	613

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Interest credited by the FHLB	$ 1,471	$ 641	$ 4,239	$ 949
Cash interest payments	1,172	443	3,779	609
Interest income on the variable rate fixed maturity securities	1,872	1,205	5,196	1,910

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,	
	2023	2022	2023	2022
Federal income tax rate	21 %	21 %	21 %	21 %
Tax credits, net of equity adjustment	— %	(2)%	— %	(27)%
Permanent differences and other	— %	— %	— %	(17)%
Effective income tax rate	21 %	19 %	21 %	(23)%

The following table provides information about taxes paid.

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Cash paid for income taxes	$ 3,500	$ 6	$ 11,373	$ 2,283

We had no material uncertain tax positions at September 30, 2023 or December 31, 2022.

At September 30, 2023, we had a $8.9 million current tax asset and a $59.5 million net deferred tax asset, compared to a $1.0 million current tax liability and a $47.7 million net deferred tax asset at December 31, 2022.

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,	
	2023	2022	2023	2022
Service cost	$ —	$ —	$ 17	$ 31
Interest cost	1,134	735	155	125
Expected return on plan assets	(2,235)	(2,416)	—	—
Amortization of:				
Unrecognized actuarial net loss (gain)	748	517	(406)	(226)
Unrecognized prior service credit	(16)	(17)	—	—
Net periodic benefit credit	$ (369)	$ (1,181)	$ (234)	$ (70)

	Pension Benefits		OPEB	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Service cost	$ —	$ —	$ 50	$ 93
Interest cost	3,402	2,206	466	373
Expected return on plan assets	(6,704)	(7,250)	—	—
Amortization of:				
Unrecognized actuarial net (gain) loss	2,244	1,549	(1,219)	(676)
Unrecognized prior service credit	(49)	(49)	—	—
Net periodic benefit credit	$ (1,107)	$ (3,544)	$ (703)	$ (210)

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 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 2022 Annual Report for additional information regarding this plan.

The Company did not make a cash payment under the long-term incentive plan during the first nine months of 2023 for the three-year interval ended December 31, 2022. 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.

At each reporting period, an estimate of the share-based compensation expense is accrued, utilizing the share price at the period end. There was no change in the accrual in the third quarter or first nine months of 2023. 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.

13. Reinsurance

As discussed in Note 1 - Nature of Operations and Significant Accounting Policies, the Company adopted ASU No. 2016-13 pertaining to the recognition and measurement of credit losses on reinsurance recoverables effective January 1, 2023. We determined that an allowance was not required at September 30, 2023, with the exception of reinsurance recoverables from Scottish Re US Inc. (Scottish Re).

On March 6, 2019, Scottish Re was ordered into receivership for the purposes of rehabilitation by the Court of Chancery of the State of Delaware. The proposed Plan of Rehabilitation of Scottish Re was filed on June 30, 2020. On March 16, 2021, the Receiver filed a draft Amended Plan of Rehabilitation and filed an outline of changes to the amended plan on July 27, 2021. The Receiver filed a Motion for Entry of a Liquidation and Injunction Order on July 18, 2023. Through our credit loss analysis, which included historical loss information, historical credit rating data, and existing financial information, we recorded a $1.8 million allowance for credit losses for the reinsurance recoverable upon adoption of ASU No. 2016-13 on January 1, 2023. We recorded an additional allowance of $0.4 million in both the third quarter and first nine months of 2023. We will continue to monitor the Liquidation and Injunction Order and expected recovery of the reinsurance recoverable.

Effective October 1, 2023, coinsurance on term life insurance policies held through Scottish Re was recaptured, resulting in the release of ceded reserves of $1.5 million. The mortality risk on this business was subsequently reinsured on a yearly renewable term (YRT) basis to one of our existing domestic reinsurance partners.

The following table provides a rollforward of the allowance for credit losses for reinsurance recoverables.

	Quarter Ended September 30, 2023	Nine Months Ended September 30, 2023
Beginning balance	$ 1,787	$ —
Provision for adoption of ASU No. 2016-13	—	1,772
Additions for credit losses not previously recorded	—	—
Additions (reductions) for credit losses recorded in a previous period	377	392
End of period	$ 2,164	$ 2,164

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 domestic 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. Fixed maturity securities were transferred at market value as of the closing date of the transaction, resulting in a pre-tax net realized investment loss of $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 deferred revenue 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 - (Unaudited). 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 - (Unaudited). Investment income recognized and interest credited on the block totaled $4.0 million for the quarter and $12.5 million for the nine months ended September 30, 2023. In the third quarter of 2022, the investment income recognized and interest credited on the block totaled $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. The Deposit Asset on Reinsurance balance was $434.7 million at September 30, 2023 and $484.4 million at December 31, 2022.

14. Comprehensive Loss

Comprehensive Loss is comprised of Net Income 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. Furthermore, 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, 2023		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized losses arising during the period:			
Fixed maturity securities	$ (85,109)	$ (17,874)	$ (67,235)
Reclassification adjustments:			
Net realized investment losses, excluding credit losses	—	—	—
Net unrealized losses excluding credit losses	(85,109)	(17,874)	(67,235)
Effect on DAC, VOBA, and DRL	8,176	1,717	6,459
Other comprehensive loss	$ (76,933)	$ (16,157)	$ (60,776)
Net income			4,599
Comprehensive loss			$ (56,177)

	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)
Reclassification adjustments:			
Net realized investment losses, excluding impairment losses	138	29	109
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)

	Nine Months Ended September 30, 2023		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized losses arising during the period:			
Fixed maturity securities	$ (62,862)	$ (13,203)	$ (49,659)
Reclassification adjustments:			
Net realized investment losses, excluding credit losses	746	158	588
Net unrealized losses excluding credit losses	(62,116)	(13,045)	(49,071)
Effect on DAC, VOBA, and DRL	5,926	1,244	4,682
Other comprehensive loss	$ (56,190)	$ (11,801)	$ (44,389)
Net income			5,821
Comprehensive loss			(38,568)

	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)
Reclassification adjustments:			
Net realized investment losses, excluding impairment losses	10,722	2,252	8,470
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)

The following table provides accumulated balances related to each component of Accumulated Other Comprehensive Income (Loss) at September 30, 2023, net of tax.

	Unrealized Gain (Loss) on Securities	Benefit Plan Obligations	DAC/ VOBA/DRL Impact	Total
Beginning of year	$ (213,794)	$ (46,552)	$ 18,756	$ (241,590)
Other comprehensive income (loss) before reclassification	(49,659)	—	4,682	(44,977)
Amounts reclassified from accumulated other comprehensive income (loss)	588	—	—	588
Net current-period other comprehensive income (loss)	(49,071)	—	4,682	(44,389)
End of period	$ (262,865)	$ (46,552)	$ 23,438	$ (285,979)

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

	Unrealized Gain (Loss) on Non-Impaired Securities	Unrealized Gain (Loss) 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	(373,794)	(1,089)	(7,424)	31,334	26,765	(324,208)
Amounts reclassified from accumulated other comprehensive income (loss)	8,340	27	—	—	—	8,367
Net current-period other comprehensive income (loss)	(365,454)	(1,062)	(7,424)	31,334	26,765	(315,841)
End of period	$ (213,794)	$ —	$ (46,552)	$ 18,756	$ —	$ (241,590)

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 - (Unaudited) for the quarter and nine months ended September 30, 2023.

	Quarter Ended September 30, 2023	Nine Months Ended September 30, 2023
Reclassification adjustments related to unrealized gains (losses) on investment securities:		
Net realized investment losses, excluding credit losses [1]	$ —	$ (746)
Income tax benefit [2]	—	158
Net of taxes	—	(588)
Change in allowance for credit losses for fixed maturity securities [1]	—	—
Income tax expense [2]	—	—
Net of taxes	—	—
Total pre-tax reclassifications	—	(746)
Total income tax benefit	—	158
Total reclassification, net of taxes	$ —	$ (588)

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

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

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 - (Unaudited) for the quarter and nine months ended September 30, 2022.

	Quarter Ended September 30, 2022	Nine Months Ended September 30, 2022
Reclassification adjustments related to unrealized gains (losses) on investment securities:		
Net realized investment losses, excluding impairment losses[1]	$ (138)	$ (10,722)
Income tax benefit [2]	29	2,252
Net of taxes	(109)	(8,470)
Other-than-temporary impairment losses[1]	—	(34)
Income tax benefit [2]	—	7
Net of taxes	—	(27)
Total pre-tax reclassifications	(138)	(10,756)
Total income tax benefit	29	2,259
Total reclassification, net of taxes	$ (109)	$ (8,497)

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

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

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 each of the third quarters and nine months ended September 30, 2023 and 2022 was 9,683,414. The number of shares outstanding at both September 30, 2023 and December 31, 2022 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 - (Unaudited).

	Quarter Ended September 30, 2023			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 44,417	$ 16,688	$ 21,873	$ 82,978
Interest credited to policyholder account balances	18,939	—	—	18,939
Amortization of deferred acquisition costs	4,102	—	4,667	8,769
Income tax expense	807	257	178	1,242
Net income	2,957	974	668	4,599

	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

	Nine Months Ended September 30, 2023			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 133,859	$ 50,259	$ 65,906	$ 250,024
Interest credited to policyholder account balances	54,984	—	—	54,984
Amortization of deferred acquisition costs	11,556	—	14,533	26,089
Income tax expense	1,220	253	92	1,565
Net income	4,516	957	348	5,821

	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

17. Commitments, Contingent Liabilities, Guarantees, and Indemnifications

Commitments

In the normal course of business, we have open purchase and sale commitments. At September 30, 2023, we had purchase commitments to fund mortgage loans of $7.4 million. At September 30, 2023, we had commitments to fund investments in private equity security interests of $23.7 million.

At September 30, 2023, we had a commitment to guarantee 50% of a $32.7 million construction loan for a real estate joint venture. As of September 30, 2023 the joint venture had drawn down $3.6 million, of which we have guaranteed $1.8 million.

Subsequent to September 30, 2023, we entered into commitments to fund additional mortgage loans of $2.1 million.

Contingent Liabilities

On March 1, 2019, the Delaware Department of Insurance requested Scottish Re (US) be placed in rehabilitation. Kansas City Life had ceded some of its business to Scottish Re (US), a subsidiary of Scottish Re Group. On July 18, 2023, the Court entered a Liquidation and Injunction Order (the "Order") detailing the termination of Scottish Re (US)'s existing reinsurance contracts and providing for a liquidation of its assets. We have established an allowance for credit losses related to the reinsurance receivables related to our agreements with Scottish Re (US) under ASU No. 2016-13 as adopted by the Company on January 1, 2023. We will continue to closely monitor developments related to the distribution of assets by the receiver as we evaluate the allowance for credit losses related to these reinsurance receivables in future financial periods. For additional information, please see Note 13 - Reinsurance.

We are also 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 accrue 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. If a range of loss is estimated, and some amount within that range appears to be a better estimate than any other amount within that range, then that amount is accrued. If no amount within the range can be identified as a better estimate than any other amount, we accrue the minimum amount in the range.

For such matters where a loss is believed to be reasonably possible, but not probable, or the loss cannot be reasonably estimated, no accrual has been made. It is possible that such matters could require us to pay damages or make other expenditures or establish accruals in amounts that could not be reasonably estimated as of September 30, 2023. While the potential future liabilities could be material in the particular quarterly or annual periods in which they are recorded, based on information currently known by management, we do not believe any such liabilities are likely to have a material adverse effect on our business and our consolidated financial position, results of operations and cash flows, except for the matters described below under the heading "Cost of Insurance Litigation."

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.

- Karr v. Kansas City Life is a class action filed in the 16th Circuit Court for the State of Missouri (Jackson County). In July 2021, the Court certified a class that includes current Missouri residents who purchased certain universal life policies (described below) in the State of Missouri that were active on or after January 1, 2002. In February of 2022, the Court granted partial Summary Judgment to plaintiffs on three of the five counts at issue in the class action. In December of 2022, there was a jury trial based on determining damages under the Court's summary judgment ruling. The jury rendered a verdict of $28.4 million in favor of the plaintiffs related to those three counts. The Court entered a final judgment on the verdict on August 24, 2023, and we are appealing the judgment through the Missouri Court of Appeals.

- Meek v. Kansas City Life is a class action filed in the U.S. District Court for the Western District of Missouri. In February of 2022, the Court certified a class that includes current and former policyowners who purchased certain universal life policies (described below) that were issued in the State of Kansas and whose policies were active on or after January 1, 2002. In March of 2023, the Court issued a summary judgment ruling related to claims by both plaintiffs and defendant. The Court ruled in the favor of plaintiffs on the first three counts, which relate to permitted cost of insurance factors and mortality improvement, but only as to liability. The Court ruled in favor of defendant on the fourth count, which relates to conversion. The Court entered an Order partially decertifying the Class on June 20, 2023, limiting the class to those Class members who incurred charges for "cost of insurance" or "expense charges" between June 18, 2014, and February 28, 2021. In May 2023, the case went to jury trial, and the jury rendered a verdict in favor of the plaintiff in the amount of $0.9 million. The Company has appealed the underlying rulings of the Court and the findings of the jury related to liability with the 8th Circuit Court of Appeals.

- Sheldon v. Kansas City Life is a class action filed in the 16th Circuit Court for the State of Missouri (Jackson County). In May of 2022, the Court certified a class that includes contract owners who purchased certain Century II Variable Universal Life contracts that were issued in the State of Missouri and whose policies were active on or after January 1, 2002. The Court granted partial Summary Judgment to plaintiffs on the contract counts at issue in the class action. In September 2023, the case went to trial and the jury rendered a verdict in favor of the plaintiffs in the amount of $4.1 million. The Court has not yet entered a judgment on the verdict and post-trial motions have not yet been filed or decided, meaning the judgment in this case is not yet final. To the extent we do not prevail on the post-trial motions and a final judgment is entered, we will appeal the underlying rulings of the Court and the jury verdict through the Missouri Court of Appeals.

- Fine v. Kansas City Life is a putative class action filed in the U.S. District Court for the Central District of California. The proposed class would include current and former policyholders who purchased certain universal life and certain variable universal life policies issued in the State of California. This case was filed on March 29, 2022, and is in its preliminary stages. The Court has not certified a class of policyholders or identified the policies at issue in this matter. The Fine matter includes different defenses and matters of law than the other cases.

- McMillan v. Kansas City Life is a putative class action filed in the U.S. District Court for the District of Maryland. The proposed class would include 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 its preliminary stages. The Court has not certified a class of policyholders or identified the policies at issue in this matter. The McMillan matter includes different defenses and matters of law than the other related cases.

As referenced above, the classes certified in Karr and Meek class actions include policyholders who purchased one of the following Universal Life policies issued by Kansas City Life: 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).

As of September 30, 2023, we have accrued an aggregate liability related to the Cost of Insurance litigation matters described above in the amount of $28.4 million. There can be no assurances as to the outcome of any of these matters, including those where a verdict has already been rendered and will be the subject of appeal, or that the accrued liability will be sufficient to cover our ultimate financial exposure associated with these matters. As a result, the amounts that may be required to be paid to discharge or settle one or more of these matters could have a material adverse impact on our business and our consolidated financial position, results of operations and cash flows.

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 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, 2023 through October 27, 2023, the date the consolidated financial statements were issued, and have identified the following subsequent events.

On October 23, 2023, the Kansas City Life Board of Directors declared a quarterly dividend of $0.14 per share, payable on November 8, 2023 to stockholders of record on November 2, 2023.

During the fourth quarter of 2023, the Company entered into an agreement pursuant to which it has agreed to sell a real estate investment to a third party buyer for $13.8 million. Closing of the sale transaction is subject to customary closing conditions, including the buyer's completion of due diligence of the real estate property. The Company expects to close the sale transaction during the fourth quarter of 2023, subject to the satisfaction or waiver of closing conditions, and the Company expects to record a realized gain of approximately $6.0 million in connection with the sale.

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 or nine months ended September 30, 2023.