

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Kansas City Life Insurance Company

### ORDER

After full consideration and review of the report of the financial examination of Kansas City Life Insurance Company for the period ended December 31, 2009, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 30<sup>th</sup> day of March, 2011.



John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF THE  
ASSOCIATION FINANCIAL EXAMINATION OF

**KANSAS CITY LIFE  
INSURANCE COMPANY**

AS OF  
DECEMBER 31, 2009

**FILED**  
APR 07 2011  
DIRECTOR OF INSURANCE,  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND

PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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Kansas City, Missouri  
January 14, 2011

Honorable Alfred W. Gross, Commissioner  
Virginia Bureau of Insurance  
Chairman of Financial Condition (EX4) Subcommittee

Honorable Mary Jo Hudson, Director  
Ohio Insurance Department  
Midwestern Zone Secretary

Honorable John M. Huff, Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Ladies and Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of:

**Kansas City Life Insurance Company**

hereinafter referred to as such, as Kansas City Life, or as the Company. Its administrative office is located at 3520 Broadway, Kansas City, Missouri 64111, telephone number (816) 753-7000. This examination began on October 28, 2009, and was completed on the above date.

## SCOPE OF EXAMINATION

### Period Covered

The prior full scope association financial examination of Kansas City Life Insurance Company was made as of December 31, 2005, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope association financial examination covered the period from January 1, 2006, through December 31, 2009, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination was performed concurrently with the examination of the Company's subsidiaries, Old American Insurance Company (Old American) and Sunset Life Insurance Company of America (Sunset Life), collectively constituting the Kansas City Life Insurance Companies.

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

### Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook (Handbook) of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed. The Handbook requires that the DIFP plan and perform the examination to evaluate the financial condition and identify prospective risks of Kansas City Life by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks.

This examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Key Activities reviewed during the course of the examination included: Investments; Separate Accounts; Premium Growth Strategy; Reinsurance; Corporate Governance and Related Parties; Premium Accounting; Life, Contracts and Accident and Health Reserving; Federal Income Taxes; and General Expenses.

The examiners relied upon information supplied by the Company's independent auditor, KPMG, LLP, of Kansas City, Missouri for its audits covering the period from January 1, 2008, through December 31, 2009. Information relied upon included narrative descriptions of processes and controls with respect to premium accounts, investments accounts, paid losses and loss reserving, attorney letters, and documentation of review of fraud policies and programs, etc.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no material adverse findings, significant non-compliance issues or material changes to the financial statements noted during the examination.

### **HISTORY**

#### **General**

The Company was originally incorporated under the assessment laws of Missouri on May 1, 1895, and commenced business in June 1895 as Bankers Life Association. In June 1899, the Company was reincorporated as a stipulated premium company and changed its name to Kansas City Life Insurance Company on June 13, 1903. The Company currently operates as a stock life insurance company, in accordance with the provisions of Chapter 376, Revised Statutes of Missouri (RSMo) (Life and Accident Insurance). The early history of Kansas City Life is described in previous examination reports on file with the DIFP.

#### **Capital Stock**

The Company is authorized to issue 36,000,000 shares of \$1.25 par value common stock. As of December 31, 2009, 18,496,680 shares of common stock were issued, which consisted of 11,565,091 shares outstanding and 6,931,589 shares in treasury stock. As of December 31, 2009, the total par value of outstanding common stock was \$23,120,850 and the total cost of treasury stock was \$156,574,222. Kansas City Life's stock is publicly traded under the stock symbol "KCLI."

#### **Dividends**

Cash dividends declared and paid on common stock during the examination period, which were all ordinary dividends, are as follows: 2006 - \$12,833,599, 2007 - \$36,464,147, 2008 - \$12,482,376 and 2009 - \$12,506,490.

**Acquisitions, Mergers and Major Corporate Events**

There were no acquisitions or mergers during the examination period. However, the Company sold Generations Bank, a wholly-owned subsidiary on January 8, 2007 to Brooke Corporation. Brooke Corporation paid \$10.1 million in cash in exchange for the license, common shares and certain intellectual property rights of Generations Bank. The sale transaction was approved by the Office of Thrift Supervision, the controlling regulatory authority of Generations Bank.

Kansas City Life established Generations Bank on July 3, 2000, as a wholly-owned subsidiary. Generations Bank was created to expand the financial services available to policyholders and sales agents of Kansas City Life. Pursuant to the sale, Generations Bank is no longer part of the Company's holding company system.

**CORPORATE RECORDS**

The Company's Articles of Incorporation and Bylaws were reviewed for the period under examination. The Articles of Incorporation and Bylaws were not amended during the examination period.

The minutes of the Board of Directors' meetings, committee meetings, and stockholders' meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

**MANAGEMENT AND CONTROL**

**Board of Directors**

Oversight of the Company is vested in a Board of Directors elected by the Shareholders. Pursuant to the Company's Articles of Incorporation fifteen Directors shall be elected to the Board of Directors. The number of Directors serving as of December 31, 2009 was only fourteen. This issue was discussed with the Company management and included in other communication provided to the Company. Those Directors elected and serving as of December 31, 2009, were as follows:

<b><u>Name</u></b>	<b><u>Address</u></b>	<b><u>Principal Occupation and Business Affiliation</u></b>
R. Phillip Bixby	Kansas City, Missouri	Chairman of the Board, President & CEO Kansas City Life
Walter E. Bixby	Kansas City, Missouri	Vice Chairman, Kansas City Life
William R. Blessing	Leawood, Kansas	Senior Vice President, Sprint

Richard L. Finn	Kansas City, Missouri	Retired Senior Vice President, Kansas City Life
Nancy Bixby Hudson Daryl D. Jensen	Lander, Wyoming Olympia, Washington	Director, Sunset Life and Old American Vice President of Finance, Western Panorama City Corporation
Tracy W. Knapp	Overland Park, Kansas	Senior Vice President, Finance, Kansas City Life
Cecil R. Miller Bradford T. Nordholm	Overland Park, Kansas Leawood, Kansas	Partner (Retired), KPMG, LLP CEO of TYR Energy and TYR Capital, LLC
William A. Schalekamp*	Mission Hills, Kansas	Senior Vice President, General Counsel and Secretary, Kansas City Life
Michael Braude	Shawnee Mission, Kansas	Former President and CEO of the Kansas City Board of Trade
Kevin G. Barth John C. Cozad Mark A. Milton	Kansas City, Missouri Platte City, Missouri Kansas City, Missouri	Vice President, Commerce Bank Lobbyist Senior Vice President, Actuary, Kansas City Life

\*William A. Schalekamp retired as an officer of Kansas City Life and as a member of the Investment Committee of the Board of Directors effective as of October 31, 2010 but continues his services as a member of the Board of Directors and a member of the Executive Committee. He has been replaced by A. Craig Mason, Jr. as the Vice President, General Counsel and Secretary effective as of November 1, 2010 and as a member of the Investment Committee of the Board of Directors.

**Committees**

The Company's Bylaws authorize an Executive Committee, Nominating Committee, Audit Committee, and any other committee that may be needed. Each Committee must consist of two or more directors. The established committees and the members elected and serving as of December 31, 2009, were as follows:

**Executive Committee**

R. Philip Bixby, Chairman  
Richard L. Finn  
Walter E. Bixby  
Tracy W. Knapp  
William A. Schalekamp  
William R. Blessing

**Compensation Committee**

Daryl D. Jensen, Chairman  
William R. Blessing  
Michael Braude

**Personnel Committee**

R. Philip Bixby, Chairman  
Walter E. Bixby  
Charles R. Duffy, Jr.  
Tracy W. Knapp  
Donald E. Krebs  
Mark A. Milton

**Audit Committee**

Cecil R. Miller, Chairman  
Daryl D. Jensen  
Bradford T. Nordholm

**Investment Committee**

R. Philip Bixby, Chair  
Walter E. Bixby  
Charles R. Duffy, Jr.  
Tracy W. Knapp  
Donald E. Krebs  
Mark A. Milton  
William A. Schalekamp\*

**Nominating Committee**

R. Philip Bixby, Chairman  
Walter E. Bixby  
Michael Braude

**Officers**

The following senior officers were elected on April 27, 2009 by the Board of Directors and, unless otherwise noted, were serving as of December 31, 2009:

R. Philip Bixby	Chairman of the Board, President & CEO
Walter E. Bixby	Vice Chairman of the Board & President of Old American
Charles R. Duffy, Jr.	Senior Vice President – Operations
Tracy W. Knapp	Senior Vice President – Finance
Donald E. Krebs	Senior Vice President – Sales and Marketing
William A. Schalekamp*	Senior Vice President, General Counsel & Secretary
Mark A. Milton	Senior Vice President and Actuary
David A. Laird	Vice President and Controller
Robert J. Milroy	Vice President – Underwriting and New Business
John Todd Salash	Vice President – Computer Information Services
Dan L. Schick	Vice President and Auditor
Bruce G. Olberding	Vice President – Broker/Dealer
Philip A. Williams	Vice President – Securities
Robert W. Nagel	Asst. Vice President, Treasurer, Governmental Affairs
John L. Nogalski	Vice President – Taxes
Richard D. Ropp	Vice President - Customer Services
Stephen E. Ropp	Vice President – Operations Services
Jeffrey M. Seeman	Vice President, Group

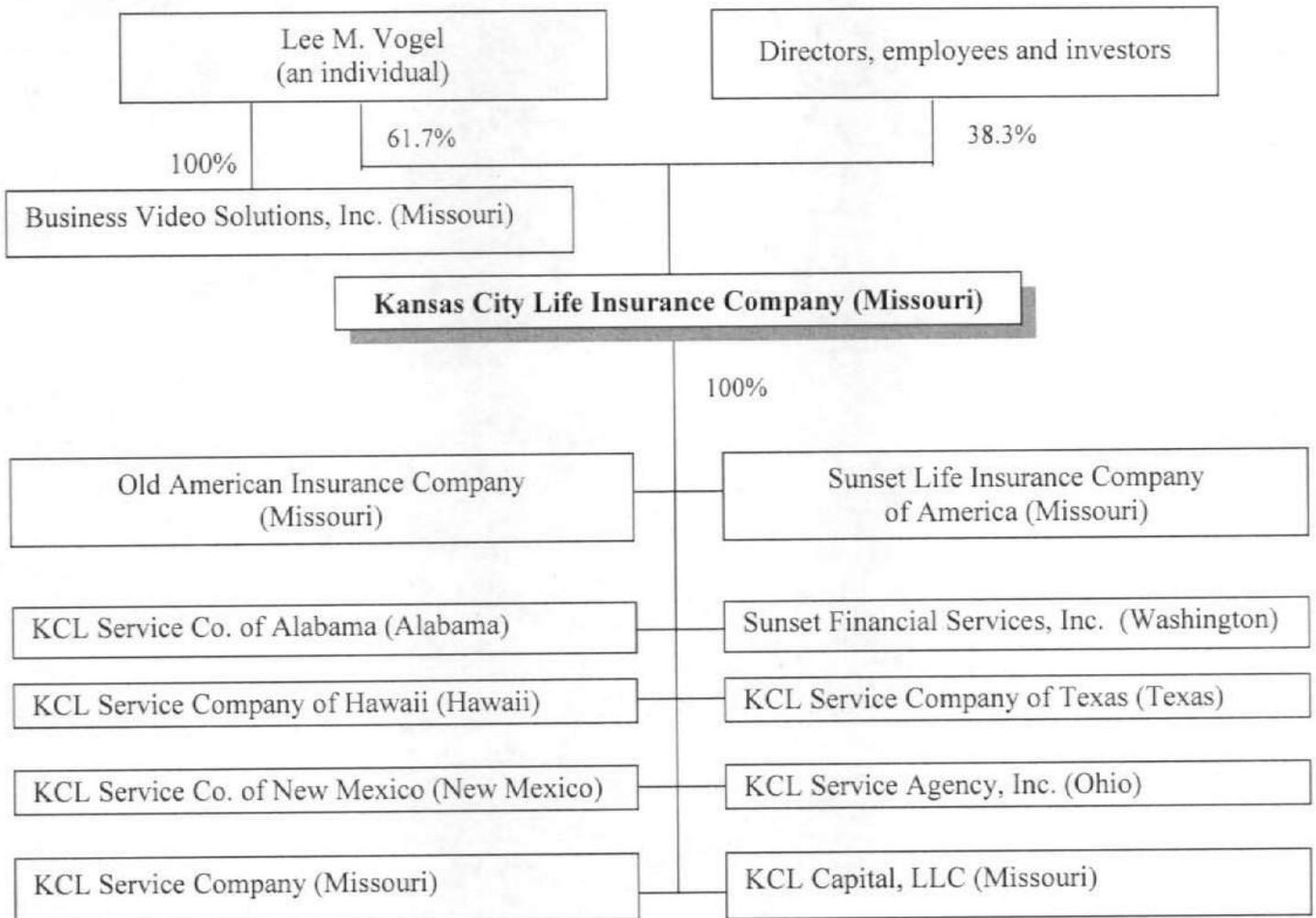
**Holding Company, Subsidiaries and Affiliates**

Kansas City Life Insurance Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by Kansas City Life on behalf of itself and its subsidiaries, for each year of the examination period. On October 31, 2004, Mr. Lee M. Vogel, an individual, became and currently still is the ultimate controlling person of Kansas City Life.

Kansas City Life owns two insurance subsidiaries, Old American Insurance Company and Sunset Life Insurance Company of America. Both companies are life and health insurers, organized as Missouri corporations. Kansas City Life also wholly owns eight other non-insurance subsidiaries. Sunset Financial Services, Inc. (SFS), a Missouri corporation, markets all of Kansas City Life's variable products and performs investment services for policyholders. The other seven subsidiaries are currently inactive, or do not have any significant operations.

**Organizational Chart**

The following organizational chart depicts Kansas City Life's ownership and holding company structure, as of December 31, 2009:



**Intercompany Transactions**

The Company is a party to the intercompany agreements outlined below.

**1. Type:** Tax Allocation Agreement

**Affiliates:** Old American, Sunset Life, Sunset Financial Services, Inc., KCL Service Company of Missouri, KCL Service Company of Texas, KCL Service Company of Alabama, KCL Service Agency, Inc., KCL Service Company of Hawaii and KCL Service Company of New Mexico.

**Effective:** December 31, 2008. This agreement is a restatement of the original Tax Allocation Agreement effective January 1998 and is intended to supersede the original Agreement.

**Terms:** A consolidated federal income tax return is filed each year. The portion of the consolidated tax liability that is allocated to each Company is based upon the subsidiary's tax liability on a stand-alone basis. Intercompany tax settlements are made approximately 30 days after the filing of the tax return.

**2. Type:** Cost Sharing Agreement

**Affiliate:** Old American

**Effective:** October 1, 2008. This agreement is a restatement of the original Cost Sharing Agreement effective May 22, 1992 and is intended to supersede the original Agreement.

**Terms:** The agreement is for a twelve month period which will automatically renew each year unless 30 days notice of termination is provided by either party prior to the expiration. Each party is to pay the cost of any services identified as being incurred for the sole benefit of that party. No party shall realize a profit or incur a loss as a result of shared services. Costs will be determined by an internal cost study to determine time allocations being performed in and between companies. Detailed records of the allocation of all charges and costs will be maintained by Kansas City Life. Expenses will be invoiced within 20 days of the quarter end, with payment due within 30 days of invoicing. Services to be shared shall include, but are not limited to: financial, including cash management and investments, executive officer services, actuarial, billing, collection, payment of premium fees and other amounts, accounting including preparation of financial statements and other accounting documents and reports, information system, administrative services, claims, customer service, legal services and regulatory and compliance services.

**3. Type:** Intercompany Affiliate Service Agreement

**Affiliate:** Sunset Life

**Effective:** August 1, 2009. This agreement is a restatement of the original Cost Sharing Agreement effective August 1992 and is intended to supersede the original Agreement.

**Terms:** The agreement is effective for five years unless otherwise terminated upon 30 days notice by either party prior to the expiration. Services to be performed include, but are not limited to: accounting, tax, auditing, underwriting, claims, investments, and functional support services. Each party agrees to reimburse the other for services and facilities provided under this agreement. Indirect and shared expenses shall be allocated in accordance with a method of cost allocation in conformity with SSAP #70. Within 30 days after a calendar quarter invoices are to be submitted and are to be paid within 30 days of receipt. Each party to this Agreement is responsible for maintaining full and accurate accounting records of all services performed and facilities used under this Agreement.

4. **Type:** Cost Sharing Agreement

**Affiliate:** Sunset Financial Services, Inc.

**Effective:** October 1, 2008. This agreement is a restatement of the original Expense Agreement effective September 1997 and is intended to supersede the original Agreement.

**Terms:** The agreement is for a twelve month period which will automatically renew each year unless 30 days notice is provided by either party prior to the expiration. Each party is to pay the cost of any services identified as being incurred for the sole benefit of that party. No party shall realize a profit or incur a loss as a result of shared services. Costs will be determined by an internal cost study to determine time allocations being performed in and between companies. Detailed records of the allocation of all charges and costs will be maintained by Kansas City Life. Expenses will be invoiced within 20 days of the quarter end, with payment due within 30 days of invoicing. Services to be shared shall include but not be limited to: financial, including cash management and investments, executive officer services, actuarial, billing, collection, payment of premium fees and other amounts, accounting including preparation of financial statements and other accounting documents and reports, information system, administrative services, claims, customer service, legal services and regulatory and compliance services.

5. **Type:** Distribution Agreement

**Affiliate:** Sunset Financial Services, Inc.

**Effective:** December 28, 2004

**Terms:** SFS is the exclusive agent for the distribution and underwriting of Kansas City Life's variable annuity and variable universal life products. SFS shall use its best efforts to market and sell the products directly or through licensed brokers

and agents. Commissions are to be paid by Kansas City Life to the agents and brokers.

- 6. Type:** Loan Guarantee  
**Affiliate:** Old American Insurance Company  
**Effective:** May 31, 2009  
**Terms:** Kansas City Life has guaranteed the indebtedness of Old American on borrowings under a Commerce Bank \$20,000,000 Line of Credit.
- 7. Type:** Guarantee  
**Affiliate:** Sunset Life Insurance Company of America  
**Effective:** August 4, 1999  
**Terms:** Kansas City Life has guaranteed that the capital and surplus of Sunset Life will not fall below the stated minimum for the State of Ohio.
- 8. Type:** Inter-Company Retained Asset Program for Benefit Payments  
**Affiliate:** Old American and Sunset Life  
**Effective:** January 1, 2006  
**Terms:** Certain benefit payments for all parties will be paid through a Kansas City Life corporate account maintained with State Street Bank and BISYS (State Street). Through Kansas City Life's contract with State Street, retained asset checking accounts are established for beneficiaries of death claims, and cash surrenders in excess of \$10,000, for each of the parties to this agreement. Accounts are identified for each company based on branch codes built into the beneficiary's checking account number. When beneficiaries submit checks for payment they are paid from the State Street account. The amounts paid out to the beneficiaries are tracked through the account numbers and shown on each individual Company's account as each Company funds the account for their respective disbursement liabilities. In addition, bank service fees will be paid by each party based on their proportional share of the fees. Fees identified by the respective branch code of the account as being incurred by one party will be paid by that party.
- 9. Type:** Third Party Enabling Agreement  
**Affiliate:** KCL Service Company  
**Effective:** January 1, 2009  
**Terms:** KCL Service Company will serve as an insurance agency for the offering of certain insurance products marketed by unaffiliated insurance companies to Kansas City Life insurance agents. Such insurance products would include disability and long term care insurance that Kansas City Life does not underwrite

and market. Kansas City Life shall supply the necessary personnel to provide all administrative and operational services necessary to permit KCL Service Company to provide services under the agreement. KCL Service Company shall not realize a profit for services provided and shall pay Kansas City Life for the costs of its services provided under the agreement with settlement to be made on a monthly basis. Any indirect or shared expenses that may arise will be allocated in accordance with a method of cost allocation in conformity with SSAP #70. The agreement is for a one year term, beginning on January 1, 2009 and shall automatically renew unless either party provides 30 days notice prior to expiration of the term.

The Company has a reinsurance agreement with Sunset Life. The terms of this agreement are described in the Reinsurance section of this report

The Company has also issued guarantees for minimum amounts of capital and surplus for Sunset Life. These guarantees were necessary for Sunset Life's licensure in three states. A written guarantee was executed on June 18, 1998, for the State of Ohio. Guarantees for Connecticut and Iowa were made in the form of Board of Directors' resolutions.

The amounts (paid) to and received from subsidiaries during the period under examination are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Intercompany Affiliated Service Agreement – Sunset Life:	(\$709,019)	\$2,231,377	\$3,497,456	\$4,128,969
Cost Sharing Agreement – Old American:	5,357,613	5,605,777	5,631,654	5,662,227
Cost Sharing Agreement – Sunset Financial Services, Inc:	1,401,500	1,986,000	2,304,000	2,224,000
Federal Income Tax Allocation Agreement:				
Received from Old American	1,100,000	1,295,000	1,310,000	3,075,000
Received from Sunset Life	2,600,000	2,250,000	3,400,000	2,580,000
Intercompany Retained Asset Program – Old American	10,362,368	11,924,410	9,869,264	356,776
Intercompany Retained Asset Program – Sunset Life	16,294,188	19,057,648	15,366,832	577,993
Commissions Payments:				
Received from – KCL Service Company	23,115	24,125	29,375	23,450
Dividends from Subsidiaries:				
Received from Sunset Life	8,210,000	9,465,000	9,205,000	9,550,000
Received from Old American	<u>3,935,000</u>	<u>5,700,000</u>	<u>6,705,000</u>	<u>7,080,000</u>
<b>Net Amount (Paid) or Received</b>	<b><u>\$48,574,765</u></b>	<b><u>\$59,539,337</u></b>	<b><u>\$57,318,581</u></b>	<b><u>\$35,258,415</u></b>

### FIDELITY BOND AND OTHER INSURANCE

The Company and its subsidiaries are named-insureds on a standard financial institution bond with a liability of \$10,000,000 and a \$150,000 deductible. This level of coverage is sufficient to meet the suggested minimum amount of fidelity insurance coverage according to NAIC guidelines.

Kansas City Life is also a named insured on additional insurance policies that include, but are not limited to, the following: commercial general liability, commercial property, real estate owned, mortgage protection, workers compensation, commercial umbrella, directors and officers liability, and business automobile. Airplane property and liability coverage is provided as a separate policy.

### PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

A variety of standard benefits are provided to employees of Kansas City Life. These benefits include but are not limited to, vacation and sick pay, health insurance, dental insurance, life insurance, disability insurance, a defined benefit pension plan, a 401(k) savings plan, a deferred compensation plan and a profit sharing plan. Post-retirement health insurance is provided to retirees that meet eligibility requirements.

Agents of Kansas City Life and its subsidiary insurance companies located throughout the United States may qualify for benefits similar to those provided for employees upon meeting production requirements. The pension plan for agents is a defined contribution plan. Qualified agents also are eligible for a deferred compensation plan.

Kansas City Life had unrecognized or "off balance sheet" liabilities for its defined benefit pension plan and post retirement benefit plan. These unrecognized liabilities result from the difference between the actual funded status of the plans and the assets or liabilities that were recorded in accordance with Statements of Statutory Accounting Principles. The unrecognized liabilities are as follows:

<u>Plan</u>	<u>Unfunded Amount</u> <u>As of 12/31/09</u>	<u>Liability Recorded</u> <u>As of 12/31/09</u>	<u>Unrecognized</u> <u>Liability</u>
Defined Benefit Pension	\$24,124,697	\$14,409,008	\$9,715,689
Post-Retirement Benefits	27,395,131	17,304,770	10,090,361

## TERRITORY AND PLAN OF OPERATION

Kansas City Life Insurance Company is licensed by the Missouri Department of Insurance, Financial Institutions and Professional Registration under Chapter 376 RSMo (Life, Health and Accident Insurance) to provide the following kinds of insurance: life, accident and health (A&H), and variable contracts. Kansas City Life operates in 48 states and the District of Columbia.

Kansas City Life markets individual insurance products, including traditional, interest sensitive and variable products through a nationwide sales force of independent general agents and third-party marketing arrangements. Kansas City Life also markets group insurance products, which include life, dental, vision and disability products through a nationwide sales force of independent general agents, group brokers and third-party marketing arrangements.

The Company offers investments and broker dealer services through its subsidiary, Sunset Financial Services, Inc. for both proprietary and non-proprietary variable insurance products, mutual funds and other securities. Deposits received from the sale of these products are reported as Separate Account balances in the Annual Statements.

The Kansas City Life Insurance Group primarily consists of three life insurance companies. Kansas City Life is the parent company with Sunset Life and Old American as wholly-owned subsidiaries. Other than for statutory financial statements reporting, the business operations of Sunset Life are combined with the Individual Insurance business segment of Kansas City Life. The Kansas City Life Insurance Group has three reportable business segments on a consolidated basis as follows: Individual Insurance, Group Insurance and Old American.

The primary distribution method utilized is the sales force of independent general agents. Third-Party Administrators (TPAs) are utilized to a very small degree, primarily for prepaid dental products and individual accident and health products.

The Company's current marketing plan is to focus its primary growth strategies on individual life insurance business in both the Individual Insurance and Old American segments. This growth strategy includes new premiums for individual life products and new deposits for universal life and variable universal life products. The marketing plan includes strategies to grow the business through the Company's existing sales force and the addition of new general agents and agents. The Company believes that growth in both the number of general agents and agents is essential to this strategy. Accordingly, the Company has placed an emphasis on recruiting new general agents and agents over the past two years and on providing more training and direct support within the field. In addition, the growth strategy also encourages a product mix that includes both life and annuity products.

### **Company Growth**

During the examination period, total assets excluding separate accounts declined from \$2.9 billion as of December 31, 2005 to \$2.8 billion at year-end 2009. During the same period, capital and surplus also declined from \$339.9 million as of December 31, 2005 to \$336.6 million

at year-end 2009. Between 2008 and 2009, total assets increased from \$2.7 billion to \$2.8 billion.

Total premium income increased steadily in each of the years during the examination period from \$238 million in 2006 to \$293 million in 2009. Most of the premium growth was in individual annuities, which increased from \$80 million in 2006 to \$138 million in 2009. However, the Company sustained negative premium growth in the core life insurance business, which decreased from \$113 million in 2006 to \$106 million at year-end 2009. New life insurance business issued recorded negative growth rates in each of the years under examination as well.

The Company reported a Risk-based Capital (RBC) ratio of 895.7% at year-end 2009, a decrease from 930.8% at year-end 2008. Over the last five-year period, the RBC ratio has fluctuated from a high of 1,136% in 2007 to 895% at year-end 2009.

### **Loss Experience**

Kansas City Life reported an operating gain of 10.0% at year-end 2009, a decrease from 10.8% at year-end 2008 and 16.3% at year-end 2007. Overall profitability ratio was mixed during the examination period, ranging from a net loss of \$20.1 million in 2008 to a net income of \$19.4 million at year-end 2009. However, the Company's overall profitability and loss experience was better than industry averages during the examination period.

The Company reported a total benefits and expenses paid/premium ratio of 78.1% at year-end 2009, a decrease from 104.9% at year-end 2008. The significant variance was due to a corresponding large increase in deposit-type premiums. Over the last five-year period, the benefits & expenses paid/premium ratio has fluctuated from 78% to 119%. The Accident & Health loss ratio has ranged from 61% to 69% over the same period.

**REINSURANCE**

**General**

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Direct Business	\$318,706,123	\$275,792,725	267,841,043	\$259,423,907
Reinsurance Assumed	13,907,794	14,503,621	15,598,988	16,350,374
Reinsurance Ceded	<u>(39,056,180)</u>	<u>(37,113,267)</u>	<u>(37,736,431)</u>	<u>(36,911,448)</u>
<b>Net Written Premiums</b>	<b><u>\$293,557,737</u></b>	<b><u>\$253,183,079</u></b>	<b><u>\$245,703,600</u></b>	<b><u>\$238,862,833</u></b>

**Assumed**

The majority of assumed reinsurance business consists of a closed block of individual life business purchased in 1997 from Security Benefit Life Insurance Company.

Kansas City Life also reinsured a small amount of affiliate Sunset Life's excess mortality risk on a closed block of business for a period of time. These risks were then retroceded by the Company to its own automatic reinsurers.

**Ceded**

The Company is contingently liable for all reinsurance losses ceded or retroceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

Kansas City Life uses reinsurance primarily to reinsure mortality risks in excess of the Company's maximum retention of \$350,000. Additionally, reinsurance is utilized to access reinsurer underwriting expertise and additional capacity.

The following table provides a summary of the significant reinsurers as of December 31, 2009:

<u>Top Five Highest Ceded Reinsurers</u>	<u>Domicile</u>	<u>Current Year Life Ceded Reserve (000's)</u>	<u>Percentage Of Total</u>
Transamerica Life Insurance Company	IA	\$56,834	35.5%
Security Life of Denver	CO	44,594	27.9
RGA Reinsurance Company	MO	20,158	12.6
Lincoln National Insurance Company	IN	9,484	5.9
Lewer Life Insurance Company	MO	<u>9,396</u>	<u>5.9</u>
<b>TOTAL - TOP 5 REINSURERS</b>		<b><u>140,466</u></b>	<b><u>87.8</u></b>
<b>TOTAL ALL REINSURERS</b>		<b><u>160,112</u></b>	<b><u>100.0</u></b>

Level term individual life products are coinsured on a 80% and 90% quota-share basis with multiple reinsurers. Accidental death benefit risks are 100% coinsured. Historically, mortality risks exceeding the Company's retention have been ceded to a reinsurance pool comprised of Transamerica Life Insurance Company (Transamerica) and Swiss Re Life & Health Insurance Company (Swiss Re). In 2001, new universal life plans were reinsured on a quota-share Yearly-Renewable-Term (YRT) basis whereby the Company ceded up to 80% of the mortality risk. In 2009, new universal life plans were once again ceded on a YRT basis for amounts exceeding the Company's retention.

In 1994, the Company introduced a series of competitive level term products. These plans were coinsured on a quota-share basis whereby the Company ceded 80% of the business with Transamerica as the primary reinsurer. The primary purpose of this coinsurance was to reduce the capital impact of the reserves associated with these plans. From 2000 through 2009, the level term plans were ceded on a 90% quota-share basis to a variety of reinsurance pools consisting of multiple reinsurers.

Group reinsurance is purchased for group life mortality risks in excess of the maximum \$100,000 per individual retention. Group accidental death benefits are 100% reinsured. Group disability lines are coinsured on quota-share basis of 80% for long-term risks and 20% on short-term risks.

## STATUTORY DEPOSITS

### Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institution and Professional Registration as of December 31, 2009, as reflected below, were sufficient to meet the minimum capital deposit requirement of \$600,000 for the State of Missouri in accordance with Section 376.290 RSMo (Deposit and transfer of securities). Funds on deposit as of December 31, 2009, are as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Note	\$2,050,000	\$ 2,082,111	\$ 2,050,375

### Deposits with Other States

The Company also has funds on deposit with other states in which it is licensed. Those funds on deposit as of December 31, 2009, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Arkansas	FHLB Bond	\$150,000	\$156,703	\$150,879
Georgia	FNMA	100,000	101,438	99,965
Massachusetts	U.S. Treasury Note	100,000	101,938	99,914
New Mexico	U.S. Treasury Note	150,000	148,898	150,133
North Carolina	U.S. Treasury Note	400,000	402,449	401,507
Total		<u>\$900,000</u>	<u>\$911,426</u>	<u>\$902,398</u>

### Other Deposits

The Company is the grantor in a Trust Agreement with Security Benefit Life Insurance Company (Security Benefit Life) as the named beneficiary. The trust is required to be maintained pursuant to a reinsurance agreement with Security Benefit Life. Kansas City Life's assets held in the trust are maintained in a separate custodial account with UMB Bank. The assets held as trust funds on deposit pursuant to the Trust Agreement as of December 31, 2009, were as follows:

<u>Type of Securities</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Bonds, Stocks and Mortgage Loans	\$198,756,034	\$185,851,960	\$191,545,083

The Company has also pledged assets to the Federal Home Loan Bank (FHLB) as collateral for current and future borrowings. The value of these pledged assets as of December 31, 2009, are as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Various Bonds & Securities	\$46,237,227	\$48,206,380	\$46,480,226
FHLB Member Activity Stock	4,071,700	4,071,700	4,071,700
Total	<u>\$50,308,927</u>	<u>\$52,278,080</u>	<u>\$50,551,926</u>

## ACCOUNTS AND RECORDS

### Independent Auditor

The Company's financial statements were audited by the CPA firm, KPMG, LLP, of Kansas City, Missouri, for all years in the examination period.

### Appointed Actuary

Policy and claim reserves were reviewed and certified by Stephen A. Bader, FSA, MAAA, in 2006 and 2007. Mr. Bader, who is now retired, was an employee of Kansas City Life at the time of these reports. Karen Dierker, FSA, MAAA, an employee of Kansas City Life was subsequently the appointed actuary who reviewed and certified policy and claim reserves for 2008 and 2009.

## FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Kansas City Life for the period ending December 31, 2009. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on the Financial Statements." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

**Assets**

	<u>Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$1,944,288,505		\$1,944,288,505
Preferred Stocks	17,261,002		17,261,002
Common Stocks	60,479,440	\$98,471	60,380,969
Mortgage Loans on Real Estate	403,730,331		403,730,331
Real Estate:			
Properties Occupied by the Company	2,631,631		2,631,631
Properties Held for the Production of Income	54,782,048	180,140	54,601,908
Cash and Short-term Investments	115,164,724		115,164,724
Contract Loans	66,016,880	15,225	66,001,655
Other Invested Assets	78,619,386	11,301,055	67,318,331
Investment Income Due and Accrued	26,296,745	86,455	26,210,290
Uncollected Premiums and Agents' Balances in Course of Collection	4,926,332	2,681,599	2,244,733
Deferred Premiums, Agents' Balances and Installments Booked but Deferred and not yet Due	26,368,276		26,368,276
Amounts Recoverable from Reinsurers	2,633,912	686,069	1,947,843
Other Amounts Receivable Under Reinsurance	489,277		489,277
Federal Income Tax Recoverable	7,191,984		7,191,984
Net Deferred Tax Asset	60,407,595	38,105,679	22,301,916
Guaranty Funds Receivable or on Deposit	426,114		426,114
Electronic Data Processing Equipment and Software	389,989		389,989
Furniture and Equipment	627,049	627,049	0
Receivable from Parent, Subsidiaries and Affiliates	202,532		202,532
Aggregate Write-Ins for other than Invested Assets:			
Aircraft	20,188,368	20,188,368	0
Miscellaneous Assets and Deferred Compensation	21,554,703	900,348	20,654,355
Assets from Separate Accounts Statement	<u>312,824,199</u>	<u>0</u>	<u>312,824,199</u>
<b>TOTAL ASSETS</b>	<b><u>\$3,227,501,022</u></b>	<b><u>\$74,870,458</u></b>	<b><u>\$3,152,630,564</u></b>

## Liabilities, Surplus and Other Funds

Aggregate Reserve for Life Contracts	\$2,193,147,801
Aggregate Reserve for Accident and Health Contracts	4,281,960
Liability for Deposit-type Contracts	139,287,501
Contract Claims – Life	13,844,053
Contract Claims – Accident and Health	3,669,191
Policyholders' Dividend and Coupon Due and Accrued	30,404
Provision for Policyholders' Dividends Apportioned for Payment	3,359,328
Premiums and Annuity Considerations Received in Advance	1,005,993
Provision for Experience Rating Refunds	34,424
Other Amounts Payable on Reinsurance	4,006,546
Interest Maintenance Reserve	18,043,970
Commissions to Agents Due or Accrued	3,445,662
Commissions and Expense Allowances Payable on Reinsurance	1,200
General Expenses Due or Accrued	5,003,820
Transfers to Separate Accounts Due or Accrued	(13,804,748)
Taxes, Licenses and Fees Due or Accrued	1,519,305
Unearned Investment Income	710,768
Amounts Withheld or Retained	46,748,578
Remittances and Items Not Allocated	4,451,165
Liability for Benefits for Employees and Agents	42,774,817
Asset Valuation Reserve	18,000,000
Payable to Parent, Subsidiaries and Affiliates	56,995
Aggregate Write-Ins for Liabilities:	0
Uncashed Checks Pending Escheatment	1,014,565
Additional Pension Liability	12,558,538
Liabilities from Separate Accounts Statement	<u>312,824,199</u>
<b>TOTAL LIABILITIES</b>	<b>\$2,816,016,035</b>
Common Capital Stock	23,120,850
Gross Paid In and Contributed Surplus	41,068,516
Aggregate Write-ins for Special Surplus Funds	13,424,454
Unassigned Funds (Surplus)	415,574,930
Less Treasury Stock	<u>(156,574,222)</u>
Capital and Surplus	<b><u>\$336,614,528</u></b>
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b><u>\$3,152,630,563</u></b>

### Summary of Operations

Premiums and Annuity Considerations	\$293,557,739
Considerations for Supplementary Contracts with Life Contingencies	4,162,077
Net Investment Income	167,448,607
Amortization of Interest Maintenance Reserve	1,187,558
Commission and Expense Allowances on Reinsurance Ceded	4,949,744
Miscellaneous Income	<u>13,416,507</u>
<b>TOTAL</b>	<b>\$484,722,232</b>
Death Benefits	77,075,307
Matured Endowments	1,386,812
Annuity Benefits	123,646,115
Disability Benefits and Benefits Under Accident & Health Policies	27,277,480
Coupons, Guaranteed Endowments and Similar Benefits	52,290
Surrender Benefits and Withdrawals for Life Contracts	61,180,127
Interest and Adjustments on Contract and Deposit-type Contract Funds	7,024,173
Payments on Supplementary Contracts with Life Contingencies	11,216,299
Increase in Aggregate Reserves for Life and Accident & Health Policies	36,046,229
Commissions on Premiums and Annuity Considerations	26,646,277
Commissions and Expense Allowances on Reinsurance Assumed	252,932
General Insurance Expenses	75,977,370
Insurance Taxes, Licenses and Fees	6,814,141
Increase in Loading on Deferred and Uncollected Premiums	(670,032)
Net Transfers to Separate Accounts	(4,771,066)
Aggregate Write-Ins for Deductions:	
Miscellaneous Interest Paid, Experience Rated Refund Paid	<u>1,925,960</u>
<b>TOTAL</b>	<b><u>\$451,080,414</u></b>
<b>NET GAIN FROM OPERATIONS</b>	<b>\$33,641,818</b>
Dividends to Policyholders	3,361,812
Federal Income Taxes Incurred	5,301,204
Net Realized Capital Gains and (Losses)	<u>(5,524,050)</u>
<b>NET INCOME</b>	<b><u>\$19,454,752</u></b>

**Capital and Surplus Account**

Capital and Surplus, December 31, 2008	\$306,247,113
Net Income or (Loss)	19,454,752
Change in Net Unrealized Capital Gains or (Losses)	(993,286)
Change in Net Deferred Income Tax	(10,100,363)
Change in Treasury Stock	(4,478,295)
Change in Asset Valuation Reserve	(5,000,000)
Change in Nonadmitted Assets	30,696,164
Change in Reserve on Account of Change in Valuation Basis	(197,624)
Cumulative Effect of Change in Accounting Principles	13,041,147
Paid-in Surplus	4,787,777
Dividends to Stockholders	(12,506,490)
Aggregate Write-ins for Surplus:	<u>0</u>
Change in Minimum Pension Liability	(12,558,538)
Adoption of SSAP #10R	13,424,454
Correction of Prior Period Tax Contingency –OPEB	<u>(5,202,287)</u>
	<u>0</u>
<b>Net Change in Capital and Surplus</b>	<b><u>\$30,367,411</u></b>
<b>CAPITAL AND SURPLUS, DECEMBER 31, 2009</b>	<b><u>\$336,614,524</u></b>

**CHANGES IN FINANCIAL STATEMENTS RESULTING FROM EXAMINATION**

None

**COMMENTS ON FINANCIAL STATEMENTS**

None

**SUMMARY OF RECOMMENDATIONS**

None

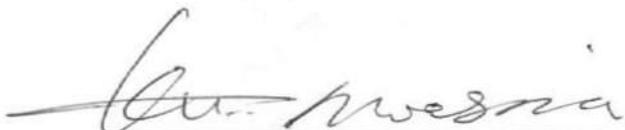
**ACKNOWLEDGMENT**

The assistance and cooperation extended by the officers and the employees of Kansas City Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shawn Hernandez, CFE, Barbara Bartlett, CPA, CFE and Valerie Hastings, examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration also participated in this examination. Timothy Carroll, Computer Audit Specialist for the Missouri Department of Insurance, Financial Institutions and Professional Registration performed a review of the information system environment. Leon L. Langlitz, FSA, of Lewis & Ellis, Inc. also participated as a consulting actuary.

**VERIFICATION**

State of Missouri            )  
  )  
County of                    )

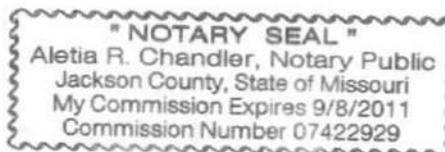
I, Levi N. Nwasoria, CPA, MSA, CFE on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Levi N. Nwasoria, CPA, MSA, CFE  
Examiner-In-Charge  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration

Sworn to and subscribed before me this 21 day of December, 2010.

My commission expires: 9/8/2011      Aletia R. Chandler  
Notary Public



**SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Mark Nance, CPA, CFE

Audit Manager

Missouri Department of Insurance, Financial  
Institutions and Professional Registration