

KANSAS CITY LIFE INSURANCE COMPANY

ANNUAL REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

KANSAS CITY LIFE INSURANCE COMPANY
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Financial Information

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

Kansas City Life Insurance Company
Consolidated Balance Sheets

	December 31	
	2015	2014
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value (amortized cost: 2015 - $2,486,338; 2014 - $2,553,416)	$ 2,580,845	$ 2,726,731
Equity securities available for sale, at fair value (amortized cost: 2015 - $24,067; 2014 - $23,576)	25,325	24,881
Mortgage loans	589,960	541,180
Real estate	168,097	181,082
Policy loans	81,392	83,553
Short-term investments	22,474	39,107
Other investments	380	462
Total investments	3,468,473	3,596,996
Cash	7,851	11,011
Accrued investment income	33,023	33,078
Deferred acquisition costs	267,936	249,195
Reinsurance recoverables	198,834	194,425
Property and equipment	16,580	17,527
Other assets	56,252	63,134
Separate account assets	372,924	406,501
Total assets	$ 4,421,873	$ 4,571,867
LIABILITIES		
Future policy benefits	$ 926,385	$ 930,761
Policyholder account balances	2,056,126	2,072,041
Policy and contract claims	37,959	37,452
Other policyholder funds	174,353	165,062
Other liabilities	190,295	217,291
Separate account liabilities	372,924	406,501
Total liabilities	3,758,042	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	41,025	41,007
Retained earnings	856,196	838,508
Accumulated other comprehensive income (loss)	(15,210)	23,040
Treasury stock, at cost (2015 - 8,813,266 shares; 2014 - 7,671,475 shares)	(241,301)	(182,917)
Total stockholders' equity	663,831	742,759
Total liabilities and stockholders' equity	$ 4,421,873	$ 4,571,867

See accompanying Notes to Consolidated Financial Statements

Kansas City Life Insurance Company
Consolidated Statements of Comprehensive Income

	Year Ended December 31		
	2015	2014	2013
REVENUES			
Insurance revenues:			
Net premiums	$ 160,175	$ 165,548	$ 186,530
Contract charges	112,030	118,649	113,454
Total insurance revenues	272,205	284,197	299,984
Investment revenues:			
Net investment income	157,150	164,968	169,740
Net realized investment gains, excluding other-than-temporary impairment losses	6,248	4,902	5,005
Net impairment losses recognized in earnings:			
Total other-than-temporary impairment losses	(2,189)	(2,176)	(1,032)
Portion of impairment losses recognized in other comprehensive income (loss)	(292)	643	(101)
Net other-than-temporary impairment losses recognized in earnings	(2,481)	(1,533)	(1,133)
Total investment revenues	160,917	168,337	173,612
Other revenues	7,729	12,485	9,997
Total revenues	440,851	465,019	483,593
BENEFITS AND EXPENSES			
Policyholder benefits	198,721	202,946	211,994
Interest credited to policyholder account balances	74,326	76,463	79,294
Amortization of deferred acquisition costs	28,348	40,888	37,228
Operating expenses	97,260	101,738	110,622
Total benefits and expenses	398,655	422,035	439,138
Income before income tax expense	42,196	42,984	44,455
Income tax expense	12,970	12,994	14,392
NET INCOME	$ 29,226	$ 29,990	$ 30,063
COMPREHENSIVE INCOME (LOSS), NET OF TAXES			
Change in net unrealized gains on securities available for sale, net of DAC, VOBA, and DRL	$ (43,803)	$ 31,641	$ (63,538)
Change in future policy benefits	4,913	(6,928)	8,421
Change in policyholder account balances	276	(242)	408
Change in benefit plan obligations	364	(15,601)	14,785
Other comprehensive income (loss)	(38,250)	8,870	(39,924)
COMPREHENSIVE INCOME (LOSS)	$ (9,024)	$ 38,860	$ (9,861)
Basic and diluted earnings per share:			
Net income	$ 2.75	$ 2.74	$ 2.73

See accompanying Notes to Consolidated Financial Statements

Kansas City Life Insurance Company
Consolidated Statements of Stockholders' Equity

	Year Ended December 31		
	2015	2014	2013
COMMON STOCK, beginning and end of year	$ 23,121	$ 23,121	$ 23,121
ADDITIONAL PAID IN CAPITAL			
Beginning of year	41,007	40,989	40,969
Excess of proceeds over cost of treasury stock sold	18	18	20
End of year	41,025	41,007	40,989
RETAINED EARNINGS			
Beginning of year	838,508	820,327	802,153
Net income	29,226	29,990	30,063
Stockholder dividends of $1.08 per share (2014 - $1.08; 2013 - $1.08)	(11,538)	(11,809)	(11,889)
End of year	856,196	838,508	820,327
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)			
Beginning of year	23,040	14,170	54,094
Other comprehensive income (loss)	(38,250)	8,870	(39,924)
End of year	(15,210)	23,040	14,170
TREASURY STOCK, at cost			
Beginning of year	(182,917)	(176,284)	(173,513)
Cost of 1,142,351 shares acquired (2014 - 144,188 shares; 2013 - 64,792 shares)	(58,392)	(6,641)	(2,782)
Cost of 560 shares sold (2014 - 554 shares; 2013 - 774 shares)	8	8	11
End of year	(241,301)	(182,917)	(176,284)
TOTAL STOCKHOLDERS' EQUITY	$ 663,831	$ 742,759	$ 722,323

See accompanying Notes to Consolidated Financial Statements

Kansas City Life Insurance Company
Consolidated Statements of Cash Flows

	Year Ended December 31		
	2015	2014	2013
OPERATING ACTIVITIES			
Net income	$ 29,226	$ 29,990	$ 30,063
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of investment premium and discount	4,257	4,388	5,447
Depreciation	5,368	4,698	4,279
Acquisition costs capitalized	(37,714)	(36,170)	(36,709)
Amortization of deferred acquisition costs	28,348	40,888	37,228
Realized investment gains	(3,767)	(3,369)	(3,872)
Changes in assets and liabilities:			
Reinsurance recoverables	(4,409)	(3,370)	(442)
Future policy benefits	3,182	9,875	33,497
Policyholder account balances	(20,222)	(16,284)	(24,161)
Income taxes payable and deferred	7,216	4,237	7,093
Other, net	4,207	3,316	3,338
Net cash provided	15,692	38,199	55,761
INVESTING ACTIVITIES			
Purchases:			
Fixed maturity securities	(235,767)	(280,686)	(261,006)
Equity securities	(38)	(89)	(12,711)
Mortgage loans	(141,184)	(48,195)	(72,656)
Real estate	(8,253)	(41,201)	(24,435)
Policy loans	(8,638)	(8,975)	(10,517)
Other investments	(280)	—	—
Sales or maturities, calls, and principal paydowns:			
Fixed maturity securities	298,913	219,738	282,742
Equity securities	33	15	1,459
Mortgage loans	91,096	127,071	116,680
Real estate	20,000	2,915	370
Policy loans	10,799	8,941	13,078
Other investments	419	11,121	181
Net sales (purchases) of short-term investments	16,633	1,605	(15,810)
Acquisition of property and equipment	(683)	(1,669)	(830)
Reinsurance transaction	—	—	(34,279)
Net cash provided (used)	43,050	(9,409)	(17,734)

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

	Year Ended December 31		
	2015	2014	2013
FINANCING ACTIVITIES			
Deposits on policyholder account balances	$ 217,929	$ 238,751	$ 239,501
Withdrawals from policyholder account balances	(222,907)	(257,745)	(276,327)
Net transfers from separate accounts	9,026	8,534	5,962
Change in other deposits	3,954	2,908	8,648
Cash dividends to stockholders	(11,538)	(11,809)	(11,889)
Net change in treasury stock	(58,366)	(6,615)	(2,751)
Net cash used	(61,902)	(25,976)	(36,856)
Increase (decrease) in cash	(3,160)	2,814	1,171
Cash at beginning of year	11,011	8,197	7,026
Cash at end of year	$ 7,851	$ 11,011	$ 8,197

See accompanying Notes to Consolidated Financial Statements

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements

1. Nature of Operations and Significant Accounting Policies

Business
Kansas City Life Insurance Company is a Missouri domiciled stock life insurance company which, with its subsidiaries, is licensed to sell insurance products in 49 states and the District of Columbia. 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 consolidated entity (the Company) offers a diversified portfolio of individual insurance, annuity, and group products through three life insurance companies.

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

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

In 2014, the Company completed a divestiture of certain non-proprietary agent relationships related to Sunset Financial Services (SFS) with Securities America (SAI). Under this agreement SFS transferred the servicing of certain accounts primarily related to non-proprietary broker-dealer and registered investment advisory accounts to SAI. SFS will continue as a wholly-owned wholesale broker-dealer subsidiary of Kansas City Life to provide support for Kansas City Life's proprietary products and those variable products specifically associated with the American Family Insurance Company (American Family) transaction (see Reinsurance Transaction below). This transaction resulted in $3.3 million of revenue from the sale of these assets at SFS, which is reported as other revenue in the 2014 Consolidated Statements of Comprehensive Income. This transaction does not represent a strategic shift that will have a major effect on the consolidated entity's financial results nor does the Company believe that there is any material impact to the consolidated entity's financial position.

Reinsurance Transaction
In April 2013, the Company acquired a closed block of variable life insurance policies and variable annuity contracts through reinsurance and servicing agreements from American Family. Under the reinsurance agreement, the Company assumed 100% of the separate account liabilities on a modified coinsurance basis and 100% of the general account liabilities on a coinsurance basis. The transaction also involved an ongoing servicing arrangement for this business. This block is included as a component of the Individual Insurance segment.

The Company receives fees based upon both specific transactions and the fund value of the block of policies, as provided under modified coinsurance transactions. Also, as required under modified coinsurance transaction accounting, the separate account fund balances are not recorded as separate accounts on the Company's financial statements. The coinsurance portion of the transaction, which is invested in the Company's fixed funds, is included in future policy benefits. The Company records these fixed fund accounts as a separate block under its general accounts. The Company receives fees on both the separate accounts and the fixed fund accounts.

Use of Estimates
The preparation of the consolidated financial statements requires management of the Company to make estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period. These estimates are inherently subject to change and actual results could differ from these estimates. Significant estimates required in the preparation of the consolidated financial statements include the fair value of certain invested assets, deferred acquisition costs (DAC), deferred

income taxes, value of business acquired (VOBA), deferred revenue liability (DRL), future policy benefits, policy and contract claim liabilities, and pension and other postemployment benefits.

Significant Accounting Policies

Investments

Valuation of Investments and Other-than-Temporary Impairments

The Company's principal investments are in fixed maturity securities, mortgage loans, and real estate; all of which are exposed to at least three primary sources of investment risk, including: credit, interest rate, and liquidity. The fixed maturity and equity securities, which are all classified as available for sale, are carried at fair value in the Company's Consolidated Balance Sheets, with unrealized gains or losses recorded in accumulated other comprehensive income (loss). The unrealized gains or losses are recorded net of the adjustment to policyholder account balances, future policy benefits, DAC, VOBA, and DRL to reflect what would have been earned had those gains or losses been realized and the proceeds reinvested. The adjustments to DAC, VOBA, and DRL represent changes in the amortization that would have been required as a charge or credit to income had such unrealized amounts been realized. The adjustments to policyholder account balances and future policy benefits represent the increase from using a discount rate that would have been required if such unrealized gains or losses had been realized and the proceeds reinvested at current market interest rates, which were lower or higher than the then-current effective portfolio rate. The amortized cost of a security is adjusted for declines in value that are other than temporary. Other than temporary impairment losses are reported as a component of investment revenues in the Consolidated Statements of Comprehensive Income, which also presents the amount of non-credit impairment losses for certain fixed maturity securities that is reported in accumulated other comprehensive income (loss). See Note 3 - Investments for additional discussion of the Company's considerations related to other than temporary impairments. For additional information regarding fair value, please see Note 4 - Fair Value Measurements.

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

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

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

Investment Income

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

Future Policy Benefits

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

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

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

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

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

	2015	2014
Life insurance	$ 628,274	$ 622,350
Immediate annuities and supplementary contracts with life contingencies	263,437	271,088
Accident and health insurance	34,674	37,323
Total future policy benefits	$ 926,385	$ 930,761

Policyholder Account Balances

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

On an ongoing basis, the Company performs testing and analysis on its blocks of business to ensure the assumptions made remain viable. The Company also periodically performs sensitivity testing on these blocks of business to ensure it maintains the capacity to meet an increase in policyholder benefits, namely increased surrenders, policy loans, or other policyholder elective withdrawals.

Crediting rates for universal life insurance and fixed deferred annuity products ranged from 1.00% to 5.50% in 2015, 2014, and 2013.

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

	2015	2014
Universal life insurance	$ 928,398	$ 936,770
Fixed deferred annuities	1,073,592	1,080,322
Immediate annuities and supplementary contracts with life contingencies	54,136	54,949
Policyholder account balances	$ 2,056,126	$ 2,072,041

Deferred Acquisition Costs (DAC)

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

Policy acquisition costs that relate to interest sensitive and variable insurance products are deferred and amortized in relation to the estimated gross profits to be realized over the lives of the contracts. Estimated gross profits for interest sensitive and variable insurance products are projected using assumptions as to net interest income, net realized investment gains and losses, fees, surrender charges, expenses, and mortality gains and losses, net of reinsurance. At the issuance of policies, projections of estimated gross profits are made. These projections are then replaced by actual gross profits over the lives of the policies. In addition to

other factors, emerging experience may lead to a revised outlook for the remaining estimated gross profits. Accordingly, DAC may be recalculated (unlocked) using these new assumptions and any resulting adjustment is included in income in the period such an unlocking is deemed appropriate. See Unlocking and Refinements in Estimates section below.

The DAC asset is adjusted to reflect the impact of realized and unrealized gains and losses on fixed maturity securities available for sale, as described in the Investments section of Note 1 - Nature of Operations and Significant Accounting Policies.

The following table provides information about DAC at December 31.

	2015	2014	2013
Balance at beginning of year	$ 249,195	$ 256,386	$ 176,275
Capitalization of commissions, sales, issue expenses and reinsurance transaction	37,714	36,170	85,929
Gross amortization	(41,832)	(54,531)	(50,923)
Accrual of interest	13,484	13,643	13,695
Amortization due to realized investment (gains) losses	(18)	(49)	(66)
Change in DAC due to the change in unrealized investment gains	9,393	(2,424)	31,476
Balance at end of year	$ 267,936	$ 249,195	$ 256,386

Value of Business Acquired (VOBA)

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

The VOBA asset is adjusted to reflect the impact of realized and unrealized gains and losses on fixed maturity securities available for sale, as described in the Investments section of Note 1. The concept of VOBA is no longer applied to business combinations. Rather, under current guidance for business combinations, all assets and liabilities are reported at fair value at acquisition and an intangible asset (liability) may result due to differences between fair value and consideration paid.

The following table provides information about VOBA at December 31.

	2015	2014	2013
Balance at beginning of year	$ 24,655	$ 28,542	$ 21,165
Gross amortization	(5,679)	(4,643)	(7,566)
Accrual of interest	1,795	1,938	2,220
Amortization due to realized investment (gains) losses	(5)	(100)	(58)
Change in VOBA due to the change in unrealized investment gains	3,517	(1,082)	12,781
Balance at end of year	$ 24,283	$ 24,655	$ 28,542

Interest accrued on the VOBA of one block was at the rates of 4.2% on the interest sensitive life block and 5.3% on the traditional life block. The VOBA on a separate acquired block of business used a 7.0% interest rate on the traditional life portion and a 5.4% interest rate on the interest sensitive portion. The interest rates used in the calculation of VOBA are based on rates appropriate at the time of acquisition.

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

Deferred Revenue Liabilities (DRL)

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

Unlocking and Refinements in Estimates

DAC and VOBA are reviewed on an ongoing basis to evaluate whether the unamortized portion exceeds the expected recoverable amounts. If it is determined from emerging experience that the premium margins or expected gross profits are insufficient to amortize DAC and VOBA, then the asset will be adjusted downward with the adjustment recorded as an expense in the current period. Similarly, if future projections of estimated gross profits indicate improvements, the amortization of DAC and VOBA may be reduced and the balance adjusted.

At least annually, a review is performed of 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. Management's view primarily reflects Company experience but can also reflect emerging trends within the industry. Short-term deviations in experience affect the amortization of DAC, DRL, and VOBA in the period, but do not necessarily indicate that a change to the long-term assumptions of future experience is warranted. If it is determined that it is appropriate to change the assumptions related to future experience, then an unlocking adjustment is recognized retrospectively for the block of business being evaluated. Certain assumptions, such as interest spreads and surrender rates, may be interrelated. As such, unlocking adjustments often reflect revisions to multiple assumptions. The DAC, DRL, or VOBA balance is immediately impacted by any assumption changes, with the change reflected through the income statement as an unlocking adjustment. These adjustments can be positive or negative, and adjustments increasing the DAC asset are limited to amounts previously deferred plus interest accrued through the date of the adjustment.

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

The following table summarizes the effects of the refinements in estimates on all products and unlocking of assumptions on interest sensitive products in the Consolidated Statements of Comprehensive Income for the years ended December 31.

	DAC	VOBA	DRL	Total
2015:				
Unlocking	$ 6,380	$ (862)	$ (2,344)	$ 3,174
Refinement in estimate	—	—	—	—
	$ 6,380	$ (862)	$ (2,344)	$ 3,174
2014:				
Unlocking	$ (1,723)	$ 1,486	$ 1,764	$ 1,527
Refinement in estimate	(1,566)	—	—	(1,566)
	$ (3,289)	$ 1,486	$ 1,764	$ (39)
2013:				
Unlocking	$ (155)	$ (877)	$ 1,141	$ 109
Refinement in estimate	(291)	(306)	—	(597)
	$ (446)	$ (1,183)	$ 1,141	$ (488)

Pensions and Other Postemployment Benefits (OPEB)

The measurement of pension and other postemployment benefit obligations and costs depends on a variety of assumptions. Changes in the valuation of pension obligations and assets supporting this obligation can significantly impact the funded status. Assumptions are made regarding the discount rate, expected long-term rate of return on plan assets, health care claim costs, health care cost trends, retirement rates, and mortality. Generally, the discount rate, expected return on plan assets, and mortality tables have the most significant impact on the cost. See Note 13 - Pensions and Other Postemployment Benefits for further details.

Separate Accounts and Guaranteed Minimum Withdrawal Benefits (GMWB)

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

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

Reinsurance

Consistent with the general practice of the life insurance industry, the Company enters into traditional agreements of indemnity reinsurance with other insurance companies to support sales of new products and the in force business. The reinsurance arrangements have taken various forms over the years. The Company cedes reinsurance in force on all of the following bases: automatic and facultative; yearly renewable term (YRT) and coinsurance; and excess and quota share basis. For additional information pertaining to the Company's significant reinsurers, along with additional information pertaining to reinsurance, please see Note 15 - Reinsurance.

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

Policies and contracts assumed are accounted for in a manner similar to that followed for direct business.

Recognition of Insurance Revenues

Premiums

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

Deposits

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

Contract Charges

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

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

Realized Gains (Losses)
The Company realizes investment gains and losses from several sources, including write-downs of investment securities and mortgage loans, the change in the mortgage loan loss allowance, and sales of investment securities and real estate.

Interest Credited to Policyholder Account Balances
Interest is credited to policyholder account balances according to terms of the policies or contracts. Interest sensitive life and annuity contracts provide for the payment of interest credited to policyholder account balances, subject to contractual minimum guaranteed rates. Amounts in excess of guarantees are credited at the discretion of the Company and reflect competitive, economic, investment and product considerations. Accordingly, the Company reviews and adjusts crediting rates as necessary and appropriate within contractual terms. Amounts credited are a function of account balances and current period crediting rates. As account balances fluctuate, so will the amount of interest credited to policyholder account balances.

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

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

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

2. New Accounting Pronouncements

Accounting Pronouncements Issued, Not Yet Adopted
In May 2014, the Financial Accounting Standards Board (FASB) issued guidance regarding accounting for revenue recognition that identifies the accounting treatment for an entity’s contracts with customers. Certain contracts, including insurance contracts, are specifically excluded from this guidance. However, certain other types of contracts may impact the financial statements of insurance providers. In August 2015, the FASB deferred the effective date of this guidance for public entities to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. 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 January 2015, the FASB issued guidance that eliminated the concept of extraordinary items. While the requirement for entities to consider whether an underlying event or transaction is extraordinary was eliminated, the presentation and disclosure guidance for items that are unusual in nature or occur infrequently was retained and was expanded to include items that are both unusual in nature and occur infrequently. This guidance is effective for fiscal years, and interim periods within those fiscal years, 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.

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, but it does not believe that there will be a material impact to the consolidated financial statements.

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.

In May 2015, the FASB issued guidance targeted to improve disclosures related to short-duration contracts. Additional disclosures will be required about insurance liabilities to provide information regarding the nature, amount, timing, and uncertainty of future cash flows related to insurance liabilities and the effect of those cash flows on the statement of comprehensive income. This guidance is effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning 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 July 2015, the FASB issued guidance regarding employee benefit accounting. The guidance is divided into three parts. First, the guidance requires a pension plan to use contract value as the only required measure for fully benefit-responsive investment contracts. Second, the guidance simplifies and increases the effectiveness of the investment disclosure requirements for employee benefit plans. Third, the guidance provides benefit plans with a measurement date practical expedient. This guidance is effective for fiscal years 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.

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

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

3. Investments

Fixed Maturity and Equity Securities Available for Sale

Securities by Asset Class
The following table provides amortized cost and fair value of securities by asset class at December 31, 2015.

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

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

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

The following table provides amortized cost and fair value of securities by asset class at December 31, 2014.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 154,937	$ 9,939	$ 83	$ 164,793
Federal agencies [1]	19,769	2,182	—	21,951
Federal agency issued residential mortgage-backed securities [1]	44,287	4,457	2	48,742
Subtotal	218,993	16,578	85	235,486
Corporate obligations:				
Industrial	527,269	33,400	1,292	559,377
Energy	219,518	14,147	3,575	230,090
Communications and technology	226,442	16,705	242	242,905
Financial	276,586	18,826	1,083	294,329
Consumer	517,050	28,290	1,261	544,079
Public utilities	225,375	24,932	228	250,079
Subtotal	1,992,240	136,300	7,681	2,120,859
Corporate private-labeled residential mortgage-backed securities	90,819	4,463	—	95,282
Municipal securities	135,518	22,974	—	158,492
Other	98,373	3,818	2,718	99,473
Redeemable preferred stocks	17,473	379	713	17,139
Fixed maturity securities	2,553,416	184,512	11,197	2,726,731
Equity securities	23,576	1,895	590	24,881
Total	$ 2,576,992	$ 186,407	$ 11,787	$ 2,751,612

[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 borrowers may have the right to call or prepay obligations.

	December 31, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 115,294	$ 117,145	$ 165,955	$ 168,913
Due after one year through five years	735,559	779,402	694,809	757,397
Due after five years through ten years	1,117,414	1,126,585	1,045,557	1,087,891
Due after ten years	349,789	378,861	438,719	490,976
Securities with variable principal payments	150,844	161,204	190,903	204,415
Redeemable preferred stocks	17,438	17,648	17,473	17,139
Total	$ 2,486,338	$ 2,580,845	$ 2,553,416	$ 2,726,731

No material derivative financial instruments were held during December 31, 2015, 2014, or 2013.

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. The Company prepares a formal review document 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.

The Company considers relevant facts and circumstances in evaluating whether the impairment of a security is other-than-temporary. Relevant facts and circumstances considered include but are not limited to:

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

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

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

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

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

Once a security is determined to have met certain of the criteria for consideration as being other-than-temporarily impaired, further information is gathered and evaluated pertaining to the particular security. If the security is an unsecured obligation, the additional research is a top-down approach with particular emphasis on the likelihood of the issuer to meet the contractual terms of the obligation. If the security is secured by an asset or guaranteed by another party, the value of the underlying secured asset or the financial ability of the third-party guarantor is evaluated as a secondary source of repayment. Such research is based upon a top-down approach, narrowing to the specific estimates of value and cash flow of the underlying secured asset or guarantor. If the

security is a collateralized obligation, such as a mortgage-backed or other asset-backed instrument, research is also conducted to obtain and analyze the performance of the collateral relative to expectations at the time of acquisition and with regard to projections for the future. Such analyses are based upon historical results, trends, comparisons to collateral performance of similar securities, and analyses performed by third parties. This information is used to develop projected cash flows that are compared to the amortized cost of the security.

The Company may selectively determine that it no longer intends to hold a specific issue to its maturity. If the Company makes this determination and the fair value is less than the cost basis, the investment is written down to the fair value and an other-than-temporary impairment is recorded on this particular position. Subsequently, the Company seeks to obtain the best possible outcome available for this specific issue and records an investment gain or loss at the disposal date.

A discounted future cash flow calculation typically becomes the primary determinant of whether any portion and to what extent an unrealized loss is due to credit on loan-backed and similar asset-backed securities with significant indications of potential other-than-temporary impairment. Such indications typically include below investment grade ratings and significant unrealized losses for an extended period of time, among other factors. The Company identified 21 and 22 non-U.S. agency mortgage-backed securities that were determined to have such indications at December 31, 2015 and December 31, 2014, respectively. A discounted future cash flow analysis was performed for each of these securities to determine if any portion of the impairment was due to credit and deemed to be other-than-temporary. This amount is recognized as a realized loss in the Company's Consolidated Statements of Comprehensive Income and the carrying value of the security is written down by the same amount. The portion of an impairment that is determined not to be due to credit is recorded as a component of accumulated other comprehensive income (loss) in the Consolidated Balance Sheets. The discount rate used in calculating the present value of future cash flows was the investment yield at the time of purchase for each security. The initial default rates were assumed to remain constant or grade down over time, reflecting the Company's estimate of stabilized collateral performance in the future for such securities.

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

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

The following table provides information regarding fixed maturity and equity security investments available for sale with unrealized losses by length of time at December 31, 2015.

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

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

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

The following table provides information regarding fixed maturity and equity security investments available for sale with unrealized losses by length of time at December 31, 2014.

	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	$ 468	$ —	$ 4,944	$ 83	$ 5,412	$ 83
Federal agency issued residential mortgage-backed securities [1]	60	2	281	—	341	2
Subtotal	528	2	5,225	83	5,753	85
Corporate obligations:						
Industrial	15,289	184	42,830	1,108	58,119	1,292
Energy	40,493	1,962	36,789	1,613	77,282	3,575
Communications and technology	5,061	33	9,676	209	14,737	242
Financial	14,831	165	4,963	918	19,794	1,083
Consumer	10,991	165	40,185	1,096	51,176	1,261
Public utilities	—	—	6,768	228	6,768	228
Subtotal	86,665	2,509	141,211	5,172	227,876	7,681
Other	12,567	396	30,210	2,322	42,777	2,718
Redeemable preferred stocks	—	—	9,404	713	9,404	713
Fixed maturity securities	99,760	2,907	186,050	8,290	285,810	11,197
Equity securities	—	—	11,515	590	11,515	590
Total	$ 99,760	$ 2,907	$ 197,565	$ 8,880	$ 297,325	$ 11,787

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

At December 31, 2015, the Company had 207 issues in its investment portfolio of fixed maturity and equity securities with unrealized losses. Included in this total, 179 security issues were below cost for less than one year; 19 security issues were below cost for one year or more and less than three years; and nine security issues were below cost for three years or more. At December 31, 2014, the Company had 96 issues in its investment portfolio of fixed maturity and equity securities with unrealized losses. Included in this total, 40 security issues were below cost for less than one year; 50 security issues were below cost for one year or more and less than three years; and six security issues were below cost for three years or more.

The Company does not consider these unrealized losses to be credit-related. The unrealized losses at December 31, 2015 primarily relate to changes in interest rates and market spreads subsequent to purchase. A substantial portion of investment securities that have unrealized losses are either corporate debt issued with investment grade credit ratings or other investment securities. Other investment securities include residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities, for which a discounted cash flow calculation is typically performed to determine any credit-related losses.

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

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

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

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

The following table summarizes the Company's investments in securities available for sale with unrealized losses at December 31, 2014.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	$ 295,543	$ 286,130	$ 9,413
Unrealized losses of 20% or less and greater than 10%	8,973	7,874	1,099
Subtotal	304,516	294,004	10,512
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	908	663	245
Total investment grade	908	663	245
Below investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	—	—	—
Total below investment grade	—	—	—
Unrealized losses greater than 20%	908	663	245
Subtotal	305,424	294,667	10,757
Securities owned with realized impairment:			
Unrealized losses of 10% or less	—	—	—
Unrealized losses of 20% or less and greater than 10%	—	—	—
Subtotal	—	—	—
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	3,688	2,658	1,030
Twelve months or greater	—	—	—
Total investment grade	3,688	2,658	1,030
Below investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	—	—	—
Total below investment grade	—	—	—
Unrealized losses greater than 20%	3,688	2,658	1,030
Subtotal	3,688	2,658	1,030
Total	$ 309,112	$ 297,325	$ 11,787

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

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

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

The following table provides information on fixed maturity securities with gross unrealized losses by actual or equivalent Standard & Poor's rating at December 31, 2014.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	$ 7,953	3%	$ 47	—%
AA	37,702	13%	1,670	15%
A	91,299	32%	2,840	26%
BBB	132,230	46%	4,580	41%
Total investment grade	269,184	94%	9,137	82%
BB	13,969	5%	1,031	9%
B and below	2,657	1%	1,029	9%
Total below investment grade	16,626	6%	2,060	18%
	$ 285,810	100%	$ 11,197	100%

The Company's residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities that were rated below investment grade were 41% and 40% of the below investment grade total at December 31, 2015 and December 31, 2014, respectively.

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

The following table provides the distribution of maturities for fixed maturity securities available for sale with unrealized losses at December 31. Expected maturities may differ from these contractual maturities since borrowers may have the right to call or prepay obligations.

	December 31, 2015		December 31, 2014	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities available for sale:				
Due in one year or less	$ —	$ —	$ 5,052	$ 115
Due after one year through five years	68,757	1,548	21,033	960
Due after five years through ten years	421,519	26,164	202,240	5,772
Due after ten years	65,939	4,388	47,740	3,635
Total	556,215	32,100	276,065	10,482
Securities with variable principal payments	4,079	21	341	2
Redeemable preferred stocks	6,925	99	9,404	713
Total	$ 567,219	$ 32,220	$ 285,810	$ 11,197

The Company held one non-income producing security with a carrying value of $0.6 million at December 31, 2015, compared to three securities with a carrying value of $0.8 million at December 31, 2014. These securities were previously written down due to other-than-temporary impairments and placed on non-accrual status.

The Company did not hold securities of any corporation and its affiliates that exceeded 10% of stockholders' equity at December 31, 2015 or 2014.

The Company recognized other-than-temporary impairments of $2.2 million, $2.2 million, and $1.0 million for the years ended December 31, 2015, 2014, and 2013, respectively. Included in these total impairments, $2.5 million, $1.5 million, and $1.1 million were recorded in earnings for the years ended December 31, 2015, 2014, and 2013, respectively. The differences represented the non-credit portion of current or prior other-than-temporary impairment that were recorded in other comprehensive income (loss). Corporate private-labeled residential mortgage-backed and other securities had impairments recorded in earnings of $0.3 million, $0.6 million, and $0.6 million for the years ended December 31, 2015, 2014, and 2013, respectively. The Company determined the other-than-temporary impairments recorded in earnings based upon the present value of projected future cash flows.

One corporate obligation had an impairment recorded in earnings of $2.0 million during 2015. This is a debt obligation of a company within the oil exploration and production sector that is challenged by reduced oil prices and lower demand for exploration equipment. In addition, one other-type security was written down by $0.2 million during 2015 due to an increase in projected future losses on the underlying collateral. One equity security had an impairment of less than $0.1 million during 2015. Two corporate obligations had a impairments recorded in earnings of $0.7 million during 2014. The first was written down $0.7 million and was an oil industry debt obligation that was challenged by reduced oil prices. The second was a utility debt obligation that was written down less than $0.1 million. In addition, an other-type security was written down by $0.1 million due to an increase in projected future losses on the underlying collateral. There were two equity securities with impairments recorded of $0.1 million during 2014. One other-type security was written down by $0.5 million during 2013 due to an increase in projected future losses on the underlying collateral. There were no impairments on equity securities during 2013.

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

The following tables present the range of significant assumptions used in projecting the future cash flows of the Company's residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities. The Company believes that the assumptions below are reasonable and they are based largely upon the actual historical results of the underlying security collateral.

	December 31, 2015					
	Initial Default Rate		Initial Severity Rate		Prepayment Speed	
Vintage	Low	High	Low	High	Low	High
2003	0.8%	1.0%	30%	35%	12.0%	16.0%
2004	0.8%	9.2%	35%	72%	10.0%	16.0%
2005	4.9%	10.5%	35%	74%	6.0%	20.0%
2006	9.3%	9.3%	80%	80%	8.0%	8.0%
2007	10.0%	10.0%	62%	62%	10.0%	10.0%

	December 31, 2014					
	Initial Default Rate		Initial Severity Rate		Prepayment Speed	
Vintage	Low	High	Low	High	Low	High
2003	0.8%	1.0%	30%	35%	12.0%	16.0%
2004	0.8%	7.0%	35%	65%	8.0%	18.0%
2005	4.8%	12.6%	35%	71%	6.0%	18.0%
2006	5.7%	8.4%	35%	85%	8.0%	16.0%
2007	11.0%	11.0%	59%	59%	8.0%	8.0%

The Company also monitors structured securities through a combination of an analysis of vintage, credit ratings, and other factors. Structured securities include asset-backed, residential mortgage-backed securities, along with collateralized debt obligations, and other collateralized obligations.

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

The following tables divide these investment types among vintage and credit ratings.

	December 31, 2015		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Residential & non-agency MBS: [1]			
Investment Grade:			
Vintage 2003 and earlier	$ 4,478	$ 4,313	$ 165
2004	5,203	4,980	223
2005	2,670	2,659	11
Total investment grade	12,351	11,952	399
Below Investment Grade:			
Vintage 2003 and earlier	2,233	2,137	96
2004	22,011	21,055	956
2005	41,966	40,223	1,743
2006	1,873	817	1,056
2007	2,883	2,700	183
Total below investment grade	70,966	66,932	4,034
Other structured securities:			
Investment grade	56,601	57,416	(815)
Below investment grade	14,714	15,585	(871)
Total other	71,315	73,001	(1,686)
Total structured securities	$ 154,632	$ 151,885	$ 2,747

[1] This table accounts for all vintages owned by the Company.

	December 31, 2014		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Residential & non-agency MBS: [1]			
Investment grade:			
Vintage 2003 and earlier	$ 8,249	$ 7,910	$ 339
2004	6,459	6,177	282
Total investment grade	14,708	14,087	621
Below investment grade:			
2004	29,647	28,080	1,567
2005	55,806	53,741	2,065
2006	3,528	2,406	1,122
2007	3,386	3,164	222
Total below investment grade	92,367	87,391	4,976
Other structured securities:			
Investment grade	57,672	57,658	14
Below investment grade	14,728	16,073	(1,345)
Total other	72,400	73,731	(1,331)
Total structured securities	$ 179,475	$ 175,209	$ 4,266

[1] This table accounts for all vintages owned by the Company.

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

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

	2015	2014	2013
Credit losses on securities held at beginning of the period	$ 17,889	$ 16,375	15,260
Additions for credit losses not previously recognized in other-than-temporary impairment	—	808	27
Additions for increases in the credit loss for which an other-than-temporary impairment was previously recognized when there was no intent to sell the security before recovery of its amortized cost basis	2,481	725	1,106
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	(20)	(19)	(18)
Credit losses on securities held at the end of the period	$ 20,350	$ 17,889	$ 16,375

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

	2015	2014	2013
Net unrealized gains	$ 95,765	$ 174,620	$ 124,427
Amounts resulting from:			
DAC, VOBA, and DRL	(17,030)	(28,495)	(26,979)
Future policy benefits	(19,219)	(26,778)	(16,119)
Policyholder account balances	(454)	(879)	(507)
Deferred income taxes	(20,670)	(41,462)	(28,287)
Total	$ 38,392	$ 77,006	$ 52,535

Investment Revenues

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

	2015	2014	2013
Gross investment income:			
Fixed maturity securities	$ 116,713	$ 121,137	$ 122,448
Equity securities	1,023	1,037	1,953
Mortgage loans	31,662	37,452	40,605
Real estate	17,059	11,756	10,652
Policy loans	5,774	5,848	5,753
Short-term investments	8	4	5
Other	177	535	357
Total	172,416	177,769	181,773
Less investment expenses	(15,266)	(12,801)	(12,033)
Net investment income	$ 157,150	$ 164,968	$ 169,740

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

Realized Gains (Losses)

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

	2015	2014	2013
Realized investment gains (losses):			
Fixed maturity securities	$ 569	$ 2,576	$ 3,464
Equity securities	49	403	626
Real estate	4,228	642	(69)
Mortgage loans	(1,041)	(105)	(49)
Amortization of DAC, VOBA, and DRL	(38)	(147)	(100)
Net realized investment gains	$ 3,767	$ 3,369	$ 3,872

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

	2015	2014	2013
Gross gains resulting from:			
Sales of investment securities	$ 360	$ 3,199	$ 261
Investment securities called and other	3,354	3,084	5,627
Real estate	4,228	864	20
Total gross gains	7,942	7,147	5,908
Gross losses resulting from:			
Sales of investment securities	(403)	(1,352)	(5)
Investment securities called and other	(212)	(419)	(660)
Sale of real estate and joint venture	—	(222)	(89)
Mortgage loans	(296)	(1,442)	(144)
Total gross losses	(911)	(3,435)	(898)
Change in allowance for loan losses	(745)	1,337	95
Amortization of DAC, VOBA, and DRL	(38)	(147)	(100)
Net realized investment gains, excluding other-than-temporary impairment losses	6,248	4,902	5,005
Net impairment losses recognized in earnings:			
Other-than-temporary impairment losses on fixed maturity and equity securities	(2,189)	(2,176)	(1,032)
Portion of loss recognized in other comprehensive income (loss)	(292)	643	(101)
Net other-than-temporary impairment losses recognized in earnings	(2,481)	(1,533)	(1,133)
Net realized investment gains	$ 3,767	$ 3,369	$ 3,872

Proceeds From Sales of Investment Securities

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

	2015	2014	2013
Proceeds	$ 39,954	$ 38,527	$ 12,292

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

Mortgage Loans

Investments in mortgage loans totaled $590.0 million at December 31, 2015, compared to $541.2 million at December 31, 2014. The Company's mortgage loans are mostly secured by commercial real estate and are stated at cost, adjusted for amortization of premium and accrual of discount, less an allowance for loan losses. This allowance is maintained at a level believed by management to be adequate to absorb estimated credit losses and was $2.7 million at December 31, 2015 and $1.9 million at December 31, 2014. Management's periodic evaluation and assessment of the adequacy of the allowance is based on known and inherent risks in the portfolio, historical and industry data, current economic conditions, and other relevant factors. Please see Note 5 - Financing Receivables for additional information. The Company does not hold mortgage loans to any single borrower that exceed 5% of stockholders' equity.

The Company had 17% of its invested assets in commercial mortgage loans at December 31, 2015, compared to 15% at December 31, 2014. New commercial loans, including refinanced loans, were $164.0 million and $61.2 million for 2015 and 2014, respectively. The level of new commercial mortgage loans in any year is influenced by market conditions, as the Company responds to changes in interest rates, available spreads, borrower demand, and opportunities to acquire loans that meet the Company's yield and quality thresholds.

In addition to the subject collateral underlying the mortgage, the Company typically requires some amount of recourse from borrowers as another potential source of repayment. The recourse requirement is determined as part of the underwriting requirements of each loan. The Company added 70 new loans to the portfolio during 2015, and 96% of these loans had some amount of recourse requirement. No new loans were purchased from institutional lenders during 2015. The average loan-to-value ratio for the overall portfolio was 47% at December 31, 2015, up from 46% at December 31, 2014. 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. The average loan balance was $1.6 million at December 31, 2015 and $1.5 million at December 31, 2014. The Company has certain mortgage loans that have an unamortized premium, totaling $0.4 million as of December 31, 2015, compared to $1.0 million at December 31, 2014.

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

	2015	2014
Principal outstanding	$ 592,619	$ 543,094
Allowance for loan losses	(2,659)	(1,914)
Carrying value	$ 589,960	$ 541,180

The following table summarizes the amount of mortgage loans held by the Company at December 31, 2015 and 2014, segregated by year of origination. Purchased loans are shown in the year acquired by the Company, although the individual loans may have been initially originated in prior years.

	2015	% of Total	2014	% of Total
Prior to 2006	$ 25,799	4%	$ 47,843	9%
2006	10,438	2%	16,280	3%
2007	17,722	3%	19,991	4%
2008	21,440	4%	22,938	4%
2009	11,544	2%	20,754	4%
2010	38,002	6%	51,205	9%
2011	81,357	14%	91,943	17%
2012	104,775	18%	133,912	25%
2013	62,808	10%	77,784	14%
2014	57,100	10%	60,444	11%
2015	161,634	27%	—	—%
Principal outstanding	$ 592,619	100%	$ 543,094	100%

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

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

	2015	% of Total	2014	% of Total
Pacific	$ 129,108	22%	$ 131,109	25%
West south central	112,093	19%	94,122	17%
West north central	84,210	14%	78,027	14%
Mountain	67,526	11%	68,961	13%
South Atlantic	71,599	12%	60,557	11%
East north central	71,178	12%	64,013	12%
Middle Atlantic	30,141	5%	21,877	4%
East south central	26,764	5%	24,428	4%
Principal outstanding	$ 592,619	100%	$ 543,094	100%

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

	2015	% of Total	2014	% of Total
California	$ 111,050	19%	$ 108,683	20%
Texas	108,104	18%	89,923	16%
Minnesota	58,841	10%	55,916	10%
Ohio	39,410	7%	30,432	6%
Florida	30,753	5%	26,452	5%
All others	244,461	41%	231,688	43%
Principal outstanding	$ 592,619	100%	$ 543,094	100%

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

	2015	% of Total	2014	% of Total
Industrial	$ 312,458	53%	$ 281,671	51%
Office	181,912	30%	165,859	31%
Medical	28,042	5%	25,617	5%
Other	70,207	12%	69,947	13%
Principal outstanding	$ 592,619	100%	$ 543,094	100%

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

	2015	% of Total	2014	% of Total
Due in one year or less	$ 18,560	3%	$ 27,607	5%
Due after one year through five years	107,219	18%	145,530	27%
Due after five years through ten years	129,232	22%	143,382	26%
Due after ten years	337,608	57%	226,575	42%
Principal outstanding	$ 592,619	100%	$ 543,094	100%

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

The table below identifies the commercial mortgage portfolio by current loan balance at years ending December 31.

	2015	% of Total	2014	% of Total
$5 million or greater	$ 88,656	15%	$ 69,237	13%
$4 million to less than $5 million	31,025	5%	27,189	5%
$3 million to less than $4 million	57,735	10%	47,718	9%
$2 million to less than $3 million	130,397	22%	130,026	24%
$1 million to less than $2 million	195,604	33%	178,862	33%
Less than $1 million	89,202	15%	90,062	16%
Principal outstanding	$ 592,619	100%	$ 543,094	100%

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

	2015	% of Total	2014	% of Total
70% or greater	$ 66,330	11%	$ 33,113	6%
50% to 69%	301,901	51%	297,001	55%
Less than 50%	224,388	38%	212,980	39%
Principal outstanding	$ 592,619	100%	$ 543,094	100%

The concentration in California, along with other states included in the pacific region, exposes the Company to potential losses from a regional economic downturn and certain catastrophes, such as earthquakes and fires, that may affect certain areas of the region. The Company requires borrowers to maintain fire insurance coverage to provide reimbursement for any losses due to fire. The Company diversifies its commercial mortgage loan portfolio both geographically and by property type to reduce certain catastrophic and economic exposure. However, diversification may not always sufficiently mitigate the risk of such losses. Historically, the delinquency rate of the Company's pacific region commercial mortgage loans has been substantially below the industry average and consistent with the Company's experience in other regions. The Company does not require earthquake insurance for properties on which it makes commercial mortgage loans. However, the Company does consider structural information specific to each property, as well as the potential for earthquake loss if the property lies within areas believed by the Company to be seismically active submarkets. The Company does not expect catastrophe or earthquake damage or economic downturn in the pacific region that may occur to have a material adverse effect on its business, financial position, results of operations, or cash flows. However, the Company cannot provide assurance that such risks could not have such material adverse effects.

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

The Company may refinance commercial mortgage loans prior to contractual maturity as a means of originating new loans that meet the Company's underwriting and pricing parameters. The Company refinanced loans with outstanding balances of $22.8 million and $13.0 million during the years ended December 31, 2015 and December 31, 2014, respectively.

In the normal course of business, the Company commits 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 Company retains the commitment fee. For additional information, please see Note 21 - Commitments, Contingent Liabilities, Guarantees, and Indemnifications.

Real Estate

Investments in real estate totaled $168.1 million at December 31, 2015, compared to $181.1 million at December 31, 2014. The table below provides information concerning the Company's real estate investments by major category at December 31.

	2015	2014
Land	$ 29,157	$ 28,767
Buildings	141,936	150,501
Less accumulated depreciation	(36,291)	(33,217)
Real estate, commercial	134,802	146,051
Real estate, joint ventures	33,295	35,031
Total	$ 168,097	$ 181,082

Investment real estate is depreciated on a straight-line basis over periods ranging from 3 years to 60 years. The Company had real estate sales of $20.0 million, $2.9 million, and $0.4 million during 2015, 2014, and 2013, respectively.

The Company had non-income producing real estate, consisting of vacant properties and properties under development, of $8.7 million at December 31, 2015, compared to $12.2 million at December 31, 2014.

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. It is the Company's practice to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements.

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

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

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

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

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

Assets

Securities Available for Sale

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

Cash and Short-Term Investments

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

Loans

The Company does not record loans at fair value. As such, valuation techniques discussed herein for loans are primarily for estimating fair value for purpose of disclosure.

Fair values of mortgage loans on real estate properties are calculated by discounting contractual cash flows, using discount rates based on current industry pricing or the Company's estimate of an appropriate risk-adjusted discount rate for loans of similar size,

type, remaining maturity, likelihood of prepayment, and repricing characteristics. Mortgage loans are categorized as Level 3 in the fair value hierarchy.

The Company also has loans made to policyholders. These loans cannot exceed the cash surrender value of the policy. Carrying value of policy loans approximates fair value. Policy loans are categorized as Level 3.

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

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

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

Determination of Fair Value
The Company utilizes external third-party pricing services to determine the majority of its fair values on investment securities available for sale. At December 31, 2015, approximately 98% of the carrying value of these investments was from external pricing services, 1% was from brokers, and 1% was derived from internal matrices and calculations. At December 31, 2014, approximately 97% of the carrying value of these investments was from external pricing services, 1% was from brokers, and 2% was derived from internal matrices and calculations. In the event that the primary pricing service does not provide a price, the Company utilizes the price provided by a second pricing service. The Company reviews prices received from service providers for reasonableness and unusual fluctuations but generally accepts the price identified from the primary pricing service. In the event a price is not available from either third-party pricing service, the Company pursues external pricing from brokers. Generally, the Company pursues and utilizes only one broker quote per security. In doing so, the Company solicits only brokers which have previously demonstrated knowledge and experience of the subject security. If a broker price is not available, the Company determines a fair value through various valuation techniques that may include discounted cash flows, spread-based models, or similar techniques, depending upon the specific security to be priced. These techniques are primarily applied to private placement securities. The Company utilizes available market information, wherever possible, to identify inputs into the fair value determination, primarily prices and spreads on comparable securities.

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

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

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Notes to Consolidated Financial Statements–(Continued)

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

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

Categories Reported at Fair Value

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

	2015			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 9,704	$ 146,421	$ —	$ 156,125
Federal agencies [1]	—	21,197	—	21,197
Federal agency issued residential mortgage-backed securities [1]	—	37,559	—	37,559
Subtotal	9,704	205,177	—	214,881
Corporate obligations:				
Industrial	—	544,509	—	544,509
Energy	—	227,019	—	227,019
Communications and technology	—	242,233	—	242,233
Financial	—	221,497	—	221,497
Consumer	—	549,301	—	549,301
Public utilities	—	240,299	—	240,299
Subtotal	—	2,024,858	—	2,024,858
Corporate private-labeled residential mortgage-backed securities	—	74,177	—	74,177
Municipal securities	—	152,849	—	152,849
Other	—	95,855	577	96,432
Redeemable preferred stocks	—	17,648	—	17,648
Fixed maturity securities	9,704	2,570,564	577	2,580,845
Equity securities	5,166	20,159	—	25,325
Total	$ 14,870	$ 2,590,723	$ 577	$ 2,606,170
Percent of total	1%	99%	—%	100%
Liabilities:				
Other policyholder funds				
Guaranteed minimum withdrawal benefits	$ —	$ —	$ (2,778)	$ (2,778)
Total	$ —	$ —	$ (2,778)	$ (2,778)

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

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

	2014			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 12,247	$ 152,546	$ —	$ 164,793
Federal agencies [1]	—	21,951	—	21,951
Federal agency issued residential mortgage-backed securities [1]	—	48,742	—	48,742
Subtotal	12,247	223,239	—	235,486
Corporate obligations:				
Industrial	—	559,377	—	559,377
Energy	—	230,090	—	230,090
Communications and technology	—	242,905	—	242,905
Financial	—	294,329	—	294,329
Consumer	—	544,079	—	544,079
Public utilities	—	250,079	—	250,079
Subtotal	—	2,120,859	—	2,120,859
Corporate private-labeled residential mortgage-backed securities	—	95,282	—	95,282
Municipal securities	—	158,492	—	158,492
Other	—	98,714	759	99,473
Redeemable preferred stocks	—	17,139	—	17,139
Fixed maturity securities	12,247	2,713,725	759	2,726,731
Equity securities	5,347	19,534	—	24,881
Total	$ 17,594	$ 2,733,259	$ 759	$ 2,751,612
Percent of total	1%	99%	—%	100%
Liabilities:				
Other policyholder funds				
Guaranteed minimum withdrawal benefits	$ —	$ —	$ (1,094)	$ (1,094)
Total	$ —	$ —	$ (1,094)	$ (1,094)

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

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

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

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

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

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

The Company's assets categorized as Level 3 instruments are primarily fixed maturity securities, totaling $0.6 million at December 31, 2015 and $0.8 million as of December 31, 2014. These assets are valued using discounted cash flow models for which the significant assumptions are not observable in the market.

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

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

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

The following table presents the valuation method for the financial instrument liability categorized as Level 3, as well as the unobservable inputs used in the valuation of those financial instruments at December 31, 2014.

	Fair Value	Valuation Technique	Unobservable Inputs	Range
Embedded Derivative - GMWB	$ (1,094)	Actuarial cash flow model	Mortality	80% of U.S. Annuity Basic Table (2000)
			Lapse	0%-16% depending on product/duration/ funded status of guarantee
			Benefit Utilization	0%-80% depending on age/duration/ funded status of guarantee
			Nonperformance Risk	0.73%-1.35%

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. The Company's mortality, lapse, benefit utilization and nonperformance risk adjustment are unobservable. Increases in mortality, lapses and credit spreads used for nonperformance risk reduce the liability, while increases in benefit utilization increase the liability.

The Company estimates that the impact of unobservable inputs at December 31, 2015 was as follows: a 10% increase in the mortality assumption would reduce the liability less than $0.1 million; a 10% decrease in the lapse assumption would increase the liability $0.2 million; a 10% increase in the benefit utilization would increase the liability $0.7 million; and a 10 basis point increase in the credit spreads used for non-performance would decrease the liability $0.3 million.

The Company estimates that the impact of unobservable inputs at December 31, 2014 was as follows: a 10% increase in the mortality assumption would reduce the liability less than $0.1 million; a 10% decrease in the lapse assumption would increase the liability $0.3 million; a 10% increase in the benefit utilization would increase the liability $0.9 million; and a 10 basis point increase in the credit spreads used for non-performance would decrease the liability $0.4 million.

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

The following table presents a summary of fair value estimates at December 31 for financial instruments. The Company has not included assets and liabilities that are not financial instruments in this disclosure. The total of the fair value calculations presented below may not be indicative of the value that can be obtained.

	2015		2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Investments:				
Fixed maturity securities available for sale	$ 2,580,845	$ 2,580,845	$ 2,726,731	$ 2,726,731
Equity securities available for sale	25,325	25,325	24,881	24,881
Mortgage loans	589,960	606,708	541,180	567,435
Policy loans	81,392	81,392	83,553	83,553
Cash and short-term investments	30,325	30,325	50,118	50,118
Separate account assets	372,924	372,924	406,501	406,501
Liabilities:				
Individual and group annuities	1,073,592	1,055,052	1,080,322	1,061,067
Supplementary contracts and annuities without life contingencies	54,136	52,636	54,949	53,744
Separate account liabilities	372,924	372,924	406,501	406,501
Other policyholder funds - GMWB	(2,778)	(2,778)	(1,094)	(1,094)

5. Financing Receivables

The Company has financing receivables that have both a specific maturity date, either on demand or on a fixed or determinable date, and are recognized as assets in the Consolidated Balance Sheets.

The table below identifies the Company's financing receivables by classification amount at December 31.

	2015	2014
Receivables:		
Agent receivables, net (allowance $1,197; 2014 - $2,003)	$ 1,602	$ 1,727
Investment-related financing receivables:		
Mortgage loans, net (allowance $2,659; 2014 - $1,914)	589,960	541,180
Total financing receivables	$ 591,562	$ 542,907

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

	2015	2014
Beginning of year	$ 2,003	$ 2,245
Additions	128	306
Deductions	(934)	(548)
End of year	$ 1,197	$ 2,003

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

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

	2015	2014
Mortgage loans collectively evaluated for impairment	$ 585,207	$ 535,398
Mortgage loans individually evaluated for impairment	7,412	7,696
Allowance for loan losses	(2,659)	(1,914)
Carrying value	$ 589,960	$ 541,180

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

	2015	2014
Beginning of year	$ 1,914	$ 3,251
Provision	745	—
Deductions	—	(1,337)
End of year	$ 2,659	$ 1,914

Agent Receivables

The Company has agent receivables that are classified as financing receivables and are reduced by an allowance for doubtful accounts. These trade receivables from agents are long-term in nature and are specifically assessed as to the collectibility of each receivable. The Company's gross agent receivables totaled $2.8 million at December 31, 2015 with an allowance for doubtful accounts totaling $1.2 million. Gross agent receivables totaled $3.7 million with an allowance for doubtful accounts of $2.0 million at December 31, 2014. The Company has two types of agent receivables including:

- Agent specific loans. At both December 31, 2015 and December 31, 2014, these loans totaled $1.0 million and the allowance for doubtful accounts of $0.3 million.
- Other agent receivables. Gross agent receivables in this category totaled $1.8 million, and the allowance for doubtful accounts was $0.9 million at December 31, 2015. Gross agent receivables totaled $2.7 million, and the allowance for doubtful accounts was $1.7 million at December 31, 2014.

Mortgage Loans

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

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

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

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

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

		Amount of Payments Past Due			
	Book Value	30-59 Days	60-89 Days	> 90 Days	Total
December 31, 2015					
Industrial	$ —	$ —	$ —	$ —	$ —
Office	5,064	74	—	—	74
Medical	—	—	—	—	—
Other	—	—	—	—	—
Total	$ 5,064	$ 74	$ —	$ —	$ 74
December 31, 2014					
Industrial	$ —	$ —	$ —	$ —	$ —
Office	—	—	—	—	—
Medical	—	—	—	—	—
Other	—	—	—	—	—
Total	$ —	$ —	$ —	$ —	$ —

There was one mortgage loan that was 30 days past due at December 31, 2015. Subsequently, payment was received on this loan and it was brought current. No mortgage loans were past due at December 31, 2014. There were no loans in the process of foreclosure at December 31, 2015 or December 31, 2014.

The allowance for loan losses is monitored and evaluated at multiple levels with a process that includes, but is not limited to, the factors presented below. Generally, the Company establishes the allowance for loan losses using the collectively evaluated impairment methodology at an overall portfolio level and then specifically identifies an allowance for loan losses on loans that contain elevated risk profiles. If the Company determines through its evaluation that a loan has an elevated specific risk profile, it then individually assesses the loan's risk profile and assigns a specific allowance value based on many factors, including those identified below.

Macro-environmental and elevated risk profile considerations:

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

Specific mortgage loan level considerations:

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

The Company has not acquired any mortgage loans with deteriorated credit quality during the years presented.

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

- The risk that the Company's assessment of a borrower to meet all of its contractual obligations will change based on changes in the credit characteristics of the borrower or property;
- The risk that the economic outlook will be worse than expected or have more of an impact on the borrower than anticipated;
- The risk that the performance of the underlying property could deteriorate in the future;
- The risk that fraudulent, inaccurate, or misleading information could be provided to the Company;

- The risk that the methodology or assumptions used to develop estimates of the portion of the impairment of the loan prove over time to be inaccurate; and
- The risk that other facts and circumstances change such that it becomes more likely than not that the Company will not obtain all of the contractual payments.

The Company increased the allowance for mortgage loan losses $0.7 million in 2015, largely the result of the Company's view of credit trends under the current economic conditions. The Company reviews the portfolio's risk profile and expected ongoing performance at least quarterly.

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

Over the past three years, the Company has had two mortgage loan defaults. Two loans were foreclosed in 2014 for a total impairment loss of $0.3 million. There were no foreclosures in 2015 or 2013. The Company had no troubled loans that were restructured or modified in 2015, 2014, or 2013.

6. Variable Interest Entities

The Company invests in certain affordable housing and real estate joint ventures which are considered to be variable interest entities (VIEs) and are included in Real Estate in the Consolidated Balance Sheets. The assets held in affordable housing real estate joint venture VIEs are primarily residential real estate properties that are restricted to provide affordable housing under federal or state programs for varying periods of time. The restrictions primarily apply to the rents that may be paid by tenants residing in the properties during the term of an agreement to remain in the affordable housing program. Investments in real estate joint ventures are equity interests in partnerships or limited liability companies that may or may not participate in profits or residual value. The Company's investments in these entities generate a return primarily through the realization of federal and state income tax credits and other tax benefits, such as tax deductions from operating losses of the investments, over specified time periods. The Company amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the Consolidated Statements of Comprehensive Income as a component of income tax expense. The tax credits are recognized as a reduction of tax expense. The Company realized federal income tax credits related to these investments of $2.8 million, $2.8 million, and $2.9 million for the years ended December 31, 2015, 2014, and 2013, respectively. The Company also recognized $1.2 million, $1.1 million, and $1.6 million of amortization related to these investments for the years ended December 31, 2015, 2014, and 2013, respectively. The Company's investments in other real estate VIEs are recorded using the equity method. Cash distributions from the VIE and cash contributions to the VIE are recorded as decreases or increases, respectively, in the carrying value of the VIE. Certain other equity investments in VIEs, where permitted, are recorded on an amortized cost basis. The operating performance of investments in the VIE is recorded in the Consolidated Statements of Comprehensive Income as investment income or as a component of income tax expense, depending upon the nature and primary design of the investment. The Company evaluates the carrying value of VIEs for impairment on an ongoing basis to assess whether the carrying value is expected to be realized during the anticipated life of the investment. In certain cases, the Company may issue fixed-rate senior mortgage loan investments secured by properties controlled by VIEs. These investments are classified as mortgage loans in the Consolidated Balance Sheets, and the income received from such investments is recorded as investment income in the Consolidated Statements of Comprehensive Income.

Investments in the affordable housing and real estate joint ventures are interests that will absorb portions of the VIE's expected losses or receive portions of expected residual returns of the VIE's net assets exclusive of variable interests. The Company makes an assessment of whether it is the primary beneficiary of a VIE at the time of the initial investment and on an ongoing basis thereafter. The Company considers many factors when making this determination based upon a review of the underlying investment agreement and other information related to the specific investment. The first factor is whether the Company has the ability to direct the activities of a VIE that most significantly impact the VIE's economic performance. The power to direct the activities of the VIE is generally vested in the managing general partner or managing member of the VIE, which is not the position held by the Company in these investments. Other factors include the entity's equity investment at risk, decision-making abilities, obligations to absorb economic risks, the right to receive economic rewards of the entity, and the extent to which the Company shares in the VIE's expected losses and residual returns.

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

The following table presents the carrying amount and maximum exposure to loss relating to VIEs for which the Company holds a variable interest, but is not the primary beneficiary, and which had not been consolidated at December 31, 2015 and December 31, 2014. The table includes investments in five real estate joint ventures and 22 affordable housing real estate joint ventures at December 31, 2015 and investments in five real estate joint ventures and 23 affordable housing real estate joint ventures at December 31, 2014.

	2015		2014	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Real estate joint ventures	$ 21,269	$ 21,269	$ 21,415	$ 21,415
Affordable housing real estate joint ventures	11,542	51,686	13,153	54,028
Total	$ 32,811	$ 72,955	$ 34,568	$ 75,443

The maximum exposure to loss relating to the real estate joint ventures and affordable housing real estate joint ventures, as shown in the table above, 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 to the Company. Unfunded equity and loan commitments typically require financial or operating performance by other parties and have not yet become due or payable but which may become due in the future.

At December 31, 2015 and December 31, 2014, the Company had no mortgage loan or equity commitments outstanding to the real estate joint venture VIEs. The Company has 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, the Company is not able to quantify the amount of these contingent commitments.

In addition, the maximum exposure to loss on affordable housing joint ventures at December 31, 2015 and 2014 included $28.6 million and $27.7 million, respectively, of losses which could be realized if the tax credits received by the VIEs were recaptured. Recapture events would cause the Company to reverse some or all of the benefit previously recognized by the Company 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. The potential exposure due to recapture may be mitigated by guarantees from the managing member or managing partner in the VIE, insurance contracts, or changes in the residual value accruing to the Company's interests in the VIEs.

7. Property and Equipment

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

	2015	2014
Land	$ 766	$ 766
Home office complex	21,518	21,249
Furniture and equipment	42,183	47,296
	64,467	69,311
Accumulated depreciation	(47,887)	(51,784)
Property and equipment	$ 16,580	$ 17,527

Depreciation expense totaled $1.6 million, $1.7 million, and $1.6 million in 2015, 2014, and 2013, respectively.

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

8. Separate Accounts

The total separate account assets were $372.9 million at December 31, 2015 (2014 - $406.5 million). Variable universal life and variable annuity assets comprised 27% and 73% of this amount in 2015 compared to 28% and 72% of this amount in 2014.

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

	2015	2014	2013
Balance at beginning of year	$ 406,501	$ 393,416	$ 340,093
Deposits on variable policyholder contracts	32,306	47,308	36,471
Transfers to general account	(5,726)	(5,859)	(4,349)
Investment performance	(13,720)	24,314	69,545
Policyholder benefits and withdrawals	(33,083)	(39,177)	(35,236)
Contract charges	(13,354)	(13,501)	(13,108)
Balance at end of year	$ 372,924	$ 406,501	$ 393,416

The Company has a GMWB rider that can be added to new or existing variable annuity contracts. The rider provides an enhanced withdrawal benefit that guarantees a stream of income payments to an owner or annuitant, regardless of the contract account value. The value of the separate accounts with the GMWB rider was recorded at fair value of $118.0 million at December 31, 2015 (2014 - $132.3 million). The GMWB guarantee liability was $(2.8) million at December 31, 2015 (2014 - $(1.1) million). 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.

The Company has two blocks of variable universal life policies and variable annuity contracts from which the Company receives fees. The fees are based upon both specific transactions and the fund value of the blocks of policies. The Company has a direct block of ongoing business identified in the Consolidated Balance Sheets as separate account assets, totaling $372.9 million at December 31, 2015 and $406.5 million at December 31, 2014, and corresponding separate account liabilities of an equal amount. In addition, the Company has an assumed closed block of business that is recorded in the Company's financial statements in accordance with modified coinsurance accounting for variable insurance business. This block of separate account fund balances totaled $292.4 million at December 31, 2015 and $318.1 million at December 31, 2014. The Company also records separate accounts invested in the general account for the direct block of business. In accordance with coinsurance reinsurance transaction accounting, the Company also records the assumed block of fixed accounts under its general account. The future policy benefits for the direct block approximated $0.5 million and $0.4 million at December 31, 2015 and December 31, 2014, respectively. The future policy benefits for the assumed block approximated $0.6 million at both December 31, 2015 and December 31, 2014.

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

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

At December 31, 2015 and 2014, separate account balances for variable annuity contracts were $270.7 million and $292.3 million, respectively. The total reserve held for variable annuity GMDB was $0.1 million at December 31, 2015 and less than $0.1 million at December 31, 2014. Additional information related to the GMDB and related separate account balances and net amount at risk (the amount by which the GMDB exceeds the account balance) as of December 31, 2015 and 2014 is provided below:

	2015			2014		
	Separate Account Balance	Net Amount at Risk	Weighted Average Attained Age	Separate Account Balance	Net Amount at Risk	Weighted Average Attained Age
Return of net deposits	$ 211,281	$ 3,644	60.2	$ 230,426	$ 667	59.9
Return of the greater of the highest anniversary contract value or net deposits	8,161	758	67.5	8,594	102	67.3
Return of the greater of every fifth year highest anniversary contract value or net deposits	7,528	146	67.7	7,770	50	65.5
Return of the greater of net deposits accumulated annually at 5% or the highest anniversary contract value	43,686	6,419	62.2	45,466	2,173	61.6
Total	$ 270,656	$ 10,967	60.9	$ 292,256	$ 2,992	60.5

The following table presents the GMDB for the variable annuity incurred and paid death benefits for the three years ended December 31.

	2015	2014	2013
Variable annuity incurred death benefits	$ 1,177	$ 2,475	$ 2,900
Variable annuity paid death benefits	1,237	2,289	3,744

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

	2015	2014
Money market	$ 3,171	$ 4,267
Fixed income	19,670	36,351
Balanced	85,346	60,726
International equity	12,039	22,057
Intermediate equity	127,968	139,609
Aggressive equity	22,462	29,246
Total	$ 270,656	$ 292,256

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

9. Unpaid Accident and Health Claims Liability

The liability for unpaid accident and health claims is included with policy and contract claims on the Consolidated Balance Sheets. Claim adjustment expenditures are expensed as incurred and were not material in any year presented. Activity in the liability follows.

	2015	2014	2013
Gross liability at beginning of year	$ 34,691	$ 33,888	$ 36,219
Less reinsurance recoverable	(28,122)	(27,567)	(29,938)
Net liability at beginning of year	6,569	6,321	6,281
Incurred benefits related to:			
Current year	26,273	27,037	24,333
Prior years [1]	(450)	(161)	(937)
Total incurred benefits	25,823	26,876	23,396
Paid benefits related to:			
Current year	22,920	23,352	20,906
Prior years	3,091	3,276	2,450
Total paid benefits	26,011	26,628	23,356
Net liability at end of year	6,381	6,569	6,321
Reinsurance recoverable	26,791	28,122	27,567
Gross liability at end of year	$ 33,172	$ 34,691	$ 33,888

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

10. Participating Policies

The Company has some insurance contracts where the policyholder is entitled to share in the earnings through dividends, which reflect the difference between the premium charged and the actual experience. Participating business at year-end 2015 approximated 9% of statutory premiums and 12% of the life insurance in force, compared to 9% and 13% in 2014, respectively. The amount of dividends to be paid is determined annually by the Company's Board of Directors. Provision has been made in the liability for future policy benefits to allocate amounts to participating policyholders on the basis of dividend scales contemplated at the time the policies were issued, as well as for policyholder dividends having been declared by the Board of Directors in excess of the original scale.

11. Debt

The Company had no notes payable at December 31, 2015 or December 31, 2014.

As a member of the Federal Home Loan Bank of Des Moines (FHLB) with a capital investment of $4.9 million at December 31, 2015, the Company has the ability to borrow on a collateralized basis from the FHLB. The Company received an insignificant amount of dividends on the capital investment in 2015, 2014, and 2013.

The Company had unsecured revolving lines of credit of $70.0 million with two major commercial banks with no balances outstanding at December 31, 2015 and December 31, 2014. The lines of credit are at variable interest rates based upon short-term indices, and they will mature in June of 2016. The Company anticipates renewing these lines as they come due.

12. Income Taxes

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

	2015	2014	2013
Current income tax expense	$ 9,048	$ 8,065	$ 6,018
Deferred income tax expense	3,922	4,929	8,374
Total income tax expense	$ 12,970	$ 12,994	$ 14,392

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Notes to Consolidated Financial Statements–(Continued)

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

	2015	2014	2013
Cash paid for income taxes	5,754	8,756	7,590

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

	2015	2014	2013
Federal income tax rate	35 %	35 %	35 %
Tax credits, net of equity adjustment	(4)%	(4)%	(3)%
Permanent differences	— %	(1)%	— %
Effective income tax rate	31 %	30 %	32 %

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

	2015	2014
Deferred tax assets:		
Future policy benefits	$ 21,257	$ 24,335
Employee retirement benefits	31,293	34,422
Other	—	486
Deferred tax assets	52,550	59,243
Deferred tax liabilities:		
Basis differences between tax and GAAP accounting for investments	5,200	6,861
Unrealized investment gains	33,482	61,090
Capitalization of deferred acquisition costs, net of amortization	59,533	53,381
Value of business acquired	8,499	8,629
Property and equipment, net	4,970	5,159
Other	69	—
Deferred tax liabilities	111,753	135,120
Net deferred tax liability	59,203	75,877
Current tax asset	(529)	(2,255)
Income taxes payable	$ 58,674	$ 73,622

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

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. In general, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years prior to 2012. The Company is not currently under examination by the Internal Revenue Service.

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

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

	2015	2014
Beginning of year	$ 22	$ —
Additions based on tax positions related to the current year	94	22
Additions for tax positions of prior years	419	—
End of year	$ 535	$ 22

The Company's policy is to recognize interest and penalties accrued related to unrecognized tax benefits in income tax expense. The Company recognized no tax penalty and interest expense in 2015 and $0.1 million of tax penalty and interest expense in 2014. The Company did not recognize any expense related to interest and penalties during 2013.

The Company had no material tax uncertainties requiring recognition in its consolidated financial statements as of December 31, 2015. The Company is no longer subject to income tax examinations by tax authorities for years prior to 2012.

The income tax expense is recorded in various places in the Company's financial statements, as detailed below, for the years ended December 31.

	2015	2014	2013
Income tax expense	$ 12,970	$ 12,994	$ 14,392
Stockholders' equity:			
Related to:			
Change in net unrealized gains on securities available for sale	(27,600)	17,568	(50,790)
Effect on DAC, VOBA, and DRL	4,013	(530)	16,577
Change in future policy benefits	2,646	(3,730)	4,534
Change in policyholder account balances	149	(130)	220
Change in benefit plan obligations	196	(8,400)	7,961
Total income tax expense (benefit) included in financial statements	$ (7,626)	$ 17,772	$ (7,106)

13. Pensions and Other Postemployment Benefits (OPEB)

The Company has pension and other postemployment benefit plans covering substantially all its employees for which the measurement date is annually on December 31.

The Kansas City Life Cash Balance Pension Plan (the Plan) was amended effective December 31, 2010 to provide that participants' accrued benefits will be frozen, and that no further benefits or accruals will be earned after December 31, 2010. Although participants will no longer accrue additional benefits under the Plan at December 31, 2010, participants will continue to earn years of service for vesting purposes under the Plan with respect to their benefits accrued through December 31, 2010. In addition, the cash balance account will continue to earn annual interest. Plan benefits are based on a cash balance account consisting of credits to the account based upon an employee's years of service, compensation and interest credits on account balances calculated using the greater of the average 30-year Treasury bond rate for November of each year or 5.5%. The benefits expected to be paid in each year from 2016 through 2020 are $11.0 million, $9.3 million, $10.6 million, $9.9 million, and $9.7 million, respectively. The aggregate benefits expected to be paid in the five years from 2021 through 2025 are $46.9 million. The expected benefits to be paid are based on the same assumptions used to measure the Company's benefit obligation at December 31, 2015 and are the actuarial present value of the vested benefits to which the employee is currently entitled but based upon the expected date of separation or retirement. The 2016 contribution for the plan has not been determined.

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

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

	2015	2014	Target Allocation
Equity securities	38%	40%	33% - 43%
Asset allocation and alternative assets	29%	29%	23% - 33%
Debt securities	31%	30%	26% - 42%
Cash and cash equivalents	2%	1%	0% - 2%

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

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

Plan fiduciaries set investment policies and strategies and oversee its investment allocation, which includes selecting investment managers, commissioning periodic asset-liability studies, and setting long-term strategic targets. Long-term strategic investment objectives include preserving the funded status of the plan and balancing risk and return. Target allocation ranges are guidelines, not limitations, and occasionally plan fiduciaries will approve allocations above or below a target range. The Plan does not expect to return any plan assets to the Company during 2016.

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

The assumed discount rates used to determine the benefit obligation for pension benefits and postemployment benefits are 3.84% and 4.26%, respectively. The discount rates were determined by reference to the Citigroup Pension Liability Yield Curve on December 31, 2015. Specifically, the spot rate curve represents the rates on zero coupon securities of the quality and type included in the pension index at various maturities. By discounting benefit cash flows at these rates, a notional amount equal to the fair value of a cash flow defeasing portfolio of bonds was determined. The discount rate for benefits was calculated as a single rate giving the same discounted value as the notional amount.

The Company adopted the updated mortality tables issued by the Society of Actuaries (SOA) during 2015. The new tables, as issued by the SOA, were updated because of additional Social Security mortality information and reflect shorter life expectancy, which may result in a lower benefit obligation for certain pension plans. The result of the adoption of this updated table was a decrease of $3.2 million in the Plan's benefit obligation.

The postemployment medical plans for eligible employees, agents, and their dependents are contributory with contributions adjusted annually. The benefits expected to be paid in each year from 2016 through 2020 are $1.0 million, $1.1 million, $1.1 million, $1.2 million, and $1.2 million, respectively. The aggregate benefits expected to be paid in the five years from 2021 through 2025 are $7.8 million. The expected benefits to be paid are based on the same assumptions used to measure the Company’s benefit obligation at December 31, 2015. Contributions to the plan in 2015 were $0.8 million. The 2016 contribution for the plan is estimated to be $1.0 million. The Company pays these medical costs as they become due and the plan incorporates cost-sharing features. The postemployment plan disclosures included herein do not include the potential impact from the Medicare Act (the Act) that became law in December 2003. The Act introduced a new federal subsidy to sponsors of certain retiree health care plans that provide a

benefit that is at least actuarially equivalent to Medicare. Since the Company does not provide benefits that are actuarially equivalent to Medicare, the Act did not impact the Company's disclosures.

Non-contributory defined contribution retirement plans for eligible general agents and sales agents provide supplemental payments based upon earned agency first year individual life and annuity commissions. Contributions to these plans in 2015 were $0.1 million (2014 - $0.1 million; 2013 - $0.1 million). Non-contributory deferred compensation plans for eligible agents based upon earned first year commissions are also offered. Contributions to these plans in 2015 were $0.3 million (2014 - $0.3 million; 2013- $0.3 million).

Savings plans for eligible employees and agents match employee and agent contributions up to 8% of salary and 2.5% of agents' prior year paid commissions, respectively. Contributions to the plans in 2015 were $2.1 million (2014 - $2.1 million; 2013 - $2.1 million). The Company may contribute an additional profit sharing amount up to 4% of salary for eligible employees, depending upon corporate profits. In 2014, the Company made a contribution to the plan under the profit sharing determination of 4% of salary for eligible employees, which totaled $1.3 million. The Company did not make a profit sharing contribution in 2015.

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

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

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

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

	Pension Benefits		OPEB	
	2015	2014	2015	2014
Change in projected benefit obligation:				
Benefit obligation at beginning of year	$ 157,713	$ 146,000	$ 36,456	$ 31,179
Service cost	—	—	686	611
Interest cost	5,424	6,202	1,402	1,499
Plan participants' contributions	—	—	512	515
Actuarial (gain) loss	(8,860)	15,465	(3,168)	4,027
Benefits paid	(9,882)	(9,954)	(1,272)	(1,375)
Benefit obligation at end of year	$ 144,395	$ 157,713	$ 34,616	$ 36,456
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 137,987	$ 136,707	$ —	$ —
Return on plan assets	(3,275)	5,154	—	—
Plan participants' contributions	—	—	512	515
Company contributions	6,028	6,080	760	860
Benefits paid	(9,882)	(9,954)	(1,272)	(1,375)
Fair value of net plan assets at end of year	$ 130,858	$ 137,987	$ —	$ —
Unfunded status at end of year	$ 13,537	$ 19,726	$ 34,616	$ 36,456

	Pension Benefits		OPEB	
	2015	2014	2015	2014
Amounts recognized in accumulated other comprehensive income (loss):				
Net loss	$ 80,090	$ 78,156	$ 4,274	$ 7,914
Prior service credit	—	—	(1,901)	(3,048)
Total accumulated other comprehensive income (loss)	$ 80,090	$ 78,156	$ 2,373	$ 4,866

	Pension Benefits		OPEB	
	2015	2014	2015	2014
Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss):				
Unrecognized actuarial net (gain) loss	$ 4,334	$ 20,633	$ (3,168)	$ 4,027
Amortization of net loss	(2,400)	(1,718)	(471)	(87)
Amortization of prior service credit	—	—	1,146	1,146
Total (gain) loss recognized in other comprehensive income (loss)	$ 1,934	$ 18,915	$ (2,493)	$ 5,086

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

	Pension Benefits		OPEB	
	2015	2014	2015	2014
Plans with underfunded accumulated benefit obligation:				
Projected benefit obligation	$ 144,395	$ 157,713	$ —	$ —
Accumulated benefit obligation	144,395	157,713	—	—
Fair value of plan assets	130,858	137,987	—	—
Weighted average assumptions used to determine benefit obligations at December 31:				
Discount rate	3.84%	3.57%	4.26%	3.90%
Weighted average assumptions used to determine net periodic benefit cost for years ended December 31:				
Discount rate	3.57%	4.42%	3.90%	4.88%
Expected return on plan assets	7.50%	7.70%	—	—

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

	Pension Plan	
	2015	2014
Debt securities:		
United States Government fixed maturity securities	$ 2,071	$ 2,179
Industrial and public utility fixed maturity securities	18,697	19,554
Investment funds:		
Hedge funds	18,877	19,147
Stock and bond funds:		
Domestic equity	23,362	30,621
International equity	20,787	19,060
Emerging markets	5,357	5,694
Global asset allocation	19,582	20,779
Fixed income	19,491	20,096
Other invested assets	32	50
Cash and cash equivalents	2,379	1,306
Receivables	245	229
Fair value of assets at end of year	$ 130,880	$ 138,715
Liabilities		
Accrued liabilities	$ 22	$ 728
Total liabilities	22	728
Fair value of net plan assets at end of year	$ 130,858	$ 137,987

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

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

	2015			
	Level 1	Level 2	Level 3	Total
Debt securities:				
United States Government fixed maturity securities	$ —	$ 2,071	$ —	$ 2,071
Industrial and public utility fixed maturity securities	—	18,697	—	18,697
Investment funds:				
Hedge funds	—	18,877	—	18,877
Stock and bond funds	—	88,579	—	88,579
Other invested assets	—	—	32	32
Cash and cash equivalents	2,379	—	—	2,379
Receivables	245	—	—	245
Total	$ 2,624	$ 128,224	$ 32	$ 130,880

	2014			
	Level 1	Level 2	Level 3	Total
Debt securities:				
United States Government fixed maturity securities	$ —	$ 2,179	$ —	$ 2,179
Industrial and public utility fixed maturity securities	—	19,554	—	19,554
Investment funds:				
Hedge funds	—	19,147	—	19,147
Stock and bond funds	—	96,250	—	96,250
Other invested assets	—	—	50	50
Cash and cash equivalents	1,306	—	—	1,306
Receivables	229	—	—	229
Total	$ 1,535	$ 137,130	$ 50	$ 138,715

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

	Pension Plan	
	2015	2014
Beginning balance	$ 50	$ 53
Gains (losses) realized and unrealized	(18)	16
Sales	—	(19)
Ending balance	$ 32	$ 50

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

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

	Pension Benefits			OPEB		
	2015	2014	2013	2015	2014	2013
Service cost	$ —	$ —	$ —	$ 686	$ 611	$ 786
Interest cost	5,424	6,202	5,338	1,402	1,499	1,368
Expected return on plan assets	(9,919)	(10,322)	(9,227)	—	—	—
Amortization of:						
Unrecognized actuarial net loss	2,400	1,718	2,393	471	87	103
Unrecognized prior service cost (credit)	—	—	—	(1,146)	(1,146)	(752)
Curtailment	—	—	—	—	—	(116)
Net periodic benefit cost (credit)	(2,095)	(2,402)	(1,496)	1,413	1,051	1,389
Total recognized in other comprehensive income (loss)	1,934	18,915	(17,231)	(2,493)	5,086	(5,515)
Total recognized in net periodic benefit cost and other comprehensive income (loss)	$ (161)	$ 16,513	$ (18,727)	$ (1,080)	$ 6,137	$ (4,126)

The following table provides the estimated net loss and prior service credit for the pension plan and other postemployment plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost in 2015.

	Pension Benefits	OPEB
Actuarial net loss	$ 2,649	$ 96
Prior service credit	—	(977)

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

	One Percentage Point Change in the Growth Rate	
	Increase	Decrease
Service and interest cost components	$ 400	$ (313)
Postemployment benefit obligation	5,985	(4,783)

For measurement purposes, the annual increase in the per capita cost of covered health care benefits was assumed to be 7.8%, decreasing gradually to 5.0% in 2027 and thereafter.

Included in the Company's OPEB is a medical insurance plan for retired agents. During the second quarter of 2013, the Company notified the participants that this benefit was being terminated effective December 31, 2013. This benefit termination required a re-valuation of the plan, which was performed effective June 10, 2013 and resulted in a plan curtailment. The curtailment resulted in the immediate recognition of reduced operating expenses of $0.1 million and a reduced liability of $4.4 million.

14. Share-Based Payment

The Company has a long-term incentive plan for senior management that provides a cash award to participants for the increase in the share price of the Company's common stock through units (phantom shares) assigned by the Board of Directors. The cash award is calculated over a three-year interval on a calendar year basis. At the conclusion of each three-year interval, participants will receive a cash award based on the increase in the share price during a defined measurement period, multiplied by the number of units attributable to each participant. The increase in the share price is determined based on the change in the share price from the beginning to the end of the three-year interval. Amounts representing dividends are accrued and paid at the end of each three-year interval to the extent that they exceed negative stock price appreciation. Plan payments are contingent on the continued

employment of the participant unless termination is due to a qualifying event such as death, disability, or retirement. In addition, all payments are lump sum with no deferrals allowed. The Company does not make payments in shares, warrants, or options.

The following table provides information about the outstanding three-year intervals at December 31, 2015.

Defined Measurement Period	Number of Units	Grant Price
2013-2015	212,734	$37.86
2014-2016	162,063	$48.06
2015-2017	186,962	$47.87
2016-2018*	203,355	$43.49

* Effective January 1, 2016

The plan made a payment of $3.8 million during 2015 for the three-year interval ended December 31, 2014 and a payment of $3.8 million during 2014 for the three-year interval ended December 31, 2013. The plan made a payment of $2.4 million during 2013 for the three-year interval ended December 31, 2012. The change in accrual for share-based compensation that reduced operating expense during 2015 was $0.1 million, net of tax. The cost of share-based compensation accrued as an operating expense during 2014 and 2013 was $1.4 million, and $3.5 million, net of tax, respectively.

15. Reinsurance

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

	2015	2014	2013
Life insurance in force (in millions) :			
Direct	$ 28,104	$ 27,978	$ 27,753
Ceded	(13,296)	(13,546)	(13,689)
Assumed	3,666	4,006	4,271
Net	$ 18,474	$ 18,438	$ 18,335
Premiums:			
Life insurance:			
Direct	$ 159,692	$ 162,110	$ 186,358
Ceded	(46,262)	(45,703)	(45,061)
Assumed	2,415	2,479	2,562
Net	$ 115,845	$ 118,886	$ 143,859
Accident and health:			
Direct	$ 54,465	$ 57,603	$ 55,068
Ceded	(10,135)	(10,941)	(12,397)
Net	$ 44,330	$ 46,662	$ 42,671

Ceded Reinsurance Arrangements

Old American has a coinsurance agreement that reinsures certain whole life policies issued by Old American prior to December 1, 1986. These policies had a face value of $20.8 million at December 31, 2015 (2014 - $23.3 million). The reserve for future policy benefits ceded under this agreement at December 31, 2015 was $12.2 million (2014 - $13.5 million).

Sunset Life entered into a yearly renewable term reinsurance agreement January 1, 2002, whereby it ceded 80% of its retained mortality risk on traditional and universal life policies. In June 2012, Sunset Life recaptured approximately 9% of the outstanding

bulk reinsurance agreement. At December 31, 2015, the insurance in force ceded approximated $0.9 billion (2014 - $1.0 billion) and premiums totaled $7.0 million (2014 - $7.3 million; 2013 - $7.4 million).

Reinsurance recoverables were $198.8 million at year-end 2015, consisting of reserves ceded of $178.7 million and claims ceded of $20.1 million. Reinsurance recoverables were $194.4 million at year end 2014, consisting of reserves ceded of $181.5 million and claims ceded of $12.9 million.

The maximum retention on any one life during 2015 and 2014 was $0.5 million for ordinary life plans and $0.1 million for group coverage.

The following table reflects the Company's reinsurance partners whose reinsurance recoverable was 5% or greater of the Company's total reinsurance recoverable at December 31, 2015, along with their A.M. Best credit rating.

	A.M. Best Rating	Reinsurance Recoverable	% of Recoverable
TransAmerica Life Insurance Company	A+	$ 53,942	27%
Security Life of Denver	A	25,782	13%
RGA Reinsurance Company	A+	20,975	11%
Union Security Insurance Company	A-	13,314	7%
Employers Reassurance Corporation	A-	12,542	6%
SCOR Global Life Americas Reinsurance Company	A	10,825	5%
Lewer Life Insurance Company	B	10,725	5%
Lincoln National Life Insurance Company	A+	9,340	5%
Other (22 Companies)		41,389	21%
Total		$ 198,834	100%

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

The Company monitors several factors that it considers relevant to satisfy itself as to the ongoing ability of a reinsurer to meet the obligations of the reinsurance agreements. These factors include the credit rating of the reinsurer, significant changes or events of the reinsurer, and any other factors that the Company believes relevant. If the Company believes that any reinsurer would not be able to satisfy its obligations with the Company, a separate contingency reserve may be established. At year-end 2015 and 2014, no reinsurer met these conditions. In addition, the Company will review the credit rating and financial statements of a reinsurer before entering into any new agreements.

Assumed Reinsurance Arrangements

Kansas City Life acquired a block of traditional life and universal life products in 1997 through a 100% coinsurance and servicing arrangement. Investments equal to the statutory policy reserves are held in a trust to secure payment of the estimated liabilities relating to the policies. At December 31, 2015, the block had $0.9 billion of life insurance in force (2014 - $1.0 billion). The block generated life insurance premiums of $2.3 million in 2015 (2014 - $2.4 million; 2013 - $2.4 million).

The Company acquired a block of variable universal life insurance policies and variable annuity contracts from American Family in 2013. The transfer was comprised of a 100% modified coinsurance transaction on the separate account business and a 100% coinsurance transaction for the corresponding fixed account business. Included in the transaction are ongoing servicing arrangements for this business. At December 31, 2015, the block consisted of $292.4 million (2014 - $318.0 million) of separate account balances, which are included in the financial statements of American Family. At December 31, 2015, the block consisted of $0.6 million (2014 - $0.6 million) of future policy benefits and $26.5 million (2014 - $27.2 million) in fixed fund balances that are included in policyholder account balances in the Company's Consolidated Balance Sheets.

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

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

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

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

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

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

	Year Ended December 31, 2013		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized gains (losses) arising during the year:			
Fixed maturity securities	$ (139,206)	$ (48,721)	$ (90,485)
Equity securities	(1,816)	(636)	(1,180)
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	5,225	1,829	3,396
Other-than-temporary impairment losses recognized in earnings	(1,032)	(361)	(671)
Other-than-temporary impairment losses recognized in other comprehensive income (loss)	(101)	(35)	(66)
Net unrealized losses excluding impairment losses	(145,114)	(50,790)	(94,324)
Change in benefit plan obligations	22,745	7,960	14,785
Effect on DAC, VOBA, and DRL[1]	47,363	16,577	30,786
Future policy benefits	12,956	4,535	8,421
Policyholder account balances	628	220	408
Other comprehensive loss	$ (61,422)	$ (21,498)	$ (39,924)
Net income			30,063
Comprehensive loss			$ (9,861)

[1] The pre-tax amount includes $16.0 million for a one-time refinement in estimate and $5.6 million for the effect on the deferred revenue liability.

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

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

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

The following table provides accumulated balances related to each component of accumulated other comprehensive income (loss) at December 31, 2014, net of tax.

	Unrealized Gain (Loss) on Non-Impaired Securities	Unrealized Gain (Loss) on Impaired Securities	Benefit Plan Obligations	DAC/ VOBA/ DRL Impact	Future Policy Benefits	Policyholder Account Balances	Total
Beginning of year	78,496	2,381	(38,363)	(17,536)	(10,478)	(330)	14,170
Other comprehensive income (loss) before reclassification	29,250	1,756	(15,601)	(889)	(6,928)	(242)	7,346
Amounts reclassified from accumulated other comprehensive income (loss)	2,616	(996)	—	(96)	—	—	1,524
Net current-period other comprehensive income (loss)	31,866	760	(15,601)	(985)	(6,928)	(242)	8,870
End of year	$ 110,362	$ 3,141	$ (53,964)	$ (18,521)	$ (17,406)	$ (572)	$ 23,040

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

The following table presents the pre-tax and the related income tax expense (benefit) components of the amounts reclassified from the Company's accumulated other comprehensive income (loss) to the Company's Consolidated Statements of Comprehensive Income for the years ended December 31.

	2015	2014
Reclassification adjustments related to unrealized gains (losses) on investment securities:		
Having impairments recognized in the Consolidated Statements of Comprehensive Income [1]	$ 3,048	$ 4,025
Income tax expense [2]	(1,067)	(1,409)
Net of taxes	1,981	2,616
Having no impairments recognized in the Consolidated Statements of Comprehensive Income [1]	(2,481)	(1,533)
Income tax benefit [2]	869	537
Net of taxes	(1,612)	(996)
Reclassification adjustment related to DAC, VOBA, and DRL [1]	(38)	(147)
Income tax benefit [2]	13	51
Net of taxes	(25)	(96)
Total pre-tax reclassifications	529	2,345
Total income tax expense	(185)	(821)
Total reclassification, net taxes	$ 344	$ 1,524

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

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

17. Earnings Per Share

Due to the Company's capital structure and the absence of other potentially dilutive securities, there is no difference between basic and diluted earnings per common share for any of the years reported. The average number of shares outstanding during 2015 was 10,614,068 shares (2014 - 10,927,705 shares; 2013 - 11,005,799 shares). The number of shares outstanding at year-end 2015 was 9,683,414 (2014 - 10,825,205).

18. Segment Information

The Company has three reportable business segments, which are defined based on the nature of the products and services offered: Individual Insurance, Group Insurance, and Old American. The Individual Insurance segment consists of individual insurance products for both Kansas City Life and Sunset Life and the assumed reinsurance transactions. The Group Insurance segment consists of sales of group life, dental, vision, and group disability products. The Old American segment consists of individual insurance products designed largely as final expense products.

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

Inter-segment revenues are not material. The Company operates solely in the United States and no individual customer accounts for 10% or more of the Company's revenue.

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

The following schedules provide selected financial statement items of each of the operating segments of the Company for the three years ended December 31.

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

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

	2013			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues (customer revenues)	$ 173,428	$ 53,021	$ 73,535	$ 299,984
Interest credited to policyholder account balances	79,294	—	—	79,294
Amortization of deferred acquisition costs	20,440	—	16,788	37,228
Income tax expense	11,974	284	2,134	14,392
Segment net income	25,737	526	3,800	30,063
Segment assets	4,129,852	8,731	371,177	4,509,760

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

Individual Insurance includes an adjustment to remove intercompany transactions for life and accident and health insurance that the Company purchases for its employees and agents. Insurance revenues from the Group Insurance segment and operating expenses from the Individual Insurance segment were eliminated to arrive at Consolidated Statements of Comprehensive Income. The adjustments were $414, $406, and $395 for the years ended December 31, 2015, 2014, and 2013, respectively.

The following table provides information about the Company's customer revenues, net of reinsurance, for the years ended December 31.

	2015	2014	2013
Customer revenues by line of business:			
Traditional individual insurance products, net	$ 104,599	$ 107,696	$ 133,509
Interest sensitive products	83,013	88,181	86,618
Variable universal life insurance and annuities	29,017	30,468	26,836
Group life and accident and health products, net	55,576	57,852	53,021
Insurance revenues	$ 272,205	$ 284,197	$ 299,984

19. Quarterly Consolidated Financial Data (unaudited)

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

	First	Second	Third	Fourth
2015:				
Total revenues	$ 110,805	$ 108,873	$ 112,261	$ 108,912
Total benefits and expenses	101,283	93,317	104,101	99,954
Net income	6,778	10,899	5,435	6,114
Per common share, basic and diluted	0.63	1.01	0.52	0.59
2014:				
Total revenues	$ 115,112	$ 116,539	$ 115,663	$ 117,705
Total benefits and expenses	107,148	104,055	104,059	106,773
Net income	5,672	8,625	7,960	7,733
Per common share, basic and diluted	0.52	0.78	0.73	0.71

20. Statutory Information and Stockholder Dividends Restriction

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

	2015	2014	2013
Net gain from operations	$ 27,390	$ 27,167	$ 535
Net income	29,149	26,697	335
Capital and surplus	297,612	338,422	330,599

The decrease in capital and surplus in 2015 was largely attributable to $58.4 million in stock purchases, including $47.6 million from the reverse/forward stock split transaction that occurred during the fourth quarter of 2015.

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements–(Continued)

Kansas City Life recognizes its 100% ownership in Old American and Sunset Life under the equity method with subsidiary earnings recorded through surplus on a statutory accounting basis. Capital and surplus at December 31, 2015 in the above table includes capital and surplus of $22.1 million and $29.4 million for each of those entities, respectively.

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

The maximum stockholder dividends payable by Kansas City Life without prior approval in 2016 is $29.8 million, 10% of December 31, 2015 capital and surplus. The maximum stockholder dividends payable by Old American without prior approval in 2016 is $2.3 million, which is 10% of December 31, 2015 capital and surplus. The maximum stockholder dividends payable by Sunset Life without prior approval in 2016 is $3.3 million, the statutory net gain from operations for the preceding year. Each of the individual insurance enterprises believes that the statutory limitations impose no practical restrictions on any of its dividend payment plans.

Insurance companies are monitored and evaluated by state insurance departments as to the financial adequacy of statutory capital and surplus in relation to each company's risks. One such measure is through the risk-based capital (RBC) guidelines. RBC requirements are intended to be used by insurance regulators as an early warning tool to identify deteriorating or weakly capitalized insurance companies for the purpose of initiating regulatory action. RBC guidelines consist of target statutory surplus levels based on the relationship of statutory capital and surplus to the sum of weighted risk exposures. The RBC calculation determines both an authorized control level and a total adjusted capital prepared on the RBC basis. Generally, regulatory action is at 150% of the authorized control level. Each of the three insurance companies was within the range of approximately 600% to 800%, well in excess of the control level at December 31, 2015.

The Company is required to deposit a defined amount of assets with state regulatory authorities. Such assets had a statutory carrying value of $12.1 million at December 31, 2015 (2014 - $12.2 million; 2013 - $12.5 million).

21. Commitments, Contingent Liabilities, Guarantees, and Indemnifications

Commitments

In the normal course of business, the Company has open purchase and sale commitments. At December 31, 2015, the Company had purchase commitments to fund mortgage loans of $9.8 million.

Subsequent to December 31, 2015 the Company entered into commitments to fund additional mortgage loans of $20.0 million.

Contingent Liabilities

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

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

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

Based on currently available information, the Company does not believe that any litigation, proceeding or other matter to which it is a party or otherwise involved will have a material adverse effect on its financial position, the results of its operations, or its cash flows.

The Company and its subsidiaries are subject to regular reviews and inspections by state and federal regulatory authorities. State insurance examiners - or independent audit firms engaged by such examiners - may, from time to time, conduct examinations or investigations into industry practices and into customer complaints. The Company is currently subject to a regular financial examination by the Missouri Department of Insurance. A regulatory violation discovered during a review, inspection, or investigation could result in a wide range of remedies that could include the imposition of sanctions against the Company, its subsidiaries, or its employees, any of which could have a material adverse effect on the Company's financial condition or results of operations.

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

Guarantees and Indemnifications

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

22. Subsequent Events

The Company has performed an evaluation of events that have occurred subsequent to December 31, 2015 through March 10, 2016, the date the consolidated financial statements were issued.

On January 25, 2016, the Kansas City Life Board of Directors declared a quarterly dividend of $0.27 per share, paid on February 10, 2016 to stockholders of record on February 4, 2016.

There have been no other subsequent events that have occurred during such period that would require disclosure in, or adjustment to, the consolidated financial statements as of and for the year ended December 31, 2015.

Independent Auditors' Report

The Audit Committee and Stockholders
Kansas City Life Insurance Company:

We have audited the accompanying consolidated financial statements of Kansas City Life Insurance Company and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kansas City Life Insurance Company and subsidiaries as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2015 in accordance with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Kansas City, Missouri
March 10, 2016

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 for the year ended December 31, 2015 is intended to provide in narrative form the perspective of the management of Kansas City Life Insurance Company (the Company) on its financial condition, results of operations, and certain other factors that may affect its future results. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes included in this document.

Overview

The Company's profitability depends on many factors, which include but are not limited to:

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

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

Cautionary Statement on Forward-Looking Information

This report reviews the Company's financial condition and results of operations, and 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 the Company's 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 the Company's ability to sell its products and retain business;
- Increasing competition in the recruitment of new general agents and agents;
- Customer and agent response to new products, distribution channels, and marketing initiatives;
- Fluctuations in experience regarding current mortality, morbidity, persistency, and interest rates relative to expected amounts used in pricing the Company's products;
- Changes in assumptions related to DAC, VOBA, and DRL;
- Regulatory, accounting, or tax changes that may affect the cost of, or the demand for, the Company's products or services; and
- Unanticipated changes in industry trends and ratings assigned by nationally recognized rating organizations.

The Company cannot give assurances that such statements will prove to be correct. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Consolidated Results of Operations

Summary of Results

The Company earned net income of $29.2 million in 2015 compared to $30.0 million in 2014. Net income per share was $2.75 in 2015 versus $2.74 in 2014. Contributing to the decline in net income in 2015 were decreases in net premiums, contract charges, net investment income, and other revenues. Mostly offsetting these items were decreases in policyholder benefits, interest credited to policyholder account balances, amortization of deferred acquisition costs, and operating expenses. Additional information on these items is presented below.

Insurance Revenues

Insurance revenues consist of premiums, net of reinsurance, and contract charges. Insurance revenues are affected 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, for the two years ended December 31. New premiums are also detailed by product.

	2015	% Change	2014
New premiums:			
Traditional life insurance	$ 18,466	4 %	$ 17,694
Immediate annuities	21,843	(20)%	27,466
Group life insurance	2,364	(32)%	3,454
Group accident and health insurance	12,072	(15)%	14,240
Total new premiums	54,745	(13)%	62,854
Renewal premiums	161,827	2 %	159,338
Total premiums	216,572	(3)%	222,192
Reinsurance ceded	(56,397)	— %	(56,644)
Net premiums	$ 160,175	(3)%	$ 165,548

Consolidated total premiums decreased $5.6 million or 3% in 2015 compared to 2014. New premiums decreased $8.1 million or 13% in 2015 versus the prior year. This decrease largely resulted from a $5.6 million decline in new immediate annuity premiums. Immediate annuity receipts can have sizeable fluctuations, as receipts from deferred annuities are based upon the individual needs and decisions of contract owners. Conversions from fixed deferred annuities totaled $15.2 million in 2015, down from $17.4 million in 2014. Excluding the conversions from fixed deferred annuities, total new premiums decreased $5.8 million or 13% in 2015 compared to the prior year. New group accident and health premiums decreased $2.2 million or 15%, largely reflecting a decline in new dental premiums. In addition, new group life premiums decreased $1.1 million or 32% in 2015 compared to 2014. Partially offsetting the declines, new individual life premiums increased $0.8 million or 4% in 2015 compared to the prior year. The increase in new traditional life insurance premiums was principally from the Old American segment. Renewal premiums increased $2.5 million or 2% in 2015 compared to 2014. This increase reflected a $2.5 million or 2% increase in renewal traditional life premiums and a $0.9 million or 9% increase in group life renewal premiums. Partially offsetting these improvements was a $0.8 million or 2% decline in group accident and health renewal premiums, as an increase in renewal dental premiums was offset by a decline in renewal short-term disability premiums. The increase in renewal traditional life insurance premiums was principally from the Old American segment.

The following table reconciles deposits with the Consolidated Statements of Cash Flows and provides detail by new and renewal deposits for the two years ended December 31. New deposits are also detailed by product.

	2015	% Change	2014
New deposits:			
Universal life insurance	$ 13,314	20 %	$ 11,087
Variable universal life insurance	303	(61)%	772
Fixed annuities	40,874	(2)%	41,821
Variable annuities	19,160	(41)%	32,568
Total new deposits	73,651	(15)%	86,248
Renewal deposits	144,278	(5)%	152,503
Total deposits	$ 217,929	(9)%	$ 238,751

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

Total new deposits decreased $12.6 million or 15% in 2015 compared to 2014. This decline resulted from a $13.4 million or 41% decrease in new variable annuity deposits, a $0.9 million or 2% decrease in new fixed annuity deposits, and a $0.5 million or 61% decline in new variable universal life deposits. Partially offsetting this was a $2.2 million or 20% increase in new universal life deposits. Total renewal deposits decreased $8.2 million or 5% in 2015 compared to the prior year, as an increase in universal life renewal deposits was offset by decreases in variable universal life, fixed annuity, and variable annuity renewal deposits.

Contract charges result from charges and fees on interest-sensitive and investment-type products. The Company maintains both open, active blocks of business and closed blocks of business. Contract charges are also potentially impacted by unlocking adjustments, as discussed below.

Total contract charges decreased $6.6 million or 6% in 2015 relative to the prior year. This decline reflected lower amortization of deferred revenue, primarily resulting from unlocking effects on the deferred revenue liability. At least annually, a review is performed of the assumptions related to profit expectations. If it is determined the assumptions should be revised, the impact is recorded as a change in the revenue reported in the current period as an unlocking adjustment. An unlocking adjustment decreased the amortization of deferred revenue $2.3 million during 2015. This compares to an unlocking adjustment that increased deferred revenue amortization $1.8 million during 2014. In addition, surrender charges declined, reflecting reduced surrenders on policyholder account balances.

Included in total contract charges are groups of policies and companies that the Company considers to be closed blocks. The closed blocks of business reflect products and entities that have been purchased but for which the Company is not actively pursuing marketing efforts to generate new sales. The Company services these policies to meet long-term profit objectives as these blocks of business run off or decline over time. Total contract charges on these closed blocks equaled 43% of total consolidated contract charges during 2015, up from 42% in 2014. This increase can be attributed to the unlocking mentioned above, which decreased contract charges on open, or ongoing, blocks of business. Total contract charges on closed blocks decreased 4% compared to the prior year, reflecting the runoff of the business as well as reduced surrender charges on acquired variable universal life and variable annuity products. Total contract charges on open, or ongoing, blocks of business decreased 7% in 2015 compared to 2014. This decline largely reflected lower amortization of deferred revenue that resulted from unlocking effects on the deferred revenue liability.

Investment Revenues

Gross investment income decreased $5.4 million or 3% in 2015 compared to one year earlier. This decline reflected lower average invested assets and lower overall yields earned and available on certain investments. In addition, investment expenses increased $2.5 million or 19%, primarily due to an increase in real estate expenses from real estate purchases made during 2014.

Fixed maturity securities provided a majority of the Company’s investment income during 2015. Approximately 75% of the Company's investments were in fixed maturity securities at both December 31, 2015 and December 31, 2014. Income from these investments declined $4.4 million or 4% compared to 2014, as an increase in average invested assets was more than offset by lower yields earned.

Investment income from commercial mortgage loans decreased $5.8 million or 16% in 2015. This decline was primarily due to lower yields earned and to a lower mortgage loan portfolio balance compared to the prior year, primarily from maturities and principal paydowns that have exceeded new mortgage loan originations. The decline in income from commercial mortgages also reflected a decline in prepayment fees. This decrease was primarily due to prepayment fees from one large loan prepayment in the fourth quarter of 2014.

Investment income from real estate properties increased $5.3 million or 45% in 2015, largely due to the purchase and development of real estate in recent years. However, real estate expenses also increased with the real estate purchases mentioned above.

The Company recorded net realized investment gains of $3.8 million in 2015. During 2015, investment losses of $2.5 million were due to write-downs of investment securities that were considered other-than-temporarily impaired. Offsetting these losses, the Company recorded a $3.1 million net gain from investment securities and a $4.2 million net gain from sales of real estate.

Other Revenues

Other revenues consist primarily of supplementary contract considerations; policyholder dividends left with the Company to accumulate; and certain income received from subsidiaries of the Company. Other revenues decreased $4.8 million or 38% in 2015 compared to the prior year. This decline reflects the revenue decrease from the divestiture of certain non-proprietary agent relationships related to SFS in the fourth quarter of 2014. In addition, lower revenue was earned by the Company's subsidiary that invests in affordable housing real estate, due to lower amounts of tax credits transferred or sold in 2015 compared to 2014.

Policyholder Benefits

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

Policyholder benefits decreased $4.2 million or 2% in 2015 compared to 2014, predominantly the result of a decrease in benefit and contract reserves. Several factors contributed to the change in reserves. Changes in the fair value of the GMWB rider resulted in a $5.3 million decrease in benefit and contract reserves. Approximately $1.5 million of this favorable change was due to the movement of variable annuity investments associated with the GMWB rider into funds managed with the objective of lower volatility. Also contributing to the reserve change was a decrease in immediate annuity premiums. Policyholder reserves for immediate annuity premiums are established on an approximately equal and offsetting basis, and a decrease in premiums results in a decrease to the change in reserves on a comparative basis. In addition, the decline in policyholder benefits reflected decreased group benefit payments, largely from the dental line. Partially offsetting these decreases, death benefits, net of reinsurance, increased in 2015 compared to 2014.

At December 31, 2015, the fair value of the GMWB liability decreased $1.7 million compared to the fair value at December 31, 2014. This fluctuation can be primarily attributed to decreases in risk-free swap rates, lower capital market returns, and the movement of variable annuity investments into funds managed with the objective of lower volatility.

Interest Credited to Policyholder Account Balances

Interest credited to policyholder account balances decreased $2.1 million or 3% in 2015. This decline was due to lower average crediting rates as well as a decrease in policyholder account balances compared to one year earlier.

Total policyholder account balances decreased $15.9 million or 1% during 2015. The average interest rate credited to policyholder account balances was 3.60% in 2015 compared to 3.67% in 2014 and 3.75% in 2013. Investment yields on the assets matched to these liabilities were 4.86% in 2015 compared to 5.03% in 2014 and 5.24% in 2013.

Amortization of DAC

The amortization of DAC decreased $12.5 million or 31% in 2015 compared to the prior year. This decline was largely due to an unlocking adjustment that decreased DAC amortization $6.4 million in 2015, compared to an unlocking adjustment that increased DAC amortization $1.7 million in 2014. The unlocking in 2015 was associated with favorable adjustments for mortality and expenses, partially offset by adjustments related to interest rates. In addition, changes in expense assumptions on new business contributed to the declines in 2015.

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 the Company's operations, the amortization of VOBA, and other expenses. In total, operating expenses decreased $4.5 million or 4% in 2015. This decrease was primarily due to lower salary and benefit costs, lower commissions, and higher capitalized commissions. Partially offsetting these were increases in VOBA amortization and legal costs.

The amortization of VOBA will generally decline over time, as policies run off. In addition, VOBA is evaluated on an ongoing basis for unlocking adjustments. If necessary, adjustments are made to the current period VOBA amortization. The amortization of VOBA increased $1.2 million or 44% in 2015, principally due to an unlocking adjustment that increased VOBA amortization $0.9 million in 2015 compared to an unlocking adjustment that decreased VOBA amortization $1.5 million in 2014.

Income Taxes

The Company recorded income tax expense of $13.0 million or 31% of income before tax in 2015, compared to income tax expense of $13.0 million or 30% of income before tax in 2014. The increase in the effective tax rate in 2015 versus 2014 was primarily due to an increase in expense from prior year taxes.

Analysis of Investments

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

The following table provides asset class detail of the investment portfolio at December 31. Fixed maturity and equity securities represented 75% and 77% of the entire investment portfolio at December 31, 2015 and 2014, respectively.

	2015	% of Total	2014	% of Total
Fixed maturity securities	$ 2,580,845	74%	$ 2,726,731	76%
Equity securities	25,325	1%	24,881	1%
Mortgage loans	589,960	17%	541,180	15%
Real estate	168,097	5%	181,082	5%
Policy loans	81,392	2%	83,553	2%
Short-term investments	22,474	1%	39,107	1%
Other investments	380	—	462	—
Total	$ 3,468,473	100%	$ 3,596,996	100%

Fixed maturity securities comprised 74% of the Company's total investments at December 31, 2015. The largest categories of total fixed maturity securities at December 31, 2015 consisted of 78% in corporate securities and 6% in municipal securities and U.S. Treasury securities and obligations of the U.S. Government. Fixed maturity securities had unrealized gains of $126.7 million and unrealized losses of $32.2 million at December 31, 2015.

The Company uses actual or equivalent Standard & Poor's ratings to determine the investment grading of fixed maturity securities available for sale. The Company had 95% of its fixed maturity securities available for sale above investment grade at December 31, 2015 and December 31, 2014.

The fair value of fixed maturity securities with unrealized losses was $567.2 million at December 31, 2015, compared with $285.8 million one year earlier. This increase primarily reflected a rise in market interest rates during 2015. Ninety-four percent of security investments with an unrealized loss were investment grade and accounted for 88% of the total unrealized losses at December 31, 2015. One year earlier, 94% of securities with an unrealized loss were investment grade and accounted for 82% of the total unrealized losses. At December 31, 2015, the Company had gross unrealized losses on fixed maturity and equity securities of $32.8 million that were offset by $128.6 million in gross unrealized gains. At December 31, 2014, the Company had $11.8 million in gross unrealized losses on fixed maturity and equity securities, offset by $186.4 million in gross unrealized gains. At December 31, 2015, 78% of the fixed maturity and equity securities portfolio had unrealized gains, a decrease from 89% at December 31, 2014. The Company had an increase in gross unrealized losses in most categories from year-end 2014 to year-end 2015 due to changes in interest rates and market spreads during 2015. Gross unrealized losses on fixed maturity and equity securities for less than 12 months accounted for $23.2 million or 71% of the security values in a gross unrealized loss position at December 31, 2015. Gross unrealized losses on fixed maturity and equity security investments of 12 months or longer increased from $8.9 million at December 31, 2014 to $9.6 million at December 31, 2015.

The Company’s residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities that were rated below investment grade were 41% and 40% of the total at December 31, 2015 and 2014, respectively.

The Company has written down certain investments in previous periods. Fixed maturity securities written down and continuing to be owned at December 31, 2015 had a fair value of $80.7 million with a net unrealized gain of $4.6 million, which compares to the December 31, 2014 fair value of $105.3 million and a net unrealized gain of $4.8 million. The identification of additional information or further deteriorations could result in additional impairments in future periods.

The Company evaluated the current status of all investments previously written down to determine whether the Company continues to believe that these investments were still credit-impaired to the extent previously recorded. The Company’s evaluation process is similar to its impairment evaluation process. If evidence exists that the Company believes that it will receive its contractual cash flows from securities previously written down, the accretion of income is adjusted. The Company did not change its evaluation of any investments under this process during 2015 or 2014.

The Company’s investment portfolio also includes mortgage loans, real estate, policy loans, and short-term investments. Mortgage loans comprised 17% and 15% of total invested assets at December 31, 2015 and 2014, respectively. Real estate investments were 5% of total invested assets at both December 31, 2015 and December 31, 2014. Policy loans and short-term investments comprised 3% of total invested assets at both December 31, 2015 and December 31, 2014.

Investments in mortgage loans totaled $590.0 million at December 31, 2015 ($541.2 million - December 31, 2014). The commercial mortgage loan portfolio increased $48.8 million during 2015, primarily due to the volume of new loans exceeding the amount of prepaid loans. The Company had a $2.5 million decrease in income from prepayment fees in 2015 relative to 2014. The decrease in prepayment fees during 2015 was primarily due to one large loan prepayment in the fourth quarter of 2014. The dollar volume of prepaid loans also decreased in 2015. The Company's mortgage loans are mostly secured by commercial real estate and are stated at the outstanding principal balance, adjusted for amortization of premium and accrual of discount, less an allowance for loan losses. This allowance is maintained at a level believed by management to be adequate to absorb estimated credit losses and was $2.7 million at December 31, 2015 and $1.9 million at December 31, 2014. This increase was primarily the result of the Company's increased macro-environmental risk assessment, as well as an increase in the size of the portfolio. The Company evaluates the macro-environmental risk on an ongoing basis, using multiple considerations. The Company believes its assessment of the perceived market liquidity and current industry conditions warranted the increase in the reserve. For additional information on the Company's mortgage loan portfolio, please see Note 3.

Investments in real estate totaled $168.1 million at December 31, 2015 and $181.1 million at December 31, 2014. In the third quarter of 2015, the Company sold a developed property that resulted in a realized gain of $4.2 million before applicable income taxes.

Liquidity and Capital Resources

Liquidity

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

The Company performs cash flow testing and adds various levels of stress testing to potential surrender and policy loan levels in order to assess current and near-term cash and liquidity needs. In the event of increased surrenders and other cash needs, the Company has several sources of cash flow available to meet its needs.

Net cash provided by operating activities was $15.7 million for the year ended December 31, 2015. The primary sources of cash from operating activities in 2015 were premium receipts and net investment income. The primary uses of cash from operating activities in 2015 were for the payment of policyholder benefits and operating expenses. Net cash provided by investing activities was $43.1 million. The primary sources of cash were sales, maturities, calls, and principal paydowns of investments totaling $421.3 million. Offsetting these, the Company's new investments totaled $394.2 million. Net cash used for financing activities was $61.9 million, primarily including $5.0 million of withdrawals, net of deposits, from interest sensitive policyholder account balances, treasury stock purchases of $58.4 million, and the payment of $11.5 million in stockholder dividends.

Capital Resources

The Company considers existing capital resources to be adequate to support the current level of business activities.

The following table shows the capital adequacy for the Company at December 31.

	2015	2014
Total assets, excluding separate accounts	$ 4,048,949	$ 4,165,366
Total stockholders' equity	663,831	742,759
Ratio of stockholders' equity to assets, excluding separate accounts	16%	18%

The ratio of equity to assets less separate accounts was 16% at December 31, 2015, down from 18% at December 31, 2014. Stockholders' equity decreased $78.9 million from year-end 2014. The largest factor in this decrease was a $58.4 million increase in treasury stock, which largely resulted from the reverse/forward stock split transaction that occurred during the fourth quarter of 2015. In addition, the decline in stockholders' equity reflected a decrease in net unrealized gains compared to the prior year. Partially offsetting these, retained earnings increased due to net income in excess of dividends paid to stockholders. Stockholders' equity per share, or book value, equaled $68.55 at year-end 2015, a slight decline from $68.61 at year-end 2014.

Net unrealized gains on available for sale securities, which are included as part of accumulated other comprehensive income (loss) and as a component of stockholders' equity (net of securities losses, related taxes, policyholder account balances, future policy benefits, DAC, VOBA, and DRL), totaled $31.7 million at December 31, 2015. This represents a decrease of $45.3 million from the $77.0 million net unrealized investment gain position at December 31, 2014, reflecting an increase in market interest rates in 2015.

The Company's statutory equity exceeds the minimum capital deemed necessary to support its insurance business, as determined by the risk-based capital calculations and guidelines established by the National Association of Insurance Commissioners. The Company believes these statutory limitations impose no practical restrictions on its dividend payment plans. See further discussion in Note 20 - Statutory Information and Stockholder Dividends Restriction.

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

The stock repurchase program was extended by the Board of Directors through January 2017 to permit the purchase of up to one million of the Company's shares on the open market. During 2015, the Company purchased 215,548 of its shares under the stock repurchase program for $9.8 million (2014 – 142,738 shares for $6.6 million).

On January 25, 2016, the Board of Directors declared a quarterly dividend of $0.27 per share that was paid February 10, 2016 to stockholders of record at February 4, 2016.

Minimum Rate Guarantees

The Company's rate guarantees for those products with minimum crediting rate provisions are identified in the table below. The guaranteed minimum crediting rate has been reduced over time on new products being sold, consistent with the declining interest rate environment. The actual interest rate credited to these products may be greater than the guaranteed rates, particularly for products having been sold more recently and within the lower guaranteed rate categories. Approximately 83% and 85% of total policyholder account balances were at the minimum guaranteed rate as of December 31, 2015 and December 31, 2014, respectively.

	December 31, 2015				
	Fixed Deferred Annuities	Universal Life	Variable Life and Annuities	Supplemental Contracts and Annuities NILC	Total
0% to 1%	$ 172,230	$ 8,555	$ 2,794	$ 8,175	$ 191,754
Greater than 1% to 3%	345,466	200,698	94,467	25,177	665,808
Greater than 3% to 4%	424,524	314,613	7,960	14,330	761,427
Greater than 4%	54,933	375,751	—	6,453	437,137
Total	$ 997,153	$ 899,617	$ 105,221	$ 54,135	$ 2,056,126

	December 31, 2014				
	Fixed Deferred Annuities	Universal Life	Variable Life and Annuities	Supplemental Contracts and Annuities NILC	Total
0% to 1%	$ 143,588	$ 333	$ 2,157	$ 6,456	$ 152,534
Greater than 1% to 3%	367,843	189,596	92,272	23,963	673,674
Greater than 3% to 4%	433,225	290,247	7,196	17,266	747,934
Greater than 4%	61,865	428,770	—	7,264	497,899
Total	$ 1,006,521	$ 908,946	$ 101,625	$ 54,949	$ 2,072,041

Fixed Deferred Annuity Contracts

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

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

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

	2015	% of Total	2014	% of Total
One year or less	$ 124,393	13%	$ 130,501	13%
Two years	53,209	5%	50,593	5%
Three years	40,981	4%	33,028	3%
Four years	45,676	5%	43,426	4%
Five years	62,643	6%	47,796	5%
Six years or more	670,251	67%	701,177	70%
Total	$ 997,153	100%	$ 1,006,521	100%

Fixed deferred annuity contracts typically also contain provisions for charges to be paid by contract holders if the contract is surrendered within a fixed period of time after purchase. The surrender charge typically declines on an annual basis during an initial term of typically ten or fewer years. The magnitude of any surrender charge applicable to a contract is believed to impact policyholder behavior and the timing of future cash flows. The following table provides the policy values for fixed deferred annuities by summary ranges of applicable surrender charges as of December 31, 2015 and 2014.

	2015	% of Total	2014	% of Total
None	$ 646,440	65%	$ 647,457	64%
Less than 5%	149,646	15%	130,098	13%
5% and greater	201,067	20%	228,966	23%
Total	$ 997,153	100%	$ 1,006,521	100%

Asset/Liability Management

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

The Company believes its asset/liability management programs and procedures, along with certain product features, provide protection for the Company against the effects of changes in interest rates under various scenarios.

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

The Company aggregates similar policyholder liabilities into portfolios and then matches specific investments with these liability portfolios. In 2015 and 2014, all of the Company's portfolios had investment yields that exceeded the crediting rates on the matched liabilities. The Company monitors the risk to portfolio investment margins on an ongoing basis.

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

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

Risk Factors

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

Strategic and Operational Risks:

The Company operates in a mature, highly competitive industry, which could limit its ability to grow sales or maintain its position in the industry and negatively affect profitability.

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

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

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

The Company may be unable to attract and retain agencies and agents.

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

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

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

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

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

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

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

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

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

Investment Risks:

The Company's investments are subject to market and credit risks.

The Company holds a diversified portfolio of investments that primarily includes fixed maturity securities, preferred stocks, residential mortgage-backed securities, commercial mortgages, real estate, and alternative investments. Each of these investments is subject, in varying degree, to market risks that can affect their return and their fair value.

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

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

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

Interest rate fluctuations could negatively affect the Company's spread income or otherwise impact its business.

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

Some of the Company's products, principally fixed annuities, interest-sensitive whole life, universal life, and the fixed portion of variable universal life insurance and variable annuity business have interest rate guarantees that expose the Company to the risk that changes in interest rates will reduce the spread, or the difference between the amounts the Company is required to credit to policyholder contracts and the amounts earned by the Company on general account investments. The Company is entitled to reset the interest rates it credits on fixed-rate annuities. Because many of the Company's policies have guaranteed minimum interest or crediting rates, spreads could decrease and potentially become negative. Declines in spread or instances where the returns on the general account investments are not sufficient to support the interest rate guarantees on these products could have a material adverse effect on the results of operations. In periods of increasing interest rates, the Company may not be able to replace the assets in the general account with higher yielding assets needed to fund the higher crediting rates that may be necessary to keep interest sensitive products competitive. The Company, therefore, may have to accept a lower spread and profitability or face a decline in sales, loss of existing contracts from non-renewed maturities, early withdrawals, or surrenders. In periods of declining interest rates, the Company may have to reinvest the cash received from interest or return of principal on investments in lower yielding instruments then available. Moreover, issuers of fixed-income investment securities and borrowers related to the Company's commercial mortgage investments may prepay these obligations in order to borrow at lower market rates, which may exacerbate the risk for the Company to have to reinvest at lower rates.

Increases in interest rates may cause increased surrenders and withdrawals of insurance products. In periods of increasing interest rates, policy loans and surrenders and withdrawals of life insurance policies and annuity contracts may increase, as policyholders seek to buy products with higher returns. These outflows may require investment assets to be sold at a time when the prices of those assets are lower because of the increase in market interest rates, which may result in realized investment losses. Further, higher interest rates may result in significant unrealized losses on investments. These net unrealized losses could have a negative effect on stockholders' equity. This could negatively impact the ability to pay policyholder and stockholder dividends. In addition, higher interest rates may reduce the fair value of policyholders' separate account investments, which may reduce the Company's revenues from asset-based management fees.

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

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

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

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

The change from a period of low interest rates to a period of significantly higher and increasing interest rates may cause policyholders to surrender policies or to make early withdrawals in order to maximize their returns. Accordingly, the Company may become more susceptible to increased surrenders and withdrawals on policies, as surrender charges and other features that help protect the

Company from increased or unexpected policyholder withdrawals or lapses. Increases in policyholder surrenders, withdrawals, or lapses could negatively affect the Company's operating results and liquidity.

The Company's valuation of fixed maturity and equity securities may include methodologies, estimations, and assumptions and could result in changes to investment valuations that may have a material adverse effect on the results of operations or financial condition.

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

Equity market volatility could negatively impact the Company's profitability.

The Company is exposed to equity market volatility in the following ways:

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

The determination of the amount of realized and unrealized impairments and allowances established on the Company's investments is highly subjective and could materially impact results of operations or financial position.

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

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

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

Many of the products offered by the Company allow policy and contract holders to withdraw their funds under defined circumstances. The Company manages liabilities and attempts to align the investment portfolio so as to provide and maintain sufficient liquidity to support anticipated withdrawal demands, contract benefits, and maturities. While the Company owns a significant amount of liquid assets, a certain portion of investment assets are relatively illiquid. If the Company experiences unanticipated withdrawal or surrender activity, the Company could exhaust all other sources of liquidity and be forced to liquidate assets, perhaps on unfavorable terms. If the Company is forced to dispose of assets on unfavorable terms, it could have an adverse effect on the Company's results of operations and financial condition.

Regulatory Risks:

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

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

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

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

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

New accounting rules or changes to existing accounting rules could negatively impact the financial results of the Company.

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

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

Catastrophic Event Risk:

The Company is exposed to the risks of climate change, natural disasters, pandemics, terrorism, or other acts that could adversely affect the Company's operations.

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

Information Technology Risk:

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

As part of the normal course of business, the Company uses computer systems to collect, process, and retain sensitive and confidential corporate and customer information. In addition, the Company uses third-party vendors and cloud technology on a limited basis for storage, processing, and data support of certain activities. The Company relies on commercial technologies and third parties to maintain the security of that information. The Company's information systems are subject to computer viruses, malicious software code, or other unauthorized computer-related actions. The Company is not aware of any material breach of cybersecurity, administrative, or technical controls having occurred. However, preventive actions taken by the Company to reduce the risk of cyber-incidents and protect the Company's information may be insufficient to prevent cyber-attacks or other security breaches. Any security breach involving the misappropriation, loss, or other unauthorized disclosure of confidential information by the Company could severely damage its reputation, expose it to an increase in the risk of litigation, disrupt its operations, cause incurrence of significant technical, legal, and operating expenses, or otherwise harm its business.

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

While the Company has limited social media content, it recognizes that social media outlets are independent of the Company and its security measures. Inaccurate presentations based upon incorrect information or assumptions could be distributed via social media outlets and could harm the Company and its reputation.

Reinsurance Risks:

The Company's reinsurers could fail to meet assumed obligations or be subject to adverse developments that could affect the Company.

The Company follows the insurance practice of reinsuring a portion of the risks under the policies written by the Company, known as ceding. The Company cedes significant amounts of insurance to other insurance companies through reinsurance. This reinsurance makes the assuming reinsurer liable to the Company for the reinsured portion of the risk. However, reinsurance does not discharge the Company from its primary obligation to pay policyholders for losses insured under the policies that are issued. Therefore, the Company is subject to the credit risk of reinsurers and the failure of one or more of the Company's reinsurers could negatively impact the Company's earnings and financial position.

The Company's ability to compete is dependent on the availability of reinsurance, cost of reinsurance, or other substitute capital market solutions.

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

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