KANSAS CITY LIFE

KANSAS CITY LIFE INSURANCE COMPANY

2016 ANNUAL REPORT

KANSAS CITY LIFE INSURANCE COMPANY
TABLE OF CONTENTS

Financial Information

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

Kansas City Life Insurance Company
Consolidated Balance Sheets

	December 31	
	2016	2015
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value (amortized cost: 2016 - $2,438,718; 2015 - $2,486,338)	$ 2,530,907	$ 2,580,845
Equity securities available for sale, at fair value (amortized cost: 2016 - $23,289; 2015 - $24,067)	23,996	25,325
Mortgage loans	630,889	589,960
Real estate	195,621	168,097
Policy loans	79,893	81,392
Short-term investments	27,526	22,474
Other investments	1,388	380
Total investments	3,490,220	3,468,473
Cash	9,630	7,851
Accrued investment income	31,586	33,023
Deferred acquisition costs	271,089	267,936
Reinsurance recoverables	187,941	198,834
Property and equipment	15,853	16,580
Other assets	69,838	56,252
Separate account assets	373,256	372,924
Total assets	$ 4,449,413	$ 4,421,873
LIABILITIES		
Future policy benefits	$ 943,643	$ 926,385
Policyholder account balances	2,051,728	2,056,126
Policy and contract claims	34,553	37,959
Other policyholder funds	178,806	174,353
Other liabilities	181,844	190,295
Separate account liabilities	373,256	372,924
Total liabilities	3,763,830	3,758,042
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	868,054	856,196
Accumulated other comprehensive loss	(5,316)	(15,210)
Treasury stock, at cost (2016 and 2015 - 8,813,266 shares)	(241,301)	(241,301)
Total stockholders’ equity	685,583	663,831
Total liabilities and stockholders’ equity	$ 4,449,413	$ 4,421,873

See accompanying Notes to Consolidated Financial Statements

Kansas City Life Insurance Company
Consolidated Statements of Comprehensive Income

	Year Ended December 31		
	2016	2015	2014
REVENUES			
Insurance revenues:			
Net premiums	$ 171,819	$ 160,175	$ 165,548
Contract charges	111,134	112,030	118,649
Total insurance revenues	282,953	272,205	284,197
Investment revenues:			
Net investment income	150,608	157,150	164,968
Net realized investment gains, excluding other-than-temporary impairment losses	5,509	6,248	4,902
Net impairment losses recognized in earnings:			
Total other-than-temporary impairment losses	(563)	(2,189)	(2,176)
Portion of impairment losses recognized in other comprehensive income (loss)	(57)	(292)	643
Net other-than-temporary impairment losses recognized in earnings	(620)	(2,481)	(1,533)
Total investment revenues	155,497	160,917	168,337
Other revenues	6,572	7,729	12,485
Total revenues	445,022	440,851	465,019
BENEFITS AND EXPENSES			
Policyholder benefits	211,866	198,721	202,946
Interest credited to policyholder account balances	72,814	74,326	76,463
Amortization of deferred acquisition costs	27,833	28,348	40,888
Operating expenses	101,465	97,260	101,738
Total benefits and expenses	413,978	398,655	422,035
Income before income tax expense	31,044	42,196	42,984
Income tax expense	8,728	12,970	12,994
NET INCOME	$ 22,316	$ 29,226	$ 29,990
COMPREHENSIVE INCOME (LOSS), NET OF TAXES			
Change in net unrealized gains on securities available for sale, net of DAC, VOBA, and DRL	$ (288)	$ (43,803)	$ 31,641
Change in future policy benefits	(1,960)	4,913	(6,928)
Change in policyholder account balances	(10)	276	(242)
Change in benefit plan obligations	12,152	364	(15,601)
Other comprehensive income (loss)	9,894	(38,250)	8,870
COMPREHENSIVE INCOME (LOSS)	$ 32,210	$ (9,024)	$ 38,860
Basic and diluted earnings per share:			
Net income	$ 2.30	$ 2.75	$ 2.74

See accompanying Notes to Consolidated Financial Statements

Kansas City Life Insurance Company
Consolidated Statements of Stockholders' Equity

	Year Ended December 31		
	2016	2015	2014
COMMON STOCK, beginning and end of year	$ 23,121	$ 23,121	$ 23,121
ADDITIONAL PAID IN CAPITAL			
Beginning of year	41,025	41,007	40,989
Excess of proceeds over cost of treasury stock sold	—	18	18
End of year	41,025	41,025	41,007
RETAINED EARNINGS			
Beginning of year	856,196	838,508	820,327
Net income	22,316	29,226	29,990
Stockholder dividends (2016, 2015, and 2014 - $1.08 per share)	(10,458)	(11,538)	(11,809)
End of year	868,054	856,196	838,508
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)			
Beginning of year	(15,210)	23,040	14,170
Other comprehensive income (loss)	9,894	(38,250)	8,870
End of year	(5,316)	(15,210)	23,040
TREASURY STOCK, at cost			
Beginning of year	(241,301)	(182,917)	(176,284)
Cost of shares acquired (2016 - 0 shares; 2015 - 1,142,351 shares; 2014 - 144,188 shares)	—	(58,392)	(6,641)
Cost of shares sold (2016 - 0 shares; 2015 - 560 shares; 2014 - 554 shares)	—	8	8
End of year	(241,301)	(241,301)	(182,917)
TOTAL STOCKHOLDERS' EQUITY	$ 685,583	$ 663,831	$ 742,759

See accompanying Notes to Consolidated Financial Statements

Kansas City Life Insurance Company
Consolidated Statements of Cash Flows

	Year Ended December 31		
	2016	2015	2014
OPERATING ACTIVITIES			
Net income	$ 22,316	$ 29,226	$ 29,990
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of investment premium and discount	4,051	4,257	4,388
Depreciation	5,478	5,368	4,698
Acquisition costs capitalized	(32,004)	(37,714)	(36,170)
Amortization of deferred acquisition costs	27,833	28,348	40,888
Net realized investment gains	(4,889)	(3,767)	(3,369)
Changes in assets and liabilities:			
Reinsurance recoverables	10,893	(4,409)	(3,370)
Future policy benefits	14,243	3,182	9,875
Policyholder account balances	(22,535)	(20,222)	(16,284)
Income taxes payable and deferred	3,825	7,216	4,237
Other, net	(8,324)	4,207	3,316
Net cash provided	20,887	15,692	38,199
INVESTING ACTIVITIES			
Purchases:			
Fixed maturity securities	(228,007)	(235,767)	(280,686)
Equity securities	(3)	(38)	(89)
Mortgage loans	(153,947)	(141,184)	(48,195)
Real estate	(34,530)	(8,253)	(41,201)
Policy loans	(10,524)	(8,638)	(8,975)
Other investments	(782)	(280)	—
Sales or maturities, calls, and principal paydowns:			
Fixed maturity securities	279,854	298,913	219,738
Equity securities	118	33	15
Mortgage loans	112,152	91,096	127,071
Real estate	2,042	20,000	2,915
Policy loans	12,026	10,799	8,941
Other investments	383	419	11,121
Net sales (purchases) of short-term investments	(5,052)	16,633	1,605
Acquisition of property and equipment	(938)	(683)	(1,669)
Net cash provided (used)	(27,208)	43,050	(9,409)

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

	Year Ended December 31		
	2016	2015	2014
FINANCING ACTIVITIES			
Deposits on policyholder account balances	$ 215,688	$ 217,929	$ 238,751
Withdrawals from policyholder account balances	(205,372)	(222,907)	(257,745)
Net transfers from separate accounts	7,670	9,026	8,534
Change in other deposits	572	3,954	2,908
Cash dividends to stockholders	(10,458)	(11,538)	(11,809)
Net change in treasury stock	—	(58,366)	(6,615)
Net cash provided (used)	8,100	(61,902)	(25,976)
Increase (decrease) in cash	1,779	(3,160)	2,814
Cash at beginning of year	7,851	11,011	8,197
Cash at end of year	$ 9,630	$ 7,851	$ 11,011

See accompanying Notes to Consolidated Financial Statements

1. Nature of Operations and Significant Accounting Policies

Business
Kansas City Life Insurance Company is a Missouri domiciled stock life insurance company which, with its subsidiaries, is licensed to sell insurance products in 49 states and the District of Columbia. The consolidated entity (the Company) offers a diversified portfolio of individual insurance, annuity, and group life and health products through its three life insurance companies. Kansas City Life Insurance Company (Kansas City Life) is the parent company. Sunset Life Insurance Company of America (Sunset Life) and Old American Insurance Company (Old American) are wholly-owned subsidiaries. The Company also has non-insurance subsidiaries that individually and collectively are not material. The terms "the Company," "we," "us," and "our" are used in these consolidated financial statements to refer to Kansas City Life Insurance Company and its subsidiaries.

We have three reportable business segments, which are defined based on the nature of the products and services offered: Individual Insurance, Group Insurance, and Old American. For additional information on our segments, please see Note 19. Segment Information.

Basis of Presentation
The consolidated financial statements and the accompanying notes to the consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and include the accounts of Kansas City Life and its subsidiaries, principally Sunset Life and Old American. Significant intercompany transactions have been eliminated in consolidation and certain immaterial reclassifications have been made to the prior period results to conform with the current period's presentation.

Our financial statements include the following:

- Consolidated Balance Sheets
- Consolidated Statements of Comprehensive Income
- Consolidated Statements of Stockholders' Equity
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements

Business Changes
In December 2015, the Company completed a reverse/forward stock-split transaction. This transaction occurred as part of a 1-for-250 reverse stock split of our common stock. We purchased approximately 906,500 shares or 9% of the outstanding shares valued at $52.50 per share for $47.6 million. We subsequently completed a 250-for-1 forward stock split for each one share of our common stock (including each fractional share of such class of stock in excess of one share). The purpose of the transaction was to allow us to deregister from the Securities and Exchange Commission (SEC) and to delist our common stock from the NASDAQ Capital Market. These activities were effective as of December 16, 2015. Effective January 4, 2016, we began trading on the OTCQX® Market. Please refer to *www.kclife.com* for more information on the specific transactions identified above.

Use of Estimates
The preparation of the consolidated financial statements requires management of the Company to make estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period. These estimates are inherently subject to change and actual results could differ from these estimates. Significant estimates required in the preparation of the consolidated financial statements include the fair value of invested assets, deferred acquisition costs (DAC), deferred income taxes, value of business acquired (VOBA), deferred revenue liability (DRL), policyholder account balances, future policy benefits, policy and contract claim liabilities, and pension and other postemployment benefits.

Significant Accounting Policies

Investments
Valuation of Investments and Other-than-Temporary Impairments
Our principal investments are in fixed maturity securities, mortgage loans, and real estate; all of which are exposed to at least three primary sources of investment risk, including: credit, interest rate, and liquidity. Fixed maturity and equity securities, which are all classified as available for sale, are carried at fair value in the Consolidated Balance Sheets, with unrealized gains or losses recorded in accumulated other comprehensive income (loss). The unrealized gains or losses are recorded net of the adjustment to policyholder account balances, future policy benefits, DAC, VOBA, and DRL to reflect what would have been earned had those gains or losses been realized and the proceeds reinvested. The adjustments to DAC, VOBA, and DRL represent changes in the

amortization that would have been required as a charge or credit to income had such unrealized amounts been realized. The adjustments to policyholder account balances and future policy benefits represent the increase from using a discount rate that would have been required if such unrealized gains or losses had been realized and the proceeds reinvested at current market interest rates, which were other than the then-current effective portfolio rate. The amortized cost of a security is adjusted for declines in value that are other than temporary. Other than temporary impairment losses are reported as a component of investment revenues in the Consolidated Statements of Comprehensive Income, which also presents the amount of non-credit impairment losses for certain fixed maturity securities that are reported in accumulated other comprehensive income (loss). See Note 3 - Investments for additional discussion of our considerations related to other than temporary impairments. For additional information regarding fair value, please see Note 4 - Fair Value Measurements.

Mortgage loans are stated at cost, adjusted for amortization of premium and accrual of discount, less an allowance for loan losses. A loan is considered impaired if it is probable that all contractual amounts due will not be collected. The allowance for loan losses is maintained at a level believed by management to be adequate to absorb potential future incurred credit losses. Management's 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, along with specific risks related to specific loans. Loans in foreclosure, loans considered to be impaired, and loans past due 90 days or more are placed on non-accrual status.

Real estate consists of directly owned investments and real estate joint ventures. Real estate that is directly owned is carried at depreciated cost. Real estate joint ventures consist primarily of office buildings, industrial warehouses, unimproved land for future development, and low income housing tax credit (LIHTC) investments. Real estate joint ventures are consolidated when required. The initial cost of the non-consolidated LIHTC investments is amortized in proportion to the tax credits and other tax benefits received and the net investment performance is recognized in the Consolidated Statements of Comprehensive Income as a component of income tax expense. The investments in other non-consolidated real estate joint ventures are recorded using the equity method of accounting, in which the initial cost of the investment is adjusted for earnings and cash contributions or distributions.

Policy loans are carried at the outstanding principal amount. Short-term investments are stated at cost and are adjusted for amortization of premium and accrual of discount, as necessary.

Investment Income
Investment income is recognized when earned. Premiums and discounts on fixed maturity securities are amortized over the life of the related security as an adjustment to yield using the effective interest method. Realized gains and losses on the sale of investments are determined on the basis of specific security identification recorded on the trade date.

Future Policy Benefits
We establish liabilities for amounts payable under insurance policies, including traditional life insurance, immediate annuities with life contingencies, supplementary contracts with life contingencies, group life insurance, and accident and health insurance. These liabilities originate from new premiums and conversions from other products and are generally payable over an extended period of time.

Liabilities for future policy benefits of traditional life insurance have been computed by a net level premium method based upon estimates at the time of issue for investment yields, mortality, and withdrawals. These estimates include provisions for experience less favorable than initially expected. Mortality assumptions are based on Company experience expressed as a percentage of standard mortality tables. The 2008 Valuation Basic Table, the 2001 Valuation Basic Table, and the 1975-1980 Select and Ultimate Basic Table serve as the bases for most mortality assumptions.

Liabilities for future policy benefits of immediate annuities and supplementary contracts with life contingencies are computed by calculating an actuarial present value of future policy benefits, based upon estimates for investment yields and mortality at the time of issue. The 2012 Individual Annuity Reserving Table, the Annuity 2000 Table, the 1983 Individual Annuity Mortality Table, and the 1971 Individual Annuity Mortality Table serve as the bases for most immediate annuity and supplementary contract mortality assumptions.

Liabilities for future policy benefits of accident and health insurance represent estimates of payments to be made on reported insurance claims, as well as claims incurred but not yet reported. These liabilities are estimated using actuarial analyses and case basis evaluations that are based upon past claims experience, claim trends, and industry experience.

The following table provides detail about the composition of future policy benefits at December 31.

	2016	2015
Life insurance	$ 638,231	$ 628,274
Immediate annuities and supplementary contracts with life contingencies	273,285	263,437
Accident and health insurance	32,127	34,674
Future policy benefits	$ 943,643	$ 926,385

Policyholder Account Balances

Policyholder account balances include universal life insurance, fixed deferred annuity contracts, and investment-type contracts. Liabilities for policyholder account balances are included without reduction for potential surrender charges. These liabilities originate from new deposits and conversions from other products. Policyholder account balances are equal to cumulative deposits, less contract charges and withdrawals, plus interest credited. Deferred front-end contract charges reduce policyholder account balance liabilities and increase the other policyholder funds liability, and are amortized over the term of the policies in a manner similar to DAC, as discussed below. Interest on policyholder account balances is credited as earned.

On an ongoing basis, we perform testing and analysis on our blocks of business to ensure the assumptions made remain viable. We also periodically perform sensitivity testing on these blocks of business to ensure we maintain the capacity to meet an increase in policyholder benefits, namely increased surrenders, policy loans, or other policyholder elective withdrawals.

Crediting rates for universal life insurance and fixed deferred annuity products ranged from 1.00% to 5.50% in 2016, 2015, and 2014.

The following table provides detail about the composition of policyholder account balances at December 31.

	2016	2015
Universal life insurance	$ 921,669	$ 928,398
Fixed deferred annuities	1,075,576	1,073,592
Immediate annuities and supplementary contracts without life contingencies	54,483	54,136
Policyholder account balances	$ 2,051,728	$ 2,056,126

Deferred Acquisition Costs (DAC)

DAC, principally agent commissions and other selling, selection, and issue costs, which are related directly to the successful acquisition of new or renewal insurance contracts, are capitalized as incurred. At least annually, we review our DAC capitalization policy and the specific items which are capitalized with existing guidance. These costs for life insurance products are generally deferred and amortized over the premium paying period. Assumptions related to DAC on traditional life insurance products are typically determined at inception and remain unchanged with any future premium deficiency recorded first as a reduction of DAC.

Policy acquisition costs that relate to interest sensitive and variable insurance products are deferred and amortized in relation to the estimated gross profits to be realized over the lives of the contracts. Estimated gross profits for interest sensitive and variable insurance products are projected using assumptions as to net interest income, net realized investment gains and losses, fees, surrender charges, expenses, and mortality gains and losses, net of reinsurance. At the issuance of policies, projections of estimated gross profits are made. These projections are then replaced by actual gross profits over the lives of the policies. In addition to other factors, emerging experience may lead to a revised outlook for the remaining estimated gross profits. Accordingly, DAC may be recalculated (unlocked) using these new assumptions and any resulting adjustment is included in income in the period such an unlocking is deemed appropriate. See the Unlocking and Refinements in Estimates section below for additional information.

The DAC asset is adjusted to reflect the impact of realized and unrealized gains and losses on fixed maturity securities available for sale, as described in the Investments section, above.

DAC is reviewed on an ongoing basis to evaluate whether the unamortized portion exceeds the expected recoverable amounts. If it is determined from emerging experience that the premium margins or expected gross profits are insufficient to amortize DAC, the asset will be adjusted downward with the adjustment recorded as an expense in the current period.

The following table provides information about DAC at December 31.

	2016	2015	2014
Balance at beginning of year	$ 267,936	$ 249,195	$ 256,386
Capitalization of commissions and expenses	32,004	37,714	36,170
Gross amortization	(41,375)	(41,832)	(54,531)
Accrual of interest	13,542	13,484	13,643
Amortization due to realized investment (gains) losses	(201)	(18)	(49)
Change in DAC due to the change in unrealized investment gains	(817)	9,393	(2,424)
Balance at end of year	$ 271,089	$ 267,936	$ 249,195

Value of Business Acquired (VOBA)

Prior to the adoption of ASC No. 805, Business Combinations, a portion of the purchase price was allocated to a separately identifiable intangible asset, VOBA, when a new block of business was acquired or when an insurance company was purchased. VOBA is established as the actuarially determined present value of future gross profits of the business acquired and is amortized with interest in proportion to future premium revenues or the expected future profits, depending on the type of business acquired. VOBA is reported as a component of other assets with related amortization included in operating expenses. Amortization of VOBA occurs with interest over the anticipated lives of the underlying business to which it relates, initially 15 to 30 years. The assumptions regarding future experience on interest sensitive business can affect the carrying value of VOBA, similar to DAC. These assumptions include interest spreads, mortality, expense margins, and policy and premium persistency experience.

The VOBA asset is adjusted to reflect the impact of realized and unrealized gains and losses on fixed maturity securities available for sale, as described in the Investments section, above.

VOBA is reviewed on an ongoing basis to evaluate whether the unamortized portion exceeds the expected recoverable amounts. If it is determined from emerging experience that the premium margins or expected gross profits are insufficient to amortize VOBA, the asset will be adjusted downward with the adjustment recorded as an expense in the current period.

The concept of VOBA is no longer applied to business combinations. Rather, under current guidance for business combinations, all assets and liabilities are reported at fair value at acquisition and an intangible asset or liability may result due to differences between fair value and consideration paid.

The following table provides information about VOBA at December 31.

	2016	2015	2014
Balance at beginning of year	$ 24,283	$ 24,655	$ 28,542
Gross amortization	(4,215)	(5,679)	(4,643)
Accrual of interest	1,591	1,795	1,938
Amortization due to realized investment (gains) losses	(14)	(5)	(100)
Change in VOBA due to the change in unrealized investment gains	1,445	3,517	(1,082)
Balance at end of year	$ 23,090	$ 24,283	$ 24,655

Interest accrued on the VOBA of one block was at the rates of 4.21% on the interest sensitive life block and 5.25% on the traditional life block, based upon the credited rates of the VOBA policies. The VOBA on a separate acquired block of business used a 7.00% interest rate on the traditional life portion and a 5.40% interest rate on the interest sensitive portion, based upon rates appropriate at the time of acquisition.

Deferred Revenue Liabilities (DRL)

Deferred revenue liabilities represent the capitalization of revenues received from contracts as compensation for services to be provided by the Company in future periods. Such loads and charges are reported as unearned revenue in the period received and are subsequently recognized as income over the policy benefit period, using the same assumptions and factors used to amortize DAC. Similar to DAC, these amounts are amortized in relation to estimated gross profits for interest sensitive and variable insurance products. However, unlike DAC, the amortization of the DRL results in the recognition of revenue rather than expense. The DRL could be impacted by unlocking and refinements in estimates, as discussed below.

Unlocking and Refinements in Estimates

At least annually, we review the models and the assumptions used to develop expected gross profits for interest sensitive and variable insurance products based upon management's current view of future events. Key assumptions analyzed include net interest income, net realized investments gains and losses, fees, surrender charges, expenses, and mortality gains and losses, net of reinsurance. Management's view primarily reflects Company experience but can also reflect emerging trends within the industry. Short-term deviations in experience affect the amortization of DAC, VOBA, and DRL in the period, but do not necessarily indicate that a change to the long-term assumptions of future experience is warranted. If it is determined that it is appropriate to change the assumptions related to future experience, then an unlocking adjustment is recognized retrospectively for the block of business being evaluated. Certain assumptions, such as interest spreads and surrender rates, may be interrelated. As such, unlocking adjustments often reflect revisions to multiple assumptions. The DAC, VOBA, or DRL balance is immediately impacted by any assumption changes, with the change reflected through the income statement as an unlocking adjustment. These adjustments can be positive or negative, and adjustments increasing the DAC asset are limited to amounts previously deferred plus interest accrued through the date of the adjustment. In addition, unlocking adjustments may also impact other line items in the financial statements such as change in reserves.

We may also consider refinements in estimates due to improved capabilities resulting from administrative or actuarial system enhancements. We consider such enhancements to determine whether and to what extent they are associated with prior periods or simply improvements in the projection of future expected gross profits due to improved functionality. To the extent they represent such improvements, these items are applied to DAC, VOBA, and DRL in a manner similar to unlocking adjustments.

The following table summarizes the effects of the refinements in estimates on all products and unlocking of assumptions on interest sensitive products in the Consolidated Statements of Comprehensive Income for the years ended December 31. In addition, we had a $3.7 million reserve increase in 2016, a $0.3 million reserve decrease in 2015, and a $0.5 million decrease in 2014 related to the impacts of unlocking.

	DAC	VOBA	DRL	Total
2016:				
Unlocking	$ 5,918	$ 536	$ (1,153)	$ 5,301
Refinement in estimate	(82)	—	178	96
	$ 5,836	$ 536	$ (975)	$ 5,397
2015:				
Unlocking	$ 6,380	$ (862)	$ (2,344)	$ 3,174
Refinement in estimate	—	—	—	—
	$ 6,380	$ (862)	$ (2,344)	$ 3,174
2014:				
Unlocking	$ (1,723)	$ 1,486	$ 1,764	$ 1,527
Refinement in estimate	(1,566)	—	—	(1,566)
	$ (3,289)	$ 1,486	$ 1,764	$ (39)

Pensions and Other Postemployment Benefits (OPEB)

The measurement of pension and other postemployment benefit obligations and costs depends on a variety of assumptions. Changes in the valuation of pension obligations and assets supporting this obligation can significantly impact the funded status. Assumptions are made regarding the discount rate, expected long-term rate of return on plan assets, health care claim costs, health care cost trends, retirement rates, and mortality. Generally, the discount rate, expected return on plan assets, and mortality tables have the most significant impact on the cost. See Note 14 - Pensions and Other Postemployment Benefits for further details.

Separate Accounts and Guaranteed Minimum Withdrawal Benefits (GMWB)

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 net asset value (NAV) of the underlying investment holdings as derived from closing prices on a national exchange or as provided by the issuer. Policyholder account deposits and withdrawals, investment income, and realized investment gains and losses are excluded from the amounts reported in the Consolidated Statements of Comprehensive Income. Revenues to the Company from separate accounts are derived from directly-issued policies and contracts, as well as reinsurance assumed business. These revenues consist principally of contract charges, which include maintenance charges, administrative fees, and mortality and expense charges.

We have a GMWB rider for certain direct variable annuity contracts that is considered to be a financial derivative and, as such, is accounted for at fair value. We determine the fair value of the GMWB rider using a risk-neutral valuation method. The value of the riders will fluctuate depending on market conditions, but is principally impacted by stock market volatility, interest rates, and equity market returns. The change in value can have a material impact on earnings. See further discussion in Note 4.

Reinsurance

Consistent with the general practice of the life insurance industry, we enter into traditional agreements of indemnity reinsurance with other insurance companies to support sales of new products and the in force business. The reinsurance arrangements have taken various forms over the years. We cede reinsurance in force on all of the following bases: automatic and facultative; yearly renewable term (YRT) and coinsurance; and excess and quota share basis. For additional information pertaining to our significant reinsurers, along with additional information pertaining to reinsurance, please see Note 16 - Reinsurance.

Future policy benefits and other related assets are not reduced for reinsurance in the Consolidated Balance Sheets. A reinsurance recoverable is established for these items. Reinsurance recoverables include amounts related to paid benefits and estimated amounts related to unpaid policy and contract claims, future policy benefits, and policyholder account balances. All insurance related revenues, benefits, and expenses are reported net of reinsurance ceded in the Consolidated Statements of Comprehensive Income.

In addition, we have two reinsurance assumed arrangements. We acquired a block of traditional life and universal life products in 1997 through a 100% coinsurance and servicing arrangement. These assumed policies and contracts are accounted for in a manner similar to that followed for direct business. We acquired a block of variable universal life insurance policies and variable annuity contracts in 2013. We receive fees based upon both specific transactions and the fund value of the block of policies, as provided under modified coinsurance transactions. Also, as required under modified coinsurance transaction accounting, the separate account fund balances are not recorded as separate accounts on our financial statements. The coinsurance portion of the transaction, which is invested in our fixed funds, is included in future policy benefits. We record these fixed fund accounts as a separate block under our general accounts. We receive fees on both the separate accounts and the fixed fund accounts.

Recognition of Insurance Revenues

Premiums

Premiums for traditional life insurance products are reported as revenue when due. Premiums for immediate annuities with life contingencies are reported as revenue when received. Premiums on accident and health, disability, and dental insurance are reported as earned ratably over the contract period in proportion to the amount of insurance protection provided.

Contract Charges

Contract charges consist of cost of insurance, expense loads, the amortization of unearned revenues, and surrender charges on policyholder account balances. Cost of insurance relates to charges for mortality. These charges are applied to the excess of the mortality benefit over the account value for universal life policies. Expense loads are amounts that are assessed against the policyholder balance as consideration for origination and maintenance of the contract. Surrender charges are fees on policyholder account balances upon cancellation or withdrawal of policyholder account balances consistent with policy terms.

An additional component of contract charges is the recognition over time of the DRL for certain fixed and variable universal life policies. This liability arises from front-end loads on such policies and is recognized into the Consolidated Statements of Comprehensive Income in a manner similar to the amortization of DAC. If it is determined that it is appropriate to change the assumptions of future experience, then an unlocking adjustment is recognized for the block of business being evaluated. Certain assumptions, such as interest spreads and surrender rates, may be interrelated, and unlocking adjustments often reflect revisions to multiple assumptions. In addition, we may also consider refinements in estimates for other unusual or one-time occurrences, such as administrative or actuarial system upgrades. These items are applied to the appropriate financial statement line items, similar to unlocking adjustments.

The following table provides information about our insurance revenues, net of reinsurance, for the years ended December 31.

	2016	2015	2014
Customer revenues by line of business:			
Traditional individual insurance products, net	$ 114,852	$ 104,599	$ 107,696
Interest sensitive products	84,100	83,013	88,181
Variable universal life insurance and annuities	27,034	29,017	30,468
Group life and accident and health products, net	56,967	55,576	57,852
Insurance revenues	$ 282,953	$ 272,205	$ 284,197

Deposits

Deposits related to universal life, fixed deferred annuity contracts, and investment-type products are credited to policyholder account balances. Deposits are not recorded as revenue and are shown as a Financing Activity in the Consolidated Statements of Cash Flows. Revenues from such contracts consist of amounts assessed against policyholder account balances for mortality, policy administration, and surrender charges, and are recognized in the period in which the benefits and services are provided as contract charges in the Consolidated Statements of Comprehensive Income.

Realized Gains (Losses)

We realize investment gains and losses from several sources, including write-downs of investment securities and mortgage loans, the change in the allowance for mortgage loan losses, and sales of investment securities and real estate.

Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return that includes both life insurance companies and non-life insurance companies.

Deferred income taxes are recorded based on the differences between the tax bases of assets and liabilities and the amounts at which they are reported in the consolidated financial statements. Recorded amounts are adjusted to reflect changes in income tax rates and other tax law provisions as they become enacted.

Deferred income tax assets are subject to ongoing evaluation of whether such assets will be realized. The ultimate realization of deferred income tax assets generally depends on the reversal of deferred tax liabilities and the generation of future taxable income and realized gains during the periods in which temporary differences become deductible. Deferred income taxes include future deductible differences relating to unrealized losses on investment securities. We evaluate the character and timing of unrealized gains and losses to determine whether future taxable amounts are sufficient to offset future deductible amounts. A valuation allowance against deferred income tax assets may be required if future taxable income of an appropriate amount and character is not expected.

2. New Accounting Pronouncements

Accounting Pronouncements Adopted

We adopted the following accounting pronouncements during 2016, with no material impact to our consolidated financial statements.

In August 2014, the Financial Accounting Standards Board (FASB) issued guidance that requires management to evaluate whether there are concerns or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued. Disclosures are required when certain criteria are met. This guidance is effective for annual periods ending after December 15, 2016. We early-adopted this guidance during the second quarter of 2016.

In January 2015, the FASB issued guidance that eliminated the concept of extraordinary items. While the requirement for entities to consider whether an underlying event or transaction is extraordinary was eliminated, the presentation and disclosure guidance for items that are unusual in nature or occur infrequently was retained and was expanded to include items that are both unusual in nature and occur infrequently. This guidance was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015.

In February 2015, the FASB issued guidance regarding the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. Under this guidance, previous consolidation conclusions may change and additional disclosures may be required. This guidance was effective for public entities for fiscal years and interim periods within those fiscal years beginning after December 15, 2015.

In April 2015, the FASB issued guidance regarding a customer's accounting for fees paid in a cloud computing arrangement and whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, a customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, a customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer's accounting for service contracts. This guidance was effective for interim and annual reporting periods beginning after December 15, 2015.

In May 2015, the FASB issued guidance targeted to improve disclosures related to short-duration contracts. Additional disclosures are required about insurance liabilities to provide information regarding the nature, amount, timing, and uncertainty of future cash flows related to insurance liabilities and the effect of those cash flows on the statement of comprehensive income. This guidance was effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016.

In July 2015, the FASB issued guidance regarding employee benefit accounting. The guidance is divided into three parts. First, the guidance requires a pension plan to use contract value as the only required measure for fully benefit-responsive investment contracts. Second, the guidance simplifies and increases the effectiveness of the investment disclosure requirements for employee benefit plans. Third, the guidance provides benefit plans with a measurement date practical expedient. This guidance was effective for fiscal years beginning after December 15, 2015.

Accounting Pronouncements Issued, Not Yet Adopted

In May 2014, the FASB issued guidance regarding accounting for revenue recognition that identifies the accounting treatment for an entity’s contracts with customers. Certain contracts, including insurance contracts, are specifically excluded from this guidance. However, certain other types of contracts may impact the financial statements of insurance providers. In August 2015, the FASB deferred the effective date of this guidance for public entities to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. In March 2016, this guidance was updated for principal versus agent considerations. This guidance was also updated in April 2016 to address performance obligations and licensing issues. In addition, this guidance was updated in May 2016 for narrow-scope improvements and practical expedients. The FASB also issued technical corrections and improvements to this guidance in December 2016. We are currently evaluating this guidance. As an insurance enterprise, we have determined that our primary sources of revenue are excluded from this guidance, including insurance premiums, contract charges, and most investment revenues. While we do have certain types of revenue that will be impacted, our adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

In January 2016, the FASB issued guidance regarding accounting for recognition and measurement of financial assets and financial liabilities. The new standard significantly revises an entity’s accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with early adoption allowed. We are currently evaluating this guidance.

In February 2016, the FASB issued guidance regarding leases. This guidance includes a lessee model that will cause most leases to be reported on the balance sheet. In addition, the guidance aligns existing GAAP pertaining to leases with the new revenue recognition model that will be effective for periods beginning after December 15, 2017. This guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. We are currently evaluating this guidance.

In June 2016, the FASB issued guidance regarding the measurement of credit losses on financial instruments. Under this guidance, the incurred loss impairment methodology currently used under current GAAP for loans and other financial instruments will be replaced by a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Additional disclosures will be required to provide additional 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. This guidance is effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. We are currently evaluating this guidance.

In August 2016, the FASB issued guidance regarding the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. We are currently evaluating this guidance.

In November 2016, the FASB issued guidance regarding restricted cash. This guidance requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. 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 and Equity Securities Available for Sale

Securities by Asset Class
The following table provides amortized cost and fair value of securities by asset class at December 31, 2016.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 148,468	$ 5,246	$ 849	$ 152,865
Federal agencies [1]	19,796	515	—	20,311
Federal agency issued residential mortgage-backed securities [1]	25,868	2,973	1	28,840
Subtotal	194,132	8,734	850	202,016
Corporate obligations:				
Industrial	506,218	20,445	2,176	524,487
Energy	201,416	7,880	2,778	206,518
Communications and technology	234,280	12,630	1,193	245,717
Financial	200,124	9,928	919	209,133
Consumer	564,868	16,431	2,989	578,310
Public utilities	239,719	13,132	2,562	250,289
Subtotal	1,946,625	80,446	12,617	2,014,454
Corporate private-labeled residential mortgage-backed securities	41,969	2,563	—	44,532
Municipal securities	147,384	17,546	696	164,234
Other	94,062	1,122	2,989	92,195
Redeemable preferred stocks	14,546	125	1,195	13,476
Fixed maturity securities	2,438,718	110,536	18,347	2,530,907
Equity securities	23,289	1,386	679	23,996
Total	$ 2,462,007	$ 111,922	$ 19,026	$ 2,554,903

[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 securities by asset class at December 31, 2015.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 148,930	$ 7,397	$ 202	$ 156,125
Federal agencies [1]	19,782	1,415	—	21,197
Federal agency issued residential mortgage-backed securities [1]	34,015	3,545	1	37,559
Subtotal	202,727	12,357	203	214,881
Corporate obligations:				
Industrial	532,880	22,283	10,654	544,509
Energy	231,639	6,768	11,388	227,019
Communications and technology	233,063	11,538	2,368	242,233
Financial	210,142	12,764	1,409	221,497
Consumer	534,073	18,133	2,905	549,301
Public utilities	223,172	17,368	241	240,299
Subtotal	1,964,969	88,854	28,965	2,024,858
Corporate private-labeled residential mortgage-backed securities	70,761	3,436	20	74,177
Municipal securities	134,079	18,844	74	152,849
Other	96,365	2,926	2,859	96,432
Redeemable preferred stocks	17,437	310	99	17,648
Fixed maturity securities	2,486,338	126,727	32,220	2,580,845
Equity securities	24,067	1,832	574	25,325
Total	$ 2,510,405	$ 128,559	$ 32,794	$ 2,606,170

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

Contractual Maturities

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

	December 31, 2016		December 31, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 177,007	$ 180,934	$ 115,294	$ 117,145
Due after one year through five years	751,986	788,759	735,559	779,402
Due after five years through ten years	1,020,233	1,043,340	1,117,415	1,126,585
Due after ten years	372,488	394,254	349,789	378,861
Securities with variable principal payments	102,458	110,144	150,844	161,204
Redeemable preferred stocks	14,546	13,476	17,437	17,648
Total	$ 2,438,718	$ 2,530,907	$ 2,486,338	$ 2,580,845

No material derivative financial instruments were held during December 31, 2016, 2015, or 2014.

Unrealized Losses on Investments

At the end of each quarter, all securities are reviewed to determine whether impairments exist and whether other-than-temporary impairments should be recorded. This quarterly process includes an assessment of the credit quality of each investment in the entire securities portfolio. Additional reporting and review procedures are conducted for those securities where fair value is less than 90% of amortized cost. A formal review document is prepared no less often than quarterly of all investments where fair value is less than 80% of amortized cost for six months or more and selected investments that have changed significantly from a previous period and that have a decline in fair value greater than 10% of amortized cost.

We consider relevant facts and circumstances in evaluating whether the impairment of a security is other-than-temporary. 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 and the length of time 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 timely recovery;
- The intent and ability to hold a security until it recovers in value;
- Whether we intend to sell a debt security and whether it is more likely than not that we will be required to sell a debt security before recovery of the amortized cost basis; and
- Other business factors related to the issuer's industry.

To the extent we determine that a fixed maturity security is deemed to be other-than-temporarily impaired, the portion of the impairment that is deemed to be due to credit is charged to earnings in the Consolidated Statements of Comprehensive Income and the cost basis of the underlying investment is reduced. The portion of such impairment that is determined to be non-credit-related is reflected in other comprehensive income (loss) and accumulated other comprehensive income (loss).

There are a number of significant risks and uncertainties inherent in the process of monitoring impairments, determining if an impairment is other-than-temporary, and determining the portion of an other-than-temporary impairment that is due to credit. These risks and uncertainties include but are not limited to:

- The risk that our assessment of an issuer's ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer;
- The risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated;
- The risk that the performance of the underlying collateral for securities could deteriorate in the future and credit enhancement levels and recovery values do not provide sufficient protection to contractual principal and interest;
- The risk that fraudulent, inaccurate, or misleading information could be provided to our credit, investment, and accounting professionals who determine the fair value estimates and accounting treatment for securities;
- The risk that actions of trustees, custodians, or other parties with interests in the security may have an unforeseen adverse impact on our investments;
- The risk that new information obtained or changes in other facts and circumstances may lead us to change our intent to sell the security before it recovers in value;
- The risk that facts and circumstances change such that it becomes more likely than not that we will be required to sell the investment before recovery of the amortized cost basis; and
- The risk that the methodology or assumptions used to develop estimates of the portion of impairments due to credit prove, over time, to be inaccurate or insufficient.

Any of these situations could result in a charge to income in a future period.

Once a security is determined to have met certain of the criteria for consideration as being other-than-temporarily impaired, 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 hold 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 and an other-than-temporary impairment is recorded. 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.

A discounted future cash flow calculation becomes the primary determinant of whether any portion and to what extent an unrealized loss is due to credit on loan-backed and similar asset-backed securities. Such indications typically include below investment grade ratings and significant unrealized losses for an extended period of time, among other factors. We identified 16 non-U.S. agency mortgage-backed securities that were determined to have such indications at December 31, 2016. We identified 21 non-U.S. agency mortgage-backed securities that were determined to have such indications at December 31, 2015. A discounted future cash flow analysis was performed for each of these securities to determine if any portion of the impairment was due to credit and deemed to be other-than-temporary. This amount is recognized as a realized loss in the Consolidated Statements of Comprehensive Income and the carrying value of the security is written down by the same amount. The portion of an impairment that is determined not to be due to credit is recorded as a component of accumulated other comprehensive income (loss) in the Consolidated Balance Sheets. The discount rate used in calculating the present value of future cash flows was the investment yield at the time of purchase for each security. The initial default rates were assumed to remain constant or grade down over time, reflecting our estimate of stabilized collateral performance in the future for such securities.

Significant unrealized losses on securities can continue for extended periods of time, particularly for certain individual securities. While this can be an indication of potential credit impairments, it can also be an indication of illiquidity in a particular sector or security. In addition, the fair value of an individual security can be heavily influenced by the complexities of varying market sentiment or uncertainty regarding the prospects for an individual security. Based upon the process described above, we are best able to determine if and to what extent credit impairment may exist in these securities by performing present value calculations of projected future cash flows at the conclusion of each reporting period. By reviewing the most recent data available regarding the security and other relevant industry and market factors, we can modify assumptions used in the cash flow projections and determine the best estimate of the portion of any impairment that is due to credit at the conclusion of each period.

The following table provides information regarding fixed maturity and equity security investments available for sale with unrealized losses by length of time at December 31, 2016.

	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	$ 37,557	$ 849	$ 4	$ —	$ 37,561	$ 849
Federal agency issued residential mortgage-backed securities [1]	180	—	41	1	221	1
Subtotal	37,737	849	45	1	37,782	850
Corporate obligations:						
Industrial	91,106	2,054	2,976	122	94,082	2,176
Energy	31,575	600	37,984	2,178	69,559	2,778
Communications and technology	35,985	745	6,953	448	42,938	1,193
Financial	21,914	199	5,165	720	27,079	919
Consumer	121,552	2,989	—	—	121,552	2,989
Public utilities	46,917	2,479	1,038	83	47,955	2,562
Subtotal	349,049	9,066	54,116	3,551	403,165	12,617
Municipal securities	16,948	696	—	—	16,948	696
Other	4,943	64	44,190	2,925	49,133	2,989
Redeemable preferred stocks	9,851	1,195	—	—	9,851	1,195
Fixed maturity securities	418,528	11,870	98,351	6,477	516,879	18,347
Equity securities	11,430	679	—	—	11,430	679
Total	$ 429,958	$ 12,549	$ 98,351	$ 6,477	$ 528,309	$ 19,026

[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 and equity security investments available for sale with unrealized losses by length of time at December 31, 2015.

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government	$ 19,447	$ 202	$ —	$ —	$ 19,447	$ 202
Federal agency issued residential mortgage-backed securities [1]	47	—	291	1	338	1
Subtotal	19,494	202	291	1	19,785	203
Corporate obligations:						
Industrial	153,258	10,151	2,492	503	155,750	10,654
Energy	76,838	5,638	34,313	5,750	111,151	11,388
Communications and technology	53,751	2,368	—	—	53,751	2,368
Financial	18,040	927	1,421	482	19,461	1,409
Consumer	121,261	2,573	7,192	332	128,453	2,905
Public utilities	15,983	241	—	—	15,983	241
Subtotal	439,131	21,898	45,418	7,067	484,549	28,965
Corporate private-labeled residential mortgage-backed securities	3,734	20	—	—	3,734	20
Municipal securities	3,118	74	—	—	3,118	74
Other	15,742	386	33,366	2,473	49,108	2,859
Redeemable preferred stocks	—	—	6,925	99	6,925	99
Fixed maturity securities	481,219	22,580	86,000	9,640	567,219	32,220
Equity securities	2,156	574	—	—	2,156	574
Total	$ 483,375	$ 23,154	$ 86,000	$ 9,640	$ 569,375	$ 32,794

[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 and equity security issues with unrealized losses at December 31.

	2016	2015
Below cost for less than one year	160	179
Below cost for one year or more and less than three years	20	19
Below cost for three years or more	8	9
Total	188	207

We do not consider the unrealized losses related to these securities to be credit-related. The unrealized losses at December 31, 2016 primarily relate 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 our investments in fixed maturity and equity securities available for sale with unrealized losses at December 31, 2016.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	$ 517,145	$ 501,873	$ 15,272
Unrealized losses of 20% or less and greater than 10%	26,552	23,093	3,459
Subtotal	543,697	524,966	18,731
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	908	715	193
Total investment grade	908	715	193
Below investment grade:			
Less than twelve months	130	104	26
Twelve months or greater	—	—	—
Total below investment grade	130	104	26
Unrealized losses greater than 20%	1,038	819	219
Subtotal	544,735	525,785	18,950
Securities owned with realized impairment:			
Unrealized losses of 10% or less	2,526	2,464	62
Unrealized losses of 20% or less and greater than 10%	74	60	14
Subtotal	2,600	2,524	76
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	—	—	—
Total investment grade	—	—	—
Below investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	—	—	—
Total below investment grade	—	—	—
Unrealized losses greater than 20%	—	—	—
Subtotal	2,600	2,524	76
Total	$ 547,335	$ 528,309	$ 19,026

The following table summarizes our investments in fixed maturity and equity securities available for sale with unrealized losses at December 31, 2015.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	$ 511,941	$ 496,587	$ 15,354
Unrealized losses of 20% or less and greater than 10%	57,124	48,447	8,677
Subtotal	569,065	545,034	24,031
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	18,096	12,944	5,152
Twelve months or greater	908	596	312
Total investment grade	19,004	13,540	5,464
Below investment grade:			
Less than twelve months	5,893	2,743	3,150
Twelve months or greater	—	—	—
Total below investment grade	5,893	2,743	3,150
Unrealized losses greater than 20%	24,897	16,283	8,614
Subtotal	593,962	561,317	32,645
Securities owned with realized impairment:			
Unrealized losses of 10% or less	8,097	8,013	84
Unrealized losses of 20% or less and greater than 10%	—	—	—
Subtotal	8,097	8,013	84
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	110	45	65
Twelve months or greater	—	—	—
Total investment grade	110	45	65
Below investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	—	—	—
Total below investment grade	—	—	—
Unrealized losses greater than 20%	110	45	65
Subtotal	8,207	8,058	149
Total	$ 602,169	$ 569,375	$ 32,794

The following table provides information on fixed maturity securities available for sale with gross unrealized losses by actual or equivalent Standard & Poor's rating at December 31, 2016.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	$ 27,051	5%	$ 983	5%
AA	87,400	17%	3,389	19%
A	135,619	26%	4,841	26%
BBB	234,305	46%	6,430	35%
Total investment grade	484,375	94%	15,643	85%
BB	14,359	3%	1,592	9%
B and below	18,145	3%	1,112	6%
Total below investment grade	32,504	6%	2,704	15%
	$ 516,879	100%	$ 18,347	100%

The following table provides information on fixed maturity securities available for sale with gross unrealized losses by actual or equivalent Standard & Poor's rating at December 31, 2015.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	$ 10,050	2%	$ 198	1%
AA	79,448	14%	2,570	8%
A	161,483	28%	4,928	15%
BBB	280,178	50%	20,569	64%
Total investment grade	531,159	94%	28,265	88%
BB	25,465	4%	3,798	12%
B and below	10,595	2%	157	—%
Total below investment grade	36,060	6%	3,955	12%
	$ 567,219	100%	$ 32,220	100%

Our residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities that were rated below investment grade were 34% of the below investment grade total at December 31, 2016. Our residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities that were rated below investment grade were 41% of the below investment grade total at December 31, 2015.

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

	December 31, 2016		December 31, 2015	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities available for sale:				
Due in one year or less	$ 3,727	$ 113	$ —	$ —
Due after one year through five years	43,474	516	68,757	1,548
Due after five years through ten years	344,940	9,525	421,519	26,164
Due after ten years	114,661	6,997	65,939	4,388
Total	506,802	17,151	556,215	32,100
Securities with variable principal payments	226	1	4,079	21
Redeemable preferred stocks	9,851	1,195	6,925	99
Total	$ 516,879	$ 18,347	$ 567,219	$ 32,220

We held one non-income producing security with a carrying value of $0.4 million at December 31, 2016 and $0.6 million at December 31, 2015. This security was previously written down due to other-than-temporary impairment.

We did not hold securities of any corporation and its affiliates that exceeded 10% of stockholders' equity at December 31, 2016 or 2015.

The following table provides information regarding our other-than-temporary impairments for the years ended December 31.

	2016	2015	2014
Total other-than-temporary impairment losses	$ 563	$ 2,189	$ 2,176
Net other-than-temporary impairment losses recognized in earnings	620	2,481	1,533

The differences represent the non-credit portion of current or prior other-than-temporary impairment that was recorded in other comprehensive income (loss). Corporate private-labeled residential mortgage-backed and other securities had impairments recorded in earnings of $0.1 million, $0.3 million, and $0.6 million for the years ended December 31, 2016, 2015, and 2014, respectively. We determined the other-than-temporary impairments recorded in earnings based upon the present value of projected future cash flows.

One equity security had an impairment recorded in earnings of $0.5 million during 2016. This is common stock of a company within the oil exploration and production sector that went through a reorganization pursuant to Chapter 11 of the U.S. Bankruptcy Code. As part of the reorganization, we received equity shares in exchange for this company's corporate obligation in 2015. We recorded an impairment in earnings of $2.0 million during 2015 on this corporate obligation that resulted from reduced oil prices and lower demand for exploration equipment. In addition, one other-type security was written down by $0.2 million during 2015 due to an increase in projected future losses on the underlying collateral. One equity security had an impairment of less than $0.1 million during 2015. Two corporate obligations had impairments recorded in earnings of $0.7 million during 2014. The first was written down $0.7 million and was an oil industry debt obligation that was challenged by reduced oil prices. The second was a utility debt obligation that was written down less than $0.1 million. In addition, an other-type security was written down by $0.1 million due to an increase in projected future losses on the underlying collateral. There were two equity securities with impairments recorded of $0.1 million during 2014.

The Company monitors 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 at December 31.

	2016		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Residential & Non-agency MBS:			
Investment Grade	$ 9,949	$ 9,610	$ 339
Below Investment Grade	39,932	37,758	2,174
Total residential & Non-agency MBS	49,881	47,368	2,513
Other structured securities:			
Investment grade	61,810	63,092	(1,282)
Below investment grade	13,450	15,317	(1,867)
Total other structured securities	75,260	78,409	(3,149)
Total structured securities	$ 125,141	$ 125,777	$ (636)

	2015		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Residential & Non-agency MBS:			
Investment Grade	$ 12,351	$ 11,952	$ 399
Below Investment Grade	70,966	66,932	4,034
Total residential & Non-agency MBS	83,317	78,884	4,433
Other structured securities:			
Investment grade	56,601	57,416	(815)
Below investment grade	14,714	15,585	(871)
Total other structured securities	71,315	73,001	(1,686)
Total structured securities	$ 154,632	$ 151,885	$ 2,747

The following table provides a reconciliation of credit losses recognized in earnings on fixed maturity securities for which a portion of the other-than-temporary impairment loss was recognized in other comprehensive income (loss) for the years ended December 31.

	2016	2015	2014
Credit losses on securities held at the beginning of the year	$ 20,350	$ 17,889	$ 16,375
Additions for credit losses not previously recognized in other-than-temporary impairment	—	—	808
Additions for increases in the credit loss for which an other-than-temporary impairment was previously recognized when there was no intent to sell the security before recovery of its amortized cost basis	74	2,481	725
Reductions for securities sold (realized)	(7,179)	—	—
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	(21)	(20)	(19)
Credit losses on securities held at the end of the year	$ 13,224	$ 20,350	$ 17,889

The following table provides the net unrealized gains (losses) reported in accumulated other comprehensive income (loss) on our investments in securities available for sale, at December 31.

	2016	2015	2014
Net unrealized gains	$ 92,896	$ 95,765	$ 174,620
Amounts resulting from:			
DAC, VOBA, and DRL	(14,603)	(17,030)	(28,495)
Future policy benefits	(22,235)	(19,219)	(26,778)
Policyholder account balances	(470)	(454)	(879)
Deferred income taxes	(19,454)	(20,670)	(41,462)
Total	$ 36,134	$ 38,392	$ 77,006

Investment Revenues

The following table provides investment revenues by major category for the years ended December 31.

	2016	2015	2014
Gross investment income:			
Fixed maturity securities	$ 109,799	$ 116,713	$ 121,137
Equity securities	1,093	1,023	1,037
Mortgage loans	30,694	31,662	37,452
Real estate	18,738	17,059	11,756
Policy loans	5,558	5,774	5,848
Short-term investments	130	8	4
Other	295	177	535
Total	166,307	172,416	177,769
Less investment expenses	(15,699)	(15,266)	(12,801)
Net investment income	$ 150,608	$ 157,150	$ 164,968

Realized Gains (Losses)

The following table provides net realized investment gains (losses) by major category for the years ended December 31.

	2016	2015	2014
Fixed maturity securities	$ 5,066	$ 569	$ 2,576
Equity securities	(190)	49	403
Real estate	955	4,228	642
Mortgage loans	(769)	(1,041)	(105)
Amortization of DAC, VOBA, and DRL	(173)	(38)	(147)
Net realized investment gains	$ 4,889	$ 3,767	$ 3,369

The following table provides detail concerning realized investment gains and losses for the three years ended December 31.

	2016	2015	2014
Gross gains resulting from:			
Sales of investment securities	$ 1,343	$ 360	$ 3,199
Investment securities called and other	4,641	3,354	3,084
Real estate	1,084	4,228	864
Total gross gains	7,068	7,942	7,147
Gross losses resulting from:			
Sales of investment securities	(445)	(403)	(1,352)
Investment securities called and other	(43)	(212)	(419)
Sale of real estate and joint venture	(129)	—	(222)
Mortgage loans	(95)	(296)	(1,442)
Total gross losses	(712)	(911)	(3,435)
Change in allowance for loan losses	(674)	(745)	1,337
Amortization of DAC, VOBA, and DRL	(173)	(38)	(147)
Net realized investment gains, excluding other-than-temporary impairment losses	5,509	6,248	4,902
Net impairment losses recognized in earnings:			
Other-than-temporary impairment losses on fixed maturity and equity securities	(563)	(2,189)	(2,176)
Portion of loss recognized in other comprehensive income (loss)	(57)	(292)	643
Net other-than-temporary impairment losses recognized in earnings	(620)	(2,481)	(1,533)
Net realized investment gains	$ 4,889	$ 3,767	$ 3,369

Proceeds from Sales of Investment Securities

The following table provides proceeds from the sale of fixed maturity and equity securities, excluding maturities and calls, for the three years ended December 31.

	2016	2015	2014
Proceeds	$ 42,603	$ 39,954	$ 38,527

Non-Cash Investing Activity

Our non-cash investing transactions in 2016 consisted of a $5.0 million bond exchange with an issuer. Non-cash investing transactions in 2015 consisted of the receipt of $0.6 million common stock for a bond reorganization. Non-cash investing transactions in 2014 included $5.8 million of mortgage loan foreclosures transferred to real estate, along with a buyout of a joint venture partner that retired a mortgage loan of $2.7 million and the corresponding transfer of the $4.2 million book value to real estate.

Mortgage Loans

Investments in mortgage loans totaled $630.9 million at December 31, 2016, compared to $590.0 million at December 31, 2015. Our mortgage loans are secured by commercial real estate and are stated at cost, adjusted for premium amortization and discount accretion, less an allowance for loan losses. We believe this allowance is at a level adequate to absorb estimated credit losses and was $3.3 million at December 31, 2016 and $2.7 million at December 31, 2015. 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. Please see Note 5 - Financing Receivables for additional information. We do not hold mortgage loans to any single borrower that exceed 5% of stockholders' equity.

We had 18% of our total investments in commercial mortgage loans at December 31, 2016, compared to 17% at December 31, 2015. New commercial loans, including refinanced loans, totaled $171.3 million during 2016 and $164.0 million during 2015. The level of new commercial mortgage loans in any year is influenced by market conditions, as we respond to changes in interest rates, available spreads, borrower demand, and opportunities to acquire loans that meet our yield and quality thresholds.

In addition to the subject collateral underlying the mortgage, we typically require some amount of recourse from borrowers as another potential source of repayment. The recourse requirement is determined as part of the underwriting requirements of each loan. We added 51 new loans to the portfolio during 2016, and 94% of these loans had some amount of recourse requirement. No new loans were purchased from institutional lenders during 2016. The average loan-to-value ratio for the overall portfolio was 48% at December 31, 2016, up from 47% at December 31, 2015. These ratios are 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. The average loan balance was $1.7 million at December 31, 2016 and $1.6 million at December 31, 2015. We have certain mortgage loans that have an unamortized premium, totaling $0.2 million as of December 31, 2016, compared to $0.4 million at December 31, 2015.

The following table identifies the gross mortgage loan principal outstanding and the allowance for loan losses at December 31.

	2016	2015
Principal outstanding	$ 634,222	$ 592,619
Allowance for loan losses	(3,333)	(2,659)
Carrying value	$ 630,889	$ 589,960

The following table summarizes the amount of mortgage loans at December 31, 2016 and 2015, segregated by year of origination. Purchased loans are shown in the year acquired by the Company, although the individual loans may have been initially originated in prior years.

	2016	% of Total	2015	% of Total
Prior to 2007	$ 20,483	3%	$ 36,237	6%
2007	12,402	2%	17,722	3%
2008	14,821	2%	21,440	4%
2009	8,951	1%	11,544	2%
2010	16,257	3%	38,002	6%
2011	49,822	8%	81,357	14%
2012	87,607	14%	104,775	18%
2013	59,003	9%	62,808	10%
2014	51,758	8%	57,100	10%
2015	143,606	23%	161,634	27%
2016	169,512	27%	—	—%
Principal outstanding	$ 634,222	100%	$ 592,619	100%

The following table identifies mortgage loans by geographic location at December 31.

	2016	% of Total	2015	% of Total
West south central	$ 119,443	19%	$ 112,093	19%
East north central	97,635	15%	71,178	12%
Pacific	95,555	15%	129,108	22%
South Atlantic	89,961	14%	71,599	12%
West north central	75,492	12%	84,210	14%
Middle Atlantic	64,396	10%	30,141	5%
Mountain	59,557	9%	67,526	11%
East south central	29,251	5%	26,764	5%
New England	2,932	1%	—	—%
Principal outstanding	$ 634,222	100%	$ 592,619	100%

The following table identifies the concentration of mortgage loans by state greater than 5% of total at December 31.

	2016	% of Total	2015	% of Total
Texas	$ 115,676	18%	$ 108,104	18%
California	76,746	12%	111,050	19%
Minnesota	53,637	9%	58,841	10%
Ohio	40,903	7%	39,410	7%
New Jersey	39,401	6%	—	—% [1]
Florida	34,508	5%	30,753	5%
All others	273,351	43%	244,461	41%
Principal outstanding	$ 634,222	100%	$ 592,619	100%

[1] Concentration was less than 5% at December 31, 2015.

The following table identifies mortgage loans by property type at December 31. The Other category consists principally of apartments and retail properties.

	2016	% of Total	2015	% of Total
Industrial	$ 374,116	59%	$ 312,458	53%
Office	161,277	25%	181,912	30%
Medical	26,731	4%	28,042	5%
Other	72,098	12%	70,207	12%
Principal outstanding	$ 634,222	100%	$ 592,619	100%

The following table identifies mortgage loans by maturity at December 31.

	2016	% of Total	2015	% of Total
Due in one year or less	$ 15,680	2%	$ 18,560	3%
Due after one year through five years	75,360	12%	107,219	18%
Due after five years through ten years	94,833	15%	129,232	22%
Due after ten years	448,349	71%	337,608	57%
Principal outstanding	$ 634,222	100%	$ 592,619	100%

The following table identifies the commercial mortgage portfolio by current loan balance at December 31.

	2016	% of Total	2015	% of Total
$5 million or greater	$ 134,195	21%	$ 88,656	15%
$4 million to less than $5 million	41,313	6%	31,025	5%
$3 million to less than $4 million	55,588	9%	57,735	10%
$2 million to less than $3 million	127,731	20%	130,397	22%
$1 million to less than $2 million	188,359	30%	195,604	33%
Less than $1 million	87,036	14%	89,202	15%
Principal outstanding	$ 634,222	100%	$ 592,619	100%

The following table identifies the commercial mortgage portfolio by current loan balance as a percentage of the value at the time of origination at December 31.

	2016	% of Total	2015	% of Total
70% or greater	$ 93,724	15%	$ 66,330	11%
50% to 69%	336,722	53%	301,901	51%
Less than 50%	203,776	32%	224,388	38%
Principal outstanding	$ 634,222	100%	$ 592,619	100%

We diversify our commercial mortgage loan portfolio both geographically and by property type to reduce certain risks, including local and regional physical and economic exposures. However, diversification may not always sufficiently mitigate these risks. The concentration in the west south central, east north central, and Pacific regions exposes us to potential losses from an economic downturn, certain catastrophes, and natural disasters that may affect areas of the regions. We would not expect an occurrence in any of these areas to have a material adverse effect on our business, financial position, or financial statements. However, we cannot provide assurance that such risks could not have such material adverse effects.

Under the laws of certain states, environmental contamination of a property may result in a lien on the property to secure recovery of the costs of cleanup. In some states, such a lien has priority over the lien of an existing mortgage against such property. As a commercial mortgage lender, we customarily conduct environmental assessments prior to making commercial mortgage loans secured by real estate and before taking title on real estate. Based on our environmental assessments, we believe that any compliance costs associated with environmental laws and regulations or any remediation of affected properties would not have a material adverse effect on our business, financial position, or financial statements. However, we cannot provide assurance that material compliance costs will not be incurred.

We may refinance commercial mortgage loans prior to contractual maturity as a means of originating new loans that meet our underwriting and pricing parameters. We refinanced eleven loans with outstanding balances of $17.5 million during the year ended December 31, 2016. We refinanced 18 loans with outstanding balances of $22.8 million during the year ended December 31, 2015. None of these refinancings were the result of troubled debt restructuring.

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, we retain the commitment fee. For additional information, please see Note 22 - Commitments, Contingent Liabilities, Guarantees, and Indemnifications.

Real Estate

The following table provides information concerning real estate investments by major category at December 31.

	2016	2015
Land	$ 36,425	$ 29,157
Buildings	159,510	141,936
Less accumulated depreciation	(31,196)	(36,291)
Real estate, commercial	164,739	134,802
Real estate, joint ventures	30,882	33,295
Total	$ 195,621	$ 168,097

Investment real estate is depreciated on a straight-line basis over periods ranging from 3 years to 60 years. We had real estate sales of $1.4 million during 2016, $20.0 million during 2015, and $2.9 million during 2014.

We had $30.9 million in real estate joint ventures at year-end 2016, compared with $33.3 million at year-end 2015. Included in these joint ventures, we are the holder of all shares in three subsidiary real estate ventures with a combined carrying value of $20.3 million at year-end 2016 and $20.6 million at year-end 2015. Each of the three subsidiaries holds a 50% interest in these separate joint ventures and all are based in Urbandale, Iowa. Based on information provided on January 26, 2017 by the Managing Member of the underlying joint ventures and with consideration given to ongoing disputes between our subsidiaries and the Managing Member, we have evaluated our interest in the joint venture to determine whether the underlying real estate was impaired and correspondingly whether our investment in the joint venture had an other-than-temporary impairment to be recognized. In making our evaluation, we considered, among other things, recent activity in the subject real estate, other real estate in the surrounding area, and prospects for future activity. We have concluded that no other-than-temporary impairment had occurred as of December 31, 2016. The evaluation for other-than-temporary impairment involves significant judgment about the inputs into the valuation model, including significant assumptions regarding the planned use of the real estate, current and projected values of the real estate, the cost of future development and the associated cash flows expected, and the time period over which the real estate will be developed. To the extent there are changes in the intended use or real estate absorption in the immediate area does not develop as expected, the estimated value of our investment could materially change.

We had non-income producing commercial real estate, consisting of vacant properties and properties under development, of $8.5 million at December 31, 2016, compared to $8.7 million at December 31, 2015. In addition, the majority of our real estate joint ventures are non-income producing.

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 categorize our financial assets and liabilities measured at fair value in three levels, based on the inputs and assumptions used to determine the fair value. These levels are as follows:

Level 1 - Valuations are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2 - Valuations are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. Valuations are obtained from third-party pricing services or inputs that are observable or derived principally from or corroborated by observable market data.

Level 3 - Valuations are generated from techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of discounted cash flow models, spread-based models, and similar techniques, using the best information available in the circumstances.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value but for which fair value is disclosed.

Assets
Securities Available for Sale
Fixed maturity and equity securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon unadjusted quoted prices, if available, except as described in the subsequent paragraphs.

Cash and Short-Term Investments
Cash and short-term investments include cash and highly-liquid investments in institutional money market funds. The carrying value of cash and short-term investments approximates the fair value and are categorized as Level 1. Fair value is provided for disclosure purposes only.

Loans
We do not record mortgage, policy, or agent loans at fair value. As such, valuation techniques discussed herein for loans are primarily for estimating fair value for purpose of disclosure.

Fair values of mortgage loans on real estate properties are calculated by discounting contractual cash flows, using discount rates based on current industry pricing or the Company's estimate of an appropriate risk-adjusted discount rate for loans of similar size, type, remaining maturity, likelihood of prepayment, and repricing characteristics. Mortgage loans are categorized as Level 3.

Policy loans are made to policyholders under terms defined in the policy. These loans cannot exceed the cash surrender value of the policy. Carrying value of policy loans approximates fair value. Policy loans are categorized as Level 3.

Separate Accounts
The separate account assets and liabilities, which are equal, are recorded at fair value based upon NAV of the underlying investment holdings as derived from closing prices on a national exchange or as provided by the issuer. This is the value at which a policyholder could transact with the issuer on the date. Separate accounts are categorized as Level 2.

Liabilities
Investment-Type Liabilities Included in Policyholder Account Balances and Other Policyholder Funds
The fair values of supplementary contracts and annuities without life contingencies are estimated to be the present value of payments at a market yield. The fair values of deposits with no stated maturity are estimated to be the amount payable on demand at the measurement date. These liabilities are categorized as Level 3. We have not estimated the fair value of the liabilities under contracts that involve significant mortality or morbidity risks, as these liabilities fall within the definition of insurance contracts. Insurance contracts are excluded from financial instruments that require disclosures of fair value.

Guaranteed Minimum Withdrawal Benefits (GMWB) Included in Other Policyholder Funds
We offer a GMWB rider that can be added to new or existing variable annuity contracts. The rider provides an enhanced withdrawal benefit that guarantees a stream of income payments to an owner or annuitant, regardless of the contract account value. Fair value for GMWB rider contracts is a Level 3 valuation, as it is based on models which utilize significant unobservable inputs. These models require actuarial and financial market assumptions, which reflect the assumptions market participants would use in pricing the contract, including adjustments for volatility, risk, and issuer non-performance.

Determination of Fair Value
We utilize external third-party pricing services to determine the majority of our fair values on investment securities available for sale. At both December 31, 2016 and December 31, 2015, approximately 98% of the carrying value of these investments was from external pricing services, 1% was from brokers, and 1% was derived from internal matrices and calculations. In the event that the primary pricing service does not provide a price, we utilize the price provided by a second pricing service. We review prices received from service providers for reasonableness and unusual fluctuations but generally accept the price identified from the primary pricing service. In the event a price is not available from either third-party pricing service, we pursue external pricing from brokers. Generally, we pursue and utilize only one broker quote per security. In doing so, we solicit only brokers which have previously demonstrated knowledge and experience of the subject security. If a broker price is not available, we determine a fair value through various valuation techniques that may include discounted cash flows, spread-based models, or similar techniques, depending upon the specific security to be priced. These techniques are primarily applied to private placement securities. We utilize available market information, wherever possible, to identify inputs into the fair value determination, primarily prices and spreads on comparable securities.

Each quarter, we evaluate the prices received from third-party security pricing services and independent brokers to ensure that the prices represent a reasonable estimate of the fair value within the macro-economic environment, sector factors, and overall pricing trends and expectations. We corroborate and validate the primary pricing sources through a variety of procedures that include but are not limited to comparison to additional third-party pricing services or brokers, where possible; a review of third-party pricing service methodologies; back testing; in-depth specific analytics on randomly selected issues; and comparison of prices to actual trades for specific securities where observable data exists. In addition, we analyze the primary third-party pricing service's methodologies and related inputs and also evaluate the various types of securities in our investment portfolio to determine an appropriate fair value hierarchy. Finally, we also perform additional evaluations when individual prices fall outside tolerance levels when comparing prices received from third-party pricing services.

Fair value measurements for assets and liabilities where limited or no observable market data exists are calculated using our own estimates and are categorized as Level 3. These estimates are based on current interest rates, credit spreads, liquidity premium or discount, the economic and competitive environment, unique characteristics of the asset or liability, and other pertinent factors. Therefore, these estimates cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Further, changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values.

Our own estimates of fair value of fixed maturity and equity securities may be derived in a number of ways, including but not limited to: 1) pricing provided by brokers, where the price indicates reliability as to value; 2) fair values of comparable securities, incorporating a spread adjustment for maturity differences, collateralization, credit quality, liquidity, and other items, if applicable; 3) discounted cash flow models and margin spreads; 4) bond yield curves; 5) observable market prices and exchange transaction information not provided by external pricing services; and 6) statement values provided to us by fund managers.

The fair value of the GMWB embedded derivative is calculated using a discounted cash flow valuation model that projects future cash flows under multiple risk neutral stochastic equity scenarios. The risk neutral scenarios are generated using the current swap curve and projected equity volatilities and correlations. The equity correlations are based on historical price observations. For policyholder behavior assumptions, expected lapse and utilization assumptions are used and updated for actual experience. The mortality assumption uses the 2000 U.S. Annuity Basic Mortality Table. The present value of cash flows is determined using the discount rate curve, based upon London Interbank Offered Rate (LIBOR) plus a credit spread.

Categories Reported at Fair Value

The following tables present the fair value hierarchy for those assets and liabilities reported at fair value on a recurring basis at December 31.

	2016			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 12,108	$ 140,757	$ —	$ 152,865
Federal agencies [1]	—	20,311	—	20,311
Federal agency issued residential mortgage-backed securities [1]	—	28,840	—	28,840
Subtotal	12,108	189,908	—	202,016
Corporate obligations:				
Industrial	—	524,487	—	524,487
Energy	—	206,518	—	206,518
Communications and technology	—	245,717	—	245,717
Financial	—	209,133	—	209,133
Consumer	—	578,310	—	578,310
Public utilities	—	250,289	—	250,289
Subtotal	—	2,014,454	—	2,014,454
Corporate private-labeled residential mortgage-backed securities	—	44,532	—	44,532
Municipal securities	—	164,234	—	164,234
Other	—	91,795	400	92,195
Redeemable preferred stocks	—	13,476	—	13,476
Fixed maturity securities	12,108	2,518,399	400	2,530,907
Equity securities	4,950	19,046	—	23,996
Separate account assets	—	373,256	—	373,256
Total	$ 17,058	$ 2,910,701	$ 400	$ 2,928,159
Percent of total	1%	99%	—%	100%
Liabilities:				
Other policyholder funds				
Guaranteed minimum withdrawal benefits	$ —	$ —	$ (2,158)	$ (2,158)
Separate account liabilities	—	373,256	—	373,256
Total	$ —	$ 373,256	$ (2,158)	$ 371,098

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

	2015			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 9,704	$ 146,421	$ —	$ 156,125
Federal agencies [1]	—	21,197	—	21,197
Federal agency issued residential mortgage-backed securities [1]	—	37,559	—	37,559
Subtotal	9,704	205,177	—	214,881
Corporate obligations:				
Industrial	—	544,509	—	544,509
Energy	—	227,019	—	227,019
Communications and technology	—	242,233	—	242,233
Financial	—	221,497	—	221,497
Consumer	—	549,301	—	549,301
Public utilities	—	240,299	—	240,299
Subtotal	—	2,024,858	—	2,024,858
Corporate private-labeled residential mortgage-backed securities	—	74,177	—	74,177
Municipal securities	—	152,849	—	152,849
Other	—	95,855	577	96,432
Redeemable preferred stocks	—	17,648	—	17,648
Fixed maturity securities	9,704	2,570,564	577	2,580,845
Equity securities	5,166	20,159	—	25,325
Separate account assets	—	372,924	—	372,924
Total	$ 14,870	$ 2,963,647	$ 577	$ 2,979,094
Percent of total	1%	99%	—%	100%
Liabilities:				
Other policyholder funds				
Guaranteed minimum withdrawal benefits	$ —	$ —	$ (2,778)	$ (2,778)
Separate account liabilities	—	372,924	—	372,924
Total	$ —	$ 372,924	$ (2,778)	$ 370,146

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

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended December 31 are summarized below:

	2016	
	Assets	Liabilities
	Fixed maturity securities available for sale	GMWB
Beginning balance	$ 577	$ (2,778)
Included in earnings	—	1,237
Included in other comprehensive income (loss)	91	—
Purchases, issuances, sales and other dispositions:		
Purchases	—	—
Issuances	—	430
Sales	—	—
Other dispositions	(268)	(1,047)
Transfers into Level 3	—	—
Transfers out of Level 3	—	—
Ending balance	$ 400	$ (2,158)

	2015	
	Assets	Liabilities
	Fixed maturity securities available for sale	GMWB
Beginning balance	$ 759	$ (1,094)
Included in earnings	(193)	(1,488)
Included in other comprehensive income (loss)	306	—
Purchases, issuances, sales and other dispositions:		
Purchases	—	—
Issuances	—	330
Sales	—	—
Other dispositions	(295)	(526)
Transfers into Level 3	—	—
Transfers out of Level 3	—	—
Ending balance	$ 577	$ (2,778)

	2014	
	Assets	Liabilities
	Fixed maturity securities available for sale	GMWB
Beginning balance	$ 1,433	$ (4,703)
Included in earnings	(12)	3,145
Included in other comprehensive income (loss)	(421)	—
Purchases, issuances, sales and other dispositions:		
Purchases	—	—
Issuances	—	592
Sales	—	—
Other dispositions	(241)	(128)
Transfers into Level 3	—	—
Transfers out of Level 3	—	—
Ending balance	$ 759	$ (1,094)

Depending upon the availability of Level 1 or Level 2 pricing, specific securities may transfer into or out of Level 3. We did not have any transfers between any levels at December 31, 2016, 2015 or 2014.

The following table presents the valuation method for the financial instrument liability categorized as Level 3, as well as the unobservable inputs used in the valuation of those financial instruments at December 31, 2016.

	Fair Value	Valuation Technique	Unobservable Inputs	Range
Embedded Derivative - GMWB	$ (2,158)	Actuarial cash flow model	Mortality	80% of U.S. Annuity Basic Table (2000)
			Lapse	0%-16% depending on product/duration/ funded status of guarantee
			Benefit Utilization	0%-80% depending on age/duration/ funded status of guarantee
			Nonperformance Risk	0.77%-1.32%

The following table presents the valuation method for the financial instrument liability categorized as Level 3, as well as the unobservable inputs used in the valuation of those financial instruments at December 31, 2015.

	Fair Value	Valuation Technique	Unobservable Inputs	Range
Embedded Derivative - GMWB	$ (2,778)	Actuarial cash flow model	Mortality	80% of U.S. Annuity Basic Table (2000)
			Lapse	0%-16% depending on product/duration/ funded status of guarantee
			Benefit Utilization	0%-80% depending on age/duration/ funded status of guarantee
			Nonperformance Risk	0.87%-1.73%

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. Our mortality, lapse, benefit utilization, and nonperformance risk adjustments are unobservable. Increases in mortality, lapses and credit spreads used for nonperformance risk reduce the liability, while increases in benefit utilization increase the liability.

Following are estimates of the impact from changes in unobservable inputs on the GMWB liability at December 31.

	2016	2015
	Increase/(Decrease) in millions	
A 10% increase in the mortality assumption	$ (0.1)	(0.1)
A 10% decrease in the lapse assumption	0.2	0.2
A 10% increase in the benefit utilization	0.7	0.7
A 10 basis point increase in the credit spreads used for non-performance	(0.3)	(0.3)

The following tables present a summary of fair value estimates for financial instruments at December 31. 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.

	2016				
	Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Fixed maturity securities available for sale	$ 12,108	$ 2,518,399	$ 400	$ 2,530,907	$ 2,530,907
Equity securities available for sale	4,950	19,046	—	23,996	23,996
Mortgage loans	—	—	636,801	636,801	630,889
Policy loans	—	—	79,893	79,893	79,893
Cash and short-term investments	37,156	—	—	37,156	37,156
Separate account assets	—	373,256	—	373,256	373,256
Liabilities:					
Individual and group annuities	—	—	1,056,759	1,056,759	1,075,576
Supplementary contracts and annuities without life contingencies	—	—	53,167	53,167	54,483
Separate account liabilities	—	373,256	—	373,256	373,256
Other policyholder funds - GMWB	—	—	(2,158)	(2,158)	(2,158)

	2015				
	Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Fixed maturity securities available for sale	$ 9,704	$ 2,570,564	$ 577	$ 2,580,845	$ 2,580,845
Equity securities available for sale	5,166	20,159	—	25,325	25,325
Mortgage loans	—	—	606,708	606,708	589,960
Policy loans	—	—	81,392	81,392	81,392
Cash and short-term investments	30,325	—	—	30,325	30,325
Separate account assets	—	372,924	—	372,924	372,924
Liabilities:					
Individual and group annuities	—	—	1,055,052	1,055,052	1,073,592
Supplementary contracts and annuities without life contingencies	—	—	52,636	52,636	54,136
Separate account liabilities	—	372,924	—	372,924	372,924
Other policyholder funds - GMWB	—	—	(2,778)	(2,778)	(2,778)

5. Financing Receivables

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

The following table identifies financing receivables by classification amount at December 31.

	2016	2015
Receivables:		
Agent receivables, net (allowance $660; 2015 - $1,197)	$ 1,661	$ 1,602
Investment-related financing receivables:		
Mortgage loans, net (allowance $3,333; 2015 - $2,659)	630,889	589,960
Total financing receivables	$ 632,550	$ 591,562

Agent Receivables

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

The following table details the gross receivables, allowance, and net receivables for the two types of agent receivables at December 31.

	2016			2015		
	Gross Receivables	Allowance	Net Receivables	Gross Receivables	Allowance	Net Receivables
Agent specific loans	$ 988	$ 346	$ 642	$ 959	$ 314	$ 645
Other agent receivables	1,333	314	1,019	1,840	883	957
Total	$ 2,321	$ 660	$ 1,661	$ 2,799	$ 1,197	$ 1,602

The following table details the activity of the allowance for doubtful accounts on agent receivables at December 31. Any recoveries are included as deductions.

	2016	2015
Beginning of year	$ 1,197	$ 2,003
Additions	210	128
Deductions	(747)	(934)
End of year	$ 660	$ 1,197

Mortgage Loans

We classify our mortgage loan portfolio as long-term financing receivables. Mortgage loans are stated at cost, adjusted for amortization of premium and accretion of discount, less an allowance for loan losses. Mortgage loan interest income is recognized on an accrual basis with any premium or discount amortized over the life of the loan. Prepayment and late fees are recorded on the date of collection. Loans in foreclosure, loans considered impaired, or loans past due 90 days or more are placed on non-accrual status. Payments received on loans on non-accrual status for these reasons are applied first to interest income not collected while on non-accrual status, followed by fees, accrued and past-due interest, and principal.

If a mortgage loan is placed on non-accrual status, we do not accrue interest income in the financial statements. The loan is independently monitored and evaluated as to potential impairment or foreclosure. This evaluation includes assessing the probability of receiving future cash flows, along with consideration of many of the factors described below. If delinquent payments are made and the loan is brought current, then we return the loan to active status and accrue income accordingly.

The following table details the mortgage loan portfolio as collectively or individually evaluated for impairment at December 31.

	2016	2015
Mortgage loans collectively evaluated for impairment	$ 566,865	$ 585,207
Mortgage loans individually evaluated for impairment	67,357	7,412
Allowance for loan losses	(3,333)	(2,659)
Carrying value	$ 630,889	$ 589,960

Generally, we consider our mortgage loans to be a portfolio segment. We consider our primary class to be property type. We primarily use loan-to-value as our credit risk quality indicator but also monitor additional secondary risk factors, such as geographic distribution both on a regional and specific state basis. The mortgage loan portfolio segment is presented by property type in a table in Note 3, as are geographic distributions by both region and state. These measures are also supplemented with various other analytics to provide additional information concerning potential impairment of mortgage loans and management's assessment of financing receivables.

The following table presents an aging schedule for delinquent payments for both principal and interest by property type.

		Amount of Payments Past Due			
	Book Value	30-59 Days	60-89 Days	> 90 Days	Total
December 31, 2016					
Industrial	$ —	$ —	$ —	$ —	$ —
Office	—	—	—	—	—
Medical	4,922	75	75	600	750
Other	—	—	—	—	—
Total	$ 4,922	$ 75	$ 75	$ 600	$ 750
December 31, 2015					
Industrial	$ —	$ —	$ —	$ —	$ —
Office	—	—	—	—	—
Medical	5,064	74	—	—	74
Other	—	—	—	—	—
Total	$ 5,064	$ 74	$ —	$ —	$ 74

There was one mortgage loan that was over 90 days past due and in the process of foreclosure at December 31, 2016. There was one mortgage loan that was 30 days past due at December 31, 2015. Subsequently, payment was received on this loan and it was brought current. There were no foreclosures in 2015. We had no troubled loans that were restructured or modified in 2016 or 2015.

The following table details the activity of the allowance for mortgage loan losses at December 31. Any recoveries are reflected as deductions.

	2016	2015
Beginning of year	$ 2,659	$ 1,914
Provision	674	745
Deductions	—	—
End of year	$ 3,333	$ 2,659

We increased our allowance for mortgage loan losses $0.7 million in 2016, largely due to the $40.9 million increase in the mortgage loan portfolio. We increased our allowance for mortgage loan losses $0.7 million in 2015, largely the result of our view of credit trends under the current economic conditions. We review the portfolio's risk profile and expected ongoing performance at least quarterly.

The allowance for loan losses is monitored and evaluated at multiple levels with a process that includes, but is not limited to, the factors presented below. Generally, we establish the allowance for loan losses using the collectively evaluated impairment methodology at an overall portfolio level and then specifically identify an allowance for loan losses on loans that contain elevated risk profiles. If we determine through our evaluation that a loan has an elevated specific risk profile, we then individually assess the loan's risk profile and may assign a specific allowance value based on many factors, including those identified below.

Macro-environmental and elevated risk profile considerations:

- Current industry conditions that are affecting the market, including rental and vacancy rates;
- Perceived market liquidity;
- Analysis of the markets and sub-markets in which we have mortgage loans;
- Analysis of industry historical loss and delinquency experience;
- Other factors that we may perceive as important or critical given our portfolio; and
- Analysis of our loan portfolio based on loan size concentrations, geographic concentrations, property type concentrations, maturity concentrations, origination loan-to-value concentrations, and borrower concentrations.

Specific mortgage loan level considerations:

- The payment history of each borrower;
- Negative reports from property inspectors; and
- Each loan's property financial statement including net operating income, debt service coverage, and occupancy level.

We have not acquired any mortgage loans with deteriorated credit quality during the years presented.

As part of our process of monitoring impairments on loans, there are a number of significant risks and uncertainties inherent in this process. These risks include, but are not limited to:

- The risk that our assessment of a borrower's ability to meet all of its contractual obligations will change based on changes in the credit characteristics of the borrower or property;
- The risk that the economic outlook will be worse than expected or have more of an impact on the borrower than anticipated;
- The risk that the performance of the underlying property could deteriorate in the future;
- The risk that fraudulent, inaccurate, or misleading information could be provided to us;
- The risk that the methodology or assumptions used to develop estimates of the portion of the impairment of the loan prove over time to be inaccurate; and
- The risk that other facts and circumstances change such that it becomes more likely than not that we will not obtain all of the contractual payments.

To the extent our review and evaluation determines a loan is impaired, that amount is charged to the allowance for loan losses and the loan balance is reduced. In the event that a property is foreclosed upon, the carrying value is recorded at the lesser of the current fair value or book value of the property with a charge to the allowance and a corresponding reduction to the mortgage loan asset. The property is then transferred to real estate where we have the ability and intent to manage these properties on an ongoing basis.

6. Variable Interest Entities (VIEs)

We invest in certain affordable housing and real estate joint ventures. These VIEs are included in Real Estate in the Consolidated Balance Sheets.

The assets held in affordable housing real estate joint venture VIEs are primarily residential real estate properties that are restricted to provide affordable housing under federal or state programs for varying periods of time. The restrictions primarily apply to the rents that may be paid by tenants residing in the properties during the term of an agreement to remain in the affordable housing program. Investments in these joint ventures are equity interests in partnerships or limited liability companies that may or may not participate in profits or residual value. Our investments in these entities generate a return primarily through the realization of federal and state income tax credits and other tax benefits, such as tax deductions from operating losses of the investments, over specified time periods. We amortize the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognize the net investment performance in the Consolidated Statements of Comprehensive Income as a component of income tax expense. The tax credits reduce tax expense.

The following table provides information regarding our VIEs for the years ended December 31.

	2016	2015	2014
Federal income tax credits realized	$ 2,752	$ 2,752	$ 2,752
Amortization	1,543	1,232	1,120

Our investments in other real estate VIEs are recorded using the equity method. Cash distributions from the VIE and cash contributions to the VIE are recorded as decreases or increases, respectively, in the carrying value of the VIE. Certain other equity investments in VIEs, where permitted, are recorded on an amortized cost basis. The operating performance of investments in the VIE is recorded in the Consolidated Statements of Comprehensive Income as investment income or as a component of income tax expense, depending upon the nature and primary design of the investment. We evaluate the carrying value of VIEs for impairment on an ongoing basis to assess whether the carrying value is expected to be realized during the anticipated life of the investment.

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 consider many factors when making this determination based upon a review of the underlying investment agreement and other information related to the specific investment. The first factor is whether we have the ability to direct the activities of a VIE that most significantly impact the VIE's economic performance. The power to direct the activities of the VIE is generally vested in the managing general partner or managing member of the VIE, which is not the position held by us in these investments. Other factors include the entity's equity investment at risk, decision-making abilities, obligations to absorb economic risks, the right to receive economic rewards of the entity, and the extent to which we share in the VIE's expected losses and residual returns.

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 December 31, 2016 and December 31, 2015. The table includes investments in five real estate joint ventures and 19 affordable housing real estate joint ventures at December 31, 2016 and investments in five real estate joint ventures and 22 affordable housing real estate joint ventures at December 31, 2015.

	2016		2015	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Real estate joint ventures	$ 21,098	$ 21,098	$ 21,269	$ 21,269
Affordable housing real estate joint ventures	9,784	34,215	11,542	51,686
Total	$ 30,882	$ 55,313	$ 32,811	$ 72,955

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

At December 31, 2016 and December 31, 2015, we had no equity commitments outstanding to the real estate joint venture VIEs. We have contingent commitments to fund additional equity contributions for operating support to certain real estate joint venture VIEs, which could result in additional exposure to loss. However, we are unable to quantify the amount of these contingent commitments.

In addition, the maximum exposure to loss on affordable housing joint ventures at December 31, 2016 included $14.6 million of losses which could be realized if the tax credits received by the VIEs were recaptured, compared to $28.6 million at December 31, 2015. 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. Property and Equipment

Property and equipment are stated at cost and depreciated over estimated useful lives using the straight-line method. The home office is depreciated over 25 years to 50 years and furniture and equipment is depreciated over 3 years to 10 years. The following table provides information at December 31.

	2016	2015
Land	$ 766	$ 766
Home office complex	21,988	21,518
Furniture and equipment	41,237	42,183
	63,991	64,467
Accumulated depreciation	(48,138)	(47,887)
Property and equipment	$ 15,853	$ 16,580

Depreciation expense totaled $1.7 million during 2016, $1.6 million during 2015, and $1.7 million during 2014.

8. 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 of the underlying investment holdings as derived from closing prices on a national exchange or as provided by the issuer. Policyholder account deposits and withdrawals, investment income, and realized investment gains and losses are excluded from the amounts reported in the Consolidated Statements of Comprehensive Income. Revenues from separate accounts consist principally of contract charges, which include maintenance charges, administrative fees, and mortality and expense charges.

The total separate account assets were $373.3 million at December 31, 2016 and $372.9 million at December 31, 2015. Variable universal life and variable annuity assets comprised 28% and 72% of this amount in 2016 compared to 27% and 73% of this amount in 2015.

The following table provides a reconciliation of activity within separate account liabilities at December 31.

	2016	2015	2014
Balance at beginning of year	$ 372,924	$ 406,501	$ 393,416
Deposits on variable policyholder contracts	23,344	32,306	47,308
Transfers to general account	(3,880)	(5,726)	(5,859)
Investment performance	28,489	(13,720)	24,314
Policyholder benefits and withdrawals	(34,991)	(33,083)	(39,177)
Contract charges	(12,630)	(13,354)	(13,501)
Balance at end of year	$ 373,256	$ 372,924	$ 406,501

We have a GMWB rider that can be added to new or existing variable annuity contracts. The rider provides an enhanced withdrawal benefit that guarantees a stream of income payments to an owner or annuitant, regardless of the contract account value. The value of the separate accounts with the GMWB rider was recorded at fair value of $116.5 million at December 31, 2016. The fair value of the separate accounts with the GMWB rider was $118.0 million at December 31, 2015. The GMWB guarantee liability was $(2.2) million at December 31, 2016 and $(2.8) million at December 31, 2015. The change in this value is included in Policyholder Benefits in the Consolidated Statements of Comprehensive Income. The value of variable annuity separate accounts with the GMWB rider is recorded in Separate Account Liabilities, and the value of the rider is included in Other Policyholder Funds in the Consolidated Balance Sheets.

We have two blocks of variable universal life policies and variable annuity contracts from which we receive fees. The fees are based upon both specific transactions and the fund value of the blocks of policies. We have a direct block of ongoing business identified in the Consolidated Balance Sheets as separate account assets, totaling $373.3 million at December 31, 2016 and $372.9 million at December 31, 2015, and corresponding separate account liabilities of an equal amount. The fixed-rate funds for these policies are included in our general account as Future Policy Benefits. The Future Policy Benefits for the direct block approximated $0.4 million at December 31, 2016 and $0.5 million at December 31, 2015.

In addition, we have an assumed closed block of business that totaled $295.7 million at December 31, 2016 and $292.4 million at December 31, 2015. 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 are included in our general account as Future Policy Benefits. The Future Policy Benefits for the assumed block approximated $0.6 million at both December 31, 2016 and December 31, 2015.

Guarantees are offered under variable universal life and variable annuity contracts: a guaranteed minimum death benefit (GMDB) rider is available on certain variable universal life contracts, and GMDB are provided on all variable annuities. The GMDB rider for variable universal life contracts guarantees the death benefit for specified periods of time, regardless of investment performance, provided cumulative premium requirements are met. The GMDB rider for variable annuity contracts guarantees the death benefit for specified periods of time, regardless of investment performance.

Separate account balances for variable annuity contracts were $268.7 million at December 31, 2016 and $270.7 million at December 31, 2015. The total reserve held for variable annuity GMDB was $0.1 million at December 31, 2016 and $0.1 million at December 31, 2015. Additional information related to the GMDB and related separate account balances and net amount at risk (the amount by which the GMDB exceeds the account balance) as of December 31, 2016 and 2015 is provided below:

	2016			2015		
	Separate Account Balance	Net Amount at Risk	Weighted Average Attained Age	Separate Account Balance	Net Amount at Risk	Weighted Average Attained Age
Return of net deposits	$ 211,861	$ 2,122	60.7	$ 211,281	$ 3,644	60.2
Return of the greater of the highest anniversary contract value or net deposits	8,046	431	68.5	8,161	758	67.5
Return of the greater of every fifth year highest anniversary contract value or net deposits	6,977	66	67.4	7,528	146	67.7
Return of the greater of net deposits accumulated annually at 5% or the highest anniversary contract value	41,840	5,303	62.7	43,686	6,419	62.2
Total	$ 268,724	$ 7,922	61.4	$ 270,656	$ 10,967	60.9

The following table presents the aggregate fair value of assets by major investment asset category supporting the variable annuity separate accounts with guaranteed benefits at December 31.

	2016	2015
Money market	$ 2,345	$ 3,171
Fixed income	19,078	19,670
Balanced	81,117	85,346
International equity	14,552	12,039
Intermediate equity	128,489	127,968
Aggressive equity	23,143	22,462
Total	$ 268,724	$ 270,656

9. Short-Duration Contracts

During 2016, we adopted FASB ASU No. 2015-09 Disclosures about Short-Duration Contracts. Presented below are the required disclosures that we have determined to be material.

Incurred-but-not-reported liabilities for the group long-term disability product that were included in the liability for unpaid claims and claim adjustment expenses, net of reinsurance, totaled $0.6 million at December 31, 2016. These liabilities were calculated by the reinsurers of the various blocks of group long-term disability business, using percent of premium methodologies with varying factors. Claim frequencies were calculated for the long-term disability product using information that includes paid and pending claims at the claimant level. Thus, frequency is measured by individual claimant. Claims that are counted in a particular year as a liability but do not result in a liability in future years are not included once the claim is settled. There have been no significant changes to the methodologies for calculating claim frequencies, incurred-but-not-reported liabilities, or any other unpaid claims liabilities for the long-term disability product.

The liabilities in the following table for group long-term disability claims involve present value of future benefits calculations. The carrying amount of liabilities at December 31, 2016 was $3.7 million, consisting of an undiscounted amount of $4.6 million and an aggregated discount amount deducted of $0.9 million. Discount rates ranged from 3.60% to 6.00% for the various blocks of group long-term disability business included in the totals.

The following table provides incurred claims and allocated claim adjustment expenses, net of reinsurance, for the group long-term disability product at December 31, 2016. The amounts for 2015 and earlier are unaudited.

	For the Years Ended December 31,					Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
Year Incurred	2012	2013	2014	2015	2016		
2012	$ 1,132	$ 1,087	$ 999	$ 993	$ 1,116	$ —	528
2013		806	836	815	838	—	137
2014			868	955	799	—	177
2015				989	918	—	223
2016					1,694	597	164
				Total	$ 5,365		

The following table provides cumulative paid claims and allocated claim adjustment expenses, net of reinsurance, for the group long-term disability product at December 31, 2016. The amounts for 2015 and earlier are unaudited.

	For the Years Ended December 31,				
Year Incurred	2012	2013	2014	2015	2016
2012	$ 91	$ 373	$ 499	$ 605	$ 675
2013		91	336	449	501
2014			71	276	411
2015				100	390
2016					164
				Total	$ 2,141
All outstanding liabilities before 2012, net of reinsurance					$ 1,422
Liabilities for claims and claim adjustment expenses, net of reinsurance					$ 4,646

The following table provides a reconciliation of incurred and paid claims development information to the aggregate carrying amount of the liability for unpaid claims and claim adjustment expenses at December 31, 2016. Included in other short-duration contracts are group life, group short-term disability, group dental, group vision, and individual accident and health for the Individual and Old American segments, none of which are individually significant.

Net outstanding liabilities:	
Group long-term disability	$ 4,646
Other short-duration contracts	4,051
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	8,697
Reinsurance recoverable on unpaid claims:	
Group long-term disability	26,554
Other short-duration contracts	6,595
Total reinsurance recoverable on unpaid claims	33,149
Insurance lines other than short-duration	26,300
Unallocated claims adjustment expenses	—
Impact of discounting	(8,123)
Other	—
	18,177
Total gross liability for unpaid claims and claim adjustment expenses	$ 60,023

The following table provides the historical average annual percentage payout of incurred claims by age, net of reinsurance, at December 31, 2016.

	Years				
	1	2	3	4	5
Group long-term disability	9.68%	27.92%	13.93%	7.85%	6.26%

10. Unpaid Claims Liability

Disclosures for unpaid claims liabilities were expanded in 2016, resulting from our adoption of FASB ASU No. 2015-09 Disclosures about Short-Duration Contracts.

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

The following tables present activity in the accident and health portion of the unpaid claims liability for the Individual Insurance, Group Insurance, and Old American segments. Classified as policy and contract claims, but excluded from these tables, are amounts recorded for group life, individual life, and deferred annuities. The amounts for 2015 and earlier are unaudited.

	Individual Insurance Segment		
	2016	2015	2014
Gross liability at beginning of year	$ 995	$ 1,276	$ 1,314
Less reinsurance recoverable	(595)	(761)	(690)
Net liability at beginning of year	400	515	624
Incurred benefits related to:			
Current year	65	93	128
Prior years [1]	5	(36)	(24)
Total incurred benefits	70	57	104
Paid benefits related to:			
Current year	36	56	78
Prior years	94	116	135
Total paid benefits	130	172	213
Net liability at end of year	340	400	515
Reinsurance recoverable	445	595	761
Gross liability at end of year	$ 785	$ 995	$ 1,276

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

	Group Insurance Segment		
	2016	2015	2014
Gross liability at beginning of year	$ 26,045	$ 25,345	$ 24,057
Less reinsurance recoverable	(20,142)	(19,369)	(18,502)
Net liability at beginning of year	5,903	5,976	5,555
Incurred benefits related to:			
Current year	26,069	26,067	26,803
Prior years [1]	(503)	(356)	(7)
Total incurred benefits	25,566	25,711	26,796
Paid benefits related to:			
Current year	22,264	22,827	23,243
Prior years	3,035	2,957	3,132
Total paid benefits	25,299	25,784	26,375
Net liability at end of year	6,170	5,903	5,976
Reinsurance recoverable	19,850	20,142	19,369
Gross liability at end of year	$ 26,020	$ 26,045	$ 25,345

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

	Old American Segment		
	2016	2015	2014
Gross liability at beginning of year	$ 6,132	$ 8,070	$ 8,517
Less reinsurance recoverable	(6,054)	(7,992)	(8,375)
Net liability at beginning of year	78	78	142
Incurred benefits related to:			
Current year	128	113	106
Prior years [1]	(64)	(58)	(130)
Total incurred benefits	64	55	(24)
Paid benefits related to:			
Current year	49	37	31
Prior years	12	18	9
Total paid benefits	61	55	40
Net liability at end of year	81	78	78
Reinsurance recoverable	5,260	6,054	7,992
Gross liability at end of year	$ 5,341	$ 6,132	$ 8,070

[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. The amounts for 2015 and earlier are unaudited.

	2016	2015	2014
Individual Insurance Segment:			
Individual accident and health	$ 785	$ 995	$ 1,276
Individual life	16,624	20,936	17,856
Deferred annuity	3,221	2,310	3,628
Subtotal	20,630	24,241	22,760
Group Insurance Segment:			
Group accident and health	26,020	26,045	25,345
Group life	1,671	1,962	2,550
Subtotal	27,691	28,007	27,895
Old American Segment:			
Individual accident and health	5,341	6,132	8,070
Individual life	6,361	6,524	6,832
Subtotal	11,702	12,656	14,902
Total	$ 60,023	$ 64,904	$ 65,557

11. Participating Policies

We have insurance contracts where the policyholder is entitled to share in the earnings through dividends, which reflect the difference between the premium charged and the actual experience. These insurance contracts were directly issued by the Company or were acquired through the purchase of participating blocks of business, largely through reinsurance assumption transactions. Participating business approximated 8% of total statutory premiums in 2016, compared to 9% in 2015. Assumed participating business accounted for 99% of total participating statutory premiums in both 2016 and 2015. Participating business equaled 11% of total life insurance in force at December 31, 2016, compared to 12% at December 31, 2015. Assumed participating business accounted for 97% of total participating life insurance in force at both December 31, 2016 and December 31, 2015.

The amount of dividends to be paid is determined annually by our Board of Directors. Provision has been made in the liability for future policy benefits to allocate amounts to participating policyholders on the basis of dividend scales contemplated at the time the policies were issued, as well as for policyholder dividends having been declared by the Board of Directors in excess of the original scale.

12. Debt

We had no notes payable at December 31, 2016 or December 31, 2015.

As a member of the Federal Home Loan Bank of Des Moines (FHLB) with a capital investment of $4.8 million at December 31, 2016, we have the ability to borrow on a collateralized basis from the FHLB. We received an insignificant amount of dividends on the capital investment in 2016, 2015, and 2014.

We have unsecured revolving lines of credit with two major commercial banks. The lines available totaled $70.0 million at December 31, 2016 and December 31, 2015 with no balances outstanding. The lines of credit are at variable interest rates based upon short-term indices, and they will mature in June of 2017. We anticipate renewing these lines as they come due.

13. Income Taxes

The following table provides information about income taxes for the years ended December 31.

	2016	2015	2014
Current income tax expense	$ 5,069	$ 9,048	$ 8,065
Deferred income tax expense	3,659	3,922	4,929
Total income tax expense	$ 8,728	$ 12,970	$ 12,994

The following table provides information about taxes paid for the years ended December 31.

	2016	2015	2014
Cash paid for income taxes	$ 4,933	$ 5,754	$ 8,756

The following table provides a reconciliation of the federal income tax rate to our effective income tax rate for the years ended December 31.

	2016	2015	2014
Federal income tax rate	35 %	35 %	35 %
Tax credits, net of equity adjustment	(5)%	(4)%	(4)%
Permanent differences and other	(2)%	— %	(1)%
Effective income tax rate	28 %	31 %	30 %

Presented below are tax effects of temporary differences that result in significant deferred tax assets and liabilities at December 31.

	2016	2015
Deferred tax assets:		
Future policy benefits	$ 18,327	$ 21,257
Employee retirement benefits	18,760	31,293
Other	6,725	—
Deferred tax assets	43,812	52,550
Deferred tax liabilities:		
Basis differences between tax and GAAP accounting for investments	6,431	5,200
Unrealized investment gains	32,476	33,482
Capitalization of DAC, net of amortization	60,216	59,533
Value of business acquired	8,081	8,499
Property and equipment, net	4,797	4,970
Other	—	69
Deferred tax liabilities	112,001	111,753
Net deferred tax liability	68,189	59,203
Current tax asset	(1,937)	(529)
Income taxes payable	$ 66,252	$ 58,674

A valuation allowance must be established for any portion of the deferred tax asset which is believed not to be realizable. Management reviews the need for a valuation allowance based on our anticipated future earnings, reversal of future taxable differences, the available carryback and carryforward periods, tax planning strategies that are prudent and feasible, and the ability and intent to hold securities until their recovery. In management's opinion, it is more likely than not that we will realize the benefit of our deferred taxes.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. In general, we are no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years prior to 2013. We are not currently under examination by the Internal Revenue Service (IRS).

Tax positions are evaluated at the reporting date to determine whether an unrecognized tax benefit should be recorded. A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the years ended December 31 is as follows:

	2016	2015
Beginning of year	$ 535	$ 22
Additions based on tax positions related to the current year	—	94
Additions (reductions) for tax positions of prior years	(535)	419
End of year	$ —	$ 535

Our policy is to recognize interest and penalties accrued related to unrecognized tax benefits in income tax expense. The Company recognized $0.1 million tax benefit related to tax penalty and interest expense in 2016. The Company recognized no tax penalty and interest expense in and 2015 and $0.1 million tax penalty and interest expense in 2014.

We had no material uncertain tax positions at December 31, 2016 or December 31, 2015.

Income tax expense is recorded in various places in our financial statements, as detailed below, for the years ended December 31.

	2016	2015	2014
Income tax expense	$ 8,728	$ 12,970	$ 12,994
Stockholders' equity:			
Related to:			
Change in net unrealized gains on securities available for sale	(1,004)	(27,600)	17,568
Effect on DAC, VOBA, and DRL	850	4,013	(530)
Change in future policy benefits	(1,056)	2,646	(3,730)
Change in policyholder account balances	(6)	149	(130)
Change in benefit plan obligations	6,543	196	(8,400)
Total income tax expense (benefit) included in financial statements	$ 14,055	$ (7,626)	$ 17,772

14. Pensions and Other Postemployment Benefits (OPEB)

We have pension and other postemployment benefit plans covering substantially all of our employees for which the measurement date is annually on December 31.

The Kansas City Life Cash Balance Pension Plan (the Plan) was amended effective December 31, 2010 to provide that participants' accrued benefits will be frozen, and that no further benefits or accruals will be earned after December 31, 2010. Although participants will no longer accrue additional benefits under the Plan at December 31, 2010, participants will continue to earn years of service for vesting purposes under the Plan with respect to their benefits accrued through December 31, 2010. In addition, the cash balance account will continue to earn annual interest. Plan benefits are based on a cash balance account consisting of credits to the account based upon an employee's years of service, compensation and interest credits on account balances calculated using the greater of the average 30-year U.S. Treasury bond rate for November of each year or 5.50%.

The Plan credits interest to eligible participants at the greater of 5.50% or the 30-year U.S. Treasury Rate as defined under the Plan. During 2016, the IRS mandated that qualified pension plans adopt one of three interest crediting methodologies. The Plan was amended effective January 1, 2017 to change its interest crediting rate to be the greater of 5.00% or the 30-year U.S. Treasury Rate.

In September 2016, the Plan was amended to allow for a one-time payment of benefits to certain qualified participants. Benefits in the form of cash lump sum payments or rollovers of lump sum benefits to qualified financial institutions were elected by certain participants. Total benefits paid under this one-time offer equaled $2.3 million or 1.60% of the projected benefit obligation as of December 31, 2015 and were not considered to be a significant event.

The benefits expected to be paid in each year from 2017 through 2021 are as follows: $11.6 million in 2017; $10.7 million in 2018; $9.8 million in 2019; $8.8 million in 2020; and $8.8 million in 2021. The aggregate benefits expected to be paid in the five years from 2022 through 2026 are $43.4 million. The expected benefits to be paid are based on the same assumptions used to measure the Company's benefit obligation at December 31, 2016 and are the actuarial present value of the vested benefits to which the employee is currently entitled but based upon the expected date of separation or retirement. The 2017 contribution for the plan has not been determined.

The asset allocation of the fair value of pension plan assets compared to the target allocation range at December 31 was:

	2016	2015	Target Allocation
Equity securities	41%	38%	33% - 43%
Asset allocation and alternative assets	30%	29%	23% - 33%
Debt securities	28%	31%	26% - 42%
Cash and cash equivalents	1%	2%	0% - 2%

Certain of our pension plan assets consist of investments in pooled separate accounts. Net asset value (NAV) of the separate accounts is calculated in a manner consistent with GAAP for investment companies and is determinative of their fair value. Several of the separate accounts invest in publicly quoted mutual funds or actively managed stocks. The fair value of the underlying mutual funds or stock is used to determine the NAV of the separate account, which is not publicly quoted. Some of the separate accounts also invest in fixed income securities. The fair value of the underlying securities is based on quoted prices of similar assets and used to determine the NAV of the separate account. Sale of plan assets may be at values less than NAV. Certain redemption restrictions may apply to specific stock and bond funds, including written notices prior to the withdrawal of funds and a potential redemption fee on certain withdrawals.

Hedge fund investments are recorded at NAV. The Plan's hedge funds invest primarily in other investment funds. The valuation policies of the hedge funds provide that the value of investments in other investment funds be stated at fair value based on the NAV of the other investment funds and certain redemption restrictions may apply, including a 45 day prior written notice to withdraw funds.

Plan fiduciaries set investment policies and strategies and oversee its investment allocation, which includes selecting investment managers, commissioning periodic asset-liability studies, and setting long-term strategic targets. Long-term strategic investment objectives include preserving the funded status of the plan and balancing risk and return. Target allocation ranges are guidelines, not limitations, and occasionally plan fiduciaries will approve allocations above or below a target range. The Plan does not expect to return any plan assets to the Company during 2017.

The current assumption for the expected long-term rate of return on plan assets is 7.50%. This assumption is determined by analyzing: 1) historical average returns achieved by asset allocation and active management; 2) historical data on the volatility of returns; 3) current yields available in the marketplace; 4) actual returns on plan assets; and 5) current and anticipated future allocation among asset classes. The asset classes used for this analysis are domestic and international equities, investment grade corporate bonds, alternative assets, and cash. The overall rate is derived as a weighted average of the estimated long-term returns on the asset classes represented in the investment portfolio of the plan.

The assumed discount rate used to determine the benefit obligation was 3.69% for pension benefits and was 4.02% for postemployment benefits. The discount rates were determined by reference to the Citigroup Pension Liability Yield Curve on December 31, 2016. Specifically, the spot rate curve represents the rates on zero coupon securities of the quality and type included in the pension index at various maturities. By discounting benefit cash flows at these rates, a notional amount equal to the fair value of a cash flow defeasing portfolio of bonds was determined. The discount rate for benefits was calculated as a single rate giving the same discounted value as the notional amount.

We adopted the updated mortality tables issued by the Society of Actuaries during 2015. These tables were updated because of additional Social Security mortality information and reflect shorter life expectancy, which may result in a lower benefit obligation for certain pension plans. The result of the adoption of this updated table was a decrease of $2.2 million in the Plan's benefit obligation. These same tables were used during 2016.

The postemployment medical plans for eligible employees and their dependents are contributory with contributions adjusted annually. The benefits expected to be paid in each year from 2017 through 2021 are as follows: $0.8 million in 2017; $0.8 million in 2018; $0.9 million in 2019; $0.9 million in 2020; and $1.0 million in 2021. The aggregate benefits expected to be paid in the five years from 2022 through 2026 are $5.8 million. The expected benefits to be paid are based on the same assumptions used to measure the Company's benefit obligation at December 31, 2016. Contributions to the plan in 2016 were $0.5 million. The 2017 contribution for the plan is estimated to be $0.8 million. The Company pays these medical costs as they become due and the plan incorporates cost-sharing features. The postemployment plan disclosures included herein do not include the potential impact from the Medicare Act (the Act) that became law in December 2003. The Act introduced a new federal subsidy to sponsors of certain retiree health care plans that provide a benefit that is at least actuarially equivalent to Medicare. Since the Company does not provide benefits that are actuarially equivalent to Medicare, the Act did not impact our disclosures.

Non-contributory defined contribution retirement plans for eligible general agents and sales agents provide supplemental payments based upon earned agency first year individual life and annuity commissions. Contributions to these plans were $0.2 million in 2016, $0.1 million in 2015, and $0.1 million in 2014. Non-contributory deferred compensation plans for eligible agents based upon earned first year commissions are also offered. Contributions to these plans were $0.2 million in 2016, $0.3 million in 2015, and $0.3 million in 2014.

Savings plans for eligible employees and agents match employee and agent contributions up to 8.00% of salary and 2.50% of agents' prior year paid commissions. Contributions to the plans were $2.1 million in 2016, 2015, and 2014. We may contribute an additional profit sharing amount up to 4% of salary for eligible employees, depending upon corporate profits. The Company did not make a profit sharing contribution in 2016 or 2015.

During 2015, we terminated our employee stock ownership plan, which was a non-contributory trusteed employee stock ownership plan that covered substantially all salaried employees. No contributions have been made to this plan since 1992. The final valuation date for the assets held by the plan was September 30, 2015, and distribution of the plan's assets occurred in the fourth quarter of 2015.

We recognize the funded status of our defined benefit pension and postemployment plans, measured as the difference between plan assets at fair value and the projected benefit obligation, in the Consolidated Balance Sheets. Changes in the funded status that arise during the period, but are not recognized as components of net periodic benefit cost, are recognized within other comprehensive income (loss), net of taxes.

The following tables provide information regarding pension benefits and other benefits for the years ended December 31.

	Pension Benefits		OPEB	
	2016	2015	2016	2015
Change in projected benefit obligation:				
Benefit obligation at beginning of year	$ 144,395	$ 157,713	$ 34,616	$ 36,456
Service cost	—	—	518	686
Interest cost	5,333	5,424	1,452	1,402
Plan participants' contributions	—	—	496	512
Plan changes	(1,538)	—	—	—
Actuarial gain	(1,504)	(8,860)	(13,055)	(3,168)
Benefits paid	(12,824)	(9,882)	(967)	(1,272)
Benefit obligation at end of year	$ 133,862	$ 144,395	$ 23,060	$ 34,616
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 130,858	$ 137,987	$ —	$ —
Return on plan assets	10,231	(3,275)	—	—
Plan participants' contributions	—	—	496	512
Company contributions	6,028	6,028	471	760
Benefits paid	(12,824)	(9,882)	(967)	(1,272)
Fair value of net plan assets at end of year	$ 134,293	$ 130,858	$ —	$ —
Funded status at end of year	$ (431)	$ 13,537	$ 23,060	$ 34,616

	Pension Benefits		OPEB	
	2016	2015	2016	2015
Amounts recognized in accumulated other comprehensive income (loss):				
Net loss (gain)	$ 75,108	$ 80,090	$ (8,877)	$ 4,274
Prior service credit	(1,538)	—	(925)	(1,901)
Total accumulated other comprehensive income (loss)	$ 73,570	$ 80,090	$ (9,802)	$ 2,373

	Pension Benefits		OPEB	
	2016	2015	2016	2015
Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss):				
Unrecognized actuarial net (gain) loss	$ (2,333)	$ 4,334	$ (13,055)	$ (3,168)
Unrecognized prior service credit	(1,538)	—	—	—
Amortization of net loss	(2,649)	(2,400)	(96)	(471)
Amortization of prior service credit	—	—	976	1,146
Total (gain) loss recognized in other comprehensive income (loss)	$ (6,520)	$ 1,934	$ (12,175)	$ (2,493)

	Pension Benefits		OPEB	
	2016	2015	2016	2015
Plans with underfunded accumulated benefit obligation:				
Projected benefit obligation	$ 133,862	$ 144,395	$ —	$ —
Accumulated benefit obligation	133,862	144,395	—	—
Fair value of plan assets	134,293	130,858	—	—
Weighted average assumptions used to determine benefit obligations at December 31:				
Discount rate	3.69%	3.84%	4.02%	4.26%
Weighted average assumptions used to determine net periodic benefit cost for years ended December 31:				
Discount rate	3.84%	3.57%	4.26%	3.90%
Expected return on plan assets	7.50%	7.50%	—	—

The following table presents the fair value of each major category of pension plan assets at December 31.

	2016	2015
Fixed maturity securities:		
United States Government	$ 666	$ 2,071
Industrial and public utility	16,050	18,697
Investment funds:		
Mutual funds	44,548	40,292
Hedge fund	18,679	18,877
Collective trust	42,995	38,295
Limited partnerships	10,443	9,992
Other invested assets	14	32
Cash and cash equivalents	723	2,379
Receivables	178	245
Fair value of assets at end of year	134,296	130,880
Liabilities:		
Accrued liabilities	3	22
Total liabilities	3	22
Fair value of net plan assets at end of year	$ 134,293	$ 130,858

The following tables provide the fair value hierarchy, as described in Note 4, for pension plan assets at December 31.

	2016			
	Level 1	Level 2	Level 3	Total
Fixed maturity securities:				
United States Government	$ —	$ 666	$ —	$ 666
Industrial and public utility	—	16,050	—	16,050
Mutual funds	44,548	—	—	44,548
Other invested assets	—	—	14	14
Total assets in the fair value hierarchy	44,548	16,716	14	61,278
Investments measured at net asset value: [1]				
Hedge fund				18,679
Collective trust				42,995
Limited partnerships				10,443
Investments at fair value	$ 44,548	$ 16,716	$ 14	$ 133,395

	2015			
	Level 1	Level 2	Level 3	Total
Fixed maturity securities:				
United States Government	$ —	$ 2,071	$ —	$ 2,071
Industrial and public utility	—	18,697	—	18,697
Mutual funds	40,292	—	—	40,292
Other invested assets	—	—	32	32
Total assets in the fair value hierarchy	40,292	20,768	32	61,092
Investments measured at net asset value: [1]				
Hedge fund				18,877
Collective trust				38,295
Limited partnerships				9,992
Investments at fair value	$ 40,292	$ 20,768	$ 32	$ 128,256

[1] These investments are valued based on net asset value per unit. These values are provided by the fund as a practical expedient and have not been classified in the fair value hierarchy.

The following table discloses the changes in Level 3 pension plan assets measured at fair value on a recurring basis for the years ended December 31.

	2016	2015
Beginning balance	$ 32	$ 50
Losses realized and unrealized	(18)	(18)
Ending balance	$ 14	$ 32

The following table provides the components of net periodic benefit cost for the years ended December 31.

	Pension Benefits			OPEB		
	2016	2015	2014	2016	2015	2014
Service cost	$ —	$ —	$ —	$ 518	$ 686	$ 611
Interest cost	5,333	5,424	6,202	1,452	1,402	1,499
Expected return on plan assets	(9,403)	(9,919)	(10,322)	—	—	—
Amortization of:						
Unrecognized actuarial net loss	2,649	2,400	1,718	96	471	87
Unrecognized prior service credit	—	—	—	(976)	(1,146)	(1,146)
Net periodic benefit cost (credit)	(1,421)	(2,095)	(2,402)	1,090	1,413	1,051
Total recognized in other comprehensive income (loss)	(6,520)	1,934	18,915	(12,175)	(2,493)	5,086
Total recognized in net periodic benefit cost (credit) and other comprehensive income (loss)	$ (7,941)	$ (161)	$ 16,513	$ (11,085)	$ (1,080)	$ 6,137

The following table provides the estimated net loss and prior service credit for the pension plan and other postemployment plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost in 2017.

	Pension Benefits	OPEB
Actuarial net loss (gain)	$ 2,638	$ (833)
Prior service credit	(66)	(825)

The assumed growth rate of health care costs has a significant effect on the benefit amounts reported, as the following table demonstrates.

	One Percentage Point Change in the Growth Rate	
	Increase	Decrease
Service and interest cost components	$ 224	$ (178)
Postemployment benefit obligation	3,597	(2,911)

For measurement purposes, the annual increase in the per capita cost of covered health care benefits was assumed to be 7.50%, decreasing gradually to 5.00% in 2027 and thereafter.

15. Share-Based Payment

We have an omnibus incentive plan that includes a long-term incentive benefit for senior management. The plan design includes a cash award to participants that may be paid, in part, based on the increase in the share price of our common stock through units (phantom shares) assigned by the Board of Directors. The cash award is calculated over a three-year interval on a calendar year basis. At the conclusion of each three-year interval, participants will receive a cash award based on the increase in the share price during a defined measurement period, multiplied by the number of units attributable to each participant. The increase in the share price is determined based on the change in the share price from the beginning to the end of the three-year interval. Amounts representing dividends are accrued and paid at the end of each three-year interval to the extent that they exceed negative stock price appreciation. Plan payments are contingent on the continued employment of the participant unless termination is due to a qualifying event such as death, disability, or retirement. In addition, all payments are lump sum with no deferrals allowed. The Company does not make payments in shares, warrants, or options.

The following table provides information about the outstanding three-year intervals at December 31, 2016.

Defined Measurement Period	Number of Units	Grant Price
2014-2016	162,063	$48.06
2015-2017	186,962	$47.87
2016-2018	152,857	$43.495
2017-2019*	146,772	$48.01

* Effective January 1, 2017

The plan made a payment of $1.7 million during 2016 for the three-year interval ended December 31, 2015 and a payment of $3.8 million during 2015 for the three-year interval ended December 31, 2014. The plan made a payment of $3.8 million during 2014 for the three-year interval ended December 31, 2013. The cost of share-based compensation accrued as an operating expense during 2016 was $1.0 million, net of tax. The change in accrual that reduced operating expense during 2015 was $0.1 million, net of tax. The cost of share-based compensation accrued as an operating expense during 2014 was $1.4 million, net of tax.

16. Reinsurance

The following table provides information about reinsurance for the years ended December 31.

	2016	2015	2014
Life insurance in force (in millions) :			
Direct	$ 28,838	$ 28,104	$ 27,978
Ceded	(13,245)	(13,296)	(13,546)
Assumed	3,409	3,666	4,006
Net	$ 19,002	$ 18,474	$ 18,438
Premiums:			
Life insurance:			
Direct	$ 171,314	$ 159,692	$ 162,110
Ceded	(47,122)	(46,262)	(45,703)
Assumed	2,304	2,415	2,479
Net	$ 126,496	$ 115,845	$ 118,886
Accident and health:			
Direct	$ 55,400	$ 54,465	$ 57,603
Ceded	(10,077)	(10,135)	(10,941)
Net	$ 45,323	$ 44,330	$ 46,662

Ceded Reinsurance Arrangements

Old American has a coinsurance agreement that reinsures certain whole life policies issued by Old American prior to December 1, 1986. These policies had a face value of $19.4 million at December 31, 2016 and $20.8 million at December 31, 2015. The reserve for future policy benefits ceded under this agreement was $11.5 million at December 31, 2016 and $12.2 million at December 31, 2015.

Sunset Life entered into a yearly renewable term reinsurance agreement January 1, 2002, whereby it ceded 80% of its retained mortality risk on traditional and universal life policies. In June 2012, Sunset Life recaptured approximately 9% of the outstanding bulk reinsurance agreement. The insurance in force ceded approximated $0.8 billion at December 31, 2016 and $0.9 billion at December 31, 2015. Premiums totaled $6.8 million during 2016, $7.0 million during 2015, and $7.3 million during 2014.

Reinsurance recoverables were $187.9 million at year-end 2016, consisting of reserves ceded of $175.9 million and claims ceded of $12.0 million. Reinsurance recoverables were $198.8 million at year-end 2015, consisting of reserves ceded of $178.7 million and claims ceded of $20.1 million.

The maximum retention on any one life during 2016 and 2015 was $0.5 million for ordinary life plans and $0.1 million for group coverage.

The following table reflects our reinsurance partners whose reinsurance recoverable was 5% or greater of our total reinsurance recoverable at December 31, 2016, along with their A.M. Best credit rating.

	A.M. Best Rating	Reinsurance Recoverable	% of Recoverable
TransAmerica Life Insurance Company	A+	$ 46,551	25%
Security Life of Denver	A	24,075	13%
RGA Reinsurance Company	A+	20,807	11%
Union Security Insurance Company	A-	12,374	6%
Employers Reassurance Corporation	A-	11,769	6%
Lewer Life Insurance Company	B	10,617	6%
Other (22 Companies)		61,747	33%
Total		$ 187,940	100%

A contingent liability exists with respect to reinsurance, which may become a liability of the Company in the unlikely event that the reinsurers should be unable to meet obligations assumed under reinsurance contracts. The solvency of reinsurers is reviewed annually.

We monitor several factors that we consider relevant as to the ongoing ability of a reinsurer to meet the obligations of the reinsurance agreements. These factors include the credit rating of the reinsurer and significant changes or events of the reinsurer. If we believe that any reinsurer would not be able to satisfy its obligations with us, a separate contingency reserve may be established. At year-end 2016 and 2015, no reinsurer met these conditions. In addition, we review the credit rating and financial statements of a reinsurer before entering into any new agreements.

Assumed Reinsurance Arrangements

We acquired a block of traditional life and universal life products in 1997 through a 100% coinsurance and servicing arrangement. Investments equal to the statutory policy reserves are held in a trust to secure payment of the estimated liabilities relating to the policies. This block had $0.9 billion of life insurance in force at both December 31, 2016 and December 31, 2015. This block generated life insurance premiums of $2.2 million in 2016, $2.3 million in 2015, and $2.4 million in 2014.

We acquired a block of variable universal life insurance policies and variable annuity contracts from American Family Life Insurance Company in 2013. The transfer was comprised of a 100% modified coinsurance transaction on the separate account business and a 100% coinsurance transaction for the corresponding fixed account business. Included in the transaction are ongoing servicing arrangements for this business. This block consisted of $295.7 million of separate account balances at December 31, 2016, which are included in the financial statements of American Family, compared to $292.4 million at December 31, 2015. This block consisted of $0.6 million of future policy benefits and $28.5 million in fixed fund balances that are included in policyholder account balances in the Company's Consolidated Balance Sheets at December 31, 2016. This block consisted of $0.6 million of future policy benefits and $26.5 million in fixed fund balances at December 31, 2015.

17. Comprehensive Income (Loss)

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

The following tables provide information about comprehensive income (loss).

	Year Ended December 31, 2016		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized gains (losses) arising during the year:			
Fixed maturity securities	$ 2,201	$ 771	$ 1,430
Equity securities	(551)	(193)	(358)
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	5,139	1,799	3,340
Other-than-temporary impairment losses recognized in earnings	(563)	(196)	(367)
Other-than-temporary impairment losses recognized in other comprehensive income	(57)	(21)	(36)
Net unrealized losses excluding impairment losses	(2,869)	(1,004)	(1,865)
Change in benefit plan obligations	18,695	6,543	12,152
Effect on DAC, VOBA, and DRL	2,427	850	1,577
Future policy benefits	(3,016)	(1,056)	(1,960)
Policyholder account balances	(16)	(6)	(10)
Other comprehensive income	$ 15,221	$ 5,327	$ 9,894
Net income			22,316
Comprehensive income			$ 32,210

	Year Ended December 31, 2015		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized losses arising during the year:			
Fixed maturity securities	$ (78,242)	$ (27,386)	$ (50,856)
Equity securities	(46)	(16)	(30)
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	3,048	1,067	1,981
Other-than-temporary impairment losses recognized in earnings	(2,189)	(766)	(1,423)
Other-than-temporary impairment losses recognized in other comprehensive loss	(292)	(103)	(189)
Net unrealized losses excluding impairment losses	(78,855)	(27,600)	(51,255)
Change in benefit plan obligations	560	196	364
Effect on DAC, VOBA, and DRL	11,465	4,013	7,452
Future policy benefits	7,559	2,646	4,913
Policyholder account balances	425	149	276
Other comprehensive loss	$ (58,846)	$ (20,596)	$ (38,250)
Net income			29,226
Comprehensive loss			$ (9,024)

	Year Ended December 31, 2014		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized gains arising during the year:			
Fixed maturity securities	$ 50,805	$ 17,781	$ 33,024
Equity securities	1,880	658	1,222
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	4,025	1,409	2,616
Other-than-temporary impairment losses recognized in earnings	(2,176)	(762)	(1,414)
Other-than-temporary impairment gains recognized in other comprehensive income	643	225	418
Net unrealized gains excluding impairment losses	50,193	17,567	32,626
Change in benefit plan obligations	(24,001)	(8,400)	(15,601)
Effect on DAC, VOBA, and DRL	(1,516)	(531)	(985)
Future policy benefits	(10,659)	(3,731)	(6,928)
Policyholder account balances	(372)	(130)	(242)
Other comprehensive income	$ 13,645	$ 4,775	$ 8,870
Net income			29,990
Comprehensive income			$ 38,860

The following table provides accumulated balances related to each component of accumulated other comprehensive income (loss) at December 31, 2016, net of tax.

	Unrealized Gain on Non-Impaired Securities	Unrealized Gain on Impaired Securities	Benefit Plan Obligations	DAC/ VOBA/ DRL Impact	Future Policy Benefits	Policyholder Account Balances	Total
Beginning of year	$ 59,163	$ 3,085	$ (53,600)	$ (11,069)	$ (12,493)	$ (296)	$ (15,210)
Other comprehensive income (loss) before reclassification	(3,870)	(932)	12,152	1,689	(1,960)	(10)	7,069
Amounts reclassified from accumulated other comprehensive income (loss)	3,340	(403)	—	(112)	—	—	2,825
Net current period other comprehensive income (loss)	(530)	(1,335)	12,152	1,577	(1,960)	(10)	9,894
End of year	$ 58,633	$ 1,750	$ (41,448)	$ (9,492)	$ (14,453)	$ (306)	$ (5,316)

The following table provides accumulated balances related to each component of accumulated other comprehensive income (loss) at December 31, 2015, net of tax.

	Unrealized Gain on Non-Impaired Securities	Unrealized Gain on Impaired Securities	Benefit Plan Obligations	DAC/ VOBA/ DRL Impact	Future Policy Benefits	Policyholder Account Balances	Total
Beginning of year	$ 110,362	$ 3,141	$ (53,964)	$ (18,521)	$ (17,406)	$ (572)	$ 23,040
Other comprehensive income (loss) before reclassification	(53,180)	1,556	364	7,477	4,913	276	(38,594)
Amounts reclassified from accumulated other comprehensive income (loss)	1,981	(1,612)	—	(25)	—	—	344
Net current period other comprehensive income (loss)	(51,199)	(56)	364	7,452	4,913	276	(38,250)
End of year	$ 59,163	$ 3,085	$ (53,600)	$ (11,069)	$ (12,493)	$ (296)	$ (15,210)

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 for the years ended December 31.

	2016	2015	2014
Reclassification adjustments related to unrealized gains (losses) on investment securities:			
Net realized investment gains, excluding impairment losses [1]	$ 5,139	$ 3,048	$ 4,025
Income tax expense [2]	(1,799)	(1,067)	(1,409)
Net of taxes	3,340	1,981	2,616
Other-than-temporary impairment losses [1]	(620)	(2,481)	(1,533)
Income tax benefit [2]	217	869	537
Net of taxes	(403)	(1,612)	(996)
Reclassification adjustment related to DAC, VOBA, and DRL [1]	(173)	(38)	(147)
Income tax benefit [2]	61	13	51
Net of taxes	(112)	(25)	(96)
Total pre-tax reclassifications	4,346	529	2,345
Total income tax expense	(1,521)	(185)	(821)
Total reclassification, net taxes	$ 2,825	$ 344	$ 1,524

[1] (Increases) decreases net realized investment gains (losses) on the Consolidated Statements of Comprehensive Income.

[2] (Increases) decreases income tax expense on the Consolidated Statements of Comprehensive Income.

18. 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 years reported. The average number of shares outstanding were 9,683,414 shares during 2016, 10,614,068 shares during 2015, and 10,927,705 shares during 2014. The number of shares outstanding at both December 31, 2016 and December 31, 2015 was 9,683,414.

19. Segment Information

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. The Individual Insurance segment consists of individual insurance products for both Kansas City Life and Sunset Life and the assumed reinsurance transactions. The Group Insurance segment consists of sales of group life, dental, vision, and group disability products. The Old American segment consists of individual insurance products designed largely as final expense products.

Insurance revenues, as shown in the Consolidated Statements of Comprehensive Income, consist of premiums and contract charges, less reinsurance ceded. Insurance revenues are defined as “customer revenues” for segment reporting purposes. Separate investment portfolios are maintained for Kansas City Life, Sunset Life, and Old American for segment reporting purposes. Investment assets and income are allocated to the Group Insurance segment based upon its cash flows and future policy benefit liabilities. Policyholder benefits are specifically identified to the respective segment. Most home office functions are fully integrated for all segments in order to maximize economies of scale. Therefore, operating expenses are allocated to the segments based upon internal cost studies, which are consistent with industry cost methodologies.

Inter-segment revenues are not material. We operate solely in the United States and no individual customer accounts for 10% or more of our revenue.

The following tables provide selected financial statement items of each of the operating segments for the three years ended December 31. Intercompany transactions have been eliminated to arrive at Consolidated Statements of Comprehensive Income.

	2016			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues (customer revenues)	$ 141,557	$ 56,967	$ 84,429	$ 282,953
Interest credited to policyholder account balances	72,814	—	—	72,814
Amortization of deferred acquisition costs	10,070	—	17,763	27,833
Income tax expense	8,108	44	576	8,728
Net income	20,974	86	1,256	22,316
Assets	4,051,014	8,834	389,565	4,449,413

	2015			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues (customer revenues)	$ 137,001	$ 55,576	$ 79,628	$ 272,205
Interest credited to policyholder account balances	74,326	—	—	74,326
Amortization of deferred acquisition costs	13,411	—	14,937	28,348
Income tax expense	11,111	166	1,693	12,970
Net income	25,969	308	2,949	29,226
Assets	4,035,016	9,299	377,558	4,421,873

	2014			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues (customer revenues)	$ 150,523	$ 57,852	$ 75,822	$ 284,197
Interest credited to policyholder account balances	76,463	—	—	76,463
Amortization of deferred acquisition costs	23,668	—	17,220	40,888
Income tax expense	11,632	282	1,080	12,994
Net income	27,649	523	1,818	29,990
Assets	4,184,516	9,688	377,663	4,571,867

20. Quarterly Consolidated Financial Data (unaudited)

The unaudited quarterly results of operations for the years ended December 31 are summarized in the following table.

	First	Second	Third	Fourth
2016:				
Total revenues	$ 112,554	$ 108,524	$ 112,209	$ 111,735
Total benefits and expenses	106,321	101,002	102,055	104,600
Net income	4,257	5,242	7,193	5,624
Per common share, basic and diluted	0.44	0.54	0.74	0.58
2015:				
Total revenues	$ 110,805	$ 108,873	$ 112,261	$ 108,912
Total benefits and expenses	101,283	93,317	104,101	99,954
Net income	6,778	10,899	5,435	6,114
Per common share, basic and diluted	0.63	1.01	0.52	0.59

21. Statutory Information and Stockholder Dividends Restriction

The following table provides Kansas City Life's net gain from operations, net income, and capital and surplus (stockholders' equity) on the statutory basis used to report to regulatory authorities for the years ended December 31.

	2016	2015	2014
Net gain from operations	$ 11,457	$ 27,390	$ 27,167
Net income	12,457	29,149	26,697
Capital and surplus	323,304	297,612	338,422

The change in capital and surplus in 2016 was largely attributable to a $19.9 million reduction in the liability for pension and OPEB, net income of $12.5 million, and a $7.0 million increase in net unrealized gains. These changes were partially offset by stockholder dividends paid of $10.5 million and a $4.6 million increase in asset valuation reserve. The decrease in capital and surplus in 2015 was largely attributable to $58.4 million in stock purchases, including $47.6 million from the reverse/forward stock split transaction that occurred during the fourth quarter of 2015.

Kansas City Life recognizes its 100% ownership in Old American and Sunset Life under the equity method with subsidiary earnings recorded through surplus on a statutory accounting basis. Capital and surplus at December 31, 2016 in the above table includes capital and surplus of $25.5 million for Old American and $32.4 million for Sunset Life.

Stockholder dividends may not exceed statutory unassigned surplus. Additionally, under Missouri law, the Company must have the prior approval of the Missouri Director of Insurance to pay dividends in any consecutive twelve-month period exceeding the greater of statutory net gain from operations for the preceding year or 10% of statutory stockholders' equity at the end of the preceding year. We believe that Kansas City Life, as the parent company, has sufficient cash resources, independent of dividends paid by its affiliates, to satisfy its own stockholder dividend payments. In addition, we believe that individually each of the insurance enterprises has sufficient cash flows to satisfy the anticipated cash dividends that are expected to be declared.

The maximum stockholder dividends payable by Kansas City Life without prior approval in 2017 is $32.3 million, 10% of December 31, 2016 capital and surplus. The maximum stockholder dividends payable by Old American without prior approval in 2017 is $2.6 million, 10% of December 31, 2016 capital and surplus. The maximum stockholder dividends payable by Sunset

Life without prior approval in 2017 is $3.2 million, 10% of December 31, 2016 capital and surplus. We believe that the statutory limitations impose no practical restrictions on the dividend payment plans of our three insurance companies.

Insurance companies are monitored and evaluated by state insurance departments as to the financial adequacy of statutory capital and surplus in relation to each company's risks. One such measure is through the risk-based capital (RBC) guidelines. RBC requirements are intended to be used by insurance regulators as an early warning tool to identify deteriorating or weakly capitalized insurance companies for the purpose of initiating regulatory action. RBC guidelines consist of target statutory surplus levels based on the relationship of statutory capital and surplus to the sum of weighted risk exposures. The RBC calculation determines both an authorized control level and a total adjusted capital prepared on the RBC basis. Generally, regulatory action is at 150% of the authorized control level. Each of the three insurance companies was within the range of approximately 700% to 1,000%, well in excess of the control level at December 31, 2016.

We are required to deposit a defined amount of assets with state regulatory authorities. Such assets had a statutory carrying value of $12.1 million at both December 31, 2016 and December 31, 2015 and $12.2 million at December 31, 2014.

22. Commitments, Contingent Liabilities, Guarantees, and Indemnifications

Commitments

In the normal course of business, we have open purchase and sale commitments. At December 31, 2016, we had purchase commitments to fund mortgage loans of $15.9 million.

Subsequent to December 31, 2016 we entered into commitments to fund additional mortgage loans of $20.8 million.

Contingent Liabilities

We are defendants in, or subject to, other claims or legal actions related to insurance and investment products. Some of these claims and legal actions are in jurisdictions where juries are given substantial latitude in assessing damages, including punitive damages.

We are involved in litigation from time to time both as a defendant and as a plaintiff, in the ordinary course of business. Although no assurances can be given and no determinations can be made at this time, management believes that the ultimate liability, if any, with respect to these legal actions and other claims would not have a material effect on our business, financial position, or results of operations.

In accordance with applicable accounting guidelines, we establish an accrued liability for litigation and regulatory matters, when those matters present loss contingencies that are both probable and estimable. As a litigation or regulatory matter develops, it is evaluated on an ongoing basis, often in conjunction with outside counsel, as to whether the matter presents a loss contingency that meets conditions indicating the need for accrual and/or disclosure. If and when a loss contingency related to litigation or regulatory matters is deemed to be both probable and estimable, we establish an accrued liability. This accrued liability is then monitored for further developments that may affect the amount of the accrued liability.

Based on currently available information, we do not believe that any litigation, proceeding, or other matter to which we are a party or otherwise involved will have a material adverse effect on our financial condition or cash flows. However, in light of the uncertainties involved in such matters, we are unable to predict the outcome or the timing of the ultimate resolution of these matters.

We are subject to regular reviews and inspections by state and federal regulatory authorities. State insurance examiners - or independent audit firms engaged by such examiners - may, from time to time, conduct examinations or investigations into industry practices and into customer complaints. A regulatory violation discovered during a review, inspection, or investigation could result in a wide range of remedies that could include the imposition of sanctions against us or our employees, which could have a material adverse effect on our financial statements. The Missouri Department of Insurance most recently completed an examination based upon our statutory financial statements for the year ended December 31, 2014 for Kansas City Life, Sunset Life, and Old American. No recommendations or financial adjustments were required of any of the insurance companies as a result of that examination.

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

Guarantees and Indemnifications

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

23. Subsequent Events

We evaluated events that occurred subsequent to December 31, 2016 through March 13, 2017, the date the consolidated financial statements were issued.

On January 23, 2017, the Kansas City Life Board of Directors declared a quarterly dividend of $0.27 per share, paid on February 8, 2017 to stockholders of record on February 2, 2017.

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 year ended December 31, 2016.

Independent Auditors' Report

The Audit Committee and Stockholders
Kansas City Life Insurance Company:

We have audited the accompanying consolidated financial statements of Kansas City Life Insurance Company and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kansas City Life Insurance Company and its subsidiaries as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Audited by Other Auditors

The consolidated financial statements as of December 31, 2015 and for the years ended December 31, 2015 and 2014, were audited by other auditors and their report thereon, dated March 10, 2016, expressed an unmodified opinion.

/s/ BKD, LLP

Kansas City, Missouri
March 13, 2017

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 the management of Kansas City Life Insurance Company on its financial condition, results of operations, liquidity, and certain other factors that may affect future results. The terms "the Company," "we," "us," and "our" are used to refer to Kansas City Life Insurance Company and its subsidiaries. Kansas City Life Insurance Company (Kansas City Life) is the parent company. Sunset Life Insurance Company of America (Sunset Life) and Old American Insurance Company (Old American) are wholly-owned subsidiaries. The Company also has non-insurance subsidiaries that individually and collectively are not material. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes included in this document.

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 surrenders of future policy benefits and policyholder account balances;
- The rate of morbidity, disability, and incurrence of other policyholder benefits;
- Persistency of existing insurance policies;
- Interest rates credited to policyholders;
- The effectiveness of reinsurance programs;
- The amount of investment assets under management;
- The ability to maximize investment returns and manage risks such as interest rate risk, credit risk, and equity risk;
- Timely and cost-effective access to liquidity; and
- Management of distribution costs and operating expenses.

General economic conditions may affect future results. Market fluctuations, often extreme in nature, have significantly impacted the financial markets and our investments, revenues, and policyholder benefits in recent periods. The sustained low interest rate environment and volatile equity markets have presented significant challenges to the financial markets as a whole and specifically to companies invested in fixed maturity securities and other fixed income investments. These conditions may continue and the stressed economic and market environment may persist into the future, affecting our financial position and financial statements.

Statement on Forward-Looking Information

This report reviews the consolidated financial condition and results of operations of Kansas City Life Insurance Company. Historical information is presented and discussed. Where appropriate, factors that may affect future financial performance are also identified and discussed. Certain statements made in this report include "forward-looking statements." Forward-looking statements include any statement that may predict, forecast, indicate or imply future results, performance, or achievements rather than historical facts and may contain words like "believe," "expect," "estimate," "project," "forecast," "anticipate," "plan," "will," "shall," and other words, phrases, or expressions with similar meaning.

Forward-looking statements are subject to known and unknown risks, uncertainties, and other factors that may cause actual results to differ materially from those contemplated by the forward-looking statements. Factors that could cause future results to differ materially from expected results include, but are not limited to:

- Changes in general economic conditions, including the performance of financial markets and interest rates;
- Increasing competition and changes in consumer behavior, which may affect our ability to sell our products and retain business;
- Increasing competition in the recruitment and retention of new general agents and agents;
- Customer and agent response to new products, distribution channels, and marketing initiatives;
- Fluctuations in experience regarding current mortality, morbidity, persistency, and interest rates relative to expected amounts used in pricing our products;
- Changes in assumptions related to DAC, VOBA, and DRL;
- Regulatory, accounting, or tax changes that may affect the cost of, or the demand for, our products or services; and
- Unanticipated changes in industry trends and ratings assigned by nationally recognized rating organizations.

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.

Consolidated Results of Operations

Summary of Results

We earned net income of $22.3 million in 2016 compared to $29.2 million in 2015. Net income per share was $2.30 in 2016 versus $2.75 in 2015. Contributing to the 2016 decline in net income was a decrease in net investment income and increases in policyholder benefits and operating expenses. Partially offsetting these items were increases in net premiums and net realized investment gains and a decrease in interest credited to policyholder account balances. Additional information on these items is presented below.

The following table presents condensed consolidated results of operations for the years ended December 31.

	2016	2015	% Change
Revenues:			
Insurance and other revenues	$ 289,525	$ 279,934	3 %
Net investment income	150,608	157,150	(4)%
Net realized investment gains	4,889	3,767	30 %
Benefits and expenses:			
Policyholder benefits and interest credited to policyholder account balances	284,680	273,047	4 %
Amortization of deferred acquisition costs	27,833	28,348	(2)%
Operating expenses	101,465	97,260	4 %
Income tax expense	8,728	12,970	(33)%
Net income	$ 22,316	$ 29,226	(24)%

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. The level of new sales, the type of products sold, the persistency of policies, general economic conditions, and competitive forces affect insurance revenues.

The following table presents gross premiums on new and renewal business, less reinsurance ceded, for the two years ended December 31. New premiums are also detailed by product.

	2016	% Change	2015
New premiums:			
Traditional life insurance	$ 20,291	10%	$ 18,466
Immediate annuities	27,388	25%	21,843
Group life insurance	2,785	18%	2,364
Group accident and health insurance	12,876	7%	12,072
Total new premiums	63,340	16%	54,745
Renewal premiums	165,678	2%	161,827
Total premiums	229,018	6%	216,572
Reinsurance ceded	(57,199)	1%	(56,397)
Net premiums	$ 171,819	7%	$ 160,175

Consolidated total premiums increased $12.4 million or 6% in 2016 compared to 2015. New premiums increased $8.6 million or 16% in 2016 compared to the prior year. The largest factor in this improvement was a $5.5 million or 25% increase in new immediate annuity premiums. Immediate annuity receipts can have sizeable fluctuations, as receipts from policyholders largely result from one-time premiums. In addition, new traditional life insurance premiums increased $1.8 million or 10% and new group life premiums increased $0.4 million or 18%. Also, new group accident and health premiums increased $0.8 million or 7%, primarily from the long-term disability line, which is significantly reinsured. Renewal premiums increased $3.8 million or 2% in 2016 compared to 2015, reflecting a $3.8 million or 3% increase in renewal traditional life premiums. The increases in both new and renewal traditional life insurance premiums were largely from the Old American segment.

Deposits related to universal life, fixed deferred annuity contracts, and investment-type products 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 in the period in which the benefits and services are provided as contract charges in the Consolidated Statements of Comprehensive Income. The following table provides detail by new and renewal deposits for the two years ended December 31. New deposits are also detailed by product.

	2016	% Change	2015
New deposits:			
Universal life insurance	$ 13,327	— %	$ 13,314
Variable universal life insurance	268	(12)%	303
Fixed annuities	50,250	23 %	40,874
Variable annuities	9,799	(49)%	19,160
Total new deposits	73,644	— %	73,651
Renewal deposits	142,044	(2)%	144,278
Total deposits	$ 215,688	(1)%	$ 217,929

General economic conditions and interest rates available in the marketplace influence new deposits on interest sensitive products. In addition, fluctuations in the equity markets influence the variable life and annuity products. Generally, low interest rate environments present significant challenges to products such as these, and potential sizeable fluctuations in new sales can result.

Total new deposits were essentially unchanged in 2016 compared to 2015. A $9.4 million or 23% increase in new fixed annuity deposits was offset by a $9.4 million or 49% decline in new variable annuity deposits. Total renewal deposits decreased $2.2 million or 2% in 2016 compared to the prior year, as renewal deposits decreased for universal life, variable universal life, and fixed annuities. Partially offsetting these was an increase in renewal variable annuity deposits.

Contract charges result from charges and fees on interest-sensitive and deposit-type products. We maintain both open blocks of business and closed blocks of business. The closed blocks of business reflect products and entities that have been purchased and for which we are not actively pursuing marketing efforts to generate new sales. We continue to service these policies to support customers and to meet long-term profit objectives as these blocks of business decline over time. Total contract charges on closed blocks equaled 41% of total consolidated contract charges during 2016, down from 43% in 2015. Contract charges are also potentially impacted by unlocking adjustments, as discussed below.

Total contract charges decreased $0.9 million or 1% in 2016 relative to the prior year. This decline reflected decreases in charges and fees on our closed blocks of business. These were partially offset by increased amortization of deferred revenue, primarily resulting from variances in deferred revenue unlocking adjustments during 2016 versus 2015. An unlocking adjustment decreased the amortization of deferred revenue $1.0 million during 2016. This compares to an unlocking adjustment that decreased deferred revenue amortization $2.3 million during 2015.

Total contract charges on closed blocks decreased 5% in 2016 compared to 2015, reflecting the runoff of the business. Total contract charges on open, or ongoing, blocks of business increased 2% compared to the prior year. This increase largely resulted from variances in the deferred revenue unlocking adjustments.

Investment Revenues

Gross investment income decreased $6.1 million or 4% in 2016 compared to one year earlier. This decline reflected lower average invested assets and lower overall yields earned and available on certain investments. In addition, investment expenses increased $0.4 million or 3% in 2016 compared to 2015, primarily due to an increase in real estate expenses.

Fixed maturity securities provide a majority of our investment income. Fixed maturity securities totaled 73% of our investments at December 31, 2016 compared to 74% at December 31, 2015. Income from these investments declined $6.9 million or 6% compared to 2015, reflecting lower average invested assets and lower yields earned.

Investment income from commercial mortgage loans decreased $1.0 million or 3% in 2016. This decline was due to lower yields earned that were partially offset by a higher average mortgage loan portfolio balance compared to the prior year.

Investment income from real estate properties increased $1.7 million or 10% in 2016, largely due to the purchase and development of real estate. However, real estate expenses also increased as a result of these purchases.

We recorded net realized investment gains of $4.9 million in 2016. Gains recorded in 2016 included $1.3 million from sales of investment securities, $4.3 million of investment securities called, and $1.1 million from the sale of real estate. Partially offsetting these gains were investment losses of $1.3 million, primarily due to the write-down of one security that was considered other-than-temporarily impaired. Also partially offsetting these gains was a $0.7 million increase in the allowance for mortgage loan losses.

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. The largest component of policyholder benefits was death benefits for the periods presented. Death benefits reflect mortality results, after consideration of the impact of reinsurance.

Policyholder benefits increased $13.1 million or 7% in 2016 compared to 2015, resulting from an increase in benefit and contract reserves. Several factors contributed to the change in reserves. Changes in the fair value of the GMWB rider resulted in a $2.3 million increase in benefit and contract reserves. This change included a $0.6 million increase in reserves in 2016 and a $1.7 million decrease in reserves in 2015. This fluctuation is primarily due to decreases in risk-free swap rates. Also contributing to the reserve change was an $5.5 million increase in immediate annuity premiums, which results in an increase to the change in reserves on an equal and offsetting basis. In addition, the change in reserves reflected a $1.1 million increase in reserves on interest bonuses for certain policies and a $2.6 million reserve increase on the secondary guaranteed universal life product that resulted from unlocking and refinements. This compares to a $0.3 million decrease in reserves on interest bonuses for certain policies in 2015. Partially offsetting these changes, death benefits, net of reinsurance, decreased $1.0 million in 2016 compared to 2015.

Interest Credited to Policyholder Account Balances
Interest credited to policyholder account balances decreased $1.5 million or 2% in 2016 compared to 2015. This decline was due to lower average crediting rates and a decrease in policyholder account balances compared to one year earlier.

Total policyholder account balances decreased $4.4 million or less than 1% during 2016. The average interest rate credited to policyholder account balances was 3.55% in 2016 compared to 3.60% in 2015 and 3.67% in 2014. Investment yields on the assets matched to these liabilities were 4.62% in 2016 compared to 4.86% in 2015 and 5.03% in 2014.

Amortization of DAC
The amortization of DAC decreased $0.5 million or 2% in 2016 compared to the prior year. This decline resulted from several factors, including lower investment income in 2016 and improved market returns in 2016 from separate accounts. In addition, an unlocking adjustment decreased DAC amortization $5.9 million in 2016, compared to an unlocking adjustment that decreased DAC amortization $6.4 million in 2015. The unlocking in 2016 was associated with favorable adjustments for mortality, which was in part offset by adjustments related to interest rates. The unlocking in 2015 was associated with favorable adjustments for mortality and expenses, partially offset by adjustments related to interest rates. Partially offsetting these items, DAC amortization increased on traditional life products. This increase was due to increased terminations, largely from the Old American segment, reflecting the growing block of business in this segment.

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 other expenses. Operating expenses increased $4.2 million or 4% in 2016. This increase was primarily due to higher compensation costs that were partially offset by a decrease in VOBA amortization.

VOBA is evaluated on an ongoing basis for unlocking adjustments. If necessary, adjustments are made to the current period VOBA amortization. The amortization of VOBA decreased $1.3 million or 32% in 2016. This decrease is largely attributable to an unlocking adjustment that decreased VOBA amortization $0.5 million in 2016 compared to an unlocking adjustment that increased VOBA amortization $0.9 million in 2015.

Income Taxes
We recorded income tax expense of $8.7 million or 28% of income before tax in 2016, compared to income tax expense of $13.0 million or 31% of income before tax in 2015. The decrease in the effective tax rate in 2016 versus 2015 was primarily due to permanent differences and tax credits from affordable housing investments having a greater impact due to lower pretax income, and to a decrease in expense from prior year taxes.

The effective income tax rate was lower than the prevailing corporate federal income tax rate of 35% in 2016 and 2015, primarily due to permanent differences, including the dividends-received deduction, and tax credits from affordable housing investments.

Analysis of Investments

This analysis of investments should be read in conjunction with Note 3 included in this document.

The following table provides asset class detail of the investment portfolio at December 31. Fixed maturity and equity securities represented 73% of the investment portfolio at December 31, 2016 compared to 75% at December 31, 2015.

	2016	% of Total	2015	% of Total
Fixed maturity securities	$ 2,530,907	72%	$ 2,580,845	74%
Equity securities	23,996	1%	25,325	1%
Mortgage loans	630,889	18%	589,960	17%
Real estate	195,621	6%	168,097	5%
Policy loans	79,893	2%	81,392	2%
Short-term investments	27,526	1%	22,474	1%
Other investments	1,388	—	380	—
Total	$ 3,490,220	100%	$ 3,468,473	100%

Fixed maturity securities were the largest component of our total investments at December 31, 2016. The largest categories of fixed maturity securities at December 31, 2016 consisted of 80% in corporate securities, 6% in municipal securities, and 6% in U.S. Treasury securities and obligations of the U.S. Government. Fixed maturity securities had unrealized gains of $110.5 million and unrealized losses of $18.3 million at December 31, 2016.

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 above investment grade were 96% at December 31, 2016, compared to 95% at December 31, 2015.

The fair value of fixed maturity securities with unrealized losses was $516.9 million at December 31, 2016, compared with $567.2 million one year earlier. This decrease primarily reflected a tightening in overall market spreads during 2016. In particular, the energy asset class experienced improved performance during the year. At December 31, 2016, 94% of security investments with an unrealized loss were investment grade and accounted for 85% of the total unrealized losses. At December 31, 2015, 94% of securities with an unrealized loss were investment grade and accounted for 88% of the total unrealized losses. At December 31, 2016, we had $111.9 million in gross unrealized gains on fixed maturity and equity securities that offset $19.0 million in gross unrealized losses. At December 31, 2015, we had $128.6 million in gross unrealized gains on fixed maturity and equity securities that offset $32.8 million in gross unrealized losses. At December 31, 2016, 79% of the fixed maturity and equity securities portfolio had unrealized gains, up slightly from 78% at December 31, 2015. We had a decrease in gross unrealized losses in most categories from year-end 2015 to year-end 2016 due to changes in interest rates and market spreads during 2016. Gross unrealized losses on fixed maturity and equity securities for less than 12 months accounted for $12.5 million or 66% of the security values in a gross unrealized loss position at December 31, 2016. Gross unrealized losses on fixed maturity and equity security investments of 12 months or longer decreased from $9.6 million at December 31, 2015 to $6.5 million at December 31, 2016.

Our residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities that were rated below investment grade were 34% at December 31, 2016 and 41% at December 31, 2015. This decrease was largely attributable to the sale of selected investments.

We have written down certain investments in previous periods. Fixed maturity securities written down and still owned at December 31, 2016 had a fair value of $47.0 million and net unrealized gains of $2.7 million, compared to the December 31, 2015 fair value of $80.7 million and net unrealized gains of $4.6 million. Additional information identified or further deteriorations could result in impairments in future periods.

We evaluated the current status of all investments previously written down to determine whether we believe that these investments remained credit-impaired to the extent previously recorded. Our evaluation process is similar to our impairment evaluation process. If evidence exists that we will receive the contractual cash flows from securities previously written down, the accretion of income is adjusted. We did not change our evaluation of any investments under this process during 2016 or 2015.

Investments in mortgage loans totaled $630.9 million at December 31, 2016, up from $590.0 million at December 31, 2015. The commercial mortgage loan portfolio increased $40.9 million during 2016, as new loans exceeded the regularly scheduled payments and the volume of prepaid loans. Mortgage loan principal paydowns increased $21.1 million in 2016 compared to 2015, primarily due to a higher dollar volume of prepaid loans. Our mortgage loans are secured by commercial real estate. These loans are stated at the outstanding principal balance, adjusted for amortization of premium and accrual of discount, less an allowance for loan losses. We believe this allowance is at a level adequate to absorb estimated credit losses and was $3.3 million at December 31, 2016 and $2.7 million at December 31, 2015. For additional information on our mortgage loan portfolio, please see Note 3.

Investments in real estate totaled $195.6 million at December 31, 2016 and $168.1 million at December 31, 2015. The increase in real estate investments is largely attributable to purchases and improvements made in 2016. In the third quarter of 2016, we purchased a developed property that resulted in an increase of $29.6 million. In addition, we sold a developed property in the first quarter of 2016 that resulted in a realized gain of $1.0 million before applicable income taxes.

Liquidity and Capital Resources

Liquidity

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

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

Net cash provided by operating activities was $20.9 million for the year ended December 31, 2016. The primary sources of cash from operating activities in 2016 were premium receipts and net investment income. The primary uses of cash from operating activities in 2016 were for the payment of policyholder benefits and operating expenses. Net cash used by investing activities was $27.2 million. The primary sources of cash were sales, maturities, calls, and principal paydowns of investments totaling $406.6 million. Offsetting these, investment purchases, including new mortgage loans and new policy loans, totaled $427.8 million. Net cash provided by financing activities was $8.1 million, primarily including $10.3 million of deposits, net of withdrawals, on policyholder account balances and $7.7 million of net transfers from separate accounts. Partially offsetting these were the payment of $10.5 million in stockholder dividends.

Capital Resources

We believe existing capital resources provide adequate support for the current level of business activities, as identified in the following table at December 31.

	2016	2015
Total assets, excluding separate accounts	$ 4,076,157	$ 4,048,949
Total stockholders' equity	685,583	663,831
Ratio of stockholders' equity to assets, excluding separate accounts	17%	16%

Stockholders' equity increased $21.8 million from year-end 2015. This increase was attributable to earnings during the year and the change in the liability for pension and OPEB. Stockholders' equity per share, or book value, equaled $70.80 at year-end 2016, an increase from $68.55 at year-end 2015.

Net unrealized gains on available for sale securities, which are included as part of accumulated other comprehensive income (loss) and as a component of stockholders' equity (net of unrealized losses on investments, related taxes, policyholder account balances, future policy benefits, DAC, VOBA, and DRL), totaled $36.1 million at December 31, 2016, a $2.3 million decrease from December 31, 2015.

Our statutory equity exceeds the minimum capital deemed necessary to support our insurance business, as determined by the risk-based capital calculations and guidelines established by the National Association of Insurance Commissioners. We believe these statutory limitations impose no practical restrictions on future dividend payment plans. See further discussion in Note 21 - Statutory Information and Stockholder Dividends Restriction.

During the year ended December 31, 2015, we purchased 15,092 shares and sold 400 shares of treasury stock in transactions with our employee stock ownership plan for a net increase in treasury stock of $0.7 million. During 2015, we terminated our employee stock ownership plan. The final valuation date for the assets held by the plan was September 30, 2015, and distribution of the plan's assets occurred in the fourth quarter of 2015. As part of the termination of the employee stock ownership plan, we repurchased 14,674 of the plan's 23,045 shares during the fourth quarter of 2015 to satisfy those participants who requested cash distributions from the plan. The remaining shares were distributed to plan participants, as directed by those participants.

In January 2017, the Board of Directors authorized the purchase of up to one million of our shares on the open market through January 2018. During 2016, there were no shares purchased under this authorization. During 2015, we purchased 215,548 of our shares under this authorization for $9.8 million.

In December 2015, we completed a reverse/forward stock-split transaction. This transaction occurred as part of a 1-for-250 reverse stock split of our common stock. We purchased approximately 906,500 shares or 9% of the outstanding shares for $47.6 million. We subsequently completed a 250-for-1 forward stock split for each one share of our common stock (including each fractional share of such class of stock in excess of one share).

On January 23, 2017, the Board of Directors declared a quarterly dividend of $0.27 per share that was paid February 8, 2017 to stockholders of record at February 2, 2017.

Minimum Rate Guarantees
Our rate guarantees for those products with minimum crediting rate provisions are identified in the following table. The guaranteed minimum crediting rate has been reduced over time on new products being sold, consistent with the declining interest rate environment. The actual interest rate credited to these products may be greater than the guaranteed rates, particularly for products having been sold more recently and within the lower guaranteed rate categories. Approximately 81% of total policyholder account balances were at the minimum guaranteed rate as of December 31, 2016 compared to 83% at December 31, 2015.

	December 31, 2016				
	Fixed Deferred Annuities	Universal Life	Variable Life and Annuities	Supplemental Contracts and Annuities Without Life Contingencies	Total
0% to 1%	$ 209,318	$ 13,955	$ 3,032	$ 7,973	$ 234,278
Greater than 1% to 3%	321,297	208,804	95,867	27,428	653,396
Greater than 3% to 4%	416,341	308,306	8,134	12,625	745,406
Greater than 4%	51,252	360,940	—	6,456	418,648
Total	$ 998,208	$ 892,005	$ 107,033	$ 54,482	$ 2,051,728

	December 31, 2015				
	Fixed Deferred Annuities	Universal Life	Variable Life and Annuities	Supplemental Contracts and Annuities Without Life Contingencies	Total
0% to 1%	$ 172,230	$ 8,555	$ 2,794	$ 8,175	$ 191,754
Greater than 1% to 3%	345,466	200,698	94,467	25,177	665,808
Greater than 3% to 4%	424,524	314,613	7,960	14,330	761,427
Greater than 4%	54,933	375,751	—	6,453	437,137
Total	$ 997,153	$ 899,617	$ 105,221	$ 54,135	$ 2,056,126

Fixed Deferred Annuity Contracts
Fixed deferred annuities typically involve single-payment deposits that accumulate over time through interest credited, and these contracts also typically provide the right to make additional renewal deposits. The timing and magnitude of outgoing cash flows from these contracts is dependent upon many factors, primarily due to contract owner rights to surrender or annuitize the policy value during the term of the contract and benefit options that are provided upon death. We make estimates and projections of future cash flows on fixed deferred annuities based upon the economic environment, ranges of future economic changes, and historical contract holder behavior.

The term of the contract is dependent upon the individual needs and decisions of contract owners up to and including the time of contractual maturity. The maturity of the contract is typically determined by a combination of the duration of ownership of the contract and the annuity owner's age. Deferred annuity contract owners with upcoming annuity maturities receive communication from us regarding the various maturity settlement options that are available in the contract. The communication can result in extension of the contract maturity date, surrender of the contract prior to maturity, or conversion of the contract to other contract or policy types. Conversions typically involve payment of the contract value over time and often with life contingencies.

The following table provides deferred annuity contract values within maturity date ranges. The values and date ranges provided below do not necessarily represent our expected outflow of funds from these contracts, as these cash flows may be significantly impacted by the needs and decisions of the contract owners.

	2016	% of Total	2015	% of Total
One year or less	$ 133,829	13%	$ 124,393	13%
Two years	56,104	6%	53,209	5%
Three years	45,176	4%	40,981	4%
Four years	59,360	6%	45,676	5%
Five years	57,961	6%	62,643	6%
Six years or more	645,778	65%	670,251	67%
Total	$ 998,208	100%	$ 997,153	100%

Fixed deferred annuity contracts typically also contain provisions for charges to be paid by contract holders if the contract is surrendered within a fixed period of time after purchase. The surrender charge typically declines on an annual basis during an initial term of typically ten or fewer years. The magnitude of any surrender charge applicable to a contract is believed to impact policyholder behavior and the timing of future cash flows. The following table provides the policy values for fixed deferred annuities by summary ranges of applicable surrender charges as of December 31, 2016 and 2015.

	2016	% of Total	2015	% of Total
None	$ 638,844	64%	$ 646,440	65%
Less than 5%	172,734	17%	149,646	15%
5% and greater	186,630	19%	201,067	20%
Total	$ 998,208	100%	$ 997,153	100%

Asset/Liability Management

Our asset/liability management programs and procedures involve the monitoring of asset and liability durations for various product lines, cash flow testing under various interest rate scenarios to evaluate the potential sensitivity of assets and liabilities to interest rate movements, and the continuous rebalancing of assets and liabilities with respect to yield, risk, and cash flow characteristics.

We believe our asset/liability management programs and procedures, along with certain product features, provide protection for us against the effects of changes in interest rates under various scenarios.

Cash flows and effective durations of the asset and liability portfolios are measured at points in time and are affected by changes in the level and term structure of interest rates, as well as changes in policyholder behavior. Further, durations are managed on an individual product level, and an aggregate portfolio basis. As a result, differences typically exist between the duration, cash flows, and yields of assets versus liabilities on an individual portfolio and aggregate basis. Our asset/liability management programs and procedures enable management to monitor the changes, which have varying correlations among certain portfolios, and to make adjustments to asset mix, liability crediting rates, and product terms so as to manage risk and profitability over time.

We aggregate similar policyholder liabilities into portfolios and then match specific investments with these liability portfolios. In 2016 and 2015, all of our portfolios had investment yields that exceeded the crediting rates on the matched liabilities. We monitor the risk to portfolio investment margins on an ongoing basis.

We perform cash flow scenario testing through models of our in force business. These models reflect specific product characteristics and include assumptions based on current and anticipated experience regarding the relationships between short-term and long-term interest rates (i.e., the slope of the yield curve), credit spreads, market liquidity, and other factors, including policyholder behavior in certain market conditions. In addition, these models include asset cash flow projections, reflecting interest payments, sinking fund payments, scheduled principal payments, and optional bond calls and prepayments.

The risk exists that our asset or liability portfolio performance may differ from forecasted results as a result of unforeseen economic circumstances, estimates or assumptions that prove incorrect, unanticipated policyholder behavior, or other factors. The result of such deviation of actual versus expected performance could include excess or insufficient liquidity in future periods. Excess liquidity, in turn, could result in reduced profitability on one or more product lines. Insufficient liquidity could result in the need to generate liquidity through borrowing, asset sales, or other means. We believe that our asset/liability management programs will provide sufficient liquidity to enable us to fulfill our obligation to pay benefits under our various insurance and deposit contracts. On a historical basis, we have not needed to liquidate assets to ensure sufficient cash flows. We maintain borrowing lines on a secured and unsecured basis to provide additional liquidity, if needed.

Risk Factors

The operating results of life insurance companies have historically been subject to significant fluctuations. The factors which could affect our future results include, but are not limited to, general economic conditions and the known trends and uncertainties which are discussed more fully below.

Strategic and Operational Risks:

We operate in a mature and highly competitive industry, which could limit our ability to grow sales or maintain our position in the industry and negatively affect profitability.

Life insurance is a mature and highly competitive industry. We encounter significant competition in all lines of business from other insurance companies, many of which may have greater financial resources, a greater market share, a broader range of products, lower product prices, better name recognition, greater actual or perceived financial strength, higher claims-paying ratings, the ability to assume a greater level of risk, lower operating or financing costs, or lower profitability expectations.

In recent years, there has been substantial consolidation and convergence among companies in the financial services industry, resulting in increased competition from large, well-capitalized financial services firms. Furthermore, many of these larger competitors may have lower operating costs and an ability to absorb greater risk while maintaining their financial strength ratings, thereby allowing them to price their products more competitively.

Changes in demographics, particularly the aging of the population, and the decline in the number of agents in the industry, may affect the sales of life insurance products. Also, as technology evolves, customers and agents may be able to compare products of any particular company with any other, which could lead to increased competition as well as changes in agent or customer behavior, including persistency, that differs from past behavior.

We may be unable to attract and retain agencies and agents.

We sell insurance and annuity products through independent agents and agencies. These agencies and agents are not captive and may sell products of our competitors. Sales and our financial results could be adversely affected if we are unsuccessful in attracting agencies and agents. Our ability to retain agents and agencies is dependent upon a number of factors, including: our ability to maintain a competitive compensation system while also offering products with competitive features and benefits for policyholders; our ability to maintain a level of service and support activities that effectively support the needs of agents and agencies; and our ability to approve and monitor sales and business practices of agents and agencies that are consistent with regulatory requirements and our expectations.

Our results may be negatively affected should actual experience differ from management's assumptions and estimates.

We make certain assumptions regarding mortality, persistency, expenses, interest rates, tax liability, business mix, policyholder behavior, and other factors appropriate for the type of business results we expect to experience in future periods. These assumptions are also used to estimate the amounts of DAC, VOBA, DRL, policy reserves and accruals, future earnings, and various components of our financial statements. These assumptions are used in the operations of our business in making decisions that are crucial to our success, including the pricing of products and expense structures relating to products. Our actual experience and changes in estimates are reflected in our financial statements. Our actual experience may vary from period to period and from established assumptions, potentially resulting in variability in the financial statements.

We establish and carry a reserve liability based on current estimates of how much will be needed to pay for future benefits and claims. The assumptions and estimates used in connection with establishing and carrying reserves are inherently uncertain and in some cases are mandated by regulators, irrespective of a company's actual experience. If actual experience is significantly different from assumptions or estimates or if regulators decide to increase or change regulations, current reserves may prove to be inadequate in relation to estimated future benefits and claims. As a result, a charge to earnings would be incurred in the quarter in which the company increases reserves.

The calculations we use to estimate various components of our financial statements are complex and involve analyzing and interpreting large quantities of data. We employ various techniques for such calculations and, from time to time, will develop and implement more sophisticated systems and procedures to facilitate calculations and improve estimates. Accordingly, our financial results may be affected, positively or negatively, by actual results differing from assumptions, by changes in estimates, and by changes resulting from implementing new administrative systems and procedures.

Risk management policies and procedures may leave us exposed to unidentified or unanticipated risk, which could negatively affect business or result in losses.

We have devoted significant resources to develop risk management policies and procedures and will continue to do so in the future. However, the policies and procedures that we use to identify, monitor, and manage risks may not be fully effective. Many of the methods of managing risk and exposure are based upon the use of observed historical policyholder and market behavior or statistics based on historical models. As a result, these methods may not effectively or fully identify or evaluate the magnitude of existing or future exposure, which could be significantly greater than the historical measures or our evaluation indicate. Other risk management methods depend upon the evaluation of information regarding markets, agents, clients, catastrophe occurrence, or other matters that are publicly available or otherwise accessible. This information may not always be accurate, complete, up-to-date, or properly evaluated. Management of operational, legal, and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective. Additional risks and uncertainties not currently known or that we currently deem to be immaterial may adversely affect our business and/or our financial statements.

A rating downgrade could adversely affect our ability to compete and increase the number or value of policies surrendered.

Our financial strength rating, which is intended to measure our ability to meet policyholder obligations, may be an important consideration affecting public confidence in some of our products and, as a result, our competitiveness. A downgrade in our rating could adversely affect our ability to sell products, retain existing business, and compete for attractive acquisition opportunities. Rating organizations assign ratings based upon several factors. While most of the factors relate to the rated company, some of the factors relate to the views of the rating organization, general economic conditions, and circumstances outside the rated company's control. We cannot predict what actions rating organizations may take or what actions we may be required to take in response to the actions of the rating organizations.

Reinsurance Risks:

Our reinsurers could fail to meet assumed obligations or be subject to adverse developments that could impact us.

We follow the insurance practice of reinsuring a portion of the risks under the policies we issue, known as ceding. We cede significant amounts of insurance to other insurance companies through reinsurance. This reinsurance makes the assuming reinsurer liable to us for the reinsured portion of the risk. However, reinsurance does not discharge us from our primary obligation to pay policyholders for losses insured under the policies that are issued. Therefore, we are subject to the credit risk of our reinsurers. The failure of one or more of our reinsurers could negatively impact our financial position or financial statements.

Our ability to compete is dependent on the availability of reinsurance, cost of reinsurance, or other substitute capital market solutions.

The premium rates we charge are based, in part, on the assumption that reinsurance will be available at a certain cost. Under certain reinsurance agreements, the reinsurer may increase the rate it charges us for the reinsurance. Therefore, if the cost of reinsurance were to increase for existing business, if reinsurance were to become unavailable for new business, or if alternatives to reinsurance were not available, we may be exposed to reduced profitability and cash flow strain, or may not be able to sell or price new business at competitive rates.

Recently, access to reinsurance has become more costly for us, as well as the insurance industry in general. In recent years, the number of life reinsurers has decreased as the reinsurance industry has consolidated. The decreased number of participants in the life reinsurance market results in increased concentration risk for insurers. If the reinsurance market further contracts, our ability to continue to offer our products on terms favorable to us could be adversely impacted.

Investment Risks:

Our investments are subject to market and credit risks.

We hold a diversified portfolio of investments that primarily includes fixed maturity securities, equity securities, mortgage loans, and real estate. Each of these investments is subject, in varying degree, to market risks that can affect their return and their fair value.

Our invested assets, primarily including fixed maturity securities, are subject to customary risks of credit defaults and changes in fair value. The value of our mortgage loan and real estate portfolios also depend on the financial condition of the borrowers and tenants occupying the properties which we have financed. Factors that may affect the overall default rate on and fair value of our invested assets include interest rate levels and changes, availability and cost of liquidity, financial market performance, and general economic conditions, as well as particular circumstances affecting the businesses of individual borrowers and tenants.

Our investments are exposed to varying degrees of credit risk. Credit risk is the risk that the value of the investment may decline due to deterioration in the financial strength of the issuer and that the timely or ultimate payment of principal or interest might not occur. A default by an issuer usually involves some loss of principal to the investor. Losses can be mitigated by timely sales of affected securities or by active involvement in a restructuring process. However, there can be no assurance that the efforts of an investor will lead to favorable outcomes in a bankruptcy or restructuring.

We attempt to mitigate credit risk by diversifying the investment portfolio across a broad range of issuers, investment sectors and security types, and by limiting the amount invested in any particular entity. We also invest in securities collateralized or supported by physical assets, guarantees by insurers or other providers of financial strength, and other sources of secondary or contingent payment. These securities can improve the likelihood of payment according to contractual terms and increase recovery amounts in the case of issuer default, bankruptcy, or restructuring.

Interest rate fluctuations could negatively affect our spread income or otherwise impact our business.

Interest rate fluctuations or sustained low interest rate environments could negatively affect earnings because the profitability of certain products depends in part on interest rate spreads. These products include fixed deferred annuities, single premium immediate annuities, interest-sensitive whole life, universal life, and the fixed portion of variable universal life insurance and variable annuity business. In addition, we offer riders, including guaranteed minimum withdrawal benefits and guaranteed minimum death benefits. Changes in interest rates or sustained low interest rate environments may reduce both the profitability and the return on invested capital.

Some of our products, principally fixed annuities, interest-sensitive whole life, universal life, and the fixed portion of variable universal life insurance and variable annuity business have interest rate guarantees that expose us to the risk that changes in interest rates will reduce the spread, or the difference between the amounts we are required to credit to policyholder contracts and the amounts earned on general account investments. Because many of our policies have guaranteed minimum interest or crediting rates, spreads could decrease and potentially become negative. Declines in spread or instances where the returns on the general account investments are not sufficient to support the interest rate guarantees on these products could have a material adverse effect on our financial statements. In addition, in periods of increasing interest rates, we may not be able to replace the assets in the general account with higher yielding assets needed to fund the higher crediting rates that may be necessary to keep interest sensitive products competitive. Therefore, we may have to accept a lower spread and profitability or face a decline in sales, loss of existing contracts from non-renewed maturities, early withdrawals, or surrenders. In periods of declining interest rates, we may have to reinvest the cash received from interest or return of principal on investments in lower yielding instruments then available. Moreover, issuers of fixed-income investment securities and borrowers related to our commercial mortgage investments may prepay these obligations in order to borrow at lower market rates, which may increase our risk to have to reinvest at lower rates. Increases in interest rates may cause increased surrenders of insurance products. In periods of increasing interest rates, policy loans and surrenders and withdrawals of life insurance policies and annuity contracts may increase, as policyholders seek to buy products with higher returns. These outflows may require investment assets to be sold at a time when the prices of those assets are lower because of the increase in market interest rates, which may result in realized investment losses. Further, higher interest rates may result in significant unrealized losses on investments. These net unrealized losses could have a negative effect on stockholders' equity. This could negatively impact the ability to pay policyholder and stockholder dividends. In addition, higher interest rates may reduce the fair value of policyholders' separate account investments, which may reduce our revenues from asset-based management fees.

While we develop and maintain asset/liability management programs and procedures designed to identify and mitigate the effect on spread income in rising or falling interest rate environments, no assurance can be given that changes in interest rates will not affect such spreads or that our evaluation of fluctuations will be correct or allow for timely modifications. Additionally, our asset/liability management programs incorporate assumptions about the relationship between short-term and long-term interest rates (i.e., the slope of the yield curve) and relationships between risk-adjusted and risk-free interest rates, market liquidity, and policyholder behavior in periods of changing interest rates and other factors. The effectiveness of our asset/liability management programs and procedures may be negatively affected whenever actual results differ from these assumptions.

Prolonged periods of low interest rates can affect policyholder behavior and negatively impact earnings.

As interest rates decline, policyholders may become more likely to extend the retention or duration of fixed-rate products previously purchased and may seek alternatives to fixed-rate products for new purchases. Policyholders may add premiums or deposits to existing policies or contracts with terms upon which we are no longer offering on new products. Many of the products sold in earlier periods may have minimum guaranteed interest crediting rates or other features that are greater than those being offered in the current low interest rate environment. Additionally, cash flows from existing investments, including interest and principal payments, may be reinvested at lower interest rates relative to prior periods. As a result, a prolonged low interest rate environment can result in significant changes to cash flows, lower investment income, compressed product spreads, reduced earnings, and increased surplus strain. In addition, we may change our risk profiles in regards to selecting investment opportunities to reduce the impact on earnings.

The change from a low interest rate environment to an environment of increasing interest rates can affect policyholder behavior and negatively impact earnings.

The change from a period of low interest rates to a period of significantly higher and increasing interest rates may cause policyholders to surrender policies or to make early withdrawals in order to maximize their returns. Accordingly, we may become more susceptible to increased surrenders and withdrawals on policies, as surrender charges and other features that help protect us from increased or unexpected policyholder withdrawals or lapses are ineffective. Increases in policyholder surrenders, withdrawals, or lapses could negatively affect our operating results and liquidity.

Our valuation of fixed maturity and equity securities include estimations and assumptions and could result in changes to investment valuations that may have a material adverse effect on our financial statements.

Fixed maturity securities, equity securities, and short-term investments are reported at fair value in the Consolidated Balance Sheets and represent the majority of total cash and invested assets. During periods of market disruption, including periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity, it may be difficult to value certain securities if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were previously acquired and valued in active markets with significant observable data that are now valued in illiquid markets with little observable data. As such, valuations may include inputs and assumptions that are less observable or require greater estimation as well as valuation methods which are more complex or require increased estimation, thereby resulting in values which may have greater variance from the value at which the investments may or could be ultimately sold. Further, rapidly changing credit and equity market conditions could materially impact the valuation of securities as reported in the consolidated financial statements, and the period to period changes in value could vary significantly. Decreases in value could have a material adverse effect on our financial statements.

Equity market volatility could negatively impact our profitability.

We are exposed to equity market volatility in the following ways:

- We have exposure to equity price risk through investments. However, this exposure is limited due to the relatively small equity portfolio held during the periods presented.
- We earn investment management fees and mortality and expense fee income based upon the value of assets held in our separate accounts from both direct and reinsurance arrangements. Revenues from these sources fluctuate with changes in the fair value of the separate accounts.
- Volatility in equity markets may discourage customers from purchasing variable universal life and annuity products that have returns linked to the performance of the equity markets. This volatility may also result in existing customers withdrawing cash values or reducing investments in those products.
- We have equity price risk to the extent that it may affect the liability recognized under guaranteed minimum death benefits and guaranteed minimum withdrawal benefit provisions of the variable contracts. Periods of significant and sustained downturns in equity markets, increased equity volatility or reduced interest rates could result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with such products, which ultimately could result in a reduction to net income.
- The amortization of DAC relating to variable products can fluctuate with changes in the performance of the underlying separate accounts due to the impact on estimated gross profits.

The determination of the amount of realized and unrealized impairments and allowances established on our investments is highly subjective and could materially impact our financial position or financial statements.

The determination of the amount of impairments and allowances varies by investment type and is based upon our evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. There can be no assurance that the assumptions, methodologies, and judgments employed in these evaluations and assessments will be accurate or sufficient in later periods. As a result, additional impairments may need to be realized or allowances provided in future periods. Further, historical trends may not be indicative of future impairments or allowances.

Additionally, we consider a wide range of factors about security issuers and we use our best judgment in evaluating the cause of the decline in the fair value of the security and in assessing the prospects for recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer, its future earnings potential, and the ability and timeliness of the security's recovery in fair value.

We could be forced to sell investments at a loss to meet policyholder withdrawals.

Many of our products allow policy and contract holders to withdraw their funds under defined circumstances. We manage liabilities and attempt to align the investment portfolio so as to provide and maintain sufficient liquidity to support anticipated withdrawal demands, contract benefits, and maturities. While we own a significant amount of liquid assets, a certain portion of investment assets are relatively illiquid. If we experience unanticipated withdrawal or surrender activity, we could exhaust other sources of liquidity and be forced to liquidate assets, possibly on unfavorable terms. If we are forced to dispose of assets on unfavorable terms, it could have an adverse effect on our financial statements and financial condition.

Regulatory Risks:

Insurance companies are highly regulated and are subject to numerous legal restrictions and regulations.

We are subject to government regulation in each of the states in which we conduct business. Such regulation is vested in state agencies having broad administrative and, in some instances, discretionary power dealing with many aspects of our business. This may include, among other things, premium rates and increases thereto, reserve requirements, marketing practices, advertising, privacy, policy forms, reinsurance reserve requirements, acquisitions, mergers, and capital adequacy. Government regulation of insurers is concerned primarily with the protection of policyholders and other customers rather than shareholders. Interpretations of regulations by regulators may change, and statutes, regulations, and interpretations may be applied with retroactive impact, particularly in areas such as accounting or reserve requirements.

We cannot predict whether or in what manner regulatory reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect the Company, or whether any effects will be material. The National Association of Insurance Commissioners (NAIC) generally formulates and promulgates statutory-based insurance regulations. However, each state is independent and must separately enact these financial regulations and guidelines. As such, insurers follow the interpretations and legal approvals of their respective states of domicile.

Other types of regulation that could affect us include insurance company investment laws and regulations, state statutory accounting practices, state escheatment practices, anti-trust laws, minimum solvency requirements, state securities laws, federal privacy laws, insurable interest laws, federal money laundering laws, and anti-terrorism laws. Further, because we own and operate real property, state, federal, and local environmental laws could affect us. We cannot predict what form any future changes in these or other areas of regulation affecting the insurance industry might take or what effect, if any, such proposals might have on us if enacted into law.

We are also subject to various government regulations at the federal level. As a result of economic and market conditions in recent years, the federal government has become increasingly more active in issuing and enforcing regulations. The implementation of these legislative or regulatory requirements may make it more expensive for us to conduct business, may have a material adverse effect on the overall business climate, and could materially affect the profitability of the results of operations and financial condition of financial institutions. We are uncertain as to all of the impacts that new legislation will have and cannot provide assurance that it will not adversely affect our financial statements.

New accounting rules or changes to existing accounting rules could negatively impact our financial results.

We are required to comply with GAAP, as promulgated by the FASB. GAAP is subject to constant review and change in an effort to address emerging accounting issues and develop interpretative accounting guidance on a continual basis. The implementation of new accounting guidance could result in substantial costs and or changes in assumptions or estimates, which could negatively impact our financial statements. Accordingly, we can give no assurance that future changes to GAAP will not have a negative impact on us.

In addition, we are required to comply with statutory accounting principles (SAP). SAP and various components of SAP, such as statutory actuarial reserving methodology, are subject to constant review by the NAIC, NAIC task forces and committees, as well as state insurance departments to address emerging issues and otherwise improve or modify financial reporting. Various proposals are typically pending before committees and task forces of the NAIC. If enacted, some of these may negatively affect us. The NAIC also typically works to reform state regulation in various areas, including reforms relating to life insurance reserves and the accounting for such reserves. We cannot predict whether or in what manner reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect us. Although states generally defer to the interpretation of the insurance department of the state of domicile with regards to regulations and guidelines, neither the action of the domiciliary state nor action of the NAIC is binding on any other state. Accordingly, a state could choose to follow a different interpretation. We can give no assurance that future changes to SAP or components of SAP will not have a negative impact on us.

Catastrophic Event Risk:

We are exposed to the risks of climate change, natural disasters, pandemics, terrorism, or other acts that could adversely affect our operations.

While we have implemented risk management and contingency plans and taken preventive measures and other precautions, no predictions of specific scenarios can be made nor can assurance be given that there are not scenarios that could have an adverse effect on us. Climate change, a natural disaster, a pandemic, or an outbreak of an easily communicable disease could adversely affect the mortality or morbidity experience of us or our reinsurers. A pandemic could also have an adverse effect on lapses and surrenders of existing policies, as well as sales of new policies. In addition, a pandemic could result in large areas being subject to quarantine, with the result that economic activity slows or ceases, adversely affecting the marketing or administration of our business. The possible macroeconomic effects of climate change, natural disasters, or pandemics could also adversely affect our financial statements.

Information Technology Risk:

The failure of our cybersecurity controls, other information system security controls, or the controls of our third-party providers may result in the unauthorized disclosure of sensitive or confidential corporate or customer information. Such failures could damage our reputation and hinder our ability to conduct business. Further, our contingency planning and disaster recovery programs may be insufficient to address unanticipated events. In addition, our reputation could be damaged by inaccurate presentations made in social media.

As part of the normal course of business, we use computer systems to collect, process, and retain sensitive and confidential corporate and customer information. In addition, we use third-party vendors and cloud technology on a limited basis for storage, processing, and data support of certain activities. We rely on commercial technologies and third parties to maintain the security of that information. Our information systems are subject to computer viruses, malicious software code, and other unauthorized computer-related actions. Preventive actions taken by the Company to reduce the risk of cyber-incidents and to protect our information may be insufficient to prevent cyber-attacks or other security breaches. Any security breach involving the misappropriation, loss, or other unauthorized disclosure of confidential information could severely damage our reputation, expose us to an increase in the risk of litigation, disrupt our operations, cause incurrence of significant technical, legal, and operating expenses, or otherwise harm our business.

We are highly dependent on our ability to access our computer systems to perform the necessary business functions, such as processing premium payments, processing claim payments, administration of policy data, providing customer support, managing our investment portfolio, and conducting financial reporting and analysis. Events such as natural disasters, pandemics, blackouts, computer viruses, terrorist attacks, or cyber-attacks could result in system failures or outages that may cause our computer systems to become inaccessible to our employees and customers for an extended period of time. Our disaster recovery program may be insufficient to deal with such an unanticipated event. This could result in an adverse impact to our ability to conduct business functions in a timely manner and could result in a failure to maintain the security and confidentiality of sensitive data, including personal information of customers. This could also result in damage to our ability to conduct business, damage to our reputation, result in substantial remediation costs, and potentially subject us to regulatory sanctions, legal claims, or other unidentified consequences.

While we have limited social media content, we recognize that social media outlets are independent of us and our security measures. Inaccurate presentations based upon incorrect information or assumptions could be distributed via social media outlets and could harm us and our reputation.