

KANSAS CITY LIFE INSURANCE CO
Form 10-Q
April 29, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015 or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number 1-33348

KANSAS CITY LIFE INSURANCE COMPANY
(Exact name of registrant as specified in its charter)
Missouri
(State or other jurisdiction of
incorporation or organization)

44-0308260
(I.R.S. Employer
Identification No.)

3520 Broadway, Kansas City, Missouri
(Address of principal executive offices)
816-753-7000

64111-2565
(Zip Code)

Registrant's telephone number, including area code
Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock: \$1.25 par 10,779,277 shares

Class Outstanding March 31, 2015

Table of Contents

KANSAS CITY LIFE INSURANCE COMPANY

TABLE OF CONTENTS

<u>PART I. Financial Information</u>	<u>3</u>
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Consolidated Balance Sheets</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>4</u>
<u>Consolidated Statement of Stockholders' Equity</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>36</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>55</u>
<u>Item 4. Controls and Procedures</u>	<u>55</u>
<u>PART II. Other Information</u>	<u>56</u>
<u>Item 1. Legal Proceedings</u>	<u>56</u>
<u>Item 1A. Risk Factors</u>	<u>56</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>57</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>57</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>57</u>
<u>Item 5. Other Information</u>	<u>58</u>
<u>Item 6. Exhibits</u>	<u>59</u>
<u>Signatures</u>	<u>60</u>

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

Amounts in thousands, except share data, or as otherwise noted

Kansas City Life Insurance Company

Consolidated Balance Sheets

	March 31 2015 (Unaudited)	December 31 2014
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	\$2,765,610	\$2,726,731
Equity securities available for sale, at fair value	25,247	24,881
Mortgage loans	544,940	541,180
Real estate	180,117	181,082
Policy loans	82,843	83,553
Short-term investments	24,594	39,107
Other investments	383	462
Total investments	3,623,734	3,596,996
Cash	8,567	11,011
Accrued investment income	36,927	33,078
Deferred acquisition costs	247,538	249,195
Reinsurance recoverables	194,010	194,425
Property and equipment	17,318	17,527
Other assets	61,980	63,134
Separate account assets	412,357	406,501
Total assets	\$4,602,431	\$4,571,867
LIABILITIES		
Future policy benefits	\$935,306	\$930,761
Policyholder account balances	2,066,344	2,072,041
Policy and contract claims	41,204	37,452
Other policyholder funds	166,408	165,062
Other liabilities	223,352	217,291
Separate account liabilities	412,357	406,501
Total liabilities	3,844,971	3,829,108
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	41,016	41,007
Retained earnings	842,367	838,508
Accumulated other comprehensive income	35,973	23,040
Treasury stock, at cost (2015 - 7,717,403 shares; 2014 - 7,671,475 shares)	(185,017)	(182,917)
Total stockholders' equity	757,460	742,759
Total liabilities and stockholders' equity	\$4,602,431	\$4,571,867
See accompanying Notes to Consolidated Financial Statements		

Table of ContentsKansas City Life Insurance Company
Consolidated Statements of Comprehensive Income

	Quarter Ended March 31 2015 (Unaudited)	2014	
REVENUES			
Insurance revenues:			
Net premiums	\$40,976	\$41,787	
Contract charges	28,392	28,798	
Total insurance revenues	69,368	70,585	
Investment revenues:			
Net investment income	39,692	40,691	
Net realized investment gains (losses), excluding other-than-temporary impairment losses	(28	)	1,665
Net impairment losses recognized in earnings:			
Total other-than-temporary impairment losses	—	(213)
Portion of impairment losses recognized in other comprehensive income	(7	)	51
Net other-than-temporary impairment losses recognized in earnings	(7	)	(162
)
Total investment revenues	39,657	42,194	
Other revenues	1,780	2,333	
Total revenues	110,805	115,112	
BENEFITS AND EXPENSES			
Policyholder benefits	50,342	52,754	
Interest credited to policyholder account balances	18,439	18,946	
Amortization of deferred acquisition costs	8,384	8,828	
Operating expenses	24,118	26,620	
Total benefits and expenses	101,283	107,148	
Income before income tax expense	9,522	7,964	
Income tax expense	2,744	2,292	
NET INCOME	\$6,778	\$5,672	
COMPREHENSIVE INCOME, NET OF TAXES			
Change in net unrealized gains on securities available for sale, net of DAC and VOBA	\$16,020	\$19,365	
Change in future policy benefits	(2,989	)	(3,633
)
Change in policyholder account balances	(98	)	(131
)
Other comprehensive income	12,933	15,601	
COMPREHENSIVE INCOME	\$19,711	\$21,273	
Basic and diluted earnings per share:			

Net income	\$0.63	\$0.52
See accompanying Notes to Consolidated Financial Statements		

4

Table of ContentsKansas City Life Insurance Company
Consolidated Statement of Stockholders' Equity

	Quarter Ended March 31, 2015 (Unaudited)	
COMMON STOCK, beginning and end of period	\$23,121	
ADDITIONAL PAID IN CAPITAL		
Beginning of year	41,007	
Excess of proceeds over cost of treasury stock sold	9	
End of period	41,016	
RETAINED EARNINGS		
Beginning of year	838,508	
Net income	6,778	
Stockholder dividends of \$0.27 per share	(2,919)
End of period	842,367	
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Beginning of year	23,040	
Other comprehensive income	12,933	
End of period	35,973	
TREASURY STOCK, at cost		
Beginning of year	(182,917)
Cost of 45,320 shares acquired	(2,104)
Cost of 292 shares sold	4	
End of period	(185,017)
TOTAL STOCKHOLDERS' EQUITY	\$757,460	
See accompanying Notes to Consolidated Financial Statements		

Table of ContentsKansas City Life Insurance Company
Consolidated Statements of Cash Flows

	Quarter Ended March 31	
	2015	2014
	(Unaudited)	
OPERATING ACTIVITIES		
Net income	\$6,778	\$5,672
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investment premium and discount	1,031	1,043
Depreciation	1,399	1,096
Acquisition costs capitalized	(8,773	) (7,772
Amortization of deferred acquisition costs	8,384	8,828
Realized investment (gains) losses	35	(1,503
Changes in assets and liabilities:		
Reinsurance recoverables	415	(66
Future policy benefits	(55	) 3,421
Policyholder account balances	(6,855	) (5,256
Income taxes payable and deferred	2,745	1,291
Other, net	(2,398	) (5,278
Net cash provided	2,706	1,476
INVESTING ACTIVITIES		
Purchases:		
Fixed maturity securities	(77,172	) (101,204
Mortgage loans	(28,007	) (4,437
Real estate	(464	) (3,668
Policy loans	(3,863	) (3,771
Sales or maturities, calls, and principal paydowns:		
Fixed maturity securities	63,375	63,543
Mortgage loans	23,953	34,513
Real estate	—	1,986
Policy loans	4,572	4,215
Other investments	16	5,000
Net sales of short-term investments	14,513	6,299
Acquisition of property and equipment	(202	) (440
Net cash provided (used)	(3,279	) 2,036

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

	Quarter Ended March 31	
	2015	2014
	(Unaudited)	
FINANCING ACTIVITIES		
Deposits on policyholder account balances	\$55,714	\$59,597
Withdrawals from policyholder account balances	(55,633	) (60,415
Net transfers from separate accounts	805	2,265
Change in other deposits	2,253	225
Cash dividends to stockholders	(2,919	) (2,961
Net change in treasury stock	(2,091	) (48
Net cash used	(1,871	) (1,337
Increase (decrease) in cash	(2,444	) 2,175
Cash at beginning of year	11,011	8,197
Cash at end of period	\$8,567	\$10,372
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	\$—	\$1,000
See accompanying Notes to Consolidated Financial Statements		

Table of Contents

Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited)

1. Nature of Operations and Significant Accounting Policies

Basis of Presentation

The unaudited 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 several non-insurance subsidiaries that individually and collectively are not material.

The unaudited interim consolidated financial statements have been prepared on the basis of U.S. generally accepted accounting principles (GAAP) for interim financial reporting with the instructions to Form 10-Q and Regulations S-K, S-X, and other applicable regulations. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. As such, these unaudited interim consolidated financial statements should be read in conjunction with the Company's 2014 Form 10-K, as amended. Management believes that the disclosures are adequate to make the information presented not misleading, and all normal and recurring adjustments necessary to present fairly the financial position at March 31, 2015 and the results of operations for all periods presented have been made. The results of operations for any interim period are not necessarily indicative of the Company's 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 preparation of the unaudited interim consolidated financial statements requires management of the Company to make estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the unaudited interim consolidated financial statements, and the reported amounts of revenue and expenses during the period. These estimates are inherently subject to change and actual results could differ from these estimates.

Significant Accounting Policies

For a full discussion of the Company's significant accounting policies, please refer to the Company's 2014 Form 10-K, as amended. No significant updates or changes to these policies occurred during the quarter ended March 31, 2015.

Table of Contents

Kansas City Life Insurance Company

Notes to Consolidated Financial Statements--(Continued) (Unaudited)

2. New Accounting Pronouncements

Accounting Pronouncements Issued, Not Yet Adopted

In May 2014, the FASB issued guidance regarding accounting for revenue recognition that identifies the accounting treatment for an entity's contracts with customers. Certain contracts, including insurance contracts, are specifically excluded from this guidance. However, certain other types of contracts may impact the financial statements of insurance providers. This guidance is effective for public entities for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently evaluating this guidance.

In August 2014, the FASB issued guidance that requires management to evaluate whether there are concerns or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued. Disclosures are required when certain criteria are met. This guidance is effective for annual periods ending after December 15, 2016. The Company is currently evaluating this guidance, but it does not believe that there will be a material impact to the consolidated financial statements.

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

In April 2015, the FASB issued guidance regarding a customer's accounting for fees paid in a cloud computing arrangement and whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, a customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, a customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer's accounting for service contracts. This guidance is effective for interim and annual reporting periods beginning after December 15, 2015. The Company is currently evaluating this guidance, but it does not believe that there will be a material impact to the consolidated financial statements.

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 the Company at this time or were not expected to have a material impact to the consolidated financial statements.

3. Prior Year Adoption of Accounting Principle

On December 31, 2014, the Company retrospectively adopted FASB Accounting Standards Update (ASU) No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. Under ASU No. 2014-01, the Company elected to use the proportional amortization method, which requires an entity to amortize the initial cost of the investment in proportion to the tax credits and other tax benefits received and to recognize the net investment performance in the income statement as a component of income tax expense (benefit). As a result of the retrospective adoption, results previously reported in the Company's March 31, 2014 10-Q have been adjusted as follows: income tax expense decreased \$0.2 million, net income increased \$0.2 million, and net income per share increased \$0.02. The adoption did not impact net cash provided by operating activities for the first quarter ended March 31, 2014.

Table of Contents

Kansas City Life Insurance Company

Notes to Consolidated Financial Statements--(Continued) (Unaudited)

4. Investments

Fixed Maturity and Equity Securities Available for Sale

Securities by Asset Class

The following table provides amortized cost and fair value of securities by asset class at March 31, 2015.

	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	\$ 154,498	\$ 11,960	\$ 61	\$ 166,397
Federal agencies ¹	19,771	2,112	—	21,883
Federal agency issued residential mortgage-backed securities ¹	41,778	4,755	2	46,531
Subtotal	216,047	18,827	63	234,811
Corporate obligations:				