KANSAS CITY LIFE INSURANCE COMPANY

A Missouri Corporation

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Kansas City, MO 64111

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QUARTERLY REPORT

FOR THE QUARTER ENDED SEPTEMBER 30, 2018

ISSUER'S EQUITY SECURITIES

Common Stock
Par Value $1.25 per Share
36,000,000 Shares Authorized
9,683,414 Shares Outstanding as of September 30, 2018

Kansas City Life Insurance Company is responsible for the content of this Quarterly Report. The securities described in this document are not registered with, and the information contained in this report has not been filed with, or approved by, the U.S. Securities and Exchange Commission.

KANSAS CITY LIFE INSURANCE COMPANY

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Statement on Forward-Looking Information

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

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

- Changes in 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 general agents and agents;
- Customer and agent response to new products, distribution channels, and marketing initiatives;
- Fluctuations in experience regarding current mortality, morbidity, persistency, and interest rates relative to expected amounts used in pricing our products;
- Changes in assumptions related to deferred acquisition costs (DAC), value of business acquired (VOBA), and deferred revenue liability (DRL);
- Regulatory, accounting, or tax changes that may affect the cost of, or the demand for, our products or services; 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.

Item 1. The Exact Name of the Issuer and Address and Telephone Number of Issuer's Principal Office

Issuer's Exact Name:	Kansas City Life Insurance Company
Issuer's Address:	3520 Broadway Kansas City, Missouri 64111
Issuer's Telephone:	Telephone: (816) 753-7000 Fax: (816) 753-4902
Issuer's Website:	*www.kclife.com*
Investor Relations:	A. Craig Mason Jr. Secretary Telephone: (816) 753-7000 ext. 8308 Email: Communications@*kclife.com*

Item 2. Shares Outstanding

Common Stock

	September 30, 2018
Number of Shares Authorized	36,000,000
Number of Shares Outstanding	9,683,414
Freely Tradable Shares (Public Float)	2,505,489
Total Number of Shareholders of Record	154

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

Item 3. Interim Consolidated Financial Statements

The interim consolidated financial statements of Kansas City Life Insurance Company as of September 30, 2018 are attached hereto as Exhibit 3.1 and are hereby incorporated by reference into this Quarterly Report, including:

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

The interim consolidated financial statements and the accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The interim consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results. These adjustments are generally of a normal recurring nature. As permitted under GAAP, certain footnotes or other financial disclosures are condensed or omitted in the interim consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our 2017 Annual Report, which is available on the OTCQX website (*www.otcmarkets.com/stock/KCLI/filings*). The interim consolidated financial statements and the accompanying notes for the quarters and nine months ended September 30, 2018 and 2017 are unaudited. Operating results for the interim period are not necessarily indicative of the results that may be expected or achieved for the year ending December 31, 2018.

Item 4. Management's Discussion and Analysis of Financial Condition and Results of Operations

Amounts are stated in thousands, except share data, or as otherwise noted.

Management's Discussion and Analysis of Financial Condition and Results of Operations provides, in narrative form, the perspective of the management of Kansas City Life Insurance Company on its financial condition, results of operations, liquidity, and certain other factors that may affect its future results. The terms "the Company," "we," "us," and "our" are used to refer to Kansas City Life Insurance Company and its subsidiaries. Kansas City Life Insurance Company (Kansas City Life) is the parent company. Sunset Life Insurance Company of America (Sunset Life) and Old American Insurance Company (Old American) are wholly-owned subsidiaries. We also have non-insurance subsidiaries that individually and collectively are not material.

The following is a discussion and analysis of the results of operations for the quarters and nine months ended September 30, 2018 and 2017 and our financial condition at September 30, 2018. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes included in this document, as well as our 2017 Annual Report.

Overview

Our profitability depends on many factors, which include but are not limited to:

- The sale of traditional and interest sensitive life, annuity, and accident and health products;
- The rate of mortality, lapse, and surrender of future policy benefits and policyholder account balances;
- The rate of morbidity, disability, and incurrence of other policyholder benefits;
- Interest rates credited to policyholders;
- The effectiveness of reinsurance programs;
- The amount of investment assets under management;
- The ability to maximize investment returns and manage risks such as interest rate risk, credit risk, and equity risk;
- Timely and cost-effective access to liquidity;
- Management of distribution costs and operating expenses; and
- Management of the operations of our affiliates and the management of blocks of business acquired through reinsurance assumption transactions.

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

Consolidated Results of Operations

Summary of Results

We earned net income of $6.3 million in the third quarter of 2018 compared to $6.6 million in the third quarter of 2017. Net income per share was $0.64 in the third quarter of 2018 versus $0.69 in the same period in the prior year. Net income for the first nine months of 2018 was $11.8 million compared to $17.4 million in the same period in the prior year. Net income per share for the first nine months of 2018 was $1.22 versus $1.80 one year earlier.

The following table presents condensed consolidated results of operations for the quarters and nine months ended September 30, 2018 and 2017.

	Quarter Ended September 30			Nine Months Ended September 30		
	2018	2017	% Change	2018	2017	% Change
Revenues:						
Insurance and other revenues	$ 76,988	$ 75,068	3 %	$ 228,126	$ 226,029	1 %
Net investment income	34,868	36,229	(4)%	104,421	110,282	(5)%
Net investment gains	3,570	717	398 %	4,694	2,217	112 %
Benefits and expenses:						
Policyholder benefits and interest credited to policyholder account balances	74,152	71,424	4 %	219,423	214,827	2 %
Amortization of deferred acquisition costs	8,853	7,914	12 %	29,621	26,095	14 %
Operating expenses	24,747	23,333	6 %	73,835	73,092	1 %
Income tax expense	1,399	2,695	(48)%	2,517	7,086	(64)%
Net income	$ 6,275	$ 6,648	(6)%	$ 11,845	$ 17,428	(32)%

Insurance Revenues

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

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

	Quarter Ended September 30			Nine Months Ended September 30		
	2018	2017	% Change	2018	2017	% Change
New premiums:						
Traditional life insurance	$ 4,890	$ 6,547	(25)%	$ 15,091	$ 16,839	(10)%
Immediate annuities	7,593	5,355	42 %	19,857	20,141	(1)%
Group life insurance	760	852	(11)%	2,188	2,448	(11)%
Group accident and health insurance	2,834	3,037	(7)%	8,746	8,705	— %
Total new premiums	16,077	15,791	2 %	45,882	48,133	(5)%
Renewal premiums	45,591	43,887	4 %	135,690	130,264	4 %
Total premiums	61,668	59,678	3 %	181,572	178,397	2 %
Reinsurance ceded	(14,095)	(13,890)	1 %	(44,070)	(42,946)	3 %
Net premiums	$ 47,573	$ 45,788	4 %	$ 137,502	$ 135,451	2 %

Consolidated total premiums increased $2.0 million or 3% in the third quarter of 2018 compared with the third quarter of 2017, as new premiums increased $0.3 million or 2% and renewal premiums increased $1.7 million or 4%. The improvement in new premiums resulted from a $2.2 million or 42% increase in new immediate annuity premiums. Immediate annuity receipts can have sizeable fluctuations, as receipts from policyholders largely result from one-time premiums. This was partially offset by a $1.7 million or 25% decline in new traditional life insurance premiums. The increase in renewal premiums reflected a $0.8 million or 3% increase in renewal traditional life insurance premiums. This improvement was primarily from the Old American segment and reflects sales growth over the past several years. In addition, renewal group accident and health insurance premiums increased $0.6 million or 5% compared to the same period in the prior year, largely from the disability lines.

Consolidated total premiums increased $3.2 million or 2% in the first nine months of 2018 compared with the prior year. Renewal premiums increased $5.4 million or 4%. This growth reflected a $3.3 million or 4% increase in renewal traditional life insurance premiums, largely reflecting sales growth over the past several years from Old American. In addition, renewal group accident and health insurance premiums increased $1.4 million or 4%, reflecting increases in the disability lines, and renewal group life premiums increased $0.8 million or 9%. These improvements were partially offset by a $2.3 million or 5% decrease in new premiums, primarily resulting from a $1.7 million or 10% decline in traditional life insurance premiums. In addition, new immediate annuity premiums declined $0.3 million or 1% and new group life premiums decreased $0.3 million or 11% compared to the prior year.

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

	Quarter Ended September 30			Nine Months Ended September 30		
	2018	2017	% Change	2018	2017	% Change
New deposits:						
Interest sensitive life	$ 3,779	$ 3,001	26 %	$ 11,318	$ 10,661	6 %
Fixed annuities	10,074	12,536	(20)%	36,830	42,865	(14)%
Variable annuities	2,539	3,784	(33)%	9,894	8,461	17 %
Total new deposits	16,392	19,321	(15)%	58,042	61,987	(6)%
Renewal deposits	32,299	33,220	(3)%	101,211	105,230	(4)%
Total deposits	$ 48,691	$ 52,541	(7)%	$ 159,253	$ 167,217	(5)%

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

Total new deposits decreased $2.9 million or 15% in the third quarter of 2018 compared with the third quarter of 2017, as new fixed annuity deposits declined $2.5 million or 20% and new variable annuity deposits decreased $1.2 million or 33%. Partially offsetting these, new interest sensitive life deposits increased $0.8 million or 26%. The increase in new interest sensitive life deposits was largely from the indexed universal life product. Total renewal deposits decreased $0.9 million or 3% in the third quarter of 2018 compared to the prior year, reflecting a $1.0 million or 4% decline in renewal interest sensitive life deposits.

Total new deposits decreased $3.9 million or 6% in the first nine months of 2018 compared with the prior year, as new fixed annuity deposits declined $6.0 million or 14%. Partially offsetting this was a $1.4 million or 17% increase in new variable annuity deposits and a $0.7 million or 6% increase in new interest sensitive deposits. The results for new interest sensitive deposits included a $2.8 million or 49% increase in new indexed universal life deposits that was partially offset by a $2.1 million or 45% decrease in new universal life deposits. Total renewal deposits decreased $4.0 million or 4% in the first nine months of 2018 compared with one year earlier, as renewal fixed annuity deposits declined $1.7 million or 11%, renewal variable annuity deposits declined $1.2 million or 14%, and renewal interest sensitive life deposits decreased $1.2 million or 1%. The results for renewal interest sensitive life deposits included a $1.3 million or 38% increase in renewal indexed universal life deposits that was offset by a $1.2 million or 2% decrease in renewal universal life deposits and a $1.3 million or 7% decrease in renewal variable universal life deposits.

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

Total contract charges increased $0.2 million or 1% in the third quarter of 2018 compared to one year earlier. Contract charges on open blocks increased $0.6 million or 3% and contract charges on closed blocks decreased $0.4 million or 4% in the third quarter of 2018. The increase in open blocks reflects slight increases in expense loads, surrender charges, and amortization of unearned revenues. The decline in contract charges on closed blocks reflected the runoff of the business.

Total contract charges increased $0.1 million or less than 1% in the first nine months of 2018 compared to the same period in 2017. Contract charges on open blocks increased $1.0 million or 2% and contract charges on closed blocks decreased $0.9 million or 3%. The increase in open blocks is largely attributable to higher expense loads and surrender charges. The decline on closed blocks reflected the runoff of the business.

Total contract charges on closed blocks equaled 38% of total consolidated contract charges during the third quarter of 2018, down from 40% during the third quarter of 2017. Total contract charges on closed blocks comprised 38% of total consolidated contract charges during the first nine months of 2018, down slightly from 39% in the first nine months of 2017.

Investment Revenues

Gross investment income decreased $1.3 million or 3% in the third quarter and $5.2 million or 4% in the first nine months of 2018 compared with the same periods in 2017. These declines were largely due to lower overall yields earned and available on certain investments. In addition, investment expenses increased $0.1 million or 2% in the third quarter and $0.7 million or 6% in the first nine months of 2018 compared to the prior year, primarily due to increased real estate expenses.

Fixed maturity securities provide a majority of our investment income. Fixed maturity securities comprised 70% of total investments at September 30, 2018, down from 72% at December 31, 2017. Income from these investments declined $1.4 million or 6% in the third quarter and $4.7 million or 6% in the first nine months of 2018 compared to the prior year, primarily resulting from lower average investments and from lower yields earned.

Investment income from commercial mortgage loans decreased $0.7 million or 9% in the third quarter and $1.1 million or 5% in the first nine months of 2018 compared to the same periods one year earlier. These declines resulted from lower yields earned and lower prepayment fees.

Net investment gains for the third quarter of 2018 totaled $3.6 million compared to $0.7 million in the third quarter of 2017. The net investment gains in the third quarter of 2018 were largely from tenders and calls of investment securities and the sale of a real estate investment property. The Company harvests gains from selected real estate properties from time to time. The sale of a real estate property generated a gain of approximately $4.0 million in the third quarter of 2018. Partially offsetting these were net investment losses from sales of investment securities. These were largely from sales in the third quarter of 2018 in support of the acquisition of Grange Life Insurance Company (Grange Life). The net investment gains in the third quarter of 2017 were largely from sales, tenders, and calls of investment securities.

Net investment gains for the first nine months of 2018 totaled $4.7 million compared to $2.2 million in the first nine months of 2017. The net investment gains for the first nine months of 2018 were largely from tenders and calls of investment securities and the sale of a real estate investment property. The sale of a real estate property generated a gain of approximately $4.0 million in the first nine months of 2018. Partially offsetting these were net investment losses from sales of investment securities. These were largely from sales in the third quarter of 2018 in support of the acquisition of Grange Life. The net investment gains for the first nine months of 2017 were largely from sales, tenders, and calls of investment securities.

Policyholder Benefits

Policyholder benefits, net of reinsurance, consist of death benefits, immediate annuity benefits, accident and health benefits, surrenders, other benefits, and the associated increase or decrease in reserves for future policy benefits and policyholder account balances. The largest component of policyholder benefits was death benefits for the periods presented. Death benefits reflect mortality results, after consideration of the impact of reinsurance.

Policyholder benefits increased $2.8 million or 5% in the third quarter of 2018 compared to the prior year. This primarily resulted from an increase in benefit and contract reserves. The largest factor in this increase was higher supplementary contract considerations, which result in an increase to the change in reserves on an equal and offsetting basis. In addition, death benefits, net of reinsurance, increased $0.3 million or 1% in the third quarter of 2018 compared to the same period one year earlier.

Policyholder benefits increased $4.6 million or 3% in the first nine months of 2018 versus one year earlier. The largest factors in this increase were higher death benefits, net of reinsurance, and an increase in benefit and contract reserves. The increase in benefit and contract reserves was largely due to less reserves released on terminations, primarily lapses and surrenders. In addition, reserves have increased due to the growing block of business at Old American, reflecting sales growth over the past several years. Partially offsetting these items was a decrease in life surrenders.

Amortization of DAC

The amortization of DAC increased $0.9 million or 12% in the third quarter and $3.5 million or 14% in the first nine months of 2018 compared to the prior year. The increases primarily resulted from higher policy terminations. Also impacting the amortization of DAC, unlocking adjustments and refinements in estimates increased DAC amortization $0.8 million in the first nine months of 2018. Comparatively, unlocking adjustments and refinements in estimates increased DAC amortization $1.7 million during the first nine months of 2017.

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 investment gains and losses, fees, surrender charges, expenses, and mortality gains and losses, net of reinsurance. We also consider refinements in estimates due to improved capabilities resulting from administrative or actuarial system enhancements.

The following tables summarize 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. Positive numbers are increases to income and negative numbers are reductions to income. The unlocking and refinements in estimates occurred during the second quarters of 2018 and 2017. No unlocking or refinements in estimates occurred in the first or third quarters of either 2018 or 2017.

	Nine Months Ended September 30, 2018			
	DAC Amortization	VOBA Amortization	DRL Contract Charges	Net Impact to Pre-Tax Income
Unlocking	$ (884)	$ (644)	$ 920	$ (608)
Refinement in estimate	71	—	—	71
	$ (813)	$ (644)	$ 920	$ (537)

	Nine Months Ended September 30, 2017			
	DAC Amortization	VOBA Amortization	DRL Contract Charges	Net Impact to Pre-Tax Income
Unlocking	$ (344)	$ (1,246)	$ (46)	$ (1,636)
Refinement in estimate	(1,378)	—	2,004	626
	$ (1,722)	$ (1,246)	$ 1,958	$ (1,010)

The unlocking and refinements in estimates resulted in a net $0.5 million reduction to pre-tax income in the first nine months of 2018. These adjustments primarily resulted from interest rate fluctuations. In addition, we had a $0.2 million reserve increase in the first nine months of 2018 related to the impacts of unlocking. The pre-tax income impact of all adjustments related to unlocking and refinements in estimates, including insurance revenues, amortization of DAC and VOBA, and policyholder benefits, was a decrease to pre-tax income of $0.7 million in the first nine months of 2018.

The unlocking and refinements in estimates resulted in a net $1.0 million reduction to pre-tax income in the first nine months of 2017. In addition, we had a $0.3 million reserve increase in the first nine months of 2017 related to the impacts of unlocking. The pre-tax income impact of all adjustments related to unlocking and refinements in estimates, including insurance revenues, amortization of DAC and VOBA, and policyholder benefits, was a decrease to pre-tax income of $1.3 million in the first nine months of 2017.

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 operations, the amortization of VOBA, and other expenses. In total, operating expenses increased $1.4 million or 6% in the third quarter and $0.7 million or 1% in the first nine months of 2018 compared to the same periods in 2017. The results for both periods reflected costs associated with the acquisition of Grange Life and increases in agent-related expenses and legal and consulting fees. These were partially offset by lower compensation costs.

Income Taxes

We recorded income tax expense of $1.4 million or 18% of income before tax in the third quarter of 2018, compared to income tax expense of $2.7 million or 29% of income before tax in the third quarter of 2017. The decrease in the effective tax rate was primarily due to the Tax Cuts and Jobs Act of 2017 (the TCJA). The TCJA lowered the corporate federal income tax rate from 35% to 21% beginning on January 1, 2018. The third quarter 2018 statutory rate versus effective rate differences were larger than usual due to the variance in actual versus assumed pretax results.

We recorded income tax expense for the nine months ended September 30, 2018 of $2.5 million or 18% of income before tax, compared to income tax expense of $7.1 million or 29% of income before tax for the prior year period. The decrease in income tax expense in the first nine months of 2018 was the result of lower pre-tax income and a decrease in the effective tax rate that was primarily due to the TCJA.

The effective income tax rate was lower than the prevailing corporate federal income tax rate of 21% and 35% in the third quarters and nine months of 2018 and 2017, respectively. The lower effective income tax rates were primarily due to tax credits from affordable housing investments and permanent differences, which includes the dividends received deduction. For additional information, please see Note 10 - Income Taxes.

Analysis of Investments

This analysis of investments should be read in conjunction with Note 3 - Investments included in Exhibit 3.1.

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

	September 30 2018	% of Total	December 31 2017	% of Total
Fixed maturity securities	$ 2,362,545	70%	$ 2,535,064	72%
Equity securities	15,056	—%	20,770	1%
Mortgage loans	636,874	19%	649,542	18%
Real estate	188,986	6%	193,219	6%
Policy loans	75,760	2%	78,175	2%
Short-term investments	102,546	3%	32,195	1%
Other investments	7,538	—	2,424	—
Total	$ 3,389,305	100%	$ 3,511,389	100%

Fixed maturity securities were the largest component of total investments at September 30, 2018 and December 31, 2017. The largest categories of fixed maturity securities at both September 30, 2018 and December 31, 2017 consisted of 80% in corporate obligations, 8% in municipal securities, and 5% in U.S. Treasury securities and other obligations of the U.S. Government.

We use actual or equivalent Standard & Poor's ratings to determine the investment grading of fixed maturity securities. Our fixed maturity securities that were rated investment grade represented 98% of total securities at September 30, 2018 compared to 97% at December 31, 2017.

The fair value of fixed maturity securities with unrealized losses was $1.4 billion at September 30, 2018 compared with $497.5 million at December 31, 2017. This increase primarily reflected changes in interest rates and market spreads during 2018. At September 30, 2018, 99% of security investments with an unrealized loss were investment grade and accounted for 98% of the total unrealized losses. At December 31, 2017, 94% of securities with an unrealized loss were investment grade and accounted for 71% of the total unrealized losses.

At September 30, 2018, we had $49.2 million in gross unrealized gains on fixed maturity securities that partially offset gross unrealized losses of $51.1 million. At December 31, 2017, we had $105.1 million in gross unrealized gains on fixed maturity and equity securities that offset $10.9 million in gross unrealized losses. At September 30, 2018, 43% of the fixed maturity securities portfolio had unrealized gains, a decrease from 80% at December 31, 2017. We had an increase in gross unrealized losses in most categories from December 31, 2017 to September 30, 2018 due to increases in interest rates and market spreads during 2018. Gross unrealized losses on fixed maturity securities for less than 12 months accounted for $30.5 million or 77% of the security values in a gross unrealized loss position at September 30, 2018 compared to $2.6 million and 63% of the security values in a gross unrealized loss position at December 31, 2017. Gross unrealized losses on fixed maturity security investments of 12 months or longer increased from $8.3 million at December 31, 2017 to $20.6 million at September 30, 2018.

Residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities that were rated below investment grade were 31% of the total mortgage-backed and asset-backed securities at September 30, 2018 compared to 36% at December 31, 2017.

We have written down certain investments in previous periods. Fixed maturity securities written down and still owned at September 30, 2018 and December 31, 2017 were not material. 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 2018 or 2017.

Investments in mortgage loans totaled $636.9 million at September 30, 2018, down from $649.5 million at December 31, 2017. The commercial mortgage loan portfolio decreased $12.7 million during the first nine months of 2018, as regularly scheduled payments and the volume of prepaid loans exceeded new loans. In addition, we received payment on a mortgage loan that had been delinquent for more than 90 days. The payment totaled approximately $4.1 million. Mortgage loan fundings decreased $48.9 million in the first nine months of 2018 compared to the prior year. This decrease was largely the result of maintaining strict underwriting standards to support our portfolio credit quality and competition from other lenders. Our mortgage loans are secured by commercial real estate. These loans are stated at the outstanding principal balance, adjusted for amortization of premium and accretion of discount, less an allowance for loan losses. We believe this allowance is at a level adequate to absorb estimated credit losses and was $3.1 million at September 30, 2018 and $4.1 million at December 31, 2017.

Investments in real estate totaled $189.0 million at September 30, 2018 and $193.2 million at December 31, 2017. This decrease largely resulted from the sale of one property in the third quarter of 2018.

Short-term investments totaled $102.5 million at September 30, 2018, a $70.4 million increase from December 31, 2017. This increase largely resulted from the sale of fixed maturity securities and the accumulation of short-term investments to fund the acquisition of Grange Life that occurred on October 1, 2018. For additional information, please see the Acquisition section of Note 1.

Liquidity and Capital Resources

Liquidity

Statements made in our 2017 Annual Report remain pertinent, as our liquidity position is materially unchanged from year-end 2017.

Net cash used by operating activities was $2.1 million for the nine months ended September 30, 2018. The primary sources of cash from operating activities in the first nine months of 2018 were premium receipts and net investment income. The primary uses of cash from operating activities in the first nine months of 2018 were for the payment of policyholder benefits and operating expenses. Net cash provided by investing activities was $6.2 million. The primary sources of cash from investing activities were sales, maturities, calls, and principal paydowns of investments totaling $341.6 million. Investment purchases, including new mortgage loans and new policy loans, totaled $246.1 million. In addition, net acquisition of property and equipment totaled $19.0 million and net purchases of short-term investments totaled $70.4 million. Net cash used by financing activities was $0.2 million, including $2.9 million of net transfers from separate accounts and $8.0 million of deposits, net of withdrawals, on policyholder account balances. These were partially offset by the payment of $7.8 million of stockholder dividends.

Capital Resources

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

	September 30 2018	December 31 2017
Total assets, excluding separate accounts	$ 4,036,714	$ 4,110,858
Total stockholders' equity	688,515	737,155
Ratio of stockholders' equity to assets, excluding separate accounts	17%	18%

Stockholders' equity decreased $48.6 million from year-end 2017, primarily due to a decrease in net unrealized gains. This decrease largely reflected fluctuations in the fair value of investments that resulted from rising interest rates. Stockholders' equity per share, or book value, equaled $71.10 at September 30, 2018, a decrease from $76.13 at year-end 2017.

Net unrealized losses on available for sale securities, which are included as part of accumulated other comprehensive income (loss) and as a component of stockholders' equity (net of unrealized losses on investments, related taxes, policyholder account balances, future policy benefits, DAC, VOBA, and DRL), totaled $5.0 million at September 30, 2018, a $53.8 million change from net unrealized gains on available securities of $48.8 million at December 31, 2017. Included in this total is a $1.2 million reclassification associated with the adoption of ASU No. 2016-01 Recognition and Measurement of Financial Assets and Financial Liabilities. For additional information, please see Note 2 - New Accounting Pronouncements.

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.

In January 2018, the Board of Directors authorized the purchase of up to one million of our shares on the open market through January 2019. No shares were purchased under this authorization during the first nine months of 2018.

On October 1, 2018, the Company acquired all of the issued and outstanding stock of Grange Life Insurance Company from Grange Mutual Casualty Company. For additional information, please see the Acquisition section of Note 1.

On October 22, 2018, the Board of Directors declared a quarterly dividend of $0.27 per share payable on November 7, 2018 to stockholders of record on November 1, 2018.

Item 5. Legal Proceedings

There are no current, past, pending or threatened legal proceedings or administrative actions either by or against Kansas City Life Insurance Company that could be expected to have a material effect on our business, financial condition or operations. Our securities are not subject to any past or pending trading suspensions by a securities regulator. Please see the section entitled “Contingent Liabilities, Guarantees, and Indemnifications” in Note 16 of the financial statements shown in Exhibit 3.1.

Item 6. Defaults upon Senior Securities

None

Item 7. Other Information

None

Item 8. Exhibits

3.1 Interim Consolidated Financial Statements

Item 9. Issuer's Certifications

I, R. Philip Bixby, certify that:

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

Date: October 25, 2018

/s/ R. Philip Bixby
R. Philip Bixby
President, Chief Executive Officer,
and Chairman of the Board

I, Philip A. Williams, certify that:

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

Date: October 25, 2018

/s/ Philip A. Williams
Philip A. Williams
Senior Vice President, Finance

Exhibit 3.1 Interim Consolidated Financial Statements

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

Kansas City Life Insurance Company
Consolidated Balance Sheets

	September 30 2018 (Unaudited)	December 31 2017
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	$ 2,362,545	$ 2,535,064
Equity securities, at fair value	15,056	20,770
Mortgage loans	636,874	649,542
Real estate	188,986	193,219
Policy loans	75,760	78,175
Short-term investments	102,546	32,195
Other investments	7,538	2,424
Total investments	3,389,305	3,511,389
Cash	13,510	9,504
Accrued investment income	31,243	31,119
Deferred acquisition costs	292,201	277,182
Reinsurance recoverables	189,756	185,647
Other assets	120,699	96,017
Separate account assets	427,704	419,812
Total assets	$ 4,464,418	$ 4,530,670
LIABILITIES		
Future policy benefits	$ 953,625	$ 953,239
Policyholder account balances	2,042,284	2,051,311
Policy and contract claims	39,569	36,503
Other policyholder funds	171,926	172,850
Other liabilities	140,795	159,800
Separate account liabilities	427,704	419,812
Total liabilities	3,775,903	3,793,515
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	913,198	908,022
Accumulated other comprehensive income (loss)	(47,528)	6,288
Treasury stock, at cost (2018 and 2017 - 8,813,266 shares)	(241,301)	(241,301)
Total stockholders' equity	688,515	737,155
Total liabilities and stockholders' equity	$ 4,464,418	$ 4,530,670

See accompanying Notes to Consolidated Financial Statements (Unaudited)

Kansas City Life Insurance Company
Consolidated Statements of Comprehensive Income

	Quarter Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
	(Unaudited)		(Unaudited)	
REVENUES				
Insurance revenues:				
Net premiums	$ 47,573	$ 45,788	$ 137,502	$ 135,451
Contract charges	27,807	27,638	85,902	85,767
Total insurance revenues	75,380	73,426	223,404	221,218
Investment revenues:				
Net investment income	34,868	36,229	104,421	110,282
Net investment gains	3,570	717	4,694	2,217
Total investment revenues	38,438	36,946	109,115	112,499
Other revenues	1,608	1,642	4,722	4,811
Total revenues	115,426	112,014	337,241	338,528
BENEFITS AND EXPENSES				
Policyholder benefits	55,832	53,023	164,941	160,296
Interest credited to policyholder account balances	18,320	18,401	54,482	54,531
Amortization of deferred acquisition costs	8,853	7,914	29,621	26,095
Operating expenses	24,747	23,333	73,835	73,092
Total benefits and expenses	107,752	102,671	322,879	314,014
Income before income tax expense	7,674	9,343	14,362	24,514
Income tax expense	1,399	2,695	2,517	7,086
NET INCOME	$ 6,275	$ 6,648	$ 11,845	$ 17,428
COMPREHENSIVE INCOME (LOSS), NET OF TAXES				
Change in net unrealized gains (losses) on securities available for sale	$ (7,719)	$ (1,135)	$ (74,611)	$ 9,017
Effect on DAC, VOBA, and DRL	1,180	516	10,001	93
Change in future policy benefits	1,660	186	11,816	123
Change in policyholder account balances	27	(6)	152	25
Other comprehensive income (loss)	$ (4,852)	(439)	(52,642)	9,258
COMPREHENSIVE INCOME (LOSS)	$ 1,423	$ 6,209	$ (40,797)	$ 26,686
Basic and diluted earnings per share:				
Net income	$ 0.64	$ 0.69	$ 1.22	$ 1.80

See accompanying Notes to Consolidated Financial Statements (Unaudited)

Kansas City Life Insurance Company
Consolidated Statements of Cash Flows

	Nine Months Ended September 30	
	2018	2017
	(Unaudited)	
OPERATING ACTIVITIES		
Net income	$ 11,845	$ 17,428
Adjustments to reconcile net income to net cash used by operating activities:		
Amortization of investment premium and discount	2,465	2,257
Depreciation	4,201	4,296
Acquisition costs capitalized	(32,091)	(31,235)
Amortization of deferred acquisition costs	29,621	26,095
Net investment gains	(4,694)	(2,217)
Changes in assets and liabilities:		
Reinsurance recoverables	(4,109)	4,825
Future policy benefits	15,344	10,110
Policyholder account balances	(20,685)	(23,181)
Income taxes payable and deferred	2,480	3,586
Other, net	(6,459)	(7,328)
Net cash provided (used)	(2,082)	4,636
INVESTING ACTIVITIES		
Purchases:		
Fixed maturity securities	(176,467)	(217,814)
Equity securities	(58)	(45)
Mortgage loans	(43,816)	(90,785)
Real estate	(6,244)	(3,976)
Policy loans	(17,907)	(8,340)
Other investments	(1,573)	(881)
Sales or maturities, calls, and principal paydowns:		
Fixed maturity securities	251,267	235,760
Equity securities	789	4,059
Mortgage loans	56,580	69,247
Real estate	10,326	4
Policy loans	20,322	9,887
Other investments	2,356	1,252
Net purchases of short-term investments	(70,351)	(11,003)
Acquisition of property and equipment	(18,985)	(1,466)
Net cash provided (used)	6,239	(14,101)

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

	Nine Months Ended September 30	
	2018	2017
	(Unaudited)	
FINANCING ACTIVITIES		
Deposits on policyholder account balances	$ 159,253	$ 167,217
Withdrawals from policyholder account balances	(151,222)	(146,658)
Net transfers from separate accounts	2,874	4,060
Change in other deposits	(3,214)	(5,927)
Cash dividends to stockholders	(7,842)	(7,843)
Net cash provided (used)	(151)	10,849
Increase in cash	4,006	1,384
Cash at beginning of year	9,504	9,630
Cash at end of period	$ 13,510	$ 11,014

See accompanying Notes to Consolidated Financial Statements (Unaudited)

1. Nature of Operations and Significant Accounting Policies

Basis of Presentation

The interim consolidated financial statements and the accompanying notes include the accounts of the consolidated entity (the Company), which primarily consists of 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 15 - Segment Information.

The interim consolidated financial statements were prepared on the basis of GAAP for interim financial reporting. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. As such, these interim consolidated financial statements should be read in conjunction with our 2017 Annual Report, which is available on the OTCQX website. The interim consolidated financial statements and the accompanying notes for the quarters and nine months ended September 30, 2018 and 2017 are unaudited. Management believes that the disclosures included herein are adequate to make the information presented not misleading, and include all adjustments necessary to present fairly the financial position and the results of operations for all periods presented. The results of operations for any interim period are not necessarily indicative of operating results for a full year. Significant intercompany transactions have been eliminated in consolidation and certain immaterial reclassifications have been made to prior period results to conform with the current period's presentation.

The interim consolidated financial statements include estimates and assumptions relating to the reported amounts of certain assets and liabilities, the disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements, and the reported amounts of certain revenue and expenses during the period. These estimates are inherently subject to change and actual results could differ from these estimates.

Acquisition

On October 1, 2018, the Company acquired all of the issued and outstanding stock of Grange Life Insurance Company (Grange Life) from Grange Mutual Casualty Company, for approximately $75 million, subject to certain adjustments under the terms of the agreement. Grange Life had approximately $390.7 million of statutory admitted assets at September 30, 2018. Grange Life is domiciled in the state of Ohio and is licensed in 15 states to sell traditional life insurance, universal life products, and fixed annuities. The Ohio Department of Insurance has granted its approval of this transaction. The acquisition of Grange Life will enable the Company to expand our insurance sales through an increased block of existing business and through access to additional agents that may result in added sales opportunities. The pro forma combined revenue and earnings of the Company and Grange Life, and other disclosures as may be required, for the current reporting periods as though the acquisition date had been as of January 1, 2018 are not disclosed in this Quarterly Report. The disclosure of this information is impracticable and requires additional time because Grange Life has not historically prepared GAAP financial statements.

Significant Accounting Policies

Please refer to our 2017 Annual Report for a full discussion of our significant accounting policies. No significant updates or changes to these policies occurred during the quarter or nine months ended September 30, 2018.

2. New Accounting Pronouncements

Accounting Pronouncements Adopted During 2018

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09 Revenue from Contracts with Customers (Topic 606). Topic 606 requires companies to recognize revenue that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. As an insurance enterprise, our primary sources of revenue are excluded from this guidance, including insurance premiums, contract charges, and investment revenues. We have certain types of non-insurance and non-investment revenue from contracts with customers that fall under this guidance. These revenues are recognized when obligations under the terms of the contract are satisfied. The amount of revenue recognized reflects the consideration we expect to be entitled to in exchange for those services. For these revenues, the performance obligation is fulfilled as services are rendered. Revenues from contracts with customers identified under Topic 606 are not material and are almost entirely comprised of fees received from separate account managers associated with separate accounts. These revenues equaled less than 1% of our total revenues for the quarter and nine months ended September 30, 2018. Effective January 1, 2018, the Company adopted ASU No. 2014-09 through the modified retrospective approach with no material impact to our consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01 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. Upon adoption of this guidance, changes in fair value of equity securities will be recognized through net income instead of through other comprehensive income (loss). This guidance became effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with early adoption allowed. We adopted this guidance effective January 1, 2018 and changes in the fair value of equity securities were recognized through net income with no material impact to our consolidated financial statements. We also recorded a cumulative effect adjustment to increase retained earnings by $1.2 million as of January 1, 2018 for unrealized gains previously recognized in accumulated other comprehensive income (loss). For additional information, please see Note 13 - Comprehensive Income (Loss).

In August 2016, the FASB issued ASU No. 2016-15 Classification of Certain Cash Receipts and Cash Payments - a consensus of the FASB Emerging Issues Task Force. This guidance became effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. We adopted this guidance effective January 1, 2018 with no material impact to our consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07 Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This guidance became effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. We adopted this guidance effective January 1, 2018 with no material impact to our consolidated financial statements.

Accounting Pronouncements Issued, Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02 Leases (Topic 842). Topic 842 includes a lessee model that will cause most leases to be reported on the balance sheet. In addition, it aligns existing GAAP pertaining to leases with the new revenue recognition model that is effective for periods beginning after December 15, 2017. This guidance, including subsequently issued amendments, 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 ASU No. 2016-13 Measurement of Credit Losses on Financial Instruments. Under this guidance, the incurred loss impairment methodology currently used for loans and other financial instruments will be replaced by a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information concerning our credit loss estimates. The measurement of expected credit losses will be based on current, historical, and forecasted information that impacts the collectability of the reported amount. Any credit losses related to available for sale debt securities will be recorded through a valuation allowance that is established and adjusted over time. The valuation allowance will be based on the probability of loss over the life of the instrument. Our investments subject to this guidance include, but are not limited to, fixed maturity securities available for sale, mortgage loans, and reinsurance recoverables. Additional disclosures will be required to provide information regarding significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. 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 March 2017, the FASB issued ASU No. 2017-08 Premium Amortization on Purchased Callable Debt Securities. The amortization period for premiums is being shortened to the earliest call date. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. We are currently evaluating this guidance.

In August 2018, the FASB issued ASU No. 2018-12 Targeted Improvements to the Accounting for Long-Duration Contracts. This update modifies the existing recognition, measurement, presentation, and disclosure requirements in ASC 944 Financial Services - Insurance (Topic 944). It focuses on improving the timeliness of recognizing changes in the liability for future policy benefits and requires that the discount rate assumption be updated at each reporting date. It simplifies the accounting for certain market-based options or guarantees associated with deposit contracts by requiring insurance entities to measure them at fair value. It also simplifies the amortization of deferred acquisition costs by requiring amortization on a constant level basis over the expected term of the related contracts. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. We are currently evaluating this guidance.

In August 2018, the FASB issued ASU No. 2018-13 Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This update modifies the disclosure requirements for fair value measurements in ASC Topic 820 Fair Value

Measurement. Specific fair value measurement disclosure requirements are removed, modified, or added. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. We are currently evaluating this guidance.

In August 2018, the FASB issued ASU No. 2018-14 Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans. This update modifies the disclosure requirements in ASC Subtopic 715-20 Compensation - Retirement Benefits - Defined Benefit Plans for employers that sponsor defined benefit pension or other postretirement plans. Specific fair value measurement disclosure requirements are removed, added, or clarified. This guidance is effective for fiscal years ending after December 15, 2020. 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

Securities by Asset Class

The following table provides amortized cost and fair value of fixed maturity securities by asset class at September 30, 2018. Equity securities were removed from this table upon adoption of ASU No. 2016-01 at January 1, 2018.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 115,267	$ 1,748	$ 1,261	$ 115,754
Federal agency issued residential mortgage-backed securities [1]	39,822	1,266	576	40,512
Subtotal	155,089	3,014	1,837	156,266
Corporate obligations:				
Industrial	451,923	6,694	7,590	451,027
Energy	154,502	4,680	3,241	155,941
Communications and technology	233,725	5,702	3,304	236,123
Financial	259,869	3,625	7,433	256,061
Consumer	562,239	3,700	13,830	552,109
Public utilities	245,782	5,408	7,931	243,259
Subtotal	1,908,040	29,809	43,329	1,894,520
Corporate private-labeled residential mortgage-backed securities	28,073	2,426	—	30,499
Municipal securities	185,680	13,766	3,129	196,317
Other	73,029	58	2,341	70,746
Redeemable preferred stocks	14,502	137	442	14,197
Total	$ 2,364,413	$ 49,210	$ 51,078	$ 2,362,545

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

The following table provides amortized cost and fair value of fixed maturity and equity securities by asset class at December 31, 2017.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 128,087	$ 4,653	$ 210	$ 132,530
Federal agency issued residential mortgage-backed securities [1]	28,248	2,053	43	30,258
Subtotal	156,335	6,706	253	162,788
Corporate obligations:				
Industrial	484,395	18,128	946	501,577
Energy	175,403	7,835	1,274	181,964
Communications and technology	235,219	11,860	430	246,649
Financial	253,346	8,670	569	261,447
Consumer	564,621	14,418	2,361	576,678
Public utilities	258,341	11,148	1,394	268,095
Subtotal	1,971,325	72,059	6,974	2,036,410
Corporate private-labeled residential mortgage-backed securities	33,281	2,910	—	36,191
Municipal securities	182,678	20,913	349	203,242
Other	84,355	510	3,356	81,509
Redeemable preferred stocks	14,514	410	—	14,924
Fixed maturity securities	2,442,488	103,508	10,932	2,535,064
Equity securities	19,236	1,544	10	20,770
Total	$ 2,461,724	$ 105,052	$ 10,942	$ 2,555,834

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

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

	September 30, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 108,609	$ 109,737	$ 137,483	$ 139,713
Due after one year through five years	727,200	729,390	769,096	794,260
Due after five years through ten years	1,043,408	1,029,794	1,003,469	1,034,593
Due after ten years	382,086	387,199	429,651	457,002
Securities with variable principal payments	88,608	92,228	88,275	94,572
Redeemable preferred stocks	14,502	14,197	14,514	14,924
Total	$ 2,364,413	$ 2,362,545	$ 2,442,488	$ 2,535,064

No material derivative financial instruments were held as of September 30, 2018 or December 31, 2017.

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. Additional information on our process and considerations, as well as related accounting when other-than-temporary impairments are identified, is provided in Note 3 - Investments of our 2017 Annual Report.

The following table provides information regarding fixed maturity securities available for sale with unrealized losses by asset class and by length of time at September 30, 2018. Equity securities were removed from this table upon adoption of ASU No. 2016-01 at January 1, 2018.

	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	$ 52,326	$ 995	$ 10,482	$ 266	$ 62,808	$ 1,261
Federal agency issued residential mortgage-backed securities [1]	14,144	438	3,930	138	18,074	576
Subtotal	66,470	1,433	14,412	404	80,882	1,837
Corporate obligations:						
Industrial	212,045	4,983	42,111	2,607	254,156	7,590
Energy	67,047	1,470	32,043	1,771	99,090	3,241
Communications and technology	86,949	2,302	19,491	1,002	106,440	3,304
Financial	133,184	5,336	35,031	2,097	168,215	7,433
Consumer	296,011	7,756	85,234	6,074	381,245	13,830
Public utilities	101,099	3,976	43,869	3,955	144,968	7,931
Subtotal	896,335	25,823	257,779	17,506	1,154,114	43,329
Municipal securities	50,580	2,225	11,864	904	62,444	3,129
Other	33,926	580	29,153	1,761	63,079	2,341
Redeemable preferred stocks	6,558	442	—	—	6,558	442
Total	$ 1,053,869	$ 30,503	$ 313,208	$ 20,575	$ 1,367,077	$ 51,078

[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 securities available for sale with unrealized losses by asset class and by length of time at December 31, 2017.

	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	$ 18,428	$ 121	$ 5,011	$ 89	$ 23,439	$ 210
Federal agency issued residential mortgage-backed securities [1]	7,992	42	29	1	8,021	43
Subtotal	26,420	163	5,040	90	31,460	253
Corporate obligations:						
Industrial	45,927	477	21,142	469	67,069	946
Energy	30,670	202	23,879	1,072	54,549	1,274
Communications and technology	24,804	106	11,004	324	35,808	430
Financial	49,488	290	8,697	279	58,185	569
Consumer	82,018	1,000	43,194	1,361	125,212	2,361
Public utilities	23,249	189	32,871	1,205	56,120	1,394
Subtotal	256,156	2,264	140,787	4,710	396,943	6,974
Municipal securities	14,151	96	5,666	253	19,817	349
Other	13,748	107	35,519	3,249	49,267	3,356
Fixed maturity securities	310,475	2,630	187,012	8,302	497,487	10,932
Equity securities	2,101	10	—	—	2,101	10
Total	$ 312,576	$ 2,640	$ 187,012	$ 8,302	$ 499,588	$ 10,942

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

The following table provides information regarding the number of fixed maturity securities with unrealized losses at September 30, 2018. Equity securities were removed from this table upon adoption of ASU No. 2016-01 at January 1, 2018.

	September 30 2018
Below cost for less than one year	413
Below cost for one year or more and less than three years	114
Below cost for three years or more	13
Total	540

The following table provides information regarding the number of fixed maturity and equity security issues with unrealized losses at December 31, 2017. Included in the table are four equity security issues in the below cost for less than one year category and four equity security issues in the below cost for three years or more category.

	December 31 2017
Below cost for less than one year	136
Below cost for one year or more and less than three years	52
Below cost for three years or more	12
Total	200

We do not consider the unrealized losses related to these securities to be credit-related. The unrealized losses at September 30, 2018 and December 31, 2017 primarily related to changes in interest rates and market spreads subsequent to purchase. A substantial portion of investment securities that have unrealized losses are either corporate debt issued with investment grade credit ratings or other investment securities. Included in other investment securities are commercial mortgage-backed securities and asset-backed securities.

The following table summarizes investments in fixed maturity securities available for sale with unrealized losses at September 30, 2018. Equity securities were removed from this table upon adoption of ASU No. 2016-01 at January 1, 2018.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	$ 1,392,399	$ 1,344,248	$ 48,151
Unrealized losses of 20% or less and greater than 10%	24,390	21,499	2,891
Unrealized losses greater than 20%	—	—	—
Subtotal	1,416,789	1,365,747	51,042
Securities owned with realized impairment:			
Unrealized losses of 10% or less	$ 1,366	$ 1,330	$ 36
Unrealized losses of 20% or less and greater than 10%	—	—	—
Unrealized losses greater than 20%	—	—	—
Subtotal	1,366	1,330	36
Total	$ 1,418,155	$ 1,367,077	$ 51,078

The following table summarizes investments in fixed maturity and equity securities available for sale with unrealized losses at December 31, 2017.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	$ 483,758	$ 475,738	$ 8,020
Unrealized losses of 20% or less and greater than 10%	24,959	22,104	2,855
Unrealized losses greater than 20%	—	—	—
Subtotal	508,717	497,842	10,875
Securities owned with realized impairment:			
Unrealized losses of 10% or less	$ 1,813	$ 1,746	$ 67
Unrealized losses of 20% or less and greater than 10%	—	—	—
Unrealized losses greater than 20%	—	—	—
Subtotal	1,813	1,746	67
Total	$ 510,530	$ 499,588	$ 10,942

The following table provides information on fixed maturity securities available for sale with unrealized losses by actual or equivalent Standard & Poor's rating at September 30, 2018.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	$ 75,246	6%	$ 3,439	7%
AA	226,791	17%	8,228	16%
A	540,644	39%	20,418	40%
BBB	507,524	37%	18,015	35%
Total investment grade	1,350,205	99%	50,100	98%
BB	6,706	—%	290	1%
B and below	10,166	1%	688	1%
Total below investment grade	16,872	1%	978	2%
	$ 1,367,077	100%	$ 51,078	100%

The following table provides information on fixed maturity securities available for sale with unrealized losses by actual or equivalent Standard & Poor's rating at December 31, 2017.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	$ 18,736	4%	$ 519	5%
AA	84,309	17%	2,118	19%
A	163,721	33%	2,253	21%
BBB	199,697	40%	2,902	26%
Total investment grade	466,463	94%	7,792	71%
BB	9,866	2%	634	6%
B and below	21,158	4%	2,506	23%
Total below investment grade	31,024	6%	3,140	29%
	$ 497,487	100%	$ 10,932	100%

Our residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities that were rated below investment grade represented 54% of the fair value of the total below investment grade securities at September 30, 2018, up from 44% at December 31, 2017.

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

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

	September 30, 2018		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Corporate Private-Labeled Residential MBS:			
Investment grade	$ 1,744	$ 1,722	$ 22
Below investment grade	28,755	26,351	2,404
Total residential & non-agency MBS	30,499	28,073	2,426
Other structured securities:			
Investment grade	69,415	71,662	(2,247)
Below investment grade	1,331	1,367	(36)
Total other structured securities	70,746	73,029	(2,283)
Total structured securities	$ 101,245	$ 101,102	$ 143

	December 31, 2017		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Corporate Private-Labeled Residential MBS:			
Investment grade	$ 1,847	$ 1,818	$ 29
Below investment grade	34,344	31,463	2,881
Total residential & non-agency MBS	36,191	33,281	2,910
Other structured securities:			
Investment grade	66,598	67,652	(1,054)
Below investment grade	14,911	16,703	(1,792)
Total other structured securities	81,509	84,355	(2,846)
Total structured securities	$ 117,700	$ 117,636	$ 64

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

	Quarter Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Credit losses on securities held at beginning of the period	$ 4,381	$ 9,265	$ 4,399	$ 13,224
Additions for increases (decreases) 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	—	—	—	7
Reductions for securities sold	—	(4,861)	(18)	(8,816)
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	—	(2)	—	(13)
Credit losses on securities held at the end of the period	$ 4,381	$ 4,402	$ 4,381	$ 4,402

Investment Gains (Losses)
The following tables provide detail concerning investment gains and losses.

	Quarter Ended September 30 2018	Nine Months Ended September 30 2018
Gross gains resulting from:		
Sales of investment securities	$ 115	$ 228
Investment securities called and other	1,183	2,264
Real estate	4,020	4,020
Disposal of affordable housing real estate joint venture	266	266
Total gross gains	5,584	6,778
Gross losses resulting from:		
Sales of investment securities	(1,833)	(1,833)
Investment securities called and other	(8)	(273)
Mortgage loans	(807)	(807)
Total gross losses	(2,648)	(2,913)
Change in allowance for loan losses	827	939
Amortization of DAC, VOBA, and DRL	54	27
Net realized investment gains, excluding other-than-temporary impairment losses	3,817	4,831
Change in fair value - equity securities	(247)	(137)
Net impairment losses recognized in earnings:		
Other-than-temporary impairment losses on fixed maturity securities	—	—
Portion of loss recognized in other comprehensive income (loss)	—	—
Net other-than-temporary impairment losses recognized in earnings	—	—
Net investment gains	$ 3,570	$ 4,694

	Quarter Ended September 30	Nine Months Ended September 30
	2017	2017
Gross gains resulting from:		
Sales of investment securities	$ 33	$ 823
Investment securities called and other	863	2,166
Real estate	98	98
Total gross gains	994	3,087
Gross losses resulting from:		
Investment securities called and other	(31)	(35)
Sale of real estate and joint ventures	—	(1)
Mortgage loans	(2)	(7)
Total gross losses	(33)	(43)
Change in allowance for loan losses	(231)	(759)
Amortization of DAC, VOBA, and DRL	(13)	(61)
Net realized investment gains, excluding other-than-temporary impairment losses	717	2,224
Net impairment losses recognized in earnings:		
Other-than-temporary impairment losses on fixed maturity and equity securities	—	—
Portion of loss recognized in other comprehensive income (loss)	—	(7)
Net other-than-temporary impairment losses recognized in earnings	—	(7)
Net investment gains	$ 717	$ 2,217

The portion of loss recognized in other comprehensive income (loss) represents the non-credit portion of current or prior other-than-temporary impairment. No other-than-temporary impairments were recorded in earnings during the quarter or nine months ended September 30, 2018. No other-than-temporary impairments were recorded in earnings during the quarter ended September 30, 2017. Corporate private-labeled residential mortgage-backed and other securities had impairments recorded in earnings of less than $0.1 million in the nine months ended September 30, 2017. The other-than-temporary impairments recorded in earnings were determined based upon the present value of projected future cash flows.

Proceeds from Sales of Investment Securities

The following table provides proceeds from the sale of fixed maturity and equity securities, excluding maturities and calls. The increase in proceeds for the quarter and nine months ended September 30, 2018 primarily reflects the sale of fixed maturity securities to fund the acquisition of Grange Life, as previously described.

	Quarter Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Proceeds	$ 64,747	$ 1,036	$ 79,348	$ 27,833

Mortgage Loans

Investments in mortgage loans totaled $636.9 million at September 30, 2018, compared to $649.5 million at December 31, 2017. 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 $3.1 million at September 30, 2018 and $4.1 million at December 31, 2017. The decrease in the allowance for loan losses reflects a reduction in the mortgage loan portfolio and the settlement of a loan in foreclosure. We had 19% of our total investments in commercial mortgage loans at September 30, 2018 compared to 18% at December 31, 2017. In addition to the subject collateral underlying the mortgage, we may require some amount of recourse from borrowers as another potential source of repayment should the loan default. Any recourse requirement deemed necessary is determined as part of the underwriting requirements of each loan. The average loan-to-value ratio for the overall portfolio was 46% at September 30, 2018 and 47% at December 31, 2017. 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. For additional information on mortgage loans, please see Note 5 - Financing Receivables.

We may refinance commercial mortgage loans prior to contractual maturity as a means of retaining loans that meet our underwriting and pricing parameters. We did not refinance any loans during the quarter ended September 30, 2018. We refinanced one loan with an outstanding balance of $4.2 million during the nine months ended September 30, 2018. We refinanced three loans with outstanding balances of $5.5 million during the quarter ended September 30, 2017. We refinanced four loans with outstanding balances of $7.9 million during the nine months ended September 30, 2017.

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

4. Fair Value Measurements

Under GAAP, fair value represents the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. We maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements.

We follow the fair value hierarchy under existing GAAP requirements. No changes were made to our categories as disclosed in our Annual Report. Please refer to our 2017 Annual Report for a full discussion of the fair value hierarchy and our policies regarding fair value measurements.

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

	September 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 12,632	$ 103,122	$ —	$ 115,754
Federal agency issued residential mortgage-backed securities [1]	—	40,512	—	40,512
Subtotal	12,632	143,634	—	156,266
Corporate obligations:				
Industrial	—	451,027	—	451,027
Energy	—	155,941	—	155,941
Communications and technology	—	236,123	—	236,123
Financial	—	256,061	—	256,061
Consumer	—	552,109	—	552,109
Public utilities	—	243,259	—	243,259
Subtotal	—	1,894,520	—	1,894,520
Corporate private-labeled residential mortgage-backed securities	—	30,499	—	30,499
Municipal securities	—	196,317	—	196,317
Other	—	70,746	—	70,746
Redeemable preferred stocks	—	14,197	—	14,197
Fixed maturity securities	12,632	2,349,913	—	2,362,545
Equity securities	4,537	10,519	—	15,056
Short-term investments	102,546	—	—	102,546
Separate account assets	—	427,704	—	427,704
Total	$ 119,715	$ 2,788,136	$ —	$ 2,907,851
Percent of total	4%	96%	—%	100%
Liabilities:				
Other policyholder funds:				
Guaranteed minimum withdrawal benefits	$ —	$ —	$ (4,458)	$ (4,458)
Separate account liabilities	—	427,704	—	427,704
Total	$ —	$ 427,704	$ (4,458)	$ 423,246

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

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 12,748	$ 119,782	$ —	$ 132,530
Federal agency issued residential mortgage-backed securities [1]	—	30,258	—	30,258
Subtotal	12,748	150,040	—	162,788
Corporate obligations:				
Industrial	—	501,577	—	501,577
Energy	—	181,964	—	181,964
Communications and technology	—	246,649	—	246,649
Financial	—	261,447	—	261,447
Consumer	—	576,678	—	576,678
Public utilities	—	268,095	—	268,095
Subtotal	—	2,036,410	—	2,036,410
Corporate private-labeled residential mortgage-backed securities	—	36,191	—	36,191
Municipal securities	—	203,242	—	203,242
Other	—	81,509	—	81,509
Redeemable preferred stocks	—	14,924	—	14,924
Fixed maturity securities	12,748	2,522,316	—	2,535,064
Equity securities	5,214	15,556	—	20,770
Short-term investments	32,195	—	—	32,195
Separate account assets	—	419,812	—	419,812
Total	$ 50,157	$ 2,957,684	$ —	$ 3,007,841
Percent of total	2%	98%	—%	100%
Liabilities:				
Other policyholder funds:				
Guaranteed minimum withdrawal benefits	$ —	$ —	$ (3,252)	$ (3,252)
Separate account liabilities	—	419,812	—	419,812
Total	$ —	$ 419,812	$ (3,252)	$ 416,560

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

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

	Quarter Ended September 30, 2018	
	Assets	Liabilities
	Fixed maturity securities available for sale	GMWB
Beginning balance	$ —	$ (4,309)
Included in earnings	—	(235)
Included in other comprehensive income (loss)	—	—
Purchases, issuances, sales and other dispositions:		
Purchases	—	—
Issuances	—	23
Sales	—	—
Other dispositions	—	63
Transfers into Level 3	—	—
Transfers out of Level 3	—	—
Ending balance	$ —	$ (4,458)

	Quarter Ended September 30, 2017	
	Assets	Liabilities
	Fixed maturity securities available for sale	GMWB
Beginning balance	$ —	$ (2,204)
Included in earnings	—	(830)
Included in other comprehensive income (loss)	—	—
Purchases, issuances, sales and other dispositions:		
Purchases	—	—
Issuances	—	76
Sales	—	—
Other dispositions	—	6
Transfers into Level 3	—	—
Transfers out of Level 3	—	—
Ending balance	$ —	$ (2,952)

	Nine Months Ended September 30, 2018	
	Assets	Liabilities
	Fixed maturity securities available for sale	GMWB
Beginning balance	$ —	$ (3,252)
Included in earnings	—	(1,535)
Included in other comprehensive income (loss)	—	—
Purchases, issuances, sales and other dispositions:		
Purchases	—	—
Issuances	—	170
Sales	—	—
Other dispositions	—	159
Transfers into Level 3	—	—
Transfers out of Level 3	—	—
Ending balance	$ —	$ (4,458)

	Nine Months Ended September 30, 2017	
	Assets	Liabilities
	Fixed maturity securities available for sale	GMWB
Beginning balance	$ 400	$ (2,158)
Included in earnings	11	(872)
Included in other comprehensive income (loss)	(83)	—
Purchases, issuances, sales and other dispositions:		
Purchases	—	—
Issuances	—	226
Sales	—	—
Other dispositions	(328)	(148)
Transfers into Level 3	—	—
Transfers out of Level 3	—	—
Ending balance	$ —	$ (2,952)

Specific securities may transfer into or out of Level 3, largely depending upon the availability of pricing. We did not have any transfers between any levels at September 30, 2018 or September 30, 2017.

The GMWB liability is sensitive to changes in observable and unobservable inputs. Observable inputs include risk-free rates, index returns, volatilities, and correlations. Increases in risk-free rates and equity returns reduce the liability, while increases in volatilities increase the liability. Unobservable inputs include mortality, lapse, benefit utilization, and nonperformance risk adjustments. Increases in mortality, lapses, and credit spreads used for nonperformance risk reduce the liability, while increases in benefit utilization increase the liability. Please refer to the 2017 Annual Report for information regarding the valuation method for the GMWB liability and the unobservable inputs and ranges used in the valuation of those financial instruments. The valuation method, unobservable inputs, and ranges used had not materially changed at September 30, 2018.

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

	September 30 2018	December 31 2017
	Increase/(Decrease) in millions	
A 10% increase in the mortality assumption	$ (0.1)	$ (0.1)
A 10% decrease in the lapse assumption	—	0.2
A 10% increase in the benefit utilization	0.5	0.7
A 10 basis point increase in the credit spreads used for non-performance	(0.2)	(0.3)

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

	September 30, 2018				
	Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Fixed maturity securities available for sale	$ 12,632	$ 2,349,913	$ —	$ 2,362,545	$ 2,362,545
Equity securities	4,537	10,519	—	15,056	15,056
Mortgage loans	—	—	630,616	630,616	636,874
Policy loans	—	—	75,760	75,760	75,760
Short-term investments	102,546	—	—	102,546	102,546
Separate account assets	—	427,704	—	427,704	427,704
Liabilities:					
Individual and group annuities	—	—	1,055,193	1,055,193	1,074,650
Supplementary contracts and annuities without life contingencies	—	—	51,240	51,240	53,306
Separate account liabilities	—	427,704	—	427,704	427,704
Other policyholder funds - GMWB	—	—	(4,458)	(4,458)	(4,458)

	December 31, 2017				
	Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Fixed maturity securities available for sale	$ 12,748	$ 2,522,316	$ —	$ 2,535,064	$ 2,535,064
Equity securities available for sale	5,214	15,556	—	20,770	20,770
Mortgage loans	—	—	658,706	658,706	649,542
Policy loans	—	—	78,175	78,175	78,175
Short-term investments	32,195	—	—	32,195	32,195
Separate account assets	—	419,812	—	419,812	419,812
Liabilities:					
Individual and group annuities	—	—	1,059,263	1,059,263	1,078,819
Supplementary contracts and annuities without life contingencies	—	—	52,094	52,094	53,470
Separate account liabilities	—	419,812	—	419,812	419,812
Other policyholder funds - GMWB	—	—	(3,252)	(3,252)	(3,252)

5. Financing Receivables

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

The following table identifies financing receivables by classification amount.

	September 30 2018	December 31 2017
Receivables:		
Agent receivables, net (allowance $1,514; 2017 - $817)	$ 2,076	$ 1,719
Investment-related financing receivables:		
Mortgage loans, net (allowance $3,140; 2017 - $4,079)	636,874	649,542
Total financing receivables	$ 638,950	$ 651,261

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.

	September 30, 2018			December 31, 2017		
	Gross Receivables	Allowance	Net Receivables	Gross Receivables	Allowance	Net Receivables
Agent specific loans	$ 1,226	$ 599	$ 627	$ 1,234	$ 609	$ 625
Other agent receivables	2,364	915	1,449	1,302	208	1,094
Total	$ 3,590	$ 1,514	$ 2,076	$ 2,536	$ 817	$ 1,719

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

	September 30 2018	December 31 2017
Beginning of year	$ 817	$ 660
Additions	820	302
Deductions	(123)	(145)
End of period	$ 1,514	$ 817

Mortgage Loans

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

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

	September 30 2018	December 31 2017
Mortgage loans collectively evaluated for impairment	$ 565,250	$ 576,980
Mortgage loans individually evaluated for impairment	74,764	76,641
Allowance for loan losses	(3,140)	(4,079)
Carrying value	$ 636,874	$ 649,542

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

	Book Value	Amount of Payments Past Due 30-59 Days	60-89 Days	> 90 Days	Total
September 30, 2018					
Industrial	$ 4,475	$ 37	$ 37	$ —	$ 74
Office	—	—	—	—	—
Medical	—	—	—	—	—
Other	—	—	—	—	—
Total	$ 4,475	$ 37	$ 37	$ —	$ 74
December 31, 2017					
Industrial	$ 482	$ 5	$ —	$ —	$ 5
Office	—	—	—	—	—
Medical	4,921	75	75	1,500	1,650
Other	—	—	—	—	—
Total	$ 5,403	$ 80	$ 75	$ 1,500	$ 1,655

There was one mortgage loan that was over 30 days past due at September 30, 2018. There were two mortgage loans that were over 30 days past due at December 31, 2017. One loan was over 30 days past due. Payment was subsequently received on this loan and it was brought current in 2018. The other loan was over 90 days past due and was in the process of foreclosure. This loan was subsequently settled and payment was collected in 2018. We had no troubled loans that were restructured or modified during the quarters or nine months ended September 30, 2018 or 2017.

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

	September 30 2018	December 31 2017
Beginning of year	$ 4,079	$ 3,333
Provision	—	746
Deductions	(939)	—
End of period	$ 3,140	$ 4,079

Deductions to the provision in 2018 were largely due to the settlement of a loan that was in the process of foreclosure.

Please refer to our 2017 Annual Report for additional information regarding our mortgage loans.

6. Variable Interest Entities (VIEs)

We invest in certain affordable housing and real estate joint ventures. These VIEs are included in Real Estate in the Consolidated Balance Sheets. Please refer to our 2017 Annual Report for a full discussion of our VIEs.

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

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

	Quarter Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Federal income tax credits realized	$ 688	$ 688	$ 2,064	$ 2,064
Amortization	359	383	1,077	1,148

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

The following table presents the carrying amount and maximum exposure to loss relating to VIEs for which we hold a variable interest, but are not the primary beneficiary, and which had not been consolidated at September 30, 2018 and December 31, 2017. The table includes investments in five real estate joint ventures and 16 affordable housing real estate joint ventures at September 30, 2018 and investments in five real estate joint ventures and 17 affordable housing real estate joint ventures at December 31, 2017.

	September 30 2018		December 31 2017	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Real estate joint ventures	$ 21,718	$ 21,718	$ 21,761	$ 21,761
Affordable housing real estate joint ventures	6,018	32,034	7,338	33,354
Total	$ 27,736	$ 53,752	$ 29,099	$ 55,115

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

At September 30, 2018 and December 31, 2017, 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 September 30, 2018 included $20.0 million of losses which could be realized if the tax credits received by the VIEs were recaptured, compared to $18.7 million at December 31, 2017. Recapture events would cause us to reverse some or all of the benefit previously recognized by us or third parties to whom the tax credit interests were transferred. A recapture event can occur at any time during a 15-year required compliance period. The principal causes of recapture include financial default and non-compliance with affordable housing program requirements by the properties controlled by the VIE. Guarantees from the managing member or managing partner in the VIE, insurance contracts, or changes in the residual value accruing to our interests in the VIE may mitigate the potential exposure due to recapture.

7. Separate Accounts

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

We have a GMWB rider that can be added to new or existing variable annuity contracts. The value of the separate accounts with the GMWB rider was recorded at fair value of $128.6 million at September 30, 2018. The fair value of the separate accounts with the GMWB rider was $131.9 million at December 31, 2017. The GMWB guarantee liability was $(4.5) million at September 30, 2018 and $(3.3) million December 31, 2017. The change in this value is included in Policyholder Benefits in the Consolidated Statements of Comprehensive Income. The value of variable annuity separate accounts with the GMWB rider is recorded in Separate Account Liabilities, and the value of the rider is included in Other Policyholder Funds in the Consolidated Balance Sheets.

We have two blocks of variable universal life policies and variable annuity contracts from which fees are received. The fees are based upon both specific transactions and the fund value of the blocks of policies. We have a direct block of ongoing business identified in the Consolidated Balance Sheets as separate account assets, totaling $427.7 million at September 30, 2018 and $419.8 million at December 31, 2017, 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 both September 30, 2018 and December 31, 2017.

In addition, we have an assumed closed block of variable universal life business that totaled $328.6 million at September 30, 2018 and $331.0 million at December 31, 2017. As required under modified coinsurance transaction accounting, the assumed separate account fund balances are not recorded as separate accounts on our consolidated financial statements. Rather, the assumed fixed-rate funds for these policies of $30.4 million at September 30, 2018 and $30.2 million at December 31, 2017 are included in our general account as Future Policy Benefits. The Future Policy Benefits for the assumed block approximated $0.6 million at both September 30, 2018 and December 31, 2017.

8. Unpaid Claims Liability and Short-Duration Contracts

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

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

	Consolidated			
	Quarter Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Gross liability at beginning of the period	$ 33,707	$ 33,149	$ 34,040	$ 32,146
Less reinsurance recoverable	(26,570)	(26,213)	(26,949)	(25,555)
Net liability at beginning of the period	7,137	6,936	7,091	6,591
Incurred benefits related to:				
Current year	6,899	6,574	20,859	20,209
Prior years [1]	(26)	(27)	(516)	(179)
Total incurred benefits	6,873	6,547	20,343	20,030
Paid benefits related to:				
Current year	6,293	6,181	16,995	16,580
Prior years	333	383	3,055	3,122
Total paid benefits	6,626	6,564	20,050	19,702
Net liability at end of the period	7,384	6,919	7,384	6,919
Reinsurance recoverable	27,241	26,457	27,241	26,457
Gross liability at end of the period	$ 34,625	$ 33,376	$ 34,625	$ 33,376

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

	Group Insurance Segment			
	Quarter Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Gross liability at beginning of the period	$ 27,982	$ 27,149	$ 27,945	$ 26,020
Less reinsurance recoverable	(21,155)	(20,585)	(21,231)	(19,850)
Net liability at beginning of the period	6,827	6,564	6,714	6,170
Incurred benefits related to:				
Current year	6,856	6,556	20,764	20,128
Prior years [1]	10	(23)	(418)	(165)
Total incurred benefits	6,866	6,533	20,346	19,963
Paid benefits related to:				
Current year	6,276	6,178	16,971	16,572
Prior years	322	360	2,994	3,002
Total paid benefits	6,598	6,538	19,965	19,574
Net liability at end of the period	7,095	6,559	7,095	6,559
Reinsurance recoverable	22,317	20,722	22,317	20,722
Gross liability at end of the period	$ 29,412	$ 27,281	$ 29,412	$ 27,281

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

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

	September 30 2018	September 30 2017
Individual Insurance Segment:		
Individual accident and health	$ 543	$ 672
Individual life	21,345	18,147
Deferred annuity	3,065	3,275
Subtotal	24,953	22,094
Group Insurance Segment:		
Group accident and health	29,412	27,281
Group life	2,230	1,769
Subtotal	31,642	29,050
Old American Segment:		
Individual accident and health	4,670	5,423
Individual life	5,975	6,203
Subtotal	10,645	11,626
Total	$ 67,240	$ 62,770

For short-duration contracts, incurred-but-not-reported liabilities for the group long-term disability product that were included in the liability for unpaid claims and claim adjustment expenses, net of reinsurance, totaled $0.7 million at September 30, 2018 and $0.6 million at December 31, 2017.

9. Debt

We had no notes payable outstanding at September 30, 2018 or December 31, 2017.

As a member of the Federal Home Loan Bank of Des Moines (FHLB) with a capital investment of $4.9 million at September 30, 2018, we have the ability to borrow on a collateralized basis from the FHLB. We received an insignificant amount of dividends on the capital investment in both the quarters and nine months ended September 30, 2018 and September 30, 2017.

We have unsecured revolving lines of credit with two major commercial banks that totaled $70.0 million at September 30, 2018 and December 31, 2017, with no balances outstanding. The lines of credit are at variable interest rates based upon short-term indices and will mature in June of 2019. We anticipate renewing these lines of credit as they come due. One line of credit includes a $10.0 million portion that can be unconditionally canceled by the lending institution at its discretion at any time.

10. Income Taxes

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

	Quarter Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Federal income tax rate	21 %	35 %	21 %	35 %
Tax credits, net of equity adjustment	(5)%	(4)%	(8)%	(5)%
Permanent differences and other	2 %	(2)%	5 %	(1)%
Effective income tax rate	18 %	29 %	18 %	29 %

The following table provides information about taxes paid.

	Quarter Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Cash paid for income taxes	$ 41	$ 500	$ 41	$ 3,500

We had no material uncertain tax positions at September 30, 2018 or December 31, 2017.

At September 30, 2018, we had a current tax asset of $1.7 million and a $32.9 million net deferred tax liability, compared to a $3.1 million current tax asset and a $46.9 million net deferred tax liability at December 31, 2017.

Beginning January 1, 2018, the TCJA imposed a limitation on tax reserves based upon the greater of net surrender value or 92.81% of the reserve method prescribed by the National Association of Insurance Commissioners (NAIC) which covers such contracts as of the date the reserve is determined. Under Staff Accounting Bulletin No. 118 (SAB 118), we recognized provisional tax impacts related to the change in the methodology employed to calculate tax reserves for the year ended December 31, 2017. The Company continues to use the provisional methodology established at December 31, 2017 and expects to finalize the accounting no later than December 31, 2018. For additional information, please see Note 10 - Income Taxes of our 2017 Annual Report.

11. Pensions and Other Postemployment Benefits (OPEB)

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

	Pension Benefits		OPEB	
	Quarter Ended September 30		Quarter Ended September 30	
	2018	2017	2018	2017
Service cost	$ —	$ —	$ 56	$ 77
Interest cost	1,069	1,182	157	228
Expected return on plan assets	(2,545)	(2,410)	—	—
Amortization of:				
Unrecognized actuarial net (gain) loss	599	659	(323)	(210)
Unrecognized prior service credit	(17)	(17)	(25)	(206)
Net periodic benefit credit	$ (894)	$ (586)	$ (135)	$ (111)

	Pension Benefits		OPEB	
	Nine Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Service cost	$ —	$ —	$ 167	$ 230
Interest cost	3,206	3,544	473	683
Expected return on plan assets	(7,633)	(7,229)	—	—
Amortization of:				
Unrecognized actuarial net (gain) loss	1,796	1,978	(969)	(625)
Unrecognized prior service credit	(50)	(50)	(75)	(619)
Net periodic benefit credit	$ (2,681)	$ (1,757)	$ (404)	$ (331)

12. Share-Based Payment

The Kansas City Life Insurance Company Omnibus Incentive Plan (the Plan) 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. Please refer to our 2017 Annual Report for additional information regarding this plan.

During the first nine months of 2018, the Plan made cash payments totaling $0.2 million for the three-year interval ended December 31, 2017. During the first nine months of 2017, the Plan made cash payments totaling $0.5 million for the three-year interval ended December 31, 2016.

At each reporting period, an estimate of the share-based compensation expense is accrued, utilizing the share price at the period end. There was no change in accrual for share-based compensation in the third quarter of 2018. The cost of share-based compensation, net of tax, accrued as an operating expense in the third quarter 2017 was $0.3 million. The change in accrual for share-based compensation, net of tax, that reduced operating expense was $0.4 million for the nine months ended September 30, 2018. The cost of share-based compensation, net of tax, accrued as an operating expense was $0.6 million for the nine months ended September 30, 2017.

13. Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net income and other comprehensive income (loss). Other comprehensive income (loss) includes the unrealized investment gains or losses on securities available for sale (net of reclassifications for realized investment gains or losses), net of adjustments to DAC, VOBA, DRL, future policy benefits, and policyholder account balances.

In addition, other comprehensive income (loss) includes the change in the liability for benefit plan obligations. Other comprehensive income (loss) reflects these items net of tax.

The following tables provide information about comprehensive income (loss). Equity securities were removed from the 2018 tables upon adoption of ASU No. 2016-01 at January 1, 2018.

	Quarter Ended September 30, 2018		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized losses arising during the period:			
Fixed maturity securities	$ (11,358)	$ (2,386)	$ (8,972)
Less reclassification adjustments:			
Net realized investment losses, excluding impairment losses	(1,587)	(334)	(1,253)
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive loss	—	—	—
Net unrealized losses excluding impairment losses	(9,771)	(2,052)	(7,719)
Effect on DAC, VOBA, and DRL	1,494	314	1,180
Change in future policy benefits	2,101	441	1,660
Change in policyholder account balances	35	8	27
Other comprehensive loss	$ (6,141)	$ (1,289)	$ (4,852)
Net income			6,275
Comprehensive income			$ 1,423

	Quarter Ended September 30, 2017		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized gains (losses) arising during the period:			
Fixed maturity securities	$ (1,224)	$ (430)	$ (794)
Equity securities	1	—	1
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	526	184	342
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive loss	—	—	—
Net unrealized losses excluding impairment losses	(1,749)	(614)	(1,135)
Effect on DAC, VOBA, and DRL	794	278	516
Change in future policy benefits	286	100	186
Change in policyholder account balances	(9)	(3)	(6)
Other comprehensive loss	$ (678)	$ (239)	$ (439)
Net income			6,648
Comprehensive income			$ 6,209

	Nine Months Ended September 30, 2018		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized losses arising during the period:			
Fixed maturity securities	$ (95,115)	$ (19,974)	$ (75,141)
Less reclassification adjustments:			
Net realized investment losses, excluding impairment losses	(671)	(141)	(530)
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive loss	—	—	—
Net unrealized losses excluding impairment losses	(94,444)	(19,833)	(74,611)
Effect on DAC, VOBA, and DRL	12,660	2,659	10,001
Change in future policy benefits	14,957	3,141	11,816
Change in policyholder account balances	192	40	152
Other comprehensive loss	$ (66,635)	$ (13,993)	$ (52,642)
Net income			11,845
Comprehensive loss			$ (40,797)

	Nine Months Ended September 30, 2017		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized gains arising during the period:			
Fixed maturity securities	$ 15,069	$ 5,274	$ 9,795
Equity securities	814	285	529
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	2,019	707	1,312
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive income	(7)	(2)	(5)
Net unrealized gains excluding impairment losses	13,871	4,854	9,017
Effect on DAC, VOBA, and DRL	143	50	93
Change in future policy benefits	189	66	123
Change in policyholder account balances	39	14	25
Other comprehensive income	$ 14,242	$ 4,984	$ 9,258
Net income			17,428
Comprehensive income			$ 26,686

The following table provides accumulated balances related to each component of accumulated other comprehensive income (loss) at September 30, 2018, net of tax. Equity securities were removed from this table upon adoption of ASU No. 2016-01 at January 1, 2018.

	Unrealized Gain (Loss) 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	$ 72,172	$ 2,174	$ (42,549)	$ (10,012)	$ (15,206)	$ (291)	$ 6,288
Cumulative effect of adoption of new accounting principle (ASU No. 2016-01)	(1,212)	—	—	38	—	—	(1,174)
Adjusted beginning of year	70,960	2,174	(42,549)	(9,974)	(15,206)	(291)	5,114
Other comprehensive income (loss) before reclassification	(74,793)	(348)	—	10,022	11,816	152	(53,151)
Amounts reclassified from accumulated other comprehensive income (loss)	530	—	—	(21)	—	—	509
Net current-period other comprehensive income (loss)	(74,263)	(348)	—	10,001	11,816	152	(52,642)
End of period	$ (3,303)	$ 1,826	$ (42,549)	$ 27	$ (3,390)	$ (139)	$ (47,528)

The following table provides accumulated balances related to each component of accumulated other comprehensive income (loss) at December 31, 2017, 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	$ 58,633	$ 1,750	$ (41,448)	$ (9,492)	$ (14,453)	$ (306)	$ (5,316)
Other comprehensive income before reclassification	2,357	34	6,439	1,225	1,942	66	12,063
Amounts reclassified from accumulated other comprehensive income (loss)	(1,608)	5	—	29	—	—	(1,574)
Net current-period other comprehensive income	749	39	6,439	1,254	1,942	66	10,489
Cumulative effect of adoption of new accounting principle (ASU No. 2018-02)	12,790	385	(7,540)	(1,774)	(2,695)	(51)	1,115
End of year	$ 72,172	$ 2,174	$ (42,549)	$ (10,012)	$ (15,206)	$ (291)	$ 6,288

The following table presents the pre-tax and the related income tax benefit (expense) components of the amounts reclassified from accumulated other comprehensive income (loss) to the Consolidated Statements of Comprehensive Income.

	Quarter Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Reclassification adjustments related to unrealized gains (losses) on investment securities:				
Net realized investment gains, excluding impairment losses[1]	$ (1,587)	$ 526	$ (671)	$ 2,019
Income tax expense [2]	334	(184)	141	(707)
Net of taxes	(1,253)	342	(530)	1,312
Other-than-temporary impairment losses[1]	—	—	—	(7)
Income tax benefit [2]	—	—	—	2
Net of taxes	—	—	—	(5)
Reclassification adjustment related to DAC, VOBA, and DRL [1]	54	(13)	27	(61)
Income tax benefit [2]	(12)	5	(6)	22
Net of taxes	42	(8)	21	(39)
Total pre-tax reclassifications	(1,533)	513	(644)	1,951
Total income tax expense	322	(179)	135	(683)
Total reclassification, net taxes	$ (1,211)	$ 334	$ (509)	$ 1,268

[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.

14. Earnings Per Share

Due to our capital structure and the absence of other potentially dilutive securities, there is no difference between basic and diluted earnings per common share for any of the periods reported. The average number of shares outstanding for both the third quarters and nine months ended September 30, 2018 and 2017 was 9,683,414. The number of shares outstanding at both September 30, 2018 and December 31, 2017 was 9,683,414.

15. Segment Information

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

	Quarter Ended September 30, 2018			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 36,777	$ 15,559	$ 23,044	$ 75,380
Interest credited to policyholder account balances	18,320	—	—	18,320
Amortization of deferred acquisition costs	4,222	—	4,631	8,853
Income tax expense	904	147	348	1,399
Net income	4,418	550	1,307	6,275

	Quarter Ended September 30, 2017			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 35,852	$ 15,090	$ 22,484	$ 73,426
Interest credited to policyholder account balances	18,401	—	—	18,401
Amortization of deferred acquisition costs	3,364	—	4,550	7,914
Income tax expense	1,926	309	460	2,695
Net income	5,232	571	845	6,648

	Nine Months Ended September 30, 2018			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 108,770	$ 45,945	$ 68,689	$ 223,404
Interest credited to policyholder account balances	54,482	—	—	54,482
Amortization of deferred acquisition costs	15,195	—	14,426	29,621
Income tax expense	2,113	302	102	2,517
Net income	10,328	1,135	382	11,845

	Nine Months Ended September 30, 2017			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 110,527	$ 44,292	$ 66,399	$ 221,218
Interest credited to policyholder account balances	54,531	—	—	54,531
Amortization of deferred acquisition costs	12,578	—	13,517	26,095
Income tax expense	5,722	720	644	7,086
Net income	14,906	1,337	1,185	17,428

16. Commitments, Contingent Liabilities, Guarantees, and Indemnifications

Commitments

In the normal course of business, we have open purchase and sale commitments. At September 30, 2018, we had purchase commitments to fund mortgage loans of $13.4 million.

After September 30, 2018, we entered into commitments to fund additional mortgage loans of $8.3 million.

Contingent Liabilities, Guarantees, and Indemnifications

Please refer to our 2017 Annual Report for information regarding our contingent liabilities, guarantees, and indemnifications. There have been no significant changes to these items during the quarter or nine months ended September 30, 2018.

17. Subsequent Events

We evaluated events that occurred subsequent to September 30, 2018 through October 25, 2018, the date the consolidated financial statements were issued and have identified the following subsequent events.

On October 1, 2018, the Company acquired all of the issued and outstanding stock of Grange Life Insurance Company. For additional information, please see the Acquisition section of Note 1.

On October 22, 2018, the Kansas City Life Board of Directors declared a quarterly dividend of $0.27 per share, payable on November 7, 2018 to stockholders of record on November 1, 2018.

There have been no other subsequent events that occurred during such period that require disclosure in, or adjustment to, the consolidated financial statements as of and for the quarter and nine months ended September 30, 2018.