



# **KANSAS CITY LIFE**

## **KANSAS CITY LIFE INSURANCE COMPANY**

A Missouri Corporation

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SIC Code: 6311

### **ANNUAL REPORT**

For the Period Ending December 31, 2023  
(the "Reporting Period")

The number of shares outstanding of our Common Stock was 9,683,414 as of December 31, 2023 (the end of reporting period)

The number of shares outstanding of our Common Stock was 9,683,414 as of September 30, 2023 (the end of previous reporting period)

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes:  No:

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes:  No:

Indicate by check mark whether a Change in Control of the company has occurred over this reporting period:

Yes:  No:

**KANSAS CITY LIFE INSURANCE COMPANY**  
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## **Financial Information**

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

### **Kansas City Life Insurance Company Consolidated Balance Sheets**

	December 31,	
	2023	2022
<b>ASSETS</b>		
Investments:		
Fixed maturity securities available for sale, at fair value (amortized cost: 2023 - \$2,535,401; 2022 - \$2,475,443)	\$ 2,352,043	\$ 2,204,819
Equity securities, at fair value (cost: 2023 - \$1,076; 2022 - \$1,699)	845	1,918
Mortgage loans (net of allowance for credit losses: 2023 - \$1,581; 2022 - \$2,753)	592,328	591,928
Real estate	98,042	141,649
Policy loans	84,025	82,739
Short-term investments	91,569	58,497
Other investments	27,488	18,749
Total investments	<u>3,246,340</u>	<u>3,100,299</u>
Cash	9,695	7,768
Accrued investment income	29,815	27,516
Deferred acquisition costs	308,737	327,544
Reinsurance recoverables (net of allowance for credit losses: 2023 - \$1,353; 2022 - \$0)	409,213	402,323
Deposit asset on reinsurance	419,448	484,410
Other assets	233,968	233,708
Separate account assets	395,946	381,581
Total assets	<u>\$ 5,053,162</u>	<u>\$ 4,965,149</u>
<b>LIABILITIES</b>		
Future policy benefits	\$ 1,415,755	\$ 1,388,924
Policyholder account balances	2,199,730	2,280,917
Policy and contract claims	59,295	56,975
Other policyholder funds	191,820	204,788
Other liabilities	181,259	160,271
Separate account liabilities	395,946	381,581
Total liabilities	<u>4,443,805</u>	<u>4,473,456</u>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, par value \$1.25 per share		
Authorized 36,000,000 shares, issued 18,496,680 shares	23,121	23,121
Additional paid in capital	41,025	41,025
Retained earnings	959,373	910,438
Accumulated other comprehensive loss	(172,861)	(241,590)
Treasury stock, at cost (2023 and 2022 - 8,813,266 shares)	(241,301)	(241,301)
Total stockholders' equity	<u>609,357</u>	<u>491,693</u>
Total liabilities and stockholders' equity	<u>\$ 5,053,162</u>	<u>\$ 4,965,149</u>

*See accompanying Notes to Consolidated Financial Statements*

**Kansas City Life Insurance Company**  
**Consolidated Statements of Comprehensive Income**

	Year Ended December 31,		
	2023	2022	2021
<b>REVENUES</b>			
Insurance revenues:			
Net premiums	\$ 211,166	\$ 208,608	\$ 208,864
Contract charges	122,587	124,044	121,803
Total insurance revenues	333,753	332,652	330,667
Investment revenues:			
Net investment income	157,641	153,879	142,468
Net investment gains (losses)	62,053	(16,643)	25,417
Total investment revenues	219,694	137,236	167,885
Other revenues	5,473	6,754	12,760
Total revenues	558,920	476,642	511,312
 <b>BENEFITS AND EXPENSES</b>			
Policyholder benefits	265,788	258,399	280,886
Interest credited to policyholder account balances	74,311	72,974	79,725
Amortization of deferred acquisition costs	34,359	40,593	33,217
Operating expenses	115,152	125,433	104,564
Total benefits and expenses	489,610	497,399	498,392
Income (loss) before income tax expense (benefit)	69,310	(20,757)	12,920
Income tax expense (benefit)	14,390	(4,539)	2,216
<b>NET INCOME (LOSS)</b>	\$ 54,920	\$ (16,218)	\$ 10,704
 <b>COMPREHENSIVE INCOME (LOSS), NET OF TAXES</b>			
Changes in:			
Net unrealized gains (losses) on securities available for sale	\$ 68,940	\$ (366,516)	\$ (100,859)
Effect on deferred acquisition costs, value of business acquired, and deferred revenue liabilities	(6,055)	31,334	7,946
Policyholder liabilities	—	26,765	9,247
Benefit plan obligations	5,844	(7,424)	5,115
Other comprehensive income (loss)	68,729	(315,841)	(78,551)
<b>COMPREHENSIVE INCOME (LOSS)</b>	\$ 123,649	\$ (332,059)	\$ (67,847)
 Basic and diluted earnings per share:			
Net income (loss)	\$ 5.67	\$ (1.67)	\$ 1.11

*See accompanying Notes to Consolidated Financial Statements*

**Kansas City Life Insurance Company**  
**Consolidated Statements of Stockholders' Equity**

	Year Ended December 31,		
	2023	2022	2021
<b>COMMON STOCK</b> , beginning and end of year	\$ 23,121	\$ 23,121	\$ 23,121
<b>ADDITIONAL PAID IN CAPITAL</b> , beginning and end of year	41,025	41,025	41,025
<b>RETAINED EARNINGS</b>			
Beginning of year	910,438	933,338	933,092
Net income (loss)	54,920	(16,218)	10,704
Stockholder dividends (2023 - \$0.56 per share; 2022 - \$0.69 per share; 2021 - \$1.08 per share)	(5,422)	(6,682)	(10,458)
Cumulative effect of adoption of new accounting principle	(563)	—	—
End of year	959,373	910,438	933,338
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Beginning of year	(241,590)	74,251	152,802
Other comprehensive income (loss)	68,729	(315,841)	(78,551)
End of year	(172,861)	(241,590)	74,251
<b>TREASURY STOCK</b> , at cost, beginning and end of year	(241,301)	(241,301)	(241,301)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	\$ 609,357	\$ 491,693	\$ 830,434

*See accompanying Notes to Consolidated Financial Statements*

**Kansas City Life Insurance Company**  
**Consolidated Statements of Cash Flows**

	Year Ended December 31,		
	2023	2022	2021
<b>OPERATING ACTIVITIES</b>			
Net income (loss)	\$ 54,920	\$ (16,218)	\$ 10,704
Adjustments to reconcile net income (loss) to net cash used from operating activities:			
Amortization of investment premium and discount	1,954	2,837	1,669
Depreciation and amortization	5,255	6,592	7,967
Acquisition costs capitalized	(23,616)	(26,612)	(38,239)
Amortization of deferred acquisition costs	34,359	40,593	33,217
Net investment losses (gains)	(62,053)	16,643	(25,417)
Gain on sale of subsidiary	—	—	(5,500)
Changes in assets and liabilities:			
Reinsurance recoverables	(8,512)	(2,372)	(8,513)
Future policy benefits	26,831	24,861	24,761
Policyholder account balances	(91,089)	(92,909)	(42,995)
Income taxes payable and deferred	4,722	(7,304)	(4,983)
Other, net	6,692	(442)	1,010
Net cash used	(50,537)	(54,331)	(46,319)
<b>INVESTING ACTIVITIES</b>			
Purchases:			
Fixed maturity securities	(335,463)	(441,308)	(434,696)
Equity securities	—	(8)	(259)
Mortgage loans	(23,539)	(69,974)	(103,942)
Real estate	(2,454)	(2,733)	(36,994)
Policy loans	(3,531)	(7,116)	(8,754)
Other investments	(10,861)	(14,553)	(5,828)
Property and equipment	(916)	(535)	(628)
Sales or maturities, calls, and principal paydowns:			
Fixed maturity securities	265,130	343,993	308,361
Equity securities	—	2,000	3,000
Mortgage loans	62,799	74,111	109,546
Real estate	68,739	843	72,439
Policy loans	2,246	6,437	11,141
Other investments	8,299	3,639	8,599
Property and equipment	20	25	71
Net sales (purchases) of short-term investments	(33,071)	16,004	41,616
Proceeds from sale of subsidiary	—	—	28,468
Net cash used	(2,602)	(89,175)	(7,860)

**Kansas City Life Insurance Company**  
**Consolidated Statements of Cash Flows**

	Year Ended December 31,		
	2023	2022	2021
<b>FINANCING ACTIVITIES</b>			
Policyholder account balances - deposits	\$ 195,571	\$ 207,231	\$ 215,598
Policyholder account balances - receipts from funding agreement	—	70,000	30,000
Withdrawals from policyholder account balances	(203,536)	(172,117)	(192,709)
Change in deposit asset on reinsurance, net	81,524	45,799	—
Net transfers from separate accounts	2,678	7,841	7,320
Change in other deposits	(15,749)	(6,217)	2,644
Cash dividends to stockholders	(5,422)	(6,682)	(10,458)
Net cash provided	55,066	145,855	52,395
Increase (decrease) in cash	1,927	2,349	(1,784)
Cash at beginning of year	7,768	5,419	7,203
Cash at end of year	\$ 9,695	\$ 7,768	\$ 5,419

**Non-Cash Activity**

In 2023, we had a non-cash investing transaction that consisted of a transfer of \$4.7 million of land from real estate to real estate joint ventures. We also had a non-cash investing transaction that consisted of a sale of real estate in exchange, in part, for a commercial mortgage loan of \$38.5 million.

In 2022, we had a non-cash investing transaction that consisted of the receipt of a \$0.6 million equity security and a \$1.0 million fixed maturity security in exchange for a \$1.6 million fixed maturity security as a result of the Chapter 11 Bankruptcy of the issuer of one of our fixed maturity securities. The new equity and fixed maturity securities were recorded at fair value, which equaled the fair value of the fixed maturity security that was extinguished.

In 2022, we entered into a reinsurance arrangement in the form of a deposit-type contract that resulted in the non-cash transfer of \$493.9 million of fixed maturity securities and \$516.2 million of policyholder account balance liabilities to a certified domestic reinsurer. See the Business Changes section of Note 1 - Nature of Operations and Significant Accounting Policies for further information.

In 2022, we accrued \$28.4 million in Other Liabilities in the Consolidated Balance Sheets related to a class action lawsuit. See Note 20 - Commitments, Contingent Liabilities, Guarantees, and Indemnifications for further information.

*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. The consolidated entity (the Company) offers a diversified portfolio of individual insurance, annuity, and group life and health products through its life insurance companies. Kansas City Life Insurance Company (Kansas City Life) is the parent company. Old American Insurance Company (Old American) and Grange Life Insurance Company (Grange Life) are wholly-owned insurance subsidiaries of Kansas City Life. Ibis Life & Annuity Insurance Company (formerly Sunset Life Insurance Company of America ) was an insurance subsidiary that was wholly-owned by the Company until it was sold on November 1, 2021 - see Business Changes section below. The Company also has non-insurance subsidiaries that individually and collectively are not material. The terms "the Company," "we," "us," and "our" are used in these consolidated financial statements to refer to Kansas City Life and its subsidiaries.

We have three reportable business segments, which are defined based on the nature of the products and services offered: Individual Insurance, Group Insurance, and Old American. For additional information on our segments, please see Note 17 - Segment Information.

#### **Basis of Presentation**

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

#### **Current Economic Environment**

Despite the waning influence of the pandemic, its echoes persist in the current economic landscape. The labor market remains notably tight, supply chains struggle to fully recover, and a persistent work-from-home culture has led to underutilized office spaces. Furthermore, ongoing international conflicts contribute to additional supply chain disruptions, affecting commodity prices and the cost of shipping goods.

In 2022, inflation surged, subsequently easing over the past 15 months but persisting above the Federal Reserve's 2% target. The spike, driven by supply chain disruptions and labor shortages, saw year-over-year CPI (consumer price index) and Core PCE (personal consumption expenditures) peaking in 2022 at 9.1% and 5.4%, respectively. In response, Global Central Banks increased rates and initiated quantitative tightening, with the Federal Reserve raising its benchmark overnight rate by 525 basis points (bps) from March 15, 2022 through December 31, 2023. The bond market responded with the 10-year Treasury yield increasing 237 bps from 1.51% at December 31, 2021 to 3.88% at December 31, 2023. The jump in rates has tightened credit markets, moderated growth, and increased the risk of a recession. The investment environment has been both positively and negatively impacted. While it has created a better environment for reinvestment into fixed income assets at higher yields, it has also resulted in a significant decline in the market value of existing fixed income assets. Additionally, if the economy experiences a "hard landing" and enters a recession, risk of asset impairments, defaults, and delinquencies will increase.

#### **Business Changes**

There were no significant business changes during 2023.

On May 25, 2022, retroactive to April 1, 2022, we entered into a reinsurance arrangement whereby we reinsured a sizeable block of fixed annuity contracts to a certified domestic reinsurer. This closed block of contracts reflected business issued prior to 2015 and consisted entirely of higher guaranteed interest rate products. We have accounted for this transaction as a deposit-type contract. For additional information on this reinsurance arrangement, please see Note 14 - Reinsurance.

In 2021, we sold 100% of the capital and surplus of Ibis Life & Annuity Insurance Company to Bona Holdings, LLC for \$29.5 million, resulting in a net gain of approximately \$5.5 million. In addition, we received \$1.0 million for providing certain transition support services associated with this transaction.

#### **Use of Estimates**

The preparation of the consolidated financial statements requires the Company's management 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



## **Kansas City Life Insurance Company**

### **Notes to Consolidated Financial Statements**

estimates are inherently subject to change and actual results could differ from these estimates. Significant estimates required in the preparation of the consolidated financial statements include the fair value of invested assets, deferred acquisition costs (DAC), deferred income taxes, goodwill and other intangibles, value of business acquired (VOBA), deferred revenue liability (DRL), policyholder account balances, future policy benefits, policy and contract claim liabilities, reinsurance, and pension and other postemployment benefits.

#### **Significant Accounting Policies**

##### ***Investments***

###### *Valuation of Investments*

Our principal investments are in fixed maturity securities, mortgage loans, and real estate; all of which are exposed to at least four primary sources of investment risk, including: credit, interest rate, liquidity, and inflation.

###### *Fixed Maturity Securities*

Fixed maturity securities, which are all classified as available for sale, are carried at fair value in the Consolidated Balance Sheets, with unrealized gains or losses recorded in Accumulated Other Comprehensive Income (Loss). The unrealized gains or losses are recorded net of the adjustment to policyholder liabilities, 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 liabilities 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 different from the then-current effective portfolio rate.

The Company evaluates securities for credit loss when fair value is less than amortized cost, interest payments are missed, or the security is experiencing credit issues. The assessment of whether credit losses have occurred is based on management's case-by-case evaluation of the underlying reasons for the decline in estimated fair value as described in Note 3 - Investments.

The Company adopted Accounting Standards Update (ASU) No. 2016-13 Measurement of Credit Losses on Financial Instruments effective January 1, 2023. After adoption of this guidance, a credit loss is recognized in Net Investment Gains (Losses) in the Consolidated Statements of Comprehensive Income for securities in an unrealized loss position when it is anticipated that the amortized cost, excluding accrued investment income, will not be recovered. When either the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security before recovery, the reduction of amortized cost and the loss recognized in earnings is the difference between the security's amortized cost and estimated fair value. If neither of these conditions exists, the difference between the amortized cost of the security and the present value of projected future cash flows expected to be collected is recognized in earnings as a credit loss by establishing an allowance for credit losses with a corresponding charge recorded in net investment gains (losses). However, the allowance for credit losses is limited by the amount that the fair value is less than the amortized cost. If the estimated fair value is less than the present value of projected future cash flows expected to be collected, this portion of the decline in value related to other-than-credit factors is recorded in Other Comprehensive Income (Loss) as an unrealized loss. This guidance also allows for subsequent improvements to occur. Accordingly, the recorded value of the security may be increased and the allowance for credit losses may be reduced as improvements occur and realized losses decline.

During the year ended December 31, 2022, prior to the adoption of ASU No. 2016-13 on January 1, 2023, the Company applied other-than-temporary impairment loss guidance for securities in an unrealized loss position. An other-than-temporary impairment was recognized in investment revenues within net investment gains (losses) when it was anticipated that the amortized cost would not be recovered. When either the Company had the intent to sell the security, or it was more likely than not that the Company would be required to sell the security before recovery, the reduction of amortized cost and the other-than-temporary impairment loss recognized in earnings was the difference between the security's amortized cost and estimated fair value. If neither of these conditions existed, the difference between the amortized cost of the security and the present value of projected future cash flows expected to be collected was recognized as a reduction of amortized cost and an other-than-temporary impairment loss in earnings. If the estimated fair value was less than the present value of projected future cash flows expected to be collected, this portion of other-than-temporary impairment loss related to noncredit loss was recorded in Other Comprehensive Income (Loss) as an unrecognized loss.

###### *Equity Securities*

Equity securities are carried at fair value. Changes in the fair value of equity securities are recognized through net investment gains (losses) in the Consolidated Statements of Comprehensive Income.

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

Mortgage Loans

Mortgage loans are stated at cost, adjusted for amortization of premium and accrual of discount, net of an allowance for credit losses. The allowance for credit losses for mortgage loans is maintained at a level believed by management to be adequate to absorb potential future incurred credit losses. Loans in foreclosure, loans considered to be impaired, and loans with amounts past due 90 days or more are placed on non-accrual status.

Upon adoption of ASU No. 2016-13, credit losses on mortgage loans are recognized in Net Investment Gains (Losses) in the Consolidated Statements of Comprehensive Income. For mortgage loan investments, we use the Weighted Average Remaining Maturity method, which utilizes an average annual charge-off rate applied to the mortgage loan's remaining maturity schedule. In determining the Company's expected credit loss, management applies significant judgment to estimate expected lifetime credit losses, including pooling mortgage loans that share similar risk characteristics and past events and current and forecasted economic conditions. The expected credit loss is calculated based on inputs unique to the individual loan portfolio. On an ongoing basis, mortgage loans with dissimilar risk characteristics are evaluated individually for credit loss, such as loans with significant declines in credit quality, collateral dependent mortgage loans (for example when the borrower is experiencing financial difficulty, including when foreclosure is reasonably possible or probable), and reasonably expected troubled debt restructurings. The expected credit loss for mortgage loans evaluated individually are established using specific cash flow assessments. For example, the expected credit loss for a collateral dependent loan is established as the excess of amortized cost over the estimated fair value of the loan's underlying collateral, less selling costs when foreclosure is probable.

Real Estate

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, land in the process of development, unimproved land for future development, and affordable housing real estate joint ventures. Real estate joint ventures are consolidated when required. The initial cost of the non-consolidated affordable housing real estate joint ventures is amortized in proportion to the tax credits and other tax benefits received and the net investment performance is recognized in the Consolidated Statements of Comprehensive Income as a component of Income Tax Expense. The investments in other non-consolidated real estate joint ventures are recorded using the equity method of accounting, in which the initial cost of the investment is adjusted for earnings and cash contributions or distributions.

Policy Loans

Policy loans are carried at their outstanding principal amount.

Short-Term Investments

Short-term investments include highly-liquid investments in institutional money market funds that are carried at net asset value (NAV).

Other Investments

Other investments include hedge positions classified as derivatives, alternative investment funds, equity holdings, and mineral rights.

The Company has hedge positions classified as derivatives that are included in Other Investments in the Consolidated Balance Sheets. These derivative assets are recorded at fair value and are established in relation to the Company's indexed universal life portfolio. The index credit portion of the reserves associated with the indexed universal life products are considered to be embedded derivatives and are accounted for at fair value and are included in Policyholder Account Balances in the Consolidated Balance Sheets. The value of the reserves will fluctuate depending on market conditions. However, this fluctuation is largely offset by a corresponding change in the realized gains or losses on these derivatives. Changes in market values can result in significant fluctuations to realized gains and losses in the Consolidated Statements of Comprehensive Income.

The Company includes investments in alternative investment funds in Other Investments in the Consolidated Balance Sheets. The Company does not have a controlling interest and is not the primary beneficiary for these investments, which are in the form of limited partnerships. As a result, the investments are accounted for using the equity method of accounting to determine the carrying value. Adjustments to the carrying value reflect the pro rata ownership percentage of the operating results, as indicated by the net asset value in the financial statements of the limited partnership, which are reported on a three-month lag. The proportionate share of limited partnership income is reported as a component of Net Investment Income in the Consolidated Statements of Comprehensive Income.

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

*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, with the exception of premiums on callable fixed maturity securities, which are amortized to the earliest call date.

*Realized Gains (Losses)*

We realize investment gains and losses from several sources, including sales and calls of investment securities, sales of real estate and joint ventures, the change in fair value of equity securities and other investments, and the change in the allowance for credit losses.

*Future Policy Benefits*

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

Liabilities for future policy benefits of traditional life insurance have been computed by a net level premium method based upon estimates at the time of issue or at the time of acquisition 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.

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 or at the time of acquisition.

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-reported (IBNR). 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.

	2023	2022
Life insurance	\$ 1,127,544	\$ 1,102,961
Immediate annuities and supplementary contracts with life contingencies	259,989	259,715
Accident and health insurance	28,222	26,248
Future policy benefits	\$ 1,415,755	\$ 1,388,924

*Policyholder Account Balances*

Policyholder account balances are deposit-type contracts, including universal life insurance and fixed 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.

The Company has collateralized advance funding agreements with the Federal Home Loan Bank of Des Moines (FHLB) for which the funds are used in an arbitrage program to enhance investment income. Total obligations outstanding under these agreements were \$100.0 million at both December 31, 2023 and December 31, 2022. These obligations are also reported as Policyholder Account Balances in the Consolidated Balance Sheets. Interest is credited based on variable rates set by the FHLB. For additional information, please see Note 10 - Debt.

Crediting rates for universal life insurance and fixed annuity products ranged from 1.00% to 5.50% in 2023, 2022, and 2021.

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

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

	<u>2023</u>	<u>2022</u>
Universal life insurance	\$ 1,077,002	\$ 1,081,982
Fixed annuities	965,610	1,041,914
Immediate annuities and supplementary contracts without life contingencies	56,026	56,407
Funding agreement	101,092	100,614
Policyholder account balances	<u>\$ 2,199,730</u>	<u>\$ 2,280,917</u>

***Deferred Acquisition Costs***

DAC, principally agent commissions and other selling and issue costs, which are related directly to the successful acquisition of new or renewal insurance contracts, are capitalized as incurred. At least annually, we review our DAC capitalization policy and the specific items which are capitalized under existing guidance. DAC is reviewed on an ongoing basis to evaluate whether the unamortized portion exceeds the expected recoverable amounts. If it is determined from emerging experience that the premium margins or expected gross profits are insufficient to amortize DAC, the asset will be adjusted downward with the adjustment recorded as an expense in the current period.

Policy acquisition costs associated with traditional life products are deferred and amortized over the premium paying period. Assumptions related to DAC on traditional life insurance products are typically determined at inception and remain unchanged with any future premium deficiency recorded first as a reduction of DAC.

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

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

The following table provides information about DAC at December 31.

	<u>2023</u>	<u>2022</u>
Balance at beginning of year	\$ 327,544	\$ 292,027
Capitalization of commissions and expenses	23,616	26,612
Gross amortization	(44,959)	(51,669)
Accrual of interest	10,600	11,076
Change in DAC due to the change in unrealized investment gains or (losses)	(8,064)	49,498
Balance at end of year	<u>\$ 308,737</u>	<u>\$ 327,544</u>

Effective January 1, 2022, Old American began reinsuring 50% of new business on selected products. Effective October 1, 2022, this agreement was modified to reinsure 75% of new business on selected products. In 2023, the Company capitalized \$9.3 million of ceding commission and amortized \$1.2 million associated with this reinsurance agreement, thereby reducing DAC capitalization and amortization. In 2022, the Company capitalized \$7.3 million of ceding commission and amortized \$0.6 million associated with this reinsurance agreement.

***Value of Business Acquired***

Under current guidance for business combinations, all assets and liabilities are reported at fair value at acquisition and an intangible asset or liability may result due to differences between fair value and consideration paid. However, prior to the adoption of Accounting Standards Codification (ASC) No. 805 Business Combinations, a portion of the purchase price was

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

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 life 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 unrealized gains and losses on fixed maturity securities available for sale, as described in the Investments section above.

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

The following table provides information about VOBA at December 31.

	2023	2022
Balance at beginning of year	\$ 18,460	\$ 7,174
Gross amortization	(2,127)	(2,403)
Accrual of interest	513	611
Change in VOBA due to the change in unrealized investment gains or (losses)	(3,125)	13,078
Balance at end of year	\$ 13,721	\$ 18,460

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

***Deferred Revenue Liabilities***

Deferred revenue liabilities represent the capitalization of revenues received from contracts as compensation for services to be provided by the Company in future periods. Deferred revenue liabilities are included in Other Policyholder Funds in the Consolidated Balance Sheets and totaled \$75.1 million at December 31, 2023 and \$72.6 million at December 31, 2022. Such loads and charges are reported as unearned revenue in the period received and are subsequently recognized as income over the policy benefit period, using the same assumptions and factors used to amortize DAC. Similar to DAC, these amounts are amortized in relation to estimated gross profits for interest sensitive and variable insurance products. However, unlike DAC, the amortization of the DRL results in the recognition of revenue rather than expense. The DRL is adjusted to reflect the impact of unrealized gains and losses on fixed maturity securities available for sale, as described in the Investments section above. The DRL can be impacted by unlocking and refinements in estimates, as discussed in the following section.

***Unlocking and Refinements in Estimates***

Models and assumptions used to develop expected gross profits for interest sensitive and variable insurance products are reviewed at least annually based upon management's current view of future events. Key factors analyzed include net interest income, net realized investments gains and losses, fees, surrender charges, expenses, and mortality gains and losses, net of reinsurance. Management's view primarily reflects Company experience but can also reflect emerging trends within the industry. Short-term deviations in experience affect the amortization of DAC, VOBA, and DRL in the period, but do not necessarily indicate that a change to the long-term assumptions of future experience is warranted. If it is determined that it is appropriate to change the assumptions related to future experience, then an unlocking adjustment is recognized for the block of business being evaluated. Certain assumptions, such as interest spreads and surrender rates, may be interrelated. As such, unlocking adjustments often reflect revisions to multiple assumptions. The DAC, VOBA, or DRL balance is immediately impacted by any assumption changes, with the change reflected through the Consolidated Statements of Comprehensive Income

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

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.

We also consider refinements in estimates due to improved capabilities resulting from administrative or actuarial system enhancements. We consider such enhancements to determine whether and to what extent they are associated with prior periods or simply improvements in the projection of future expected gross profits due to improved functionality. To the extent they represent such improvements, these items are applied to DAC, VOBA, and DRL in a manner similar to unlocking adjustments. No refinements in estimates occurred in 2023, 2022, or 2021.

The following tables summarize the effects of the unlocking of assumptions on interest sensitive products in the Consolidated Statements of Comprehensive Income for the years ended December 31. Positive numbers are increases to income and negative numbers are reductions to income.

		2023			
		DAC Amortization	VOBA Amortization	DRL Contract Charges	Net Impact to Pre-Tax Income
	Unlocking	\$ 179	\$ 276	\$ (436)	\$ 19
		2022			
		DAC Amortization	VOBA Amortization	DRL Contract Charges	Net Impact to Pre-Tax Income
	Unlocking	\$ (1,744)	\$ (26)	\$ 953	\$ (817)
		2021			
		DAC Amortization	VOBA Amortization	DRL Contract Charges	Net Impact to Pre-Tax Income
	Unlocking	\$ 380	\$ (822)	\$ 1,137	\$ 695

The adjustments in 2023 resulted from the true-up of reinsurance and interest assumptions as long-term outlooks and assumptions remained unchanged. The unlocking in 2022 and 2021 primarily resulted from interest rate fluctuations and the impact of management actions in the various interest rate environments. In addition, we recorded a \$0.2 million reserve increase in 2023, a \$1.4 million reserve decrease in 2022, and a \$0.7 million reserve decrease in 2021 related to the impacts of unlocking.

The impact to pre-tax income of all adjustments related to unlocking, including insurance revenues, amortization of DAC and VOBA, and policyholder benefits, was a \$0.1 million decrease in 2023, a \$0.6 million increase in 2022, and a \$1.4 million increase in 2021.

***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. The components of benefit cost are included in Operating Expenses in the Consolidated Statements of Comprehensive Income. See Note 12 - Pensions and Other Postemployment Benefits for further details.

***Goodwill and Intangible Asset***

We established goodwill from the acquisition of Grange Life in accordance with ASC No. 805 Business Combinations. The goodwill balance was \$42.3 million at both December 31, 2023 and December 31, 2022. Goodwill is included in Other Assets in the Consolidated Balance Sheets. Under GAAP, goodwill is assessed at least annually for impairment, rather than being amortized. As a result of our impairment assessment, we determined that goodwill was not impaired at December 31, 2023 or December 31, 2022.

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

The acquisition of Grange Life generated an amortizable intangible asset, which is the difference between the fair value and book value of the net reserve liabilities acquired. The intangible asset was valued at \$16.9 million at December 31, 2023 and \$17.7 million at December 31, 2022 and is included in Other Assets in the Consolidated Balance Sheets.

***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 the NAV of the underlying investment holdings as derived from closing prices on a national exchange or as provided by the issuer. Policyholder account deposits and withdrawals, investment income, and realized investment gains and losses are excluded from the amounts reported in the Consolidated Statements of Comprehensive Income. Revenues to the Company from separate accounts are derived from directly-issued policies and contracts, as well as reinsurance assumed business. These revenues consist principally of contract charges, which include maintenance charges, administrative fees, and mortality and expense charges. See Note 7 - Separate Accounts for further details.

We offer a GMWB rider that can be added to new or existing variable annuity contracts. The rider provides an enhanced withdrawal benefit that guarantees a stream of income payments to an owner or annuitant, regardless of the contract account value. The GMWB rider is included in Other Policyholder Funds in the Consolidated Balance Sheets. The rider is considered to be a financial derivative and, as such, is accounted for at fair value. The value of the rider will fluctuate depending on market conditions, but is principally impacted by stock market volatility, interest rates, and equity market returns. The change in value could have a material impact on earnings. See Note 4 - Fair Value Measurements and Note 7 - Separate Accounts for further details.

***Reinsurance***

Consistent with the general practice of the life insurance industry, we enter into traditional indemnity reinsurance agreements with other insurance companies to support sales of selected new products and the in force business. We cede reinsurance in force on all of the following bases: automatic and facultative; yearly renewable term (YRT) and coinsurance; and excess and quota share basis.

Future Policy Benefits are recorded gross of reinsurance in the Consolidated Balance Sheets. A reinsurance recoverable is established for reinsurance. 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.

The Company's reinsurance recoverables are financial assets that are subject to the credit loss requirements of ASU No. 2016-13. Our credit loss analysis includes historical loss information, historical credit rating data, and existing collateral arrangements to estimate expected credit losses over the life of the reinsurance recoverables. Upon adoption of this guidance, credit losses on reinsurance recoverables are recognized in Policyholder Benefits in the Consolidated Statements of Comprehensive Income.

We have three large reinsurance assumption arrangements. We acquired a block of traditional life and universal life products in 1997 through a 100% coinsurance and servicing arrangement. These assumed policies and contracts are accounted for in a manner similar to that used for direct business. We also acquired a block of variable universal life insurance policies and variable annuity contracts in 2013. We receive fees based upon both specific transactions and the fund value of the block of policies, as provided under modified coinsurance transactions. Also, as required under modified coinsurance transaction accounting, the separate account fund balances are not recorded as separate accounts on our financial statements. The coinsurance portion of the transaction, which is invested in our fixed funds, is included in Future Policy Benefits in the Consolidated Balance Sheets. We record these fixed fund accounts as a separate block under our general accounts. We receive fees on both the separate accounts and the fixed fund accounts. In addition, we completed a 100% assumption reinsurance transaction in 2020 with Ibexis Life & Annuity Insurance Company. Under GAAP guidance, this transaction was realized at the conclusion of the close of the sale of Ibexis Life & Annuity Insurance Company on November 1, 2021.

We reinsured a block of fixed annuity business to a certified domestic reinsurer, effective April 1, 2022. We determined that this arrangement does not expose the reinsurer to a significant loss from insurance risk. Therefore, we have recognized the reinsurance arrangement using the deposit-type method of accounting. The reserve credit transferred to the reinsurer is reported as Deposit Asset on Reinsurance in the Consolidated Balance Sheets and totaled \$419.4 million at December 31, 2023 and \$484.4 million at December 31, 2022. As amounts are received or paid, consistent with the underlying reinsured contracts, the Deposit Asset on Reinsurance is adjusted. The Deposit Asset on Reinsurance is also accreted to the estimated ultimate cash

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

flows using the interest method and the adjustment is reported as Net Investment Income in the Consolidated Statements of Comprehensive Income.

See Note 14 - Reinsurance for additional information pertaining to reinsurance.

***Property and Equipment***

Property and equipment are stated at cost, depreciated over estimated useful lives using the straight-line method, and are included in Other Assets in the Consolidated Balance Sheets. The home office complex is depreciated over 10 years to 50 years and furniture and equipment is depreciated over 3 years to 10 years. The following table provides information about property and equipment at December 31.

	2023	2022
Land	\$ 766	\$ 766
Home office complex	22,310	21,824
Furniture and equipment	33,070	36,797
	56,146	59,387
Accumulated depreciation	(42,864)	(45,378)
Property and equipment	\$ 13,282	\$ 14,009

Depreciation expense totaled \$1.7 million during 2023, \$2.9 million during 2022, and \$3.7 million during 2021.

***Recognition of 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. Premiums are reported net of reinsurance, as applicable.

*Contract Charges*

Contract charges consist of cost of insurance, expense loads, the amortization of unearned revenues, and surrender charges on policyholder account balances. The timing of the recognition of these revenues is determined based on the nature of the charges and fees. Policy charges for the cost of insurance and expense loads are assessed periodically and are recognized as revenue when assessed and earned. Certain policy fees that represent compensation for services to be provided in the future are reported as unearned revenue and recognized over the periods benefited. Surrender charges are determined based upon contractual terms and are recognized upon surrender of a contract. Policyholder benefits include interest amounts credited to policyholder account balances and benefit claims incurred in excess of policyholder account balances during the period.

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. See the Unlocking and Refinements in Estimates section above for additional information.

*Deposits*

Deposits related to universal life, fixed 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.

*Revenues from Contracts with Customers*

We have certain types of non-insurance and non-investment revenue from contracts with customers. These revenues are recognized when obligations under the terms of the contract are satisfied. The amount of revenue recognized reflects the consideration we expect to be entitled to in exchange for those services. For these revenues, the performance obligation is fulfilled as services are rendered. These revenues equaled less than 1% of our total revenues for the years ended December 31, 2023 and December 31, 2022 and are not material to our consolidated financial statements.



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

***Income Taxes***

The Company and its subsidiaries file a consolidated federal income tax return that includes Kansas City Life, Old American, and non-life insurance companies. Grange Life files a separate federal income tax return.

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. The net deferred tax asset is included in Other Assets and the net deferred tax liability is included in Other Liabilities in the Consolidated Balance Sheets.

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

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

**2. New Accounting Pronouncements**

**Accounting Pronouncements Adopted During 2023**

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-13 Measurement of Credit Losses on Financial Instruments. Under this guidance, the incurred loss impairment methodology used for loans and other financial instruments was replaced by a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information concerning credit loss estimates. The measurement of expected credit losses is based on current, historical, and forecasted information that impacts the collectability of the reported amount. Any credit losses related to available for sale debt securities are recorded through a valuation allowance that is established and adjusted over time. The valuation allowance is based on the probability of loss over the life of the instrument. Our assets subject to this guidance include, but are not limited to, fixed maturity securities available for sale, mortgage loans, agent receivables, and reinsurance recoverables. Disclosures are required to provide information regarding significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. Effective January 1, 2023, we adopted this guidance related to fixed maturity securities available for sale, mortgage loans, agent receivables, and reinsurance recoverables using a modified retrospective approach. The impact of this change in accounting principle was \$0.6 million, net of tax, and was recorded as a charge to retained earnings in the first quarter of 2023, reflecting an initial allowance reduction for estimated credit losses of \$1.1 million on mortgage loans and a reserve increase of \$1.8 million on reinsurance recoverables. For additional information on the adoption of this guidance, please see Note 3 - Investments, Note 5 - Financing Receivables, and Note 14 - Reinsurance. Certain disclosures required by ASU 2016-13 are not included in the consolidated financial statements as the impact of this standard was not material.

**Accounting Pronouncements Issued, Not Yet Adopted**

In August 2018, the FASB issued ASU No. 2018-12 Targeted Improvements to the Accounting for Long-Duration Contracts. This update modifies the existing recognition, measurement, presentation, and disclosure requirements in ASC 944 Financial Services - Insurance (Topic 944).

- It requires insurance entities to (1) review and update the assumptions used to measure cash flows at least annually and (2) update the discount rate assumption at each reporting date. The change in the liability estimate as a result of updating cash flow assumptions is required to be recognized in net income. The change in the liability estimate as a result of updating the discount rate assumption is required to be recognized in other comprehensive income. Expected future cash flows are required to be discounted at an upper-medium grade (low-credit-risk) fixed income instrument yield that maximizes the use of observable market inputs.
- It simplifies the accounting for certain market-based options or guarantees associated with deposit contracts by requiring insurance entities to measure them at fair value. The portion of any change in fair value attributable to a change in the instrument-specific credit risk is required to be recognized in other comprehensive income.
- It simplifies the amortization of deferred acquisition costs by requiring amortization on a constant level basis over the expected term of the related contracts. Deferred acquisition costs are required to be written off for unexpected contract terminations but are not subject to an impairment test.
- It improves the effectiveness of the required disclosures. It requires an insurance entity to provide disaggregated rollforwards of beginning to ending balances of the liability for future policy benefits, policyholder account balances, market risk benefits, separate account liabilities, and deferred acquisition costs. It also requires disclosures regarding significant inputs, judgments, assumptions, and methods used in measurement, including changes in those inputs, judgments, and assumptions, and the effect of those changes on measurement.

The original effective date for this guidance was for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The FASB deferred the effective date of this guidance to fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025. Accordingly, our required adoption date for this guidance is January 1, 2025. We are currently gathering data and reviewing our valuation modeling and assessing our internal controls in order to implement this guidance. Further, we are also reviewing our financial reporting and related disclosures that will be presented at adoption.

In November 2023, the FASB issued ASU No. 2023-07 Improvements to Reportable Segment Disclosures. This update requires enhanced disclosures about significant segment expenses. Public entities are required to disclose significant segment expenses and other segment items by reportable segment that are regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss. This update also requires additional disclosure requirements,

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

including interim disclosures. This guidance is effective for annual periods beginning on January 1, 2024 for calendar-year-end public entities, and interim periods within fiscal years beginning on January 1, 2025. We are currently evaluating this guidance.

In December 2023, the FASB issued ASU No. 2023-09 Improvements to Income Tax Disclosures. This update requires public business entities to disclose specific categories in the rate reconciliation and provide information for reconciling items that meet a quantitative threshold on an annual basis. The amendments in this update also require entities to disclose information regarding income taxes paid on an annual basis. Furthermore, this update requires additional disclosures and eliminates specific previously-required disclosures. This guidance is effective for annual periods beginning on January 1, 2025 for calendar-year-end public business entities. We are currently evaluating this guidance.

All other new accounting standards and updates of existing standards issued through the date of this filing were considered by management and did not relate to accounting policies and procedures pertinent to us at this time or were not expected to have a material impact to the consolidated financial statements.

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

**3. Investments**

**Fixed Maturity Securities**

*Securities by Asset Class*

The following table provides amortized cost and fair value of fixed maturity securities by asset class at December 31, 2023.

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
U.S. Treasury securities and obligations of U.S. Government	\$ 103,181	\$ 57	\$ 6,092	\$ 97,146
Federal agency issued residential mortgage-backed securities <sup>1</sup>	53,337	116	4,760	48,693
Subtotal	156,518	173	10,852	145,839
Corporate obligations:				
Industrial	350,341	4,219	29,754	324,806
Energy	79,624	1,590	2,069	79,145
Communications and technology	186,881	2,348	14,507	174,722
Financial	425,726	3,184	41,805	387,105
Consumer	462,690	2,846	44,955	420,581
Public utilities	339,962	4,518	35,199	309,281
Subtotal	1,845,224	18,705	168,289	1,695,640
Municipal securities	278,044	4,128	19,333	262,839
Asset-backed securities and collateralized loan obligations	252,615	680	7,970	245,325
Redeemable preferred stocks	3,000	—	600	2,400
Total	<u>\$ 2,535,401</u>	<u>\$ 23,686</u>	<u>\$ 207,044</u>	<u>\$ 2,352,043</u>

<sup>1</sup> 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 fixed maturity securities by asset class at December 31, 2022.

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
U.S. Treasury securities and obligations of U.S. Government	\$ 108,928	\$ 58	\$ 6,147	\$ 102,839
Federal agency issued residential mortgage-backed securities <sup>1</sup>	61,753	113	5,373	56,493
Subtotal	170,681	171	11,520	159,332
Corporate obligations:				
Industrial	340,954	1,116	41,768	300,302
Energy	77,317	905	3,056	75,166
Communications and technology	179,731	1,143	21,158	159,716
Financial	400,705	891	51,941	349,655
Consumer	490,378	416	62,472	428,322
Public utilities	314,428	1,079	43,260	272,247
Subtotal	1,803,513	5,550	223,655	1,585,408
Municipal securities	275,726	2,529	28,429	249,826
Asset-backed securities and collateralized loan obligations	219,523	36	14,532	205,027
Redeemable preferred stocks	6,000	—	774	5,226
Total	<u>\$ 2,475,443</u>	<u>\$ 8,286</u>	<u>\$ 278,910</u>	<u>\$ 2,204,819</u>

<sup>1</sup> Federal agency securities are not backed by the full faith and credit of the U.S. Government.

The following table provides information on fixed maturity securities available for sale by actual or equivalent Standard & Poor's rating at December 31, 2023 with the percent of total fair value identified.

	Amortized Cost	Fair Value	% of Total
AAA	\$ 227,349	\$ 220,332	9 %
AA	550,697	514,114	22 %
A	808,291	736,569	31 %
BBB	921,748	855,468	37 %
Total investment grade	2,508,085	2,326,483	99 %
BB	20,930	19,569	1 %
B and below	6,386	5,991	— %
Total below investment grade	27,316	25,560	1 %
Total	<u>\$ 2,535,401</u>	<u>\$ 2,352,043</u>	<u>100 %</u>

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

The following table provides information on fixed maturity securities available for sale by actual or equivalent Standard & Poor's rating at December 31, 2022 with the percent of total fair value identified.

	Amortized Cost	Fair Value	% of Total
AAA	\$ 208,729	\$ 194,405	9 %
AA	546,851	496,436	22 %
A	802,345	698,467	32 %
BBB	896,722	797,573	36 %
Total investment grade	2,454,647	2,186,881	99 %
BB	14,643	13,386	1 %
B and below	6,153	4,552	— %
Total below investment grade	20,796	17,938	1 %
Total	<u>\$ 2,475,443</u>	<u>\$ 2,204,819</u>	<u>100 %</u>

*Contractual Maturities*

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

	December 31, 2023		December 31, 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 80,994	\$ 80,073	\$ 90,979	\$ 90,357
Due after one year through five years	440,612	428,065	484,320	465,698
Due after five years through ten years	763,348	710,972	734,071	653,998
Due after ten years	1,134,814	1,027,362	1,036,509	875,295
Securities with variable principal payments	112,633	103,171	123,564	114,245
Redeemable preferred stocks	3,000	2,400	6,000	5,226
Total	<u>\$ 2,535,401</u>	<u>\$ 2,352,043</u>	<u>\$ 2,475,443</u>	<u>\$ 2,204,819</u>

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

**Unrealized Losses on Investments**

At the end of each quarter, all fixed maturity securities are reviewed to determine whether impairments exist and whether impairments are credit-related. Securities with identified credit impairment are further evaluated to determine whether a full recovery is expected. If a full recovery is expected, no allowance for credit losses is recorded. If a full recovery is not expected, an allowance for credit losses equal to the identified credit impairment is recorded. This quarterly process includes an assessment of the credit quality of each investment in the entire securities portfolio. Additional reporting and review procedures are conducted for those securities where fair value is less than 90% of amortized cost. A formal review document is prepared no less often than quarterly of all investments where fair value is less than 80% of amortized cost and selected investments that have changed significantly from a previous period and that have a decline in fair value greater than 10% of amortized cost.

We consider relevant facts and circumstances in performing the credit loss evaluation of a security. 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 to which the fair value is less than amortized cost;
- The financial position of the issuer, including the current and future impact of any specific events, material declines or negative changes in the issuer's revenues, margins, cash positions, liquidity issues, asset quality, debt levels, and income results;
- Significant management or organizational changes of the issuer;
- Significant uncertainty regarding the issuer's industry;
- Violation of financial covenants;
- Consideration of information or evidence that supports recovery;
- The intent and ability to hold a security until it recovers in value;
- Whether we intend to sell the security and whether it is more likely than not that we will be required to sell the security before recovery of the amortized cost basis; and
- Other business factors related to the issuer's industry.

There are a number of significant risks and uncertainties inherent in the process of monitoring credit losses. These include but are not limited to:

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

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

Such analyses are based upon historical results, trends, comparisons to collateral performance of similar securities, and analyses performed by third parties. This information is used to develop projected cash flows that are compared to the amortized cost of the security.

We may selectively determine that we no longer intend to retain a specific issue to its maturity. If we make this determination and the fair value is less than the cost basis, the investment is written down to the fair value. Subsequently, we seek to obtain the best possible outcome available for this specific issue and record an investment gain or loss at the disposal date.

To the extent we determine a credit loss exists for a fixed maturity security, the portion of the impairment that is deemed to be credit-related is charged to earnings in the Consolidated Statements of Comprehensive Income. 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).

After the adoption of ASU No. 2016-13 on January 1, 2023, the Company reassesses current expected credit losses quarterly. Subsequent increases or decreases in the expected cash flow from the security result in corresponding decreases or increases in the allowance which are recognized in earnings and reported within investment revenues. However, the previously recorded allowance is not reduced to an amount below zero. When the Company has the intent to sell the security, or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost, any allowance is written off and the amortized cost is written down to estimated fair value through a charge to realized investment gains or losses, which becomes the new amortized cost of the security.

Methodologies used during the year ended December 31, 2022 to evaluate the recoverability of a security in an unrealized loss position using other-than-temporary impairment guidance were similar to those used after the adoption of credit loss guidance on January 1, 2023, except for consideration of the length of time estimated fair value had been below amortized cost was also considered for securities. In addition, measurement methodologies were similar, except a fair value floor was not utilized to limit the credit loss recognized in earnings; an allowance for credit losses was not utilized; and subsequent to a credit loss being recognized, increases in expected cash flows from the security did not result in an immediate increase in valuation recognized in earnings through investment revenues from a reduction of the allowance.



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

The following table provides information regarding fixed maturity securities available for sale with unrealized losses by asset class and by length of time that individual securities have been in a continuous unrealized loss position at December 31, 2023.

	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	\$ —	\$ —	\$ 94,944	\$ 6,092	\$ 94,944	\$ 6,092
Federal agency issued residential mortgage-backed securities <sup>1</sup>	99	1	43,177	4,759	43,276	4,760
Subtotal	99	1	138,121	10,851	138,220	10,852
Corporate obligations:						
Industrial	2,411	70	229,706	29,684	232,117	29,754
Energy	5,654	329	37,412	1,740	43,066	2,069
Communications and technology	8,682	401	107,975	14,106	116,657	14,507
Financial	12,781	1,148	290,237	40,657	303,018	41,805
Consumer	5,277	383	340,396	44,572	345,673	44,955
Public utilities	5,852	117	221,310	35,082	227,162	35,199
Subtotal	40,657	2,448	1,227,036	165,841	1,267,693	168,289
Municipal securities	7,028	189	180,564	19,144	187,592	19,333
Asset-backed securities and collateralized loan obligations	1,896	16	149,413	7,954	151,309	7,970
Redeemable preferred stocks	—	—	2,400	600	2,400	600
Total	<u>\$ 49,680</u>	<u>\$ 2,654</u>	<u>\$1,697,534</u>	<u>\$ 204,390</u>	<u>\$ 1,747,214</u>	<u>\$ 207,044</u>

<sup>1</sup> 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 securities available for sale with unrealized losses by asset class and by length of time that individual securities have been in a continuous unrealized loss position at December 31, 2022.

	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	\$ 96,610	\$ 5,625	\$ 4,428	\$ 522	\$ 101,038	\$ 6,147
Federal agency issued residential mortgage-backed securities <sup>1</sup>	48,576	4,594	2,079	779	50,655	5,373
Subtotal	145,186	10,219	6,507	1,301	151,693	11,520
Corporate obligations:						
Industrial	223,458	28,273	46,186	13,495	269,644	41,768
Energy	49,781	3,056	—	—	49,781	3,056
Communications and technology	111,704	13,322	22,710	7,836	134,414	21,158
Financial	265,816	35,260	52,654	16,681	318,470	51,941
Consumer	346,834	39,723	67,996	22,749	414,830	62,472
Public utilities	206,984	29,528	34,933	13,732	241,917	43,260
Subtotal	1,204,577	149,162	224,479	74,493	1,429,056	223,655
Municipal securities	173,299	23,719	13,582	4,710	186,881	28,429
Asset-backed securities and collateralized loan obligations	157,759	10,426	41,520	4,106	199,279	14,532
Redeemable preferred stocks	5,226	774	—	—	5,226	774
Total	\$1,686,047	\$ 194,300	\$ 286,088	\$ 84,610	\$ 1,972,135	\$ 278,910

<sup>1</sup> Federal agency securities are not backed by the full faith and credit of the U.S. Government.

The following table provides information regarding the number of fixed maturity securities with unrealized losses at December 31.

	2023	2022
Below cost for less than one year	36	1,120
Below cost for one year or more and less than three years	1,105	201
Below cost for three years or more	30	3
Total	1,171	1,324

We do not consider the unrealized losses related to these securities to be credit-related. The unrealized losses at both December 31, 2023 and December 31, 2022 primarily related to changes in interest rates and market spreads subsequent to purchase. A substantial portion of investment securities that have unrealized losses are either corporate debt issued with investment grade credit ratings or other investment securities. Included in other investment securities are commercial mortgage-backed securities and asset-backed securities.

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

The following table summarizes investments in fixed maturity securities available for sale with unrealized losses at December 31, 2023.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Unrealized losses of 10% or less	\$ 1,067,807	\$ 1,022,458	\$ 45,349
Unrealized losses of 20% or less and greater than 10%	606,600	516,588	90,012
Subtotal	<u>1,674,407</u>	<u>1,539,046</u>	<u>135,361</u>
Unrealized losses greater than 20%:			
Investment grade	278,851	207,402	71,449
Below investment grade	1,000	766	234
Total	<u>\$ 1,954,258</u>	<u>\$ 1,747,214</u>	<u>\$ 207,044</u>

The following table summarizes investments in fixed maturity securities available for sale with unrealized losses at December 31, 2022. We had no securities owned with realized impairment at December 31, 2022.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Unrealized losses of 10% or less	\$ 1,129,645	\$ 1,073,851	\$ 55,794
Unrealized losses of 20% or less and greater than 10%	619,416	528,146	91,270
Subtotal	<u>1,749,061</u>	<u>1,601,997</u>	<u>147,064</u>
Unrealized losses greater than 20%:			
Investment grade	498,145	367,483	130,662
Below investment grade	3,839	2,655	1,184
Total securities owned without realized impairment	<u>\$ 2,251,045</u>	<u>\$ 1,972,135</u>	<u>\$ 278,910</u>

The following table provides information on fixed maturity securities available for sale with unrealized losses by actual or equivalent Standard & Poor's rating at December 31, 2023. Fair value has been adjusted to include any allowance for credit losses.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	\$ 122,309	7 %	\$ 9,604	4 %
AA	407,723	24 %	40,935	20 %
A	578,589	33 %	78,920	38 %
BBB	614,737	35 %	75,815	37 %
Total investment grade	<u>1,723,358</u>	<u>99 %</u>	<u>205,274</u>	<u>99 %</u>
BB	17,865	1 %	1,375	1 %
B and below	5,991	— %	395	— %
Total below investment grade	<u>23,856</u>	<u>1 %</u>	<u>1,770</u>	<u>1 %</u>
	<u>\$ 1,747,214</u>	<u>100 %</u>	<u>\$ 207,044</u>	<u>100 %</u>

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

The following table provides information on fixed maturity securities available for sale with unrealized losses by actual or equivalent Standard & Poor's rating at December 31, 2022.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	\$ 169,198	9 %	\$ 15,382	5 %
AA	433,563	22 %	52,351	19 %
A	634,047	32 %	106,442	38 %
BBB	717,389	36 %	101,877	37 %
Total investment grade	1,954,197	99 %	276,052	99 %
BB	13,386	1 %	1,257	— %
B and below	4,552	— %	1,601	1 %
Total below investment grade	17,938	1 %	2,858	1 %
	<u>\$ 1,972,135</u>	<u>100 %</u>	<u>\$ 278,910</u>	<u>100 %</u>

We held no non-income producing securities at December 31, 2023 or December 31, 2022.

We did not hold securities of any corporation and its affiliates that exceeded 10% of stockholders' equity at December 31, 2023 or December 31, 2022.

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

The following tables identify structured securities by credit ratings for all vintages owned at December 31.

	2023		
	Fair Value	Amortized Cost	Unrealized Losses
Structured securities:			
Investment grade	\$ 243,564	\$ 250,561	\$ (6,997)
Below investment grade	1,761	2,054	(293)
Total structured securities	<u>\$ 245,325</u>	<u>\$ 252,615</u>	<u>\$ (7,290)</u>
	2022		
	Fair Value	Amortized Cost	Unrealized Losses
Structured securities:			
Investment grade	\$ 203,151	\$ 217,307	\$ (14,156)
Below investment grade	1,876	2,216	(340)
Total structured securities	<u>\$ 205,027</u>	<u>\$ 219,523</u>	<u>\$ (14,496)</u>

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

The following table provides a rollforward of the allowance for credit losses for fixed maturity securities, after the adoption of ASU No. 2016-13, for the year ended December 31.

	<u>2023</u>
Beginning of year	\$ —
Provision for adoption of ASU No. 2016-13	—
Additions for credit losses not previously recorded	540
Additions (reductions) for credit losses recorded in a previous period	<u>(540)</u>
End of year	<u><u>\$ —</u></u>

The following table provides a reconciliation of credit losses recognized in earnings for fixed maturity securities, prior to the adoption of ASU No. 2016-13, for which a portion of the other-than-temporary impairment loss was recognized in Other Comprehensive Income (Loss) for the years ended December 31.

	<u>2022</u>	<u>2021</u>
Credit losses on securities held at the beginning of year	\$ 3,996	\$ 3,884
Additional credit losses on securities for which an other-than-temporary impairment was recognized	34	482
Reductions for securities sold	<u>(4,030)</u>	<u>(370)</u>
Credit losses on securities held at the end of year	<u><u>\$ —</u></u>	<u><u>\$ 3,996</u></u>

The following table provides the net unrealized gains (losses) reported in Accumulated Other Comprehensive Income (Loss) on fixed maturity securities available for sale, at December 31.

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Net unrealized gains (losses)	\$ (183,358)	\$ (270,624)	\$ 193,320
Amounts resulting from:			
DAC, VOBA, and DRL	16,075	23,740	(15,924)
Policyholder liabilities	—	—	(33,877)
Deferred income taxes	<u>35,131</u>	<u>51,847</u>	<u>(30,139)</u>
Total	<u><u>\$ (132,152)</u></u>	<u><u>\$ (195,037)</u></u>	<u><u>\$ 113,380</u></u>

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

**Investment Revenues**

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

	2023	2022	2021
Gross investment income from invested assets:			
Fixed maturity securities	\$ 104,785	\$ 97,173	\$ 103,697
Equity securities	70	231	433
Mortgage loans	23,612	24,959	28,661
Real estate	20,384	17,426	21,202
Policy loans	5,473	5,554	5,625
Short-term investments	2,042	620	9
Other	1,241	1,959	220
Total	<u>157,607</u>	<u>147,922</u>	<u>159,847</u>
Less investment expenses	(16,427)	(15,855)	(17,379)
Net investment income - invested assets	<u>141,180</u>	<u>132,067</u>	<u>142,468</u>
Net investment income - deposit-type reinsurance <sup>1</sup>	16,461	21,812	—
Net investment income	<u>\$ 157,641</u>	<u>\$ 153,879</u>	<u>\$ 142,468</u>

<sup>1</sup> Includes investment income from the deposit-type reinsurance transaction. See Note 14 - Reinsurance.

**Investment Gains (Losses)**

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

	2023	2022	2021
Fixed maturity securities	\$ (6,308)	\$ (10,591)	\$ 4,216
Equity securities	(414)	(332)	(232)
Mortgage loans	112	39	62
Real estate	63,837	656	16,597
Other investments	4,826	(6,415)	4,774
Net investment gains (losses)	<u>\$ 62,053</u>	<u>\$ (16,643)</u>	<u>\$ 25,417</u>

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

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

	2023
Gross gains resulting from:	
Sales of investment securities	\$ 82
Investment securities called and other	259
Sales of real estate and joint ventures	63,926
Total gross gains	64,267
Gross losses resulting from:	
Sales of investment securities	(6,337)
Investment securities called and other	(312)
Sales of real estate and joint ventures	(89)
Total gross losses	(6,738)
Change in allowance for credit losses:	
Mortgage loans	112
Total change in allowance for credit losses	112
Change in fair value:	
Equity securities	(414)
Other investments	4,826
Total change in fair value	4,412
Net investment gains	\$ 62,053

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

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

	2022	2021
Gross gains resulting from:		
Sales of investment securities	\$ 2,689	\$ 631
Investment securities called and other	1,233	4,510
Sale of real estate and joint ventures	656	16,647
Total gross gains	4,578	21,788
Gross losses resulting from:		
Sales of investment securities	(14,455)	(118)
Investment securities called and other	(24)	(325)
Sale of real estate and joint ventures	—	(50)
Total gross losses	(14,479)	(493)
Change in allowance for loan losses	39	62
Change in fair value:		
Equity securities	(332)	(232)
Other investments	(6,415)	4,774
Total change in fair value	(6,747)	4,542
Net realized investment gains (losses), excluding other-than-temporary impairment losses	(16,609)	25,899
Net impairment losses recognized in earnings:		
Other-than-temporary impairment losses on fixed maturity securities	—	(467)
Portion of loss recognized in other comprehensive income (loss)	(34)	(15)
Net other-than-temporary impairment losses recognized in earnings	(34)	(482)
Net investment gains (losses)	\$ (16,643)	\$ 25,417

**Proceeds from Sales of Investment Securities**

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

	2023	2022	2021
Proceeds	\$ 124,350	\$ 635,322	\$ 42,779

The proceeds in 2023 primarily resulted from portfolio repositioning during the year. The proceeds in 2022 largely resulted from the deposit-type reinsurance agreement.

**Mortgage Loans**

Investments in mortgage loans totaled \$592.3 million at December 31, 2023, compared to \$591.9 million at December 31, 2022. Our mortgage loans are secured by commercial real estate and are stated at cost, adjusted for premium amortization and discount accretion, less an allowance for credit losses. We believe this allowance is at a level adequate to absorb estimated credit losses. This allowance was \$1.6 million at December 31, 2023 and \$2.8 million at December 31, 2022. The decrease in the allowance during 2023 was primarily due to factors considered under the adoption of ASU No. 2016-13 at January 1, 2023. Our periodic evaluation and assessment of the adequacy of the allowance is based on known and inherent risks in the portfolio, historical and industry data, current economic conditions, and other relevant factors. Please see Note 5 - Financing Receivables for additional information. We do not hold mortgage loans from any single borrower that exceed 5% of stockholders' equity.

Commercial mortgage loans represented 18% of our total investments at December 31, 2023, down slightly from 19% at December 31, 2022. New commercial loans, including refinanced loans, totaled \$73.8 million during 2023 and \$88.2 million during 2022. The level of new commercial mortgage loans in any year is influenced by market conditions, as we respond to



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

changes in interest rates, available spreads, borrower demand, and opportunities to acquire loans that meet our yield and quality thresholds. The average loan balance was \$2.1 million at December 31, 2023 and \$2.0 million at December 31, 2022.

In addition to the subject collateral underlying the mortgage, we may require some amount of recourse from borrowers as another potential source of repayment should the loan default. Any recourse requirement deemed necessary is determined as part of the underwriting requirements of each loan. We added 13 new loans to the portfolio during 2023, and 92% of the total balance of these loans had some amount of recourse requirement. The average loan-to-value ratio for the overall portfolio was 47% at December 31, 2023 and 45% at December 31, 2022. This ratio is based upon the current balance of loans relative to the appraisal of value at the time the loan was originated or acquired. Additionally, we may receive fees when borrowers prepay their mortgage loans. We have certain mortgage loans that have an unamortized premium, totaling less than \$0.1 million at both December 31, 2023 and December 31, 2022.

The following table identifies the gross mortgage loan principal outstanding and allowance for credit losses, after the adoption of ASU No. 2016-13, at December 31.

	2023
Principal outstanding	\$ 593,909
Allowance for credit losses	(1,581)
Carrying value	\$ 592,328

The following table identifies the gross mortgage loan principal outstanding and the allowance for loan losses, prior to the adoption of ASU No. 2016-13, at December 31.

	2022
Principal outstanding	\$ 594,681
Allowance for loan losses	(2,753)
Carrying value	\$ 591,928

The following table summarizes the amount of mortgage loans at December 31, 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.

	2023	% of Total	2022	% of Total
Prior to 2015	\$ 32,040	5 %	\$ 41,024	7 %
2015	39,694	7 %	46,149	8 %
2016	51,553	9 %	81,238	14 %
2017	51,451	9 %	58,073	10 %
2018	42,620	7 %	44,190	7 %
2019	24,056	4 %	25,079	4 %
2020	93,783	16 %	104,279	18 %
2021	100,365	17 %	107,620	18 %
2022	84,759	14 %	87,029	14 %
2023	73,588	12 %	—	— %
Principal outstanding	\$ 593,909	100 %	\$ 594,681	100 %

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

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

	2023	% of Total	2022	% of Total
Pacific	\$ 152,017	25 %	\$ 122,504	20 %
East north central	109,982	18 %	108,561	18 %
West south central	75,722	13 %	77,461	13 %
Mountain	68,184	11 %	65,903	11 %
West north central	62,999	11 %	64,088	11 %
South Atlantic	56,931	10 %	69,340	12 %
Middle Atlantic	34,978	6 %	46,098	8 %
East south central	22,800	4 %	29,985	5 %
New England	10,296	2 %	10,741	2 %
Principal outstanding	<u>\$ 593,909</u>	<u>100 %</u>	<u>\$ 594,681</u>	<u>100 %</u>

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

	2023	% of Total	2022	% of Total
Texas	\$ 75,722	14 %	\$ 77,226	13 %
California	72,870	12 %	77,683	13 %
Oregon	60,745	10 %	23,269	4 %
Ohio	56,021	9 %	54,718	9 %
Minnesota	38,364	6 %	37,860	6 %
Florida	32,428	5 %	34,738	6 %
Arizona	30,253	5 %	28,242	5 %
All others	227,506	39 %	260,945	44 %
Principal outstanding	<u>\$ 593,909</u>	<u>100 %</u>	<u>\$ 594,681</u>	<u>100 %</u>

The following table identifies mortgage loans by property type at December 31.

	2023	% of Total	2022	% of Total
Industrial	\$ 428,201	72 %	\$ 412,550	69 %
Office	96,085	16 %	107,371	18 %
Retail	28,975	5 %	32,586	5 %
Other <sup>1</sup>	40,648	7 %	42,174	8 %
Principal outstanding	<u>\$ 593,909</u>	<u>100 %</u>	<u>\$ 594,681</u>	<u>100 %</u>

<sup>1</sup> The Other category consists principally of medical properties and apartments.

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

	2023	% of Total	2022	% of Total
Due in one year or less	\$ 31,886	5 %	\$ 34,463	6 %
Due after one year through five years	158,755	27 %	141,146	24 %
Due after five years through ten years	339,870	57 %	327,446	55 %
Due after ten years	63,398	11 %	91,626	15 %
Principal outstanding	<u>\$ 593,909</u>	<u>100 %</u>	<u>\$ 594,681</u>	<u>100 %</u>

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

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

	2023	% of Total	2022	% of Total
70% or greater	\$ 28,846	5 %	\$ 36,378	6 %
50% to 69%	311,585	52 %	339,667	57 %
Less than 50%	253,478	43 %	218,636	37 %
Principal outstanding	<u>\$ 593,909</u>	<u>100 %</u>	<u>\$ 594,681</u>	<u>100 %</u>

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

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

We may refinance commercial mortgage loans prior to contractual maturity as a means of retaining loans that meet our underwriting and pricing parameters. We refinanced five loans with a total outstanding balance of \$11.8 million during the year ended December 31, 2023. We refinanced six loans with a total outstanding balance of \$18.3 million during the year ended December 31, 2022. None of these refinancings were the result of troubled debt restructuring. At December 31, 2023 and December 31, 2022, we did not have any loan defaults and no material contract modifications, deferrals, or forbearance agreements had been executed.

In the normal course of business, we commit to fund commercial mortgage loans generally up to 120 days in advance. These commitments typically have fixed expiration dates. A small percentage of commitments expire due to the borrower's failure to deliver the requirements of the commitment by the expiration date. In these cases, the commitment fee is retained. For additional information, please see Note 20 - Commitments, Contingent Liabilities, Guarantees, and Indemnifications.

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

**Real Estate**

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

	2023	2022
Land	\$ 43,015	\$ 56,075
Buildings	87,196	133,816
Less accumulated depreciation	(40,863)	(51,713)
Real estate, commercial	89,348	138,178
Real estate, joint ventures	8,694	3,471
Total	\$ 98,042	\$ 141,649

Investment real estate is depreciated on a straight-line basis over periods ranging from three years to 60 years. In 2023, we closed three separate real estate sales, in which we sold real estate with a combined book value of \$43.1 million for a total of \$107.0 million and recognized a net pretax gain of \$63.9 million. We had real estate sales of \$0.8 million during 2022 and \$51.0 million during 2021. In 2021, we completed the acquisition of 100% membership interests of certain land and buildings in three separate limited liability companies in Urbandale, Iowa for \$36.0 million. This acquisition terminated an arrangement previously identified as a real estate joint venture.

We had \$8.7 million in real estate joint ventures at December 31, 2023, compared with \$3.5 million at December 31, 2022. In 2023, we contributed land with a fair value and book value of \$4.7 million to a real estate joint venture.

We periodically review our real estate and real estate joint ventures for impairment and tests for recoverability whenever events or changes in circumstances indicate the carrying value may not be recoverable and exceeds its estimated fair value. For equity method investees, we consider financial and other information provided by the investee as well as other known information, including recent market activity and prospects for future activity, in determining whether an impairment has occurred. Based on our reviews performed, we concluded that no impairment existed as of December 31, 2023 or 2022.

We had non-income producing commercial real estate, consisting of vacant properties and properties under development, of \$32.6 million at December 31, 2023, compared to \$35.7 million at December 31, 2022. We had one non-income producing real estate joint venture at December 31, 2023, which had a carrying value of \$5.5 million. There were no non-income producing real estate joint ventures at December 31, 2022.

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

**4. Fair Value Measurements**

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

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

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

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

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

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

**Assets**

*Fixed Maturity and Equity Securities*

Fixed maturity securities available for sale and equity securities 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. The fair value of investments in certain fixed maturity funds classified as Level 3 investments are calculated through internal matrices using current market conditions for similar securities.

*Short-Term Investments*

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

*Other Investments*

Other investments include hedge positions classified as derivatives that are established in relation to the Company's indexed universal life portfolio. These positions are recorded at fair value and are classified as Level 2. Other investments also include holdings in certain mineral rights, which are valued giving consideration to the underlying holdings of the real estate interests. These investments are classified 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 that 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 value of deposits with no stated maturity is estimated to be the amount payable on demand at the measurement date. These liabilities are categorized as Level 3. We have not estimated the fair value of the liabilities under contracts that involve significant mortality or morbidity risks, as these liabilities fall within the definition of insurance contracts. Insurance contracts are excluded from financial instruments that require disclosures of fair value.

Reserves established in relation to the Company's hedge positions on its indexed universal life portfolio are considered to be financial derivatives and are accounted for at fair value. These reserves are classified as Level 3.

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

*Guaranteed Minimum Withdrawal Benefits Included in Other Policyholder Funds*

Fair value for GMWB rider contracts is a Level 3 valuation, because it is based on models which utilize significant unobservable inputs. These models require actuarial and financial market assumptions, which reflect the assumptions market participants would use in pricing the contract, including adjustments for volatility, risk, and issuer non-performance.

**Determination of Fair Value**

We utilized an external third-party pricing service at both December 31, 2023 and December 31, 2022 to determine the majority of our fair values on fixed maturity and equity securities. At December 31, 2023, approximately 78% of the carrying value of these investments was from an external pricing service, 22% was from brokers, and less than 1% was derived from internal matrices and calculations. At December 31, 2022, approximately 83% of the carrying value of these investments was from an external pricing service, 17% was from brokers, and less than 1% was derived from internal matrices and calculations. We review prices received from the external pricing service for reasonableness and unusual fluctuations, but we generally accept the price identified. In the event a price is not available from the third-party pricing service, we pursue external pricing from brokers. Generally, we pursue and utilize only one broker quote per security. In doing so, we only solicit brokers who have previously demonstrated knowledge and experience of the subject security. If a broker price is not available, we determine a fair value through various valuation techniques that may include discounted cash flows, spread-based models, or similar techniques, depending upon the specific security to be priced. These techniques are primarily applied to private placement securities. We utilize available market information, wherever possible, to identify inputs into the fair value determination, primarily prices and spreads on comparable securities.

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

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

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

The fair value of the GMWB embedded derivative is calculated using a discounted cash flow valuation model that projects future cash flows under multiple risk neutral stochastic equity scenarios. Cash flows are discounted at the risk-free rate plus a spread for issuer discount (non-performance) risk. The risk neutral scenarios are generated using the current risk-free rate 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 is based on the 2012 Individual Annuity Reserving Table. The source for risk-free rates was changed in the third quarter of 2022, to use the Treasury (CMT) rate curve instead of the London Interbank Offered Rate (LIBOR) Swap curve. This change was made due to the upcoming change in publication and anticipated cessation of LIBOR rates. The change in rates did not result in a material impact to the consolidated financial statements for the years ended December 31, 2023 or December 31, 2022.

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

*Categories Reported at Fair Value*

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

	2023			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
U.S. Treasury securities and obligations of U.S. Government	\$ 9,108	\$ 88,038	\$ —	\$ 97,146
Federal agency issued residential mortgage-backed securities <sup>1</sup>	—	48,693	—	48,693
Subtotal	9,108	136,731	—	145,839
Corporate obligations:				
Industrial	—	324,806	—	324,806
Energy	—	79,145	—	79,145
Communications and technology	—	174,722	—	174,722
Financial	—	387,105	—	387,105
Consumer	—	420,581	—	420,581
Public utilities	—	309,281	—	309,281
Subtotal	—	1,695,640	—	1,695,640
Municipal securities	—	262,839	—	262,839
Asset-backed securities and collateralized loan obligations	—	235,325	10,000	245,325
Redeemable preferred stocks	—	2,400	—	2,400
Fixed maturity securities	9,108	2,332,935	10,000	2,352,043
Equity securities	146	446	253	845
Short-term investments	91,569	—	—	91,569
Other investments	—	9,009	308	9,317
Separate account assets	—	395,946	—	395,946
Total	<u>\$ 100,823</u>	<u>\$ 2,738,336</u>	<u>\$ 10,561</u>	<u>\$ 2,849,720</u>
Percent of total	<u>4 %</u>	<u>96 %</u>	<u>— %</u>	<u>100 %</u>
<b>Liabilities:</b>				
Policyholder account balances:				
Indexed universal life	\$ —	\$ —	\$ 7,634	\$ 7,634
Other policyholder funds:				
Guaranteed minimum withdrawal benefits	—	—	(2,992)	(2,992)
Separate account liabilities	—	395,946	—	395,946
Total	<u>\$ —</u>	<u>\$ 395,946</u>	<u>\$ 4,642</u>	<u>\$ 400,588</u>

<sup>1</sup> 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)**

	2022			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	\$ 8,837	\$ 94,002	\$ —	\$ 102,839
Federal agency issued residential mortgage-backed securities <sup>1</sup>	—	56,493	—	56,493
Subtotal	8,837	150,495	—	159,332
Corporate obligations:				
Industrial	—	300,302	—	300,302
Energy	—	75,166	—	75,166
Communications and technology	—	159,716	—	159,716
Financial	—	349,655	—	349,655
Consumer	—	428,322	—	428,322
Public utilities	—	272,247	—	272,247
Subtotal	—	1,585,408	—	1,585,408
Municipal securities	—	249,826	—	249,826
Asset-backed securities and collateralized loan obligations	—	205,027	—	205,027
Redeemable preferred stocks	—	5,226	—	5,226
Fixed maturity securities	8,837	2,195,982	—	2,204,819
Equity securities	425	1,151	342	1,918
Short-term investments	58,497	—	—	58,497
Other investments	—	2,960	436	3,396
Separate account assets	—	381,581	—	381,581
Total	<u>\$ 67,759</u>	<u>\$ 2,581,674</u>	<u>\$ 778</u>	<u>\$ 2,650,211</u>
Percent of total	<u>3 %</u>	<u>97 %</u>	<u>— %</u>	<u>100 %</u>
Liabilities:				
Policyholder account balances:				
Indexed universal life	\$ —	\$ —	\$ 2,802	\$ 2,802
Other policyholder funds:				
Guaranteed minimum withdrawal benefits	—	—	(2,849)	(2,849)
Separate account liabilities	—	381,581	—	381,581
Total	<u>\$ —</u>	<u>\$ 381,581</u>	<u>\$ (47)</u>	<u>\$ 381,534</u>

<sup>1</sup> 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.

	2023		
	Assets	Liabilities	
	Fixed Maturity Securities, Equity Securities, and Other Investments	Indexed Universal Life	GMWB
Beginning balance	\$ 778	\$ 2,802	\$ (2,849)
Included in earnings	(217)	4,832	178
Included in other comprehensive income (loss)	—	—	—
Purchases, issuances, sales and other dispositions:			
Purchases	10,000	—	—
Issuances	—	—	46
Sales	—	—	—
Other dispositions	—	—	(367)
Transfers out of Level 3	—	—	—
Ending balance	<u>\$ 10,561</u>	<u>\$ 7,634</u>	<u>\$ (2,992)</u>
	2022		
	Assets	Liabilities	
	Equity Securities and Other Investments	Indexed Universal Life	GMWB
Beginning balance	\$ —	\$ 6,264	\$ (149)
Included in earnings	212	(3,462)	(2,872)
Included in other comprehensive income (loss)	—	—	—
Purchases, issuances, sales and other dispositions:			
Purchases	566	—	—
Issuances	—	—	308
Sales	—	—	—
Other dispositions	—	—	(136)
Transfers out of Level 3	—	—	—
Ending balance	<u>\$ 778</u>	<u>\$ 2,802</u>	<u>\$ (2,849)</u>

We did not have any transfers between any levels during the years ended December 31, 2023 or December 31, 2022.

We use the Black Scholes valuation method, including parameters for market volatility, risk-free rate, and index level, for the indexed universal life liabilities categorized as Level 3. We also use a 100% persistency assumption. Persistency of the business is an unobservable input.

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

The following table presents the valuation method for the GMWB liability categorized as Level 3, as well as the unobservable inputs used in the valuation of those financial instruments at December 31, 2023.

	Fair Value	Valuation Technique	Unobservable Inputs	Range
Embedded Derivative - GMWB	\$ (2,992)	Actuarial cash flow model	Mortality	85% of the 2012 IAR Table
			Lapse	0%-12% depending on product/duration/funded status of guarantee
			Benefit Utilization	0%-80% depending on age/duration/funded status of guarantee
			Nonperformance Risk	0.47%-1.05%

The following table presents the valuation method for the GMWB liability categorized as Level 3, as well as the unobservable inputs used in the valuation of those financial instruments at December 31, 2022.

	Fair Value	Valuation Technique	Unobservable Inputs	Range
Embedded Derivative - GMWB	\$ (2,849)	Actuarial cash flow model	Mortality	85% of the 2012 IAR Table
			Lapse	0%-12% depending on product/duration/funded status of guarantee
			Benefit Utilization	0%-80% depending on age/duration/funded status of guarantee
			Nonperformance Risk	0.33%-1.40%

The GMWB liability is sensitive to changes in observable and unobservable inputs. Observable inputs include risk-free rates, index returns, volatilities, and correlations. Increases in risk-free rates and equity returns reduce the liability, while increases in volatilities increase the liability. Unobservable inputs include mortality, lapse, benefit utilization, and nonperformance risk adjustments. Increases in mortality, lapses, and credit spreads used for nonperformance risk reduce the liability, while increases in benefit utilization increase the liability.

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

	2023	2022
	Increase/(Decrease)	
	in millions	
A 10% increase in the mortality assumption	\$ —	\$ (0.1)
A 10% decrease in the lapse assumption	(0.1)	—
A 10% increase in the benefit utilization	0.3	0.4
A 10 basis point increase in the credit spreads used for non-performance	(0.1)	(0.2)

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

The following tables present a summary of fair value estimates for financial instruments not recorded at fair value on a recurring basis but required to be disclosed at fair value at December 31. Assets and liabilities that are not financial instruments are not included in this disclosure. The total of the fair value calculations presented below may not be indicative of the value that can be obtained.

	2023				Carrying Value
	Fair Value				
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Mortgage loans	\$ —	\$ —	\$ 551,387	\$ 551,387	\$ 592,328
Policy loans	—	—	84,025	84,025	84,025
Other investments	—	6,671	—	6,671	6,671
Liabilities:					
Individual and group annuities	—	—	1,050,117	1,050,117	1,066,702
Supplementary contracts and annuities without life contingencies	—	—	52,117	52,117	56,026
Policyholder account balances:					
Funding agreement	—	101,092	—	101,092	101,092

	2022				Carrying Value
	Fair Value				
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Mortgage loans	\$ —	\$ —	\$ 538,275	\$ 538,275	\$ 591,928
Policy loans	—	—	82,739	82,739	82,739
Other investments	—	9,044	—	9,044	9,044
Liabilities:					
Individual and group annuities	—	—	1,125,759	1,125,759	1,142,528
Supplementary contracts and annuities without life contingencies	—	—	52,242	52,242	56,407
Policyholder account balances:					
Funding agreement	—	100,614	—	100,614	100,614

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

**5. Financing Receivables**

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

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

	2023	2022
Agent receivables, net (allowance: 2023 - \$192; 2022 - \$198)	\$ 1,662	\$ 1,635
Investment-related financing receivables:		
Mortgage loans, net (allowance: 2023 - \$1,581; 2022 - \$2,753)	592,328	591,928
Total financing receivables	\$ 593,990	\$ 593,563

**Agent Receivables**

We have certain agent receivables that are classified as financing receivables. These receivables from agents are specifically assessed for collectibility and are reduced by an allowance. Agent receivables are included in Other Assets in the Consolidated Balance Sheets.

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

	2023			2022		
	Gross Receivables	Allowance for Credit Losses	Net Receivables	Gross Receivables	Allowance for Doubtful Accounts	Net Receivables
Agent specific loans	\$ 491	\$ 144	\$ 347	\$ 543	\$ 150	\$ 393
Other agent receivables	1,363	48	1,315	1,290	48	1,242
Total	\$ 1,854	\$ 192	\$ 1,662	\$ 1,833	\$ 198	\$ 1,635

The following table provides a rollforward of the allowance for credit losses for agent receivables at December 31. Upon the adoption of ASU No. 2016-13 on January 1, 2023, we changed from an allowance for doubtful accounts to an allowance for credit losses. We determined that no adjustments needed to be made to our allowance upon adoption of this guidance.

	2023
Beginning of year	\$ 198
Provision for adoption of ASU No. 2016-13	—
Additions for credit losses not previously recorded	—
Additions (reductions) for credit losses recorded in a previous period	(6)
End of year	\$ 192

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

	2022
Beginning of year	\$ 912
Additions	261
Deductions	(975)
End of year	\$ 198

**Mortgage Loans**

We classify our mortgage loan portfolio as long-term financing receivables. Mortgage loans are stated at cost, adjusted for amortization of premium and accretion of discount, less an allowance for credit 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

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

placed on non-accrual status. Payments received on loans on non-accrual status for these reasons are applied first to interest income not collected while on non-accrual status, followed by fees, accrued and past-due interest, and principal.

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

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

	<u>2023</u>	<u>2022</u>
Mortgage loans collectively evaluated for impairment	\$ 593,909	\$ 560,612
Mortgage loans individually evaluated for impairment	—	34,069
Allowance for credit/loan losses	<u>(1,581)</u>	<u>(2,753)</u>
Carrying value	<u>\$ 592,328</u>	<u>\$ 591,928</u>

Generally, we consider our mortgage loans to be a portfolio segment. We consider our primary class to be property type. We primarily use loan-to-value as our credit risk quality indicator but also monitor additional secondary risk factors, such as geographic distribution both on a regional and specific state basis. The mortgage loan portfolio segment is presented by property type in a table in Note 3 - Investments, 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.

There were no mortgage loans that were past due at December 31, 2023 or December 31, 2022.

We had no troubled debt restructurings during 2023 or 2022.

Effective January 1, 2023, the Company adopted ASU No. 2016-13, which revised the credit loss recognition criteria for mortgage loans by replacing the existing incurred loss recognition model with the current expected credit loss model. The objective of the current expected credit loss model is for the reporting entity to recognize its estimate of current expected credit losses for affected financial assets in an allowance for credit losses that is deducted from the amortized cost basis of the related financial assets. This results in presenting the net carrying value of the financial assets at the amount expected to be collected.

The following table provides a rollforward of the allowance for credit losses for mortgage loans, after the adoption of ASU No. 2016-13, at December 31.

	<u>2023</u>
Beginning of year	\$ 2,753
Provision for adoption of ASU No. 2016-13	(1,060)
Additions for credit losses not previously recorded	206
Additions (reductions) for credit losses recorded in a previous period	<u>(318)</u>
End of year	<u>\$ 1,581</u>

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

The following table details the activity within the allowance for mortgage loan losses, prior to the adoption of ASU No. 2016-13 at December 31. The provision reflected new loans and maturities and the deductions reflected payments on loans and recoveries received.

	2022
Beginning of year	\$ 2,792
Provision	387
Deductions	(426)
End of year	\$ 2,753

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

Macro-environmental and elevated risk profile considerations:

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

Specific mortgage loan level considerations:

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

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

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

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

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

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

**6. Variable Interest Entities (VIEs)**

We invest in certain affordable housing and real estate joint ventures that are classified as VIEs. These VIEs are included in Real Estate in the Consolidated Balance Sheets. We also invest in certain alternative investment funds. These VIEs are included in Other Investments in the Consolidated Balance Sheets.

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

The following table provides information regarding our affordable housing VIE investments that generate tax credits and related amortization for the years ended December 31.

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Federal income tax credits realized	\$ —	\$ 405	\$ 920
Amortization	125	193	672

Our investments in other real estate VIEs and alternative investment fund VIEs are recorded using the equity method. Cash distributions from the VIEs and cash contributions to the VIEs are recorded as decreases or increases, respectively, in the carrying value of the VIE. Certain other equity investments in VIEs, where permitted, are recorded on an amortized cost basis. The operating performance of investments in the VIE is recorded in the Consolidated Statements of Comprehensive Income as investment income or as a component of Income Tax Expense, depending upon the nature and primary design of the investment. We evaluate the carrying value of VIEs for impairment on an ongoing basis to assess whether the carrying value is expected to be realized during the anticipated life of the investment. No impairments were recorded during the years ended December 31, 2023, December 31, 2022, or December 31, 2021.

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

**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 we hold a variable interest, but are not the primary beneficiary, and which had not been consolidated at December 31, 2023 and December 31, 2022. The table includes investments in two real estate joint ventures, five affordable housing real estate joint ventures, and five alternative investment funds at December 31, 2023. The table includes investments in one real estate joint venture, six affordable housing real estate joint ventures, and three alternative investment funds at December 31, 2022.

	2023		2022	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Real estate joint ventures	\$ 7,213	\$ 14,771	\$ 1,680	\$ 1,680
Affordable housing real estate joint ventures	1,481	6,243	1,791	8,794
Alternative investment funds	24,824	68,304	18,166	47,739
Total	\$ 33,518	\$ 89,318	\$ 21,637	\$ 58,213

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

At December 31, 2023 and December 31, 2022, we had no equity commitments outstanding to the real estate joint venture VIEs. At December 31, 2023 and December 31, 2022, we had no contingent commitments to fund additional equity contributions for operating support to real estate joint venture VIEs. At December 31, 2023, we had unfunded commitments of \$43.5 million for additional alternative investment funds. At December 31, 2022, we had unfunded commitments of \$29.6 million for additional alternative investment funds.

The maximum exposure to loss on affordable housing joint ventures included \$4.8 million of losses which could be realized if the tax credits received by the VIEs were recaptured at December 31, 2023, compared to \$7.0 million at December 31, 2022. Recapture events would cause us to reverse some or all of the benefit previously recognized by us or third parties to whom the tax credit interests were transferred. A recapture event can occur at any time during a 15-year required compliance period. The principal causes of recapture include financial default and non-compliance with affordable housing program requirements by the properties controlled by the VIE. Guarantees from the managing member or managing partner in the VIE, insurance contracts, or changes in the residual value accruing to our interests in the VIE may mitigate the potential exposure due to recapture.

**7. Separate Accounts**

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

The total separate account assets were \$395.9 million at December 31, 2023 and \$381.6 million at December 31, 2022. Variable universal life and variable annuity assets comprised 34% and 66% of total separate account assets in 2023, compared to 32% and 68% of the total in 2022.



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

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

	2023	2022
Balance at beginning of year	\$ 381,581	\$ 504,976
Deposits on variable policyholder contracts	15,672	21,185
Transfers to general account	(1,921)	(5,096)
Investment performance	63,093	(89,271)
Policyholder benefits and withdrawals	(50,759)	(37,925)
Contract charges	(11,720)	(12,288)
Balance at end of year	\$ 395,946	\$ 381,581

We offer a GMWB rider that can be added to new or existing variable annuity contracts. The value of the separate accounts with the GMWB rider was recorded at fair value of \$86.4 million at December 31, 2023. The fair value of the separate accounts with the GMWB rider was \$92.8 million at December 31, 2022. The GMWB guarantee liability was \$(3.0) million at December 31, 2023 and \$(2.8) million at December 31, 2022. The change in this value is included in Policyholder Benefits in the Consolidated Statements of Comprehensive Income. The value of variable annuity separate accounts with the GMWB rider is recorded in Separate Account Liabilities, and the value of the rider is included in Other Policyholder Funds in the Consolidated Balance Sheets.

We have two blocks of variable universal life policies and variable annuity contracts from which fees are received. The fees are based upon both specific transactions and the fund value of the blocks of policies. We have a direct block of ongoing business identified in the Consolidated Balance Sheets as Separate Account Assets, totaling \$395.9 million at December 31, 2023 and \$381.6 million at December 31, 2022, and corresponding Separate Account Liabilities of equal amounts. The fixed-rate funds for these policies are included in our general account as policyholder account balances. The future policy benefits for the direct block approximated \$0.1 million at December 31, 2023 and \$0.5 million at December 31, 2022.

In addition, we have an assumed closed block of variable universal life and variable annuity business that totaled \$347.6 million at December 31, 2023 and \$317.9 million at December 31, 2022. As required under modified coinsurance transaction accounting, the assumed separate account fund balances are not recorded as separate accounts on our consolidated financial statements. Rather, the assumed fixed-rate funds for these policies of \$34.4 million at December 31, 2023 and \$37.0 million at December 31, 2022 are included in our general account as policyholder account balances. The future policy benefits for the assumed block approximated \$0.5 million at both December 31, 2023 and December 31, 2022.

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 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)**

Separate account balances for variable annuity contracts were \$259.9 million at December 31, 2023 and \$258.1 million at December 31, 2022. The total reserve held for variable annuity GMDB was \$0.1 million at December 31, 2023 and \$0.2 million at December 31, 2022. 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, 2023 and 2022 is provided below.

	2023			2022		
	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	\$ 198,319	\$ 613	64.5	\$ 199,394	\$ 3,674	63.9
Return of the greater of the highest anniversary contract value or net deposits	8,405	328	73.7	8,095	1,520	71.7
Return of the greater of every fifth year highest anniversary contract value or net deposits	4,295	13	69.8	4,934	97	68.5
Return of the greater of net deposits accumulated annually at 5% or the highest anniversary contract value	48,926	4,584	66.4	45,676	12,125	65.7
Total	\$ 259,945	\$ 5,538	65.3	\$ 258,099	\$ 17,416	64.6

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.

	2023	2022
Money market	\$ 1,454	\$ 2,036
Fixed income	11,182	11,490
Balanced	69,086	69,906
International equity	15,650	16,119
Intermediate equity	134,317	132,830
Aggressive equity	28,256	25,718
Total	\$ 259,945	\$ 258,099

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

**8. Unpaid Claims Liability and Short-Duration Contracts**

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

The following tables present activity in the accident and health portion of the unpaid claims liability by segment for the years ended December 31. Classified as policy and contract claims, but excluded from these tables due to immateriality, are amounts recorded for group life, individual life, and deferred annuities.

	2023			
	Individual Insurance	Group Insurance	Old American	Consolidated
Gross liability at beginning of year	\$ 560	\$ 27,777	\$ 2,199	\$ 30,536
Less reinsurance recoverable	(399)	(20,006)	(2,169)	(22,574)
Net liability at beginning of year	161	7,771	30	7,962
Incurred benefits related to:				
Current year	16	28,782	32	28,830
Prior years <sup>1</sup>	(10)	1,216	(24)	1,182
Total incurred benefits	6	29,998	8	30,012
Paid benefits related to:				
Current year	1	23,366	2	23,369
Prior years	(2)	5,369	6	5,373
Total paid benefits	(1)	28,735	8	28,742
Net liability at end of year	168	9,034	30	9,232
Reinsurance recoverable	394	22,673	1,899	24,966
Gross liability at end of year	\$ 562	\$ 31,707	\$ 1,929	\$ 34,198

<sup>1</sup> The incurred benefits related to prior years' unpaid accident and health claims reflect the change in these liabilities.

	2022			
	Individual Insurance	Group Insurance	Old American	Consolidated
Gross liability at beginning of year	\$ 669	\$ 30,670	\$ 2,293	\$ 33,632
Less reinsurance recoverable	(353)	(21,991)	(2,263)	(24,607)
Net liability at beginning of year	316	8,679	30	9,025
Incurred benefits related to:				
Current year	18	27,792	34	27,844
Prior years <sup>1</sup>	(99)	(805)	(20)	(924)
Total incurred benefits	(81)	26,987	14	26,920
Paid benefits related to:				
Current year	3	23,125	4	23,132
Prior years	71	4,770	10	4,851
Total paid benefits	74	27,895	14	27,983
Net liability at end of year	161	7,771	30	7,962
Reinsurance recoverable	399	20,006	2,169	22,574
Gross liability at end of year	\$ 560	\$ 27,777	\$ 2,199	\$ 30,536

<sup>1</sup> The incurred benefits related to prior years' unpaid accident and health claims reflect the change in these liabilities.

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

	2021			
	Individual Insurance	Group Insurance	Old American	Consolidated
Gross liability at beginning of year	\$ 606	\$ 31,572	\$ 2,595	\$ 34,773
Less reinsurance recoverable	(412)	(23,565)	(2,565)	(26,542)
Net liability at beginning of year	194	8,007	30	8,231
Incurred benefits related to:				
Current year	240	27,851	31	28,122
Prior years <sup>1</sup>	(1)	(817)	(25)	(843)
Total incurred benefits	239	27,034	6	27,279
Paid benefits related to:				
Current year	46	22,437	1	22,484
Prior years	71	3,925	5	4,001
Total paid benefits	117	26,362	6	26,485
Net liability at end of year	316	8,679	30	9,025
Reinsurance recoverable	353	21,991	2,263	24,607
Gross liability at end of year	\$ 669	\$ 30,670	\$ 2,293	\$ 33,632

<sup>1</sup> The incurred benefits related to prior years' unpaid accident and health claims reflect the change in these liabilities.

The following table presents the reconciliation of amounts in the above tables to Policy and Contract Claims and claim reserves that are included in Future Policy Benefits as presented in the Consolidated Balance Sheets at December 31.

	2023	2022	2021
Individual Insurance Segment:			
Individual accident and health	\$ 562	\$ 560	\$ 669
Individual life	36,385	32,966	42,915
Deferred annuity	4,079	2,936	4,306
Subtotal	41,026	36,462	47,890
Group Insurance Segment:			
Group accident and health	31,707	27,777	30,670
Group life	2,475	3,453	3,978
Subtotal	34,182	31,230	34,648
Old American Segment:			
Individual accident and health	1,929	2,199	2,293
Individual life	8,364	10,141	11,050
Subtotal	10,293	12,340	13,343
Total	\$ 85,501	\$ 80,032	\$ 95,881

For short-duration contracts, IBNR liabilities for the group long-term disability product that were included in the liability for unpaid claims and claim adjustment expenses, net of reinsurance, totaled \$0.7 million at December 31, 2023 and \$0.6 million at December 31, 2022. These liabilities were calculated by the reinsurers of the various blocks of group long-term disability business, using percent of premium methodologies with varying factors. Claim frequencies were calculated for the long-term disability product using information that includes paid and pending claims at the claimant level. Thus, frequency is measured by individual claimant. Claims that are counted in a particular year as a liability but do not result in a liability in future years are not included once the claim is settled. There have been no significant changes to the methodologies for calculating claim frequencies, incurred-but-not-reported liabilities, or any other unpaid claims liabilities for the long-term disability product during the years presented.

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

The liabilities in the following table for group long-term disability claims involve present value of future benefits calculations. The carrying amount of liabilities at December 31, 2023 was \$5.3 million, consisting of an undiscounted amount of \$7.5 million and an aggregated discount amount deducted of \$2.2 million. Discount rates ranged from 2.60% to 7.00% for the various blocks of group long-term disability business included in the totals.

The following table provides incurred claims and allocated claim adjustment expenses, net of reinsurance, for the group long-term disability product at December 31, 2023. The information about incurred claims development for the years ended December 31, 2014 to December 31, 2022 is presented as unaudited supplementary information.

Year Incurred	For the Years Ended December 31,										Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023			
2014	\$ 868	\$ 955	\$ 799	\$ 768	\$ 770	\$ 728	\$ 735	\$ 729	\$ 736	\$ 742	\$	—	186
2015		989	918	701	697	643	646	641	644	646		—	230
2016			1,694	1,552	1,382	1,412	1,284	962	947	967		—	246
2017				2,038	1,727	1,513	1,436	1,431	1,369	1,410		—	260
2018					2,473	2,192	2,135	1,745	1,620	1,837		—	298
2019						2,056	2,036	1,879	1,778	1,870		—	332
2020							1,483	1,094	936	972		—	200
2021								1,873	1,496	1,359		—	227
2022									1,609	1,616		—	199
2023										2,291		654	149
										<u>\$13,710</u>			

The following table provides cumulative paid claims and allocated claim adjustment expenses, net of reinsurance, for the group long-term disability product at December 31, 2023. The information about paid claims development for the years ended December 31, 2014 to December 31, 2022 is presented as unaudited supplementary information.

Year Incurred	For the Years Ended December 31,										
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
2014	\$ 71	\$ 276	\$ 411	\$ 481	\$ 499	\$ 517	\$ 550	\$ 579	\$ 605	\$ 631	
2015		100	390	491	531	545	561	573	584	594	
2016			164	505	626	690	736	783	804	828	
2017				162	549	703	785	867	926	976	
2018					208	681	869	1,012	1,108	1,189	
2019						251	752	980	1,108	1,200	
2020							162	469	604	660	
2021								237	706	846	
2022									177	640	
2023										259	
										<u>Total</u>	<u>\$ 7,823</u>
											<u>\$ 1,621</u>
											<u>\$ 7,507</u>

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

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

	2023	2022
Net outstanding liabilities:		
Group long-term disability	\$ 7,507	\$ 5,691
Other short-duration contracts	6,019	6,351
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	13,526	12,042
Reinsurance recoverable on unpaid claims:		
Group long-term disability	30,510	24,459
Other short-duration contracts	2,736	3,183
Total reinsurance recoverable on unpaid claims	33,246	27,642
Insurance lines other than short-duration	48,834	46,061
Impact of discounting	(10,105)	(5,713)
	38,729	40,348
Total gross liability for unpaid claims and claim adjustment expenses	\$ 85,501	\$ 80,032

The following table provides the historical average annual percentage payout of incurred claims by age, net of reinsurance, at December 31, 2023.

	Years				
	1	2	3	4	5
Group long-term disability	13.50 %	31.40 %	13.00 %	7.00 %	4.20 %

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

**9. Participating Policies**

We have insurance contracts where the policyholder is entitled to share in the earnings through dividends, which reflect the difference between the premium charged and the actual experience. These insurance contracts were directly issued by the Company or were acquired through the purchase of participating blocks of business, largely through reinsurance assumption transactions. Participating business approximated 6% of total statutory premiums in both 2023 and 2022. Assumed participating business from the acquisition of closed blocks of business accounted for 93% of total participating statutory premiums in 2023 and 98% in 2022. Participating business equaled 4% of total life insurance in force at December 31, 2023 and 5% at December 31, 2022. Assumed participating business accounted for 97% of total participating life insurance in force at both December 31, 2023 and December 31, 2022.

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

**10. Debt**

**Notes Payable**

We had no notes payable outstanding at December 31, 2023 or December 31, 2022.

We had unsecured revolving lines of credit with two major commercial banks that totaled \$80.0 million at December 31, 2023 and December 31, 2022, with no balances outstanding. The lines of credit are at variable interest rates based upon short-term indices maturing in June of 2024. We anticipate renewing these lines of credit as they come due. One line of credit includes a \$20.0 million portion that can be unconditionally canceled by the lending institution at its discretion at any time.

The Company has access to secured borrowings through repurchase agreements with two major financial counterparties. The Company had no transactions that occurred under these agreements during 2023 or 2022 and had no outstanding borrowings as of December 31, 2023 or December 31, 2022. Any borrowings drawn under these agreements require a variable interest rate based upon short-term indices and approval from the counterparty at the time of the transaction. No securities are currently pledged under these agreements.

As a member of the FHLB, we have the ability to borrow on a collateralized basis from the FHLB. Through this membership, we have a specific borrowing capacity based upon the amount of collateral we establish. At December 31, 2023, collateral comprised primarily of securities and mortgages in the amount of \$324.2 million, with a fair value of \$286.6 million, were pledged to the FHLB, providing a borrowing capacity of \$224.2 million. At December 31, 2022, collateral comprised primarily of securities and mortgages in the amount of \$295.6 million, with a fair value of \$264.2 million, were pledged to the FHLB, providing a borrowing capacity of \$209.7 million. The interest rates are variable and are set by the FHLB at the time of the advance. The Company's capital investment in the FHLB totaled \$6.7 million at December 31, 2023 and \$9.0 million at December 31, 2022 and is included in Other Investments in the Consolidated Balance Sheets. Dividends received on this capital investment totaled \$0.5 million for the year ended December 31, 2023, \$0.3 million for the year ended December 31, 2022, and \$0.2 million for the year ended December 31, 2021.

**Funding Agreement**

The Company has advance funding agreements with the FHLB. Under the agreements, the Company pledges collateral in the form of fixed maturity securities and commercial mortgage loans and receives cash, which is then reinvested, primarily into other fixed maturity securities that have a variable interest rate. Securities pledged as collateral may not be sold or re-pledged by the Company. The investments pledged and outstanding advance agreements are included in the overall borrowing capacity established with the FHLB. We have established a maximum participation of \$100.0 million with this program. These agreements mature between 2026 and 2029, and are reported as Policyholder Account Balances in the Consolidated Balance Sheets. Interest is credited based on variable rates set by the FHLB.

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

The following table provides information regarding our funding agreements with the FHLB at December 31.

	<u>2023</u>	<u>2022</u>
Total obligations outstanding	\$ 100,000	\$ 100,000
Accrued interest	1,092	614

The following table provides information regarding our funding agreements with the FHLB for the years ended December 31.

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Interest credited by the FHLB	\$ 5,777	\$ 2,050	\$ 28
Cash interest payments	5,299	1,459	5
Interest income on the variable rate fixed maturity securities	7,150	3,099	183

**11. Income Taxes**

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current income tax expense	\$ 20,479	\$ 2,496	\$ 7,587
Deferred income tax benefit	(6,089)	(7,035)	(5,371)
Total income tax expense (benefit)	<u>\$ 14,390</u>	<u>\$ (4,539)</u>	<u>\$ 2,216</u>

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Cash paid for income taxes	\$ 9,519	\$ 2,766	\$ 7,273

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Federal income tax rate	21 %	21 %	21 %
Tax credits, net of equity adjustment	— %	2 %	(5)%
Permanent differences and other	— %	(1)%	1 %
Effective income tax rate	<u>21 %</u>	<u>22 %</u>	<u>17 %</u>



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

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

	2023	2022
Deferred tax assets:		
Future policy benefits	\$ 17,485	\$ 17,650
Unrealized investment losses	38,505	56,830
Employee retirement benefits	3,737	4,010
Tax carryovers	75	508
Legal reserve	5,956	5,956
Other	6,708	5,988
Deferred tax assets	72,466	90,942
Valuation allowance	(37)	(189)
Deferred tax assets, net of valuation allowance	72,429	90,753
Deferred tax liabilities:		
Basis differences between tax and		
GAAP accounting for investments	(2,160)	(3,028)
Capitalization of DAC, net of amortization	(29,710)	(33,901)
VOBA	(2,881)	(3,877)
Property and equipment	(2,028)	(2,266)
Deferred tax liabilities	(36,779)	(43,072)
Net deferred tax asset	35,650	47,681
Current tax liability	(11,883)	(1,048)
Income taxes receivable	\$ 23,767	\$ 46,633

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

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. In general, we are no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years prior to 2020. We are not currently under examination by the Internal Revenue Service (IRS).

The Inflation Reduction Act, which was enacted on August 16, 2022, includes a new corporate alternative minimum tax (CAMT). This Act went into effect for tax years beginning after December 31, 2022. The Company has determined that it does not expect to be subject to the CAMT in 2023.

Our policy is to recognize interest and penalties accrued related to unrecognized tax benefits in Income Tax Expense (Benefit) in the Consolidated Statements of Comprehensive Income. The Company recognized no tax benefit related to tax penalty and interest expense in 2023, 2022, or 2021.

We had no material uncertain tax positions at December 31, 2023 or December 31, 2022.

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

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Income tax expense (benefit)	\$ 14,390	\$ (4,539)	\$ 2,216
Stockholders' equity:			
Related to:			
Change in net unrealized gains (losses) on securities available for sale	18,326	(97,428)	(26,811)
Effect on DAC, VOBA, and DRL	(1,610)	8,330	2,112
Change in policyholder liabilities	—	7,112	2,458
Change in benefit plan obligations	1,553	(1,970)	1,360
Cumulative effect of adoption of new accounting principle	<u>(150)</u>	<u>—</u>	<u>—</u>
Total income tax expense (benefit) included in financial statements	<u>\$ 32,509</u>	<u>\$ (88,495)</u>	<u>\$ (18,665)</u>

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

**12. Pensions and Other Postemployment Benefits**

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

The Kansas City Life Cash Balance Pension Plan (pension plan) was amended effective December 31, 2010 to provide that participants' accrued benefits were frozen, and that no further benefits or accruals were earned after December 31, 2010. Although participants no longer accrue additional benefits under the pension plan at December 31, 2010, participants continue to earn years of service for vesting purposes under the pension plan with respect to their benefits accrued through December 31, 2010. In addition, the cash balance account continues to earn annual interest. Pension plan benefits are based on a cash balance account consisting of credits to the account based upon an employee's years of service, compensation and interest credits on account balances calculated using the greater of the average 30-year U.S. Treasury bond rate for November of each year or 5.00%. Annual interest was calculated using 5.00% for both 2023 and 2022.

The benefits expected to be paid in each year from 2024 through 2028 are as follows: \$10.0 million in 2024; \$8.1 million in 2025; \$7.6 million in 2026; \$7.6 million in 2027; and \$8.4 million in 2028. The aggregate benefits expected to be paid in the five years from 2029 through 2033 are \$34.0 million. The expected benefits to be paid are based on the same assumptions used to measure the Company's benefit obligation at December 31, 2023 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 2024 contribution for the pension plan has not been determined.

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

	2023	Target Allocation	2022	Target Allocation
Equity securities	38 %	28% - 48%	41 %	28% - 48%
Asset allocation and alternative assets	12 %	10% - 20%	15 %	10% - 20%
Debt securities	50 %	30% - 60%	44 %	30% - 60%
Cash and cash equivalents	— %	0% - 10%	—%	0% - 10%

Certain of our pension plan assets consist of investments in pooled separate accounts. The 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 is 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.

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 pension 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 current assumption for the expected long-term rate of return on plan assets is 6.83%. 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 pension plan. Effective January 1, 2024, the assumption for the expected long-term rate of return on plan assets was 6.75%.

The assumed discount rate used to determine the benefit obligation was 4.70% for pension benefits and 4.76% for postemployment benefits. The discount rates were determined by reference to the FTSC Pension Discount Curve (formerly the Citigroup Pension Liability Yield Curve) on December 31, 2023. 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.

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

The postemployment medical plans for eligible employees and their dependents are contributory with contributions adjusted annually. The benefits expected to be paid in each year from 2024 through 2028 are as follows: \$0.9 million in 2024; \$1.0 million in 2025; \$0.9 million in 2026; \$0.9 million in 2027; and \$0.8 million in 2028. The aggregate benefits expected to be paid in the five years from 2029 through 2033 are \$3.9 million. The expected benefits to be paid are based on the same assumptions used to measure the Company's benefit obligation at December 31, 2023. The 2024 contribution for the postemployment medical plans is estimated to be \$0.9 million. The Company pays these medical costs as they become due and the postemployment plan incorporates cost-sharing features. The postemployment plan disclosures included herein do not include the potential impact from the Medicare Act (the Act) that became law in December 2003. The Act introduced a new federal subsidy to sponsors of certain retiree health care plans that provide a benefit that is at least actuarially equivalent to Medicare. Since the Company does not provide benefits that are actuarially equivalent to Medicare, the Act did not impact our disclosures.

Non-contributory defined contribution retirement plans for eligible general agents and sales agents provide supplemental payments based upon earned first year individual life and annuity commissions. Contributions to these plans were \$0.1 million in each of 2023, 2022, and 2021. Non-contributory deferred compensation plans for eligible agents based upon earned first year commissions are also offered. Contributions to these plans were \$0.2 million in each of 2023, 2022, and 2021.

Savings plans for eligible employees and agents match employee and agent contributions up to 8.00% of salary and 2.50% of agents' prior year paid commissions. Contributions to the savings plans were \$2.4 million in both 2023 and 2022 and \$2.5 million in 2021. We may contribute an additional profit sharing amount up to 4% of salary for eligible employees, depending upon corporate profits. The Company did not make a profit sharing contribution in 2023, 2022, or 2021.

We recognize the funded status of our pension and postemployment plans in the Consolidated Balance Sheets, measured as the difference between plan assets at fair value and the projected benefit obligation. 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.

Significant sources of actuarial gains and losses for the pension plan included the impact of changes to the discount rate resulting in losses of \$1.5 million during 2023 and gains of \$24.0 million during 2022. The pension plan included gains from asset returns compared to expected returns of \$7.2 million in 2023 and losses of \$35.2 million in 2022. The mortality assumption and lump sum interest changes resulted in losses of less than \$0.1 million in 2023 and losses of \$1.9 million in 2022. The pension plan included losses from census change of \$0.2 million and gains from future cost of living adjustment of \$0.5 million in 2023. The pension plan included losses from census change of \$1.0 million and future cost of living adjustment of \$2.3 million in 2022. The significant sources of actuarial gains and losses for other postretirement benefits included the impact of changes to the discount rate resulting in losses of \$0.3 million in 2023 and gains of \$3.9 million during 2022. Other postretirement benefits included losses from census change of \$0.4 million in 2023 and gains of \$0.9 million in 2022. Additionally, gains from updated claims costs and premiums resulted in gains of \$0.8 million in 2023 and gains of \$1.0 million in 2022.

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

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

	Pension Benefits		OPEB	
	2023	2022	2023	2022
Change in projected benefit obligation:				
Benefit obligation at beginning of year	\$ 97,678	\$ 124,107	\$ 12,975	\$ 19,006
Service cost	—	—	67	124
Interest cost	4,537	2,942	622	498
Plan participants' contributions	—	—	638	605
Actuarial loss (gain)	1,339	(19,146)	(266)	(5,575)
Benefits paid	(8,680)	(10,225)	(1,393)	(1,683)
Benefit obligation at end of year	<u>\$ 94,874</u>	<u>\$ 97,678</u>	<u>\$ 12,643</u>	<u>\$ 12,975</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 135,892	\$ 171,562	\$ —	\$ —
Return on plan assets	16,109	(25,545)	—	—
Plan participants' contributions	—	—	638	605
Company contributions	135	100	755	1,078
Benefits paid	(8,680)	(10,225)	(1,393)	(1,683)
Fair value of net plan assets at end of year	<u>\$ 143,456</u>	<u>\$ 135,892</u>	<u>\$ —</u>	<u>\$ —</u>
Under (over) funded status at end of year	<u>\$ (48,582)</u>	<u>\$ (38,214)</u>	<u>\$ 12,643</u>	<u>\$ 12,975</u>

	Pension Benefits		OPEB	
	2023	2022	2023	2022
Amounts recognized in accumulated other comprehensive income (loss):				
Net loss (gain)	\$ 64,590	\$ 73,413	\$ (11,986)	\$ (13,346)
Prior service credit	(1,076)	(1,142)	—	—
Total accumulated other comprehensive income (loss)	<u>\$ 63,514</u>	<u>\$ 72,271</u>	<u>\$ (11,986)</u>	<u>\$ (13,346)</u>

	Pension Benefits		OPEB	
	2023	2022	2023	2022
Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss):				
Unrecognized actuarial net loss (gain)	\$ (5,832)	\$ 16,067	\$ (266)	\$ (5,575)
Amortization of net gain (loss)	(2,991)	(2,066)	1,626	902
Amortization of prior service credit	66	66	—	—
Total loss (gain) recognized in other comprehensive income (loss)	<u>\$ (8,757)</u>	<u>\$ 14,067</u>	<u>\$ 1,360</u>	<u>\$ (4,673)</u>

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

	Pension Benefits		OPEB	
	2023	2022	2023	2022
Weighted average assumptions used to determine benefit obligations at December 31:				
Discount rate	4.70 %	4.90 %	4.76 %	4.96 %
Weighted average assumptions used to determine net periodic benefit cost for years ended December 31:				
Discount rate	4.90 %	2.47 %	4.96 %	2.68 %
Expected return on plan assets	6.83 %	5.80 %	— %	—

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

	2023	2022
Fixed maturity securities:		
U.S. Government	\$ 25	\$ 33
Industrial and public utility	5,125	5,117
Investment funds:		
Mutual funds	47,964	30,688
Collective trust	88,804	97,469
Limited partnerships	1,429	2,460
Other invested assets	15	30
Cash and cash equivalents	45	46
Receivables	49	49
Fair value of assets at end of year	<u>\$ 143,456</u>	<u>\$ 135,892</u>

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

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

	2023			
	Level 1	Level 2	Level 3	Total
Fixed maturity securities:				
U.S. Government	\$ —	\$ 25	\$ —	\$ 25
Industrial and public utility	—	5,125	—	5,125
Mutual funds	47,964	—	—	47,964
Other invested assets	—	—	15	15
Total assets in the fair value hierarchy	47,964	5,150	15	53,129
Investments measured at net asset value: <sup>1</sup>				
Collective trust				88,804
Limited partnerships				1,429
Investments at fair value				\$ 143,362

	2022			
	Level 1	Level 2	Level 3	Total
Fixed maturity securities:				
U.S. Government	\$ —	\$ 33	\$ —	\$ 33
Industrial and public utility	—	5,117	—	5,117
Mutual funds	30,688	—	—	30,688
Other invested assets	—	—	30	30
Total assets in the fair value hierarchy	30,688	5,150	30	35,868
Investments measured at net asset value: <sup>1</sup>				
Collective trust				97,469
Limited partnerships				2,460
Investments at fair value				\$ 135,797

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

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

	2023	2022
Beginning balance	\$ 30	\$ 31
Gains (losses) realized and unrealized	(15)	(1)
Ending balance	\$ 15	\$ 30

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

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

	Pension Benefits			OPEB		
	2023	2022	2021	2023	2022	2021
Service cost	\$ —	\$ —	\$ —	\$ 67	\$ 124	\$ 181
Interest cost	4,537	2,942	2,505	622	498	460
Expected return on plan assets	(8,938)	(9,667)	(9,279)	—	—	—
Amortization of:						
Unrecognized actuarial net loss (gain)	2,991	2,066	2,374	(1,626)	(902)	(864)
Unrecognized prior service credit	(66)	(66)	(66)	—	—	—
Net periodic benefit credit	(1,476)	(4,725)	(4,466)	(937)	(280)	(223)
Total recognized in other comprehensive income (loss)	(8,757)	14,067	(6,556)	1,360	(4,673)	83
Total recognized in net periodic benefit cost (credit) and other comprehensive income (loss)	\$ (10,233)	\$ 9,342	\$ (11,022)	\$ 423	\$ (4,953)	\$ (140)

For measurement purposes, the annual increase in the per capita cost of covered health care benefits was assumed to be 7.15%, decreasing gradually to 5.00% in 2030 and thereafter.



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

**13. Share-Based Payment**

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

The following table provides information about the outstanding three-year intervals at December 31, 2023.

Defined Measurement Period	Number of Units	Grant Price
2021-2023	114,167	\$37.39
2022-2024	116,859	\$42.03
2023-2025	179,314	\$27.60
2024-2026 <sup>1</sup>	161,947	\$31.47

<sup>1</sup> Effective January 1, 2024

The Company did not make a cash payment under the long-term incentive plan during 2023 for the three-year interval ended December 31, 2022. The Company made a cash payment of \$1.3 million under the long-term incentive plan during 2022 for the three-year interval ended December 31, 2021. The Company did not make any cash payments under the long-term incentive plan during 2021 for the three-year interval ended December 31, 2020. The cost of share-based compensation accrued as an operating expense during 2023 was \$0.3 million, net of tax. The change in accrual that reduced operating expense during 2022 was \$1.1 million, net of tax. The cost of share-based compensation accrued as an operating expense during 2021 was \$1.5 million, net of tax.

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

**14. Reinsurance**

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

	2023	2022	2021
Life insurance in force (in millions):			
Direct	\$ 49,365	\$ 50,479	\$ 50,757
Ceded	(30,719)	(31,667)	(32,269)
Assumed	3,962	4,316	5,082
Net	<u>\$ 22,608</u>	<u>\$ 23,128</u>	<u>\$ 23,570</u>
Premiums:			
Life insurance:			
Direct	\$ 262,373	\$ 259,646	\$ 253,348
Ceded	(108,714)	(106,060)	(98,507)
Assumed	6,200	5,776	7,030
Net	<u>\$ 159,859</u>	<u>\$ 159,362</u>	<u>\$ 161,871</u>
Accident and health:			
Direct	\$ 61,546	\$ 59,253	\$ 57,043
Ceded	(10,239)	(10,007)	(10,050)
Net	<u>\$ 51,307</u>	<u>\$ 49,246</u>	<u>\$ 46,993</u>

**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 \$8.5 million at December 31, 2023 and \$9.4 million at December 31, 2022. The reserve for future policy benefits ceded under this agreement was \$5.3 million at December 31, 2023 and \$5.8 million at December 31, 2022.

Ibexis Life & Annuity Insurance Company 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, Ibexis Life & Annuity Insurance Company recaptured approximately 9% of the outstanding bulk reinsurance agreement. Effective with the sale of Ibexis Life & Annuity Insurance Company on November 1, 2021, Kansas City Life assumed the responsibility for this agreement. The insurance in force ceded approximated \$458.7 million at December 31, 2023 and \$494.0 million at December 31, 2022. Premiums totaled \$5.1 million during 2023, \$5.3 million during 2022, and \$5.4 million during 2021.

On January 1, 2022, Old American entered into a reinsurance agreement whereby it began reinsuring 50% of new business on selected products. Effective October 1, 2022, this agreement was modified to reinsure 75% of new business on selected products. As part of this arrangement, the assuming entity agreed to provide certain administrative support in the form of underwriting services. This support was not material to the reinsurance arrangement or to the Company's operating expenses in 2023 or 2022. The insurance in force ceded approximated \$135.5 million at December 31, 2023 and premiums totaled \$10.4 million during 2023. The insurance in force ceded approximated \$66.7 million at December 31, 2022 and premiums totaled \$5.4 million during 2022.

In the second quarter of 2022, the Company reinsured a block of fixed annuity business with an average crediting rate of 3.75% to a certified domestic reinsurer. This reinsurance arrangement was effective April 1, 2022. The contract reinsured \$516.2 million in policyholder account balance liabilities in exchange for fixed maturity securities and cash, less deferred revenue. We immediately recognized \$11.6 million of certain non-refundable premiums associated with the transaction in investment income. The remaining deferred revenue will be amortized in future periods. The net consideration transferred to the reinsurer was \$493.9 million. This resulted in recognizing a deposit asset on reinsurance of \$516.2 million at April 1, 2022. Fixed maturity securities were transferred at market value as of the closing date of the transaction, resulting in a pre-tax net realized investment loss of \$12.3 million. We will continue to administer this business on an ongoing basis, and we will receive an ongoing expense allowance associated with these efforts. The remaining deferred revenue liability is included in Other

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

Liabilities in the Consolidated Balances Sheets and will be amortized over future periods consistent with the amortization of the Deposit Asset on Reinsurance. The Company determined that the reinsurance agreement does not expose the reinsurer to a significant loss from insurance risk. Therefore, the Company has recognized the reinsurance agreement using the deposit-type method of accounting. The reserve credit transferred to the reinsurer is reported as Deposit Asset on Reinsurance in the Consolidated Balance Sheets. As amounts are received or paid, consistent with the underlying reinsured contracts, the Deposit Asset on Reinsurance is adjusted. The Deposit Asset on Reinsurance is also accreted to the estimated ultimate cash flows using the interest method and the adjustment is reported as Net Investment Income in the Consolidated Statements of Comprehensive Income. In 2023, investment income recognized was \$16.5 million and interest credited on the block totaled \$16.4 million. In 2022, the investment income recognized was \$25.6 million less \$3.8 million in transferred investment income and the interest credited on the block was \$13.9 million. The Deposit Asset on Reinsurance balance was \$419.4 million at December 31, 2023 and \$484.4 million at December 31, 2022.

Reinsurance recoverables were \$409.2 million at year-end 2023, consisting of reserves ceded of \$365.3 million and claims ceded of \$43.9 million. Reinsurance recoverables were \$389.6 million at year-end 2022, consisting of reserves ceded of \$356.2 million and claims ceded of \$33.4 million.

The maximum retention on any one life during 2023 and 2022 was \$0.5 million for ordinary life plans and \$0.1 million for group coverage.

The following table reflects our reinsurance partners whose recoverable was 5% or greater of our total reinsurance recoverable and deposit asset on reinsurance at December 31, 2023, along with their A.M. Best credit rating.

	A.M. Best Rating	Reinsurance Recoverable and Deposit Asset on Reinsurance	% of Recoverable
RGA Reinsurance Company	A+	\$ 544,935	67 %
Transamerica Life Insurance Company	A	76,986	9 %
Swiss Re Life & Health America, Inc	A+	44,086	5 %
SCOR Global Life USA Reinsurance Company	A	41,966	5 %
Other (25 Companies)		107,553	14 %
Total		\$ 815,526	100 %

We monitor the financial condition of our reinsurance partners to assess the risk of default. We have a significant concentration of credit risk with RGA Reinsurance Company (RGA). We believe that all of our reinsurance recoverables from RGA are collectible as of December 31, 2023. In the event of a failure of RGA to perform its obligations under its reinsurance treaties, there could be a material impact on our financial position and results of operations. RGA had an A+ (Superior) financial strength rating from A.M. Best and an AA- (Very Strong) financial strength rating from S&P Global Ratings as of December 31, 2023.

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

We monitor several factors that we consider relevant as to the ongoing ability of a reinsurer to meet the obligations of the reinsurance agreements. These factors include the credit rating as well as significant changes or events of the reinsurer. In addition, we review the credit rating and financial statements of a reinsurer before entering into any new agreements. If we believe it is probable that any reinsurer would not be able to satisfy its obligations with us, an allowance for credit losses may be established. At year-end 2023, one reinsurer met these conditions. In 2022, no reinsurers met these conditions.

We had a reinsurance agreement with Scottish Re, with a reinsurance recoverable for ceded claims of \$3.3 million at December 31, 2023. We established an allowance for credit losses of \$1.4 million on this recoverable. On March 6, 2019, Scottish Re was ordered into receivership for the purposes of rehabilitation by the Court of Chancery of the State of Delaware. The proposed Plan of Rehabilitation of Scottish Re was filed on June 30, 2020. On March 16, 2021, the Receiver filed a draft Amended Plan of Rehabilitation and filed an outline of changes to the amended plan on July 27, 2021. The Receiver filed a Motion for Entry of a Liquidation and Injunction Order on July 18, 2023. Through our credit loss analysis, which included historical loss information, historical credit rating data, and existing financial information, we recorded a \$1.8 million

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

allowance for credit losses for the reinsurance recoverable upon adoption of ASU No. 2016-13 on January 1, 2023. We reduced the allowance by \$0.4 million during 2023. We will continue to monitor the Liquidation and Injunction Order and expected recovery of the reinsurance recoverable.

As discussed in Note 1 - Nature of Operations and Significant Accounting Policies, the Company adopted ASU No. 2016-13 pertaining to the recognition and measurement of credit losses on reinsurance recoverables effective January 1, 2023. We determined that an allowance was not required at December 31, 2023, with the exception of reinsurance recoverables from Scottish Re US Inc. (Scottish Re).

The following table provides a rollforward of the allowance for credit losses for reinsurance recoverables and other assets for the year ended December 31, 2023.

	Reinsurance Recoverable	Other Assets
Beginning of year	\$ —	\$ —
Provision for adoption of ASU No. 2016-13	1,772	—
Additions for credit losses not previously recorded	—	737
Additions (reductions) for credit losses recorded in a previous period	(419)	—
End of year	<u>\$ 1,353</u>	<u>\$ 737</u>

Effective October 1, 2023, coinsurance on term life insurance policies held through Scottish Re was terminated, resulting in the release of ceded reserves of \$1.5 million. The mortality risk on this business was subsequently reinsured on a yearly renewable term (YRT) basis to one of our existing domestic reinsurance partners. We established a receivable for ceded reserves and premium of \$1.8 million related to the previously coinsured policies. The receivable is recorded in Other Assets in the Consolidated Balance Sheets. We also established an allowance for credit losses of \$0.7 million on this receivable.

***Assumed Reinsurance Arrangements***

We acquired a block of traditional life and universal life products from Security Benefit Life Insurance Company in 1997 through a 100% coinsurance and servicing arrangement. Investments equal to the statutory policy reserves are held in a trust to secure payment of the estimated liabilities relating to the policies. This block had \$473.8 million of life insurance in force at December 31, 2023 and \$516.7 million of life insurance in force at December 31, 2022. This block generated life insurance premiums of \$1.7 million in 2023, \$1.6 million in 2022, and \$1.7 million in 2021.

We acquired a block of variable universal life insurance policies and variable annuity contracts from American Family Life Insurance Company in 2013. The transfer was comprised of a 100% modified coinsurance transaction on the separate account business and a 100% coinsurance transaction for the corresponding fixed account business. Included in the transaction are ongoing servicing arrangements for this business. This block consisted of \$347.6 million of separate account balances at December 31, 2023, which are included in the financial statements of American Family, compared to \$317.9 million at December 31, 2022. This block consisted of \$0.5 million of future policy benefits and \$34.4 million in fixed fund balances that are included in Policyholder Account Balances in the Company's Consolidated Balance Sheets at December 31, 2023. This block consisted of \$0.5 million of future policy benefits and \$37.0 million in fixed fund balances at December 31, 2022.

Effective December 31, 2020, Kansas City Life entered into a 100% assumption reinsurance agreement with Ibis Life & Annuity Insurance Company for all direct policyholder liabilities written by Ibis Life & Annuity Insurance Company. Effective November 1, 2021, Kansas City Life recognized 100% of the future policy benefits and policyholder account balances as well as other related liabilities in the reinsurance assumption that occurred December 31, 2020. As Ibis Life & Annuity Insurance Company was still part of the consolidated entity prior to November 1, 2021, this agreement had no impact on consolidated reporting. Effective with the sale of Ibis Life & Annuity Insurance Company on November 1, 2021, the treaty is now accounted for as an assumption reinsurance agreement from an unaffiliated third party. The Company is pursuing a novation plan, whereby policies under this agreement will be converted to direct business of Kansas City Life. In order to novate, certain conditions must be met as identified under state regulations. As these conditions are met, a policy is converted to a direct policy and the reinsurance aspect is eliminated. As of December 31, 2023, approximately three-fourths of the reserves for these policies had been converted. This block had \$916.2 million of life insurance in force at December 31, 2023 and generated life insurance premiums of \$1.1 million in 2023. This block had \$1.0 billion of life insurance in force at December 31, 2022 and generated life insurance premiums of \$1.2 million in 2022. This block consisted of \$28.4 million of

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

future policy benefits and \$187.0 million of policyholder account balances at December 31, 2023. This block consisted of \$30.5 million of future policy benefits and \$201.7 million of policyholder account balances at December 31, 2022.

**15. Comprehensive Income (Loss)**

Comprehensive Income (Loss) is comprised of Net Income (Loss) 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. Furthermore, 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, 2023		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Change in unrealized investment gains/losses	\$ 80,958	\$ 17,001	\$ 63,957
Reclassification of unrealized investment gains/losses	6,308	1,325	4,983
Effect on DAC, VOBA, and DRL	(7,665)	(1,610)	(6,055)
Change in benefit plan obligations	7,397	1,553	5,844
Other comprehensive income	<u>\$ 86,998</u>	<u>\$ 18,269</u>	<u>\$ 68,729</u>
Net income			<u>54,920</u>
Comprehensive income			<u>\$ 123,649</u>

	Year Ended December 31, 2022		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Change in unrealized investment gains/losses	\$ (474,535)	\$ (99,652)	\$ (374,883)
Reclassification of unrealized investment gains/losses	10,591	2,224	8,367
Effect on DAC, VOBA, and DRL	39,664	8,330	31,334
Change in policyholder liabilities	33,877	7,112	26,765
Change in benefit plan obligations	(9,394)	(1,970)	(7,424)
Other comprehensive loss	<u>\$ (399,797)</u>	<u>\$ (83,956)</u>	<u>\$ (315,841)</u>
Net loss			<u>(16,218)</u>
Comprehensive loss			<u>\$ (332,059)</u>

	Year Ended December 31, 2021		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Change in unrealized investment gains/losses	\$ (123,342)	\$ (25,902)	\$ (97,440)
Reclassification of unrealized investment gains/losses	(4,328)	(909)	(3,419)
Effect on DAC, VOBA, and DRL	10,058	2,112	7,946
Change in policyholder liabilities	11,705	2,458	9,247
Change in benefit plan obligations	6,475	1,360	5,115
Other comprehensive loss	<u>\$ (99,432)</u>	<u>\$ (20,881)</u>	<u>\$ (78,551)</u>
Net income			<u>10,704</u>
Comprehensive loss			<u>\$ (67,847)</u>

**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, 2023, net of tax.

	Unrealized Gain (Loss) on Securities	Benefit Plan Obligations	DAC/ VOBA/DRL Impact	Total
Beginning of year	\$ (213,794)	\$ (46,552)	\$ 18,756	\$ (241,590)
Other comprehensive income (loss) before reclassification	63,957	5,844	(6,055)	63,746
Amounts reclassified from accumulated other comprehensive income (loss)	4,983	—	—	4,983
Net current-period other comprehensive income (loss)	68,940	5,844	(6,055)	68,729
End of year	<u>\$ (144,854)</u>	<u>\$ (40,708)</u>	<u>\$ 12,701</u>	<u>\$ (172,861)</u>

The following table provides accumulated balances related to each component of Accumulated Other Comprehensive Income (Loss) at December 31, 2022, net of tax.

	Unrealized Gain (Loss) on Non- Impaired Securities	Unrealized Gain (Loss) on Impaired Securities	Benefit Plan Obligations	DAC/ VOBA/DRL Impact	Policyholder Liabilities	Total
Beginning of year	\$ 151,660	\$ 1,062	\$ (39,128)	\$ (12,578)	\$ (26,765)	\$ 74,251
Other comprehensive income (loss) before reclassification	(373,794)	(1,089)	(7,424)	31,334	26,765	(324,208)
Amounts reclassified from accumulated other comprehensive income (loss)	8,340	27	—	—	—	8,367
Net current-period other comprehensive income (loss)	(365,454)	(1,062)	(7,424)	31,334	26,765	(315,841)
End of year	<u>\$ (213,794)</u>	<u>\$ —</u>	<u>\$ (46,552)</u>	<u>\$ 18,756</u>	<u>\$ —</u>	<u>\$ (241,590)</u>

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

The following table presents the pre-tax and the related Income Tax Benefit (Expense) components of the amounts reclassified from Accumulated Other Comprehensive Income (Loss) to the Consolidated Statements of Comprehensive Income for the year ended December 31.

	2023
Reclassification adjustments related to unrealized gains (losses) on investment securities:	
Net realized investment losses, excluding credit losses <sup>1</sup>	\$ (6,308)
Income tax benefit <sup>2</sup>	1,325
Net of taxes	(4,983)
Change in allowance for credit losses for fixed maturity securities <sup>1</sup>	—
Income tax expense <sup>2</sup>	—
Net of taxes	—
Total pre-tax reclassifications	(6,308)
Total income tax benefit	1,325
Total reclassification, net of taxes	\$ (4,983)

<sup>1</sup> (Increases) decreases Net Investment Gains (Losses) in the Consolidated Statements of Comprehensive Income.

<sup>2</sup> (Increases) decreases Income Tax Expense (Benefit) in the Consolidated Statements of Comprehensive Income.

The following table presents the pre-tax and the related Income Tax Benefit (Expense) components of the amounts reclassified from Accumulated Other Comprehensive Income (Loss) to the Consolidated Statements of Comprehensive Income for the years ended December 31.

	2022	2021
Reclassification adjustments related to unrealized gains (losses) on investment securities:		
Net realized investment gains (losses), excluding impairment losses <sup>1</sup>	\$ (10,557)	\$ 4,810
Income tax benefit (expense) <sup>2</sup>	2,217	(1,010)
Net of taxes	(8,340)	3,800
Other-than-temporary impairment losses <sup>1</sup>	(34)	(482)
Income tax benefit <sup>2</sup>	7	101
Net of taxes	(27)	(381)
Total pre-tax reclassifications	(10,591)	4,328
Total income tax benefit (expense)	2,224	(909)
Total reclassification, net taxes	\$ (8,367)	\$ 3,419

<sup>1</sup> (Increases) decreases Net Investment Gains (Losses) in the Consolidated Statements of Comprehensive Income.

<sup>2</sup> (Increases) decreases Income Tax Expense (Benefit) in the Consolidated Statements of Comprehensive Income.

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

***16. Earnings per Share***

Due to our capital structure and the absence of other potentially dilutive securities, there is no difference between basic and diluted earnings per common share for any of the years reported. The average number of shares outstanding was 9,683,414 shares during each of 2023, 2022, and 2021. The number of shares outstanding at both December 31, 2023 and December 31, 2022 was 9,683,414.

***17. Segment Information***

We have three reportable business segments, which are defined based on the nature of the products and services offered: Individual Insurance, Group Insurance, and Old American. The Individual Insurance segment consists of individual insurance products for Kansas City Life, Grange Life, and the assumed reinsurance transactions. Ibexis Life & Annuity Insurance Company was also included in the Individual Insurance segment until its sale on November 1, 2021. The results of Ibexis Life & Annuity Insurance Company operations are included in the Individual Insurance segment for the first ten months of 2021. For additional information on the sale of Ibexis Life & Annuity Insurance Company, please see the Business Changes section of Note 1 - Nature of Operations and Significant Accounting Policies. The Group Insurance segment consists of sales of group life, dental, vision, disability, accident, and critical illness 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. Separate investment portfolios are maintained for Kansas City Life, Old American, and Grange Life for segment reporting purposes. Investment assets and income are allocated to the Group Insurance segment based upon its cash flows and future policy benefit liabilities. Policyholder benefits are specifically identified to the respective segment. Most home office functions are fully integrated for all segments in order to maximize economies of scale. Therefore, operating expenses are allocated to the segments based upon internal cost studies, which are consistent with industry cost methodologies.

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



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

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

	2023			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	\$ 178,907	\$ 67,272	\$ 87,574	\$ 333,753
Interest credited to policyholder account balances	74,311	—	—	74,311
Amortization of deferred acquisition costs	14,943	—	19,416	34,359
Income tax expense	13,504	515	371	14,390
Net income	51,609	1,941	1,370	54,920
Assets	4,592,574	10,808	449,780	5,053,162

  

	2022			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	\$ 174,168	\$ 64,662	\$ 93,822	\$ 332,652
Interest credited to policyholder account balances	72,974	—	—	72,974
Amortization of deferred acquisition costs	20,225	—	20,368	40,593
Income tax expense (benefit)	(4,262)	447	(724)	(4,539)
Net income (loss)	(15,176)	1,681	(2,723)	(16,218)
Assets	4,524,863	9,322	430,964	4,965,149

  

	2021			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	\$ 168,675	\$ 62,145	\$ 99,847	\$ 330,667
Interest credited to policyholder account balances	79,725	—	—	79,725
Amortization of deferred acquisition costs	12,520	—	20,697	33,217
Income tax expense (benefit)	3,537	(106)	(1,215)	2,216
Net income (loss)	15,698	(401)	(4,593)	10,704
Assets	4,959,634	10,030	463,766	5,433,430

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

**18. Quarterly Consolidated Financial Data (unaudited)**

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

	2023			
	First	Second	Third	Fourth
Total revenues	\$ 125,969	\$ 123,952	\$ 122,626	\$ 186,373
Total benefits and expenses	130,080	118,296	116,785	124,449
Net income (loss)	(3,241)	4,463	4,599	49,099
Per common share, basic and diluted	(0.33)	0.46	0.47	5.07

  

	2022			
	First	Second	Third	Fourth
Total revenues	\$ 119,231	\$ 114,579	\$ 119,998	\$ 122,834
Total benefits and expenses	128,665	109,538	114,689	144,507
Net income (loss)	(7,676)	4,485	4,315	(17,342)
Per common share, basic and diluted	(0.79)	0.46	0.45	(1.79)

**19. Statutory Information and Stockholder Dividends Restriction**

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

	2023	2022	2021
Net gain (loss) from operations	\$ 495	\$ (20,319)	\$ (5,494)
Net income (loss)	55,355	(21,532)	24,165
Capital and surplus	277,625	220,044	245,300

Kansas City Life recognizes its 100% ownership in Old American and Grange Life under the equity method with subsidiary earnings recorded through surplus on a statutory accounting basis. Capital and surplus at December 31, 2023 in the above table includes capital and surplus of \$27.0 million for Old American and \$26.4 million for Grange Life.

Stockholder dividends may not exceed statutory unassigned surplus. Additionally, under Missouri law, a company must have the prior approval of the Missouri Director of Insurance to pay dividends in any consecutive twelve-month period exceeding the greater of statutory net gain from operations for the preceding year or 10% of capital and surplus at the end of the preceding year. Both Kansas City Life and Old American are Missouri-domiciled insurance companies. The maximum stockholder dividends payable by Kansas City Life without prior approval in 2024 is \$27.8 million, 10% of December 31, 2023 capital and surplus. The maximum stockholder dividends payable by Old American without prior approval in 2024 is \$6.4 million, net gain from operations for the year ended December 31, 2023.

Grange Life is subject to the laws in Ohio, its state of domicile. Ohio law limits the Company's payment of dividends to its parent company, Kansas City Life. The maximum dividend that may be paid by an Ohio-domiciled insurance company to its shareholders in any year without the prior approval of the Ohio Director of the Department of Insurance is limited to the greater of the net income of the preceding calendar year or 10% of capital and surplus as of the preceding December 31. Ohio law also requires that any dividend be paid from earned surplus. The maximum dividend payments that can be made in 2024, without obtaining prior approval, are \$2.6 million subject to the amount of earned surplus available at the time of payment.

We believe that the statutory limitations described above impose no practical restrictions on the declaration and subsequent payment of any dividend that may be declared on any of our three insurance companies.

Insurance companies are monitored and evaluated by state insurance departments as to the financial adequacy of statutory capital and surplus in relation to each company's risks. One such measure is through the risk-based capital (RBC) guidelines. RBC requirements are intended to be used by insurance regulators as an early warning tool to identify deteriorating or weakly

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

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 insurance companies was within the range of approximately 400% to 830%, well in excess of the control level at December 31, 2023.

We are required to deposit a defined amount of assets with state regulatory authorities. Such assets had a statutory carrying value of \$8.5 million at December 31, 2023, \$8.8 million at December 31, 2022, and \$9.5 million at December 31, 2021.

**20. Commitments, Contingent Liabilities, Guarantees, and Indemnifications**

**Commitments**

In the normal course of business, we have open purchase and sale commitments. At December 31, 2023, we had commitments to fund investments in alternative investment funds of \$43.5 million.

Subsequent to December 31, 2023, we entered into commitments to fund additional mortgage loans of \$2.1 million.

**Contingent Liabilities**

On March 1, 2019, the Delaware Department of Insurance requested Scottish Re (US) be placed in rehabilitation. Kansas City Life had ceded some of its business to Scottish Re (US), a subsidiary of Scottish Re Group. On July 18, 2023, the Court entered a Liquidation and Injunction Order (the "Order") detailing the termination of Scottish Re (US)'s existing reinsurance contracts and providing for a liquidation of its assets. We have established an allowance for credit losses related to the reinsurance receivables related to our agreements with Scottish Re (US) under ASU No. 2016-13 as adopted by the Company on January 1, 2023. We will continue to closely monitor developments related to the distribution of assets by the receiver as we evaluate the allowance for credit losses related to these reinsurance receivables in future financial periods. For additional information, please see Note 14 - Reinsurance.

We are also involved in various pending or threatened legal proceedings, including purported class actions, arising from the conduct of business both in the ordinary course and otherwise. In some of the matters, very large and/or indeterminate amounts, including punitive and treble damages, are sought.

Due to the unpredictable nature of litigation, the probable outcome of a litigation matter and the amount or range of potential loss can be difficult to ascertain. We accrue liabilities for litigation and other loss contingencies when available information indicates both that a loss is probable and the amount of the loss can be reasonably estimated. If a range of loss is estimated, and some amount within that range appears to be a better estimate than any other amount within that range, then that amount is accrued. If no amount within the range can be identified as a better estimate than any other amount, we accrue the minimum amount in the range.

For such matters where a loss is believed to be reasonably possible, but not probable, or the loss cannot be reasonably estimated, no accrual has been made. It is possible that such matters could require us to pay damages or make other expenditures or establish accruals in amounts that could not be reasonably estimated as of December 31, 2023. While the potential future liabilities could be material in the particular quarterly or annual periods in which they are recorded, based on information currently known by management, we do not believe any such liabilities are likely to have a material adverse effect on our business and our consolidated financial position, results of operations and cash flows, except for the matters described below under the heading "Cost of Insurance Litigation."

*Cost of Insurance Litigation*

We are the defendant in five related litigation matters (including four certified class actions and one putative class action) that allege that we determined cost of insurance rates in excess of amounts permitted by the terms of certain life insurance policies.

- *Karr v. Kansas City Life* is a class action filed in the 16th Circuit Court for the State of Missouri (Jackson County). In July 2021, the Court certified a class that includes current Missouri residents who purchased certain universal life policies (described below) in the State of Missouri that were active on or after January 1, 2002. In February of 2022, the Court granted partial Summary Judgment to plaintiffs on three of the five counts at issue in the class action. In December of 2022, there was a jury trial based on determining damages under the Court's summary judgment ruling. The jury rendered a verdict of \$28.4 million in favor of the plaintiffs related to those three counts. The Court entered a final judgment on the verdict on August 24, 2023, and we are appealing the judgment through the Missouri Court of Appeals.

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

- Meek v. Kansas City Life is a class action filed in the U.S. District Court for the Western District of Missouri. In February of 2022, the Court certified a class that includes current and former policyowners who purchased certain universal life policies (described below) that were issued in the State of Kansas and whose policies were active on or after January 1, 2002. In March of 2023, the Court issued a summary judgment ruling related to claims by both plaintiffs and defendant. The Court ruled in the favor of plaintiffs on the first three counts, which relate to permitted cost of insurance factors and mortality improvement, but only as to liability. The Court ruled in favor of defendant on the fourth count, which relates to conversion. The Court entered an Order partially decertifying the Class on June 20, 2023, limiting the class to those Class members who incurred charges for “cost of insurance” or “expense charges” between June 18, 2014, and February 28, 2021. In May 2023, the case went to jury trial, and the jury rendered a verdict in favor of the plaintiff in the amount of \$0.9 million. The Company has appealed the underlying rulings of the Court and the findings of the jury related to liability with the 8th Circuit Court of Appeals.
- Sheldon v. Kansas City Life is a class action filed in the 16th Circuit Court for the State of Missouri (Jackson County). In May of 2022, the Court certified a class that includes contract owners who purchased certain Century II Variable Universal Life contracts that were issued in the State of Missouri and whose policies were active on or after January 1, 2002. The Court granted partial Summary Judgment to plaintiffs on the contract counts at issue in the class action. In September 2023, the case went to trial and the jury rendered a verdict in favor of the plaintiffs in the amount of \$4.1 million. The judgment on the verdict is now final and we have appealed the underlying rulings of the Court and the jury verdict to the Missouri Court of Appeals.
- Fine v. Kansas City Life is a class action filed in the U.S. District Court for the Central District of California. In November of 2023, the Court certified a class that includes current individuals who purchased certain universal life and variable universal life policies in the state of California and whose policies were active on or after January 1, 2002. The Company has filed a Rule 23(f) petition with the 9th Circuit Court of Appeals seeking to overturn the certification of the class. The Fine matter also includes different defenses and matters of law than the other cases.
- McMillan v. Kansas City Life is a putative class action filed in the U.S. District Court for the District of Maryland. The proposed class would include current and former policyholders who purchased certain universal life and certain variable universal life policies originally issued in the State of Maryland. This case was filed on May 5, 2022, and is in its preliminary stages. The Court has not certified a class of policyholders or identified the policies at issue in this matter. The McMillan matter includes different defenses and matters of law than the other related cases.

As referenced above, the classes certified in Karr, Meek, and Fine class actions include policyholders who purchased one of the following Universal Life policies issued by Kansas City Life: Better Life Plan, Better Life Plan Qualified, LifeTrack, AGP, MGP, PGP, Chapter One, Classic, Rightrack (89), Performer (88), Performer (91), Prime Performer, Competitor (88), Competitor (91), Executive (88), Executive (91), Protector 50, LewerMax, Ultra 20 (93), Competitor II, Executive II, Performer II, or Ultra 20 (96). The Fine class action also includes policyholders who purchased the Century II Variable Universal Life policy.

As of December 31, 2023, we have accrued an aggregate liability related to the Cost of Insurance litigation matters described above in the amount of \$28.4 million. There can be no assurances as to the outcome of any of these matters, including those where a verdict has already been rendered and will be the subject of appeal, or that the accrued liability will be sufficient to cover our ultimate financial exposure associated with these matters. As a result, the amounts that may be required to be paid to discharge or settle one or more of these matters could have a material adverse impact on our business and our consolidated financial position, results of operations and cash flows.

*Regulatory Matters*

We are subject to regular reviews and inspections by state and federal regulatory authorities. State insurance examiners - or independent audit firms engaged by such examiners - may, from time to time, conduct examinations or investigations into industry practices and customer complaints. A regulatory violation discovered during a review, inspection, or investigation could result in a wide range of remedies that could include the imposition of sanctions against us or our employees, which could have a material adverse effect on our financial statements.

The life insurance industry has been the subject of significant regulatory and legal activities regarding the use of the U.S. Social Security Administration's Death Master File (“Death Master File”) in the claims process. Certain states have proposed, and many other states are considering, new legislation and regulations related to unclaimed life insurance benefits and the use of the Death Master File in the claims process. Based on our analysis to date, we believe that we have adequately reserved for

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

contingencies from a change in statute or regulation. Ongoing regulatory developments and other future requirements related to this matter may result in additional payments or costs that could be significant and could have a material adverse effect on our financial statements.

**Guarantees and Indemnifications**

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

***21. Subsequent Events***

We evaluated events that occurred subsequent to December 31, 2023 through March 6, 2024, the date the consolidated financial statements were issued, and have identified the following subsequent event.

On January 22, 2024, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.14 per share, paid on February 7, 2024 to stockholders of record on February 1, 2024.

There have been no other subsequent events that occurred during such period that require disclosure in, or adjustment to, the consolidated financial statements as of and for the year ended December 31, 2023.

## Independent Auditor's Report

*The Audit Committee and Stockholders  
Kansas City Life Insurance Company  
Kansas City, Missouri*

### **Opinion**

We have audited the consolidated financial statements of Kansas City Life Insurance Company and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2023, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Kansas City Life Insurance Company and subsidiaries as of December 31, 2023 and 2022, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2023 in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are required to be independent of Kansas City Life Insurance Company and subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Kansas City Life Insurance Company and subsidiaries' ability to continue as a going concern within one year after the date that these consolidated financial statements are issued.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Kansas City Life Insurance Company and subsidiaries' internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kansas City Life Insurance Company and subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the incurred and paid claims development information for the years 2014 through 2022 in Note 8 be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

/s/ FORVIS

Kansas City, Missouri  
March 6, 2024

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

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

Management's Discussion and Analysis of Financial Condition and Results of Operations provides, in narrative form, the perspective of Kansas City Life Insurance Company management on its financial condition, results of operations, liquidity, and certain other factors that may affect its future results. The terms "the Company," "we," "us," and "our" are used to refer to Kansas City Life Insurance Company and its subsidiaries. Kansas City Life Insurance Company (Kansas City Life) is the parent company. Old American Insurance Company (Old American) and Grange Life Insurance Company (Grange Life) are wholly-owned insurance subsidiaries. Ibexis Life & Annuity Insurance Company is an insurance subsidiary that was wholly-owned by the Company until it was sold on November 1, 2021. For additional information on the sale of Ibexis Life & Annuity Insurance Company, please see the Business Changes section of Note 1 - Nature of Operations and Significant Accounting Policies. We also have non-insurance subsidiaries that individually and collectively are not material.

On May 25, 2022, retroactive to April 1, 2022, we entered into a reinsurance arrangement whereby we reinsured a sizeable block of fixed annuity contracts to a certified domestic reinsurer. This closed block of contracts reflected business issued prior to 2015 and consisted entirely of higher guaranteed interest rate products. We are accounting for this transaction as a deposit-type contract. For additional information on this reinsurance arrangement, please see Note 14 - Reinsurance in the Notes to Consolidated Financial Statements.

The following is a discussion and analysis of the results of operations for the year ended December 31, 2023 and our financial condition at December 31, 2023. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes included in this document.

### **Overview**

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

- The sale of traditional and interest sensitive life, annuity, and accident and health products;
- The rate of mortality, lapse, and surrender of future policy benefits and policyholder account balances;
- The rate of morbidity, disability, and incurrence of other policyholder benefits;
- Interest rates credited to policyholders;
- The availability of reinsurance opportunities and 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, credit, equity, and inflation;
- Timely and cost-effective access to liquidity;
- Management of distribution costs and operating expenses;
- Management of the operations of our affiliates;
- Changes to regulations and accounting standards;
- Management of blocks of business associated with reinsurance transactions;
- The ability to successfully resolve litigation;
- The ability to integrate acquisitions to achieve anticipated operating efficiencies; and
- The ability to mitigate cybersecurity risks and implement information technology effectively.

General economic conditions may affect future results. Financial market volatility can significantly impact our investments, revenues, and policyholder benefits. The increased inflationary environment and volatile equity markets have presented significant challenges to the interest rate environment, financial markets as a whole, and specifically to companies invested in fixed maturity securities and other fixed income investments. In addition, the lingering impacts of the pandemic along with the increased inflationary environment, systemic pressures in the banking system, and other events have caused increased economic uncertainty, financial market volatility, significant stress to businesses, supply chain shortages, decreased consumer confidence, increased labor shortages, and credit market disruptions. These conditions may persist into the future, affecting our financial position and financial statements. However, future conditions are highly uncertain and difficult to predict.



## Statement on Forward-Looking Information

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

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

- Changes in economic conditions, including the performance of financial markets, inflation, interest rates, recessionary risks, and systemic pressures in the banking system, including potential disruptions in the credit markets;
- Competition and changes in consumer behavior, which may affect our ability to sell our products and retain business;
- Competition in the recruitment and retention of general agents, agents, and employees;
- Customer and agent response to new products, distribution channels, and marketing initiatives;
- Fluctuations in experience regarding current mortality, morbidity, persistency, and interest rates relative to expected amounts used in pricing our products;
- Changes in assumptions related to DAC, VOBA, and DRL;
- Regulatory, accounting, or tax changes that may affect the cost of, or the demand for, our products or services;
- Unanticipated changes in industry trends;
- Potential changes in ratings assigned by nationally recognized rating organizations;
- The ability to integrate acquisitions and achieve anticipated operating efficiencies and the ability to preserve goodwill that results from acquisitions;
- The availability and effectiveness of reinsurance arrangements;
- Results of litigation we may be involved in; and
- The extent of the impacts resulting from catastrophic events such as natural disasters, pandemics, terrorist attacks, cyber-attacks, international conflicts, and wars.

No assurances can be given that such statements will prove to be correct. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

## Consolidated Results of Operations

### Summary of Results

We earned net income of \$54.9 million and net income per share of \$5.67 in 2023. We incurred a net loss of \$16.2 million and net loss per share of \$1.67 in 2022.

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

	<u>2023</u>	<u>2022</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues:				
Insurance and other revenues	\$ 339,226	\$ 339,406	\$ (180)	— %
Net investment income	157,641	153,879	3,762	2 %
Net investment gains (losses)	62,053	(16,643)	78,696	473 %
Benefits and expenses:				
Policyholder benefits and interest credited to policyholder account balances	340,099	331,373	8,726	3 %
Amortization of deferred acquisition costs	34,359	40,593	(6,234)	(15)%
Operating expenses	115,152	125,433	(10,281)	(8)%
Income tax expense (benefit)	14,390	(4,539)	18,929	417 %
Net income (loss)	<u>\$ 54,920</u>	<u>\$ (16,218)</u>	<u>\$ 71,138</u>	439 %

### Insurance Revenues

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

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

	<u>2023</u>	<u>2022</u>	<u>\$ Change</u>	<u>% Change</u>
New premiums:				
Traditional life insurance	\$ 16,881	\$ 19,105	\$ (2,224)	(12)%
Immediate annuities	25,401	20,373	5,028	25 %
Group life insurance	2,524	2,513	11	— %
Group accident and health insurance	10,723	9,074	1,649	18 %
Total new premiums	<u>55,529</u>	<u>51,065</u>	<u>4,464</u>	<u>9 %</u>
Renewal premiums	<u>274,590</u>	<u>273,610</u>	<u>980</u>	<u>— %</u>
Total premiums	330,119	324,675	5,444	2 %
Reinsurance ceded	(118,953)	(116,067)	(2,886)	(2)%
Net premiums	<u>\$ 211,166</u>	<u>\$ 208,608</u>	<u>\$ 2,558</u>	<u>1 %</u>

Consolidated total premiums increased \$5.4 million or 2% in 2023 compared to 2022, reflecting a \$4.5 million or 9% increase in new premiums and a \$1.0 million or less than 1% increase in renewal premiums. The improvement in new premiums was largely due to a \$5.0 million or 25% increase in new immediate annuity premiums. Immediate annuity receipts can have sizeable fluctuations, as receipts from policyholders largely result from one-time premiums. Internal rollovers from various individual annuity products were \$1.6 million lower in 2023 than in 2022. In addition, new group accident and health premiums increased \$1.6 million or 18%, primarily from the dental line of business. Partially offsetting these premium improvements, new individual life insurance premiums declined \$2.2 million or 12% compared to the prior year. The increase in renewal premiums resulted from improvements in renewal group life and group accident and health insurance premiums. The increase in renewal group accident and health insurance premiums reflected increases in the disability and vision lines of business that were partially offset by a decrease in the dental line of business.

Reinsurance ceded premiums increased \$2.9 million or 2% in 2023 compared to 2022. This increase reflected a reinsurance agreement that became effective January 1, 2022, whereby Old American began reinsuring 50% of new business on selected products. This agreement was modified effective October 1, 2022, to reinsure 75% of new business on selected products.

Deposits related to interest sensitive life (universal life, indexed universal life, and variable universal life), fixed annuity contracts, and variable annuities are not recorded as revenue. Revenues from such contracts consist of amounts assessed on policyholder account balances for mortality, policy administration, and surrender charges, and are recognized as contract charges in the Consolidated Statements of Comprehensive Income. The following table provides detail by new and renewal deposits for the years ended December 31. New deposits are also detailed by product. While the disclosure of deposits is standard industry practice, it is considered a non-GAAP measure.

	<u>2023</u>	<u>2022</u>	<u>\$ Change</u>	<u>% Change</u>
New deposits:				
Interest sensitive life	\$ 9,175	\$ 10,313	\$ (1,138)	(11)%
Fixed annuities	47,362	40,458	6,904	17 %
Variable annuities	5,621	10,691	(5,070)	(47)%
Total new deposits	<u>62,158</u>	<u>61,462</u>	<u>696</u>	<u>1 %</u>
Renewal deposits	<u>133,413</u>	<u>145,769</u>	<u>(12,356)</u>	<u>(8)%</u>
Total deposits	\$ 195,571	\$ 207,231	(11,660)	(6)%
Reinsurance ceded	<u>(3,797)</u>	<u>(5,894)</u>	<u>2,097</u>	<u>36 %</u>
Net deposits	<u>\$ 191,774</u>	<u>\$ 201,337</u>	<u>\$ (9,563)</u>	<u>(5)%</u>

General economic conditions and interest rates available in the marketplace influence new deposits on interest sensitive products. In addition, fluctuations in the equity markets influence the variable life and annuity products. Generally, volatile interest rate and increased inflationary environments present significant challenges to products such as these, and potential sizeable fluctuations in new sales can result between periods. Further, as described above, the lingering impacts of the pandemic and general economic conditions have affected both new and renewal deposits.

Total new deposits increased \$0.7 million or 1% in 2023 compared to 2022. New fixed annuity deposits increased \$6.9 million or 17% compared to one year earlier. This increase was partially offset by a \$5.1 million or 47% decline in new variable annuity deposits and a \$1.1 million or 11% decline in new interest sensitive life deposits. The decline in new interest sensitive life deposits resulted from lower new indexed universal life deposits. Total renewal deposits decreased \$12.4 million or 8% in 2023 versus the prior year, reflecting a \$6.8 million or 43% decline in renewal fixed annuity deposits, a \$3.7 million or 3% decline in new interest sensitive life deposits, and a \$1.9 million or 23% decline in renewal variable annuity deposits. The decline in renewal interest sensitive life deposits resulted from lower renewal universal life and variable universal life deposits that were partially offset by increased renewal indexed universal life deposits.

Reinsurance ceded on deposits totaled \$3.8 million in 2023, down from \$5.9 million in 2022. This reinsurance resulted from additional deposits on the closed block of policies included in the deposit-type reinsurance agreement previously mentioned that became effective April 1, 2022.

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

Total contract charges decreased \$1.5 million or 1% in 2023 compared to 2022. Contract charges on open blocks declined \$0.9 million or 1% in 2023 compared to 2022. This decrease largely resulted from a decline in deferred revenue that was partially offset by an increase in cost of insurance charges. The decline in deferred revenue was largely due to unlocking, which decreased deferred revenue \$0.4 million in 2023 compared to an increase of \$1.0 million in 2022. Contract charges on closed blocks decreased \$0.6 million or 1% versus the prior year, reflecting the runoff of the blocks of business. Total contract charges on closed blocks equaled 41% of total consolidated contract charges during both 2023 and 2022.

### ***Investment Revenues***

Gross investment income increased \$0.5 million or less than 1% in 2023 compared with 2022.

Gross investment income on invested assets increased \$9.7 million or 7% in 2023 compared with 2022. This result reflected an increase in overall yields earned on certain investments that were partially offset by lower average invested assets. Our earned book yield was 4.2% during 2023 compared to 3.8% during 2022. The lower invested assets primarily resulted from the sale of fixed maturity securities with a book value of approximately \$502.0 million during the second quarter of 2022 as part of the deposit-type reinsurance transaction.

Fixed maturity securities provide a majority of our investment income. Gross investment income from these investments increased \$7.6 million or 8% in 2023 compared to 2022, reflecting higher overall yields earned that were partially offset by lower average invested assets. The lower invested assets primarily resulted from the sale of fixed maturity securities as part of the deposit-type reinsurance transaction.

Gross investment income from commercial mortgage loans declined \$1.3 million or 5% in 2023 versus one year earlier, resulting from lower prepayment fees and fewer mortgage loan originations compared to the prior year. These were partially offset by an increase in yields earned versus one year earlier.

Gross investment income from real estate rose \$3.0 million or 17% in 2023 compared to the prior year. This improvement reflected new tenants, rent renewals, and rising rental rates.

Gross investment income from short-term investments increased \$1.4 million or 229% in 2023 compared with 2022. This increase was primarily due to higher interest rates and a higher balance in money market funds at year-end 2023 compared to year-end 2022. The increase in money market funds was primarily because not all proceeds from the sale of real estate properties during the fourth quarter of 2023 had been reinvested.

Net investment income resulting from the deposit-type reinsurance transaction, which was effective April 1, 2022, was \$16.5 million in 2023 compared to \$21.8 million in 2022. The decrease in 2023 was due to the runoff of the block and expenses associated with the transaction during 2022.

#### ***Investment Gains (Losses)***

Net investment gains for 2023 totaled \$62.1 million compared to net investment losses of \$16.6 million for 2022. The sale of investment securities resulted in a net loss of \$6.3 million in 2023 compared to a net loss of \$11.8 million in 2022. The loss in 2023 was primarily the result of portfolio repositioning, in which we sold securities with a book value of \$115.7 million and average book yield of 3.7% for \$110.1 million and realized a net pretax loss of \$5.6 million. The sales proceeds were reinvested in fixed maturity securities with an average book yield of 6.2%. The loss in 2022 reflected the transfer of investment securities for the deposit-type reinsurance agreement that generated a pretax net loss of \$12.3 million.

In 2023, we closed three separate real estate sales, in which we sold real estate with a combined book value of \$43.1 million for a total of \$107.0 million and recognized a net pretax gain of \$63.9 million. In 2022, we sold one real estate property for a gain of \$0.7 million.

In addition, the change in fair value of other invested assets resulted in a gain of \$4.8 million in 2023 compared to a loss of \$6.4 million in the prior year.

#### ***Policyholder Benefits***

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

Total policyholder benefits increased \$7.4 million or 3% in 2023 compared to 2022. The largest factor in this result was an \$8.9 million increase in benefit and contract reserves. Contributing to this increase was the change in the fair value of the indexed universal life embedded derivatives compared to the prior year and also an increase in annuity reserves that resulted from higher annuity premiums. The change in the fair value of indexed universal life embedded derivatives recorded in benefit and contract reserves is mostly offset by the change in the fair value in derivative assets that is recorded in realized gains (losses) in the Consolidated Statements of Comprehensive Income. In addition, the change in the fair value of the GMWB rider compared to the prior year contributed to the increase in reserves. The change in the fair value of the GMWB rider reflected improvements in the capital markets that were offset by changes in issuer discount spreads. Partially offsetting these increases to reserves, ceded reserves increased for the Old American segment due to the reinsurance agreement that became effective January 1, 2022. Furthermore, lower supplementary contract considerations compared to the prior year resulted in a decrease in reserves. Also contributing to the increase in policyholder benefits, other benefits, net of reinsurance, increased as interest expense from the advance funding agreements with the FHLB was \$3.7 million higher than the previous year. Also, group accident and health benefits increased, largely from the dental and vision lines of business. Partially offsetting these increases, death benefits, net of reinsurance, decreased \$10.7 million or 7% compared to one year earlier.

### ***Interest Credited to Policyholder Account Balances***

Interest is credited to policyholder account balances according to terms of the policies or contracts for universal life, fixed deferred annuities, and other investment-type products. There are minimum levels of interest crediting stipulated in certain policies or contracts, as well as allowances for adjustments to be made to reflect current market conditions in certain policies or contracts. Accordingly, the Company reviews and adjusts crediting rates as necessary and appropriate. Amounts credited are a function of account balances and current period crediting rates, which are significantly impacted by rates available in the market. As account balances fluctuate, so will the amount of interest credited to policyholder account balances. Interest credited to policyholder account balances increased \$1.3 million or 2% in 2023 compared to 2022. This increase largely resulted from higher index credits for the indexed universal life product, which are offset in part by hedge asset returns. This was partially offset by lower interest credited on universal life and fixed annuity products versus one year earlier.

### ***Amortization of DAC***

The amortization of DAC decreased \$6.2 million or 15% in 2023 compared to 2022. This decline was primarily due to the impact of unlocking and improved investment performance in the separate accounts. Unlocking adjustments decreased DAC amortization \$0.2 million in 2023 compared to unlocking adjustments that increased DAC amortization \$1.7 million in 2022. In addition, DAC amortization increased \$0.6 million in 2022 due to the write-off of DAC resulting from the deposit-type reinsurance arrangement.

### ***Operating Expenses***

Operating expenses consist of incurred commission expense from the sale of insurance products, net of the deferral of certain commissions and certain expenses directly associated with the successful acquisition of new business, expenses from our operations, the amortization of VOBA and intangibles, and other expenses. Operating expenses decreased \$10.3 million or 8% in 2023 compared to 2022. Operating expenses were higher in 2022, largely due to the establishment of a \$28.4 million legal settlement accrual in the fourth quarter. For additional information, please see Note 20 - Commitments, Contingent Liabilities, Guarantees, and Indemnifications. Partially offsetting this were higher employee compensation expenses, reflecting increased expenses accrued related to employee incentive plans and the impact of the fluctuation in market rates on various employee benefits. In addition, legal fees increased in 2023 compared to 2022.

### ***Income Taxes***

We recorded an income tax expense of \$14.4 million or 21% of income before tax in 2023. We recorded an income tax benefit of \$4.5 million or 22% of income before tax in 2022. The increase in income tax expense in 2023 was primarily related to an increase in pretax income in 2023 as compared to pretax income in 2022. The increase in pretax income in 2023 was primarily due to realized gains on the sale of real estate. The decrease in the effective tax rate in 2023 was primarily due to permanent differences, including the dividends-received deduction, having less impact on the effective tax rate due to an increase in pretax income.

The effective income tax rate was equal to the prevailing corporate federal income tax rate of 21% for 2023. The effective income tax rate was higher than the prevailing corporate federal income tax rate of 21% for 2022. The higher effective income tax rate for 2022 was primarily due to the effect of favorable tax adjustments relative to a pretax loss. Favorable tax adjustments include tax credits from affordable housing investments, research and development credits, and permanent differences, which includes the dividend-received deduction.

## Analysis of Investments

This analysis of investments should be read in conjunction with Note 3 - Investments in the Notes to Consolidated Financial Statements.

The following table provides asset class detail of the investment portfolio at December 31.

	2023	%	2022	%
		of Total		of Total
Fixed maturity securities	\$ 2,352,043	72 %	\$ 2,204,819	71 %
Equity securities	845	— %	1,918	— %
Mortgage loans	592,328	18 %	591,928	19 %
Real estate	98,042	3 %	141,649	4 %
Policy loans	84,025	3 %	82,739	3 %
Short-term investments	91,569	3 %	58,497	2 %
Other investments	27,488	1 %	18,749	1
Total	<u>\$ 3,246,340</u>	<u>100 %</u>	<u>\$ 3,100,299</u>	<u>100 %</u>

Fixed maturity securities were the largest component of our total investments at December 31, 2023 and December 31, 2022. Fixed maturity securities increased from 71% of total investments at December 31, 2022 to 72% of total investments at December 31, 2023. The largest categories of fixed maturity securities at December 31, 2023 consisted of 72% in corporate securities, 11% in municipal securities, and 10% in asset-backed securities and collateralized loan obligations. We had 27% of the fixed maturity securities in private placements at December 31, 2023 compared to 26% at December 31, 2022. The use of private placements offers an enhancement to our portfolio returns by providing access to higher yielding securities that have a more limited offering at often lower cost.

We use actual or equivalent Standard & Poor's ratings to determine the investment grading of fixed maturity securities. Our fixed maturity securities that were rated investment grade were 99% at both December 31, 2023 and December 31, 2022.

The fair value of fixed maturity securities with unrealized losses was \$1.7 billion at December 31, 2023, compared with \$2.0 billion one year earlier. This decrease was primarily due to improved fair values on securities held, along with the portfolio repositioning that occurred during 2023 and 2022, in which the Company disposed of lower yielding assets that were in an unrealized loss position in favor of fixed maturity securities with higher yields and whose fair values were much improved. At both December 31, 2023 and December 31, 2022, 99% of security investments with an unrealized loss were investment grade and accounted for 99% of the total unrealized losses.

At December 31, 2023, we had \$207.0 million in gross unrealized losses on fixed maturity securities that offset \$23.7 million in gross unrealized gains. At December 31, 2022, we had \$278.9 million in gross unrealized losses on fixed maturity securities that offset \$8.3 million in gross unrealized gains. At December 31, 2023, 26% of the fixed maturity securities portfolio had unrealized gains, up from 11% at December 31, 2022. We had a decrease in gross unrealized losses in all corporate obligation sectors from December 31, 2022 to December 31, 2023, primarily due to changes in interest rates and portfolio repositioning. Gross unrealized losses on fixed maturity securities for less than 12 months totaled \$2.7 million and accounted for 3% of the security values in a gross unrealized loss position at December 31, 2023. Gross unrealized losses on fixed maturity securities of 12 months or longer increased from \$84.6 million at December 31, 2022 to \$204.4 million at December 31, 2023.

Investments in mortgage loans totaled \$592.3 million at December 31, 2023, compared to \$591.9 million at December 31, 2022. The commercial mortgage loan portfolio increased \$0.4 million during 2023, as the volume of new loans exceeded regularly scheduled payments and prepayments. Our mortgage loans are secured by commercial real estate. These loans are stated at the outstanding principal balance, adjusted for amortization of premium and accrual of discount, less an allowance for credit losses. We believe this allowance is at a level adequate to absorb estimated credit losses and was \$1.6 million at December 31, 2023 compared to \$2.8 million at December 31, 2022. For additional information on our mortgage loan portfolio, please see Note 3 - Investments.

## Liquidity and Capital Resources

### Liquidity

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

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

Net cash used from operating activities was \$50.5 million for the year ended December 31, 2023. The primary sources of cash from operating activities in 2023 were premium receipts and net investment income. The primary uses of cash from operating activities in 2023 were for the payment of policyholder benefits and operating expenses. Net cash used from investing activities was \$2.6 million for the year ended December 31, 2023. The primary sources of cash were sales, maturities, calls, and principal paydowns of investments totaling \$407.2 million. Partially offsetting these, investment purchases, including new mortgage loans and new policy loans, totaled \$375.8 million. In addition, net purchases of short-term investments totaled \$33.1 million. Net cash provided by financing activities was \$55.1 million for the year ended December 31, 2023, and included an \$81.5 million change in deposit asset on reinsurance and \$2.7 million of net transfers from separate accounts. These were partially offset by \$8.0 million of withdrawals, net of deposits, on policyholder account balances, a \$15.7 million change in other deposits, and the payment of \$5.4 million in stockholder dividends.

### Capital Resources

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

	2023	2022
Total assets, excluding separate accounts	\$ 4,657,216	\$ 4,583,568
Total stockholders' equity	609,357	491,693
Ratio of stockholders' equity to assets, excluding separate accounts	13%	11%

Stockholders' equity increased \$117.7 million from year-end 2022, due to a decrease in net unrealized losses, reflecting fluctuations in interest rates during 2023, and an increase in net income. Stockholders' equity per share, or book value, equaled \$62.93 at year-end 2023, an increase from \$50.78 at year-end 2022.

Net unrealized losses on available for sale securities, which are included as part of Accumulated Other Comprehensive Income (Loss) and as a component of Stockholders' Equity (net of unrealized losses on investments, related taxes, policyholder account balances, future policy benefits, DAC, VOBA, and DRL), totaled \$132.2 million at December 31, 2023, a \$62.8 million decrease from net unrealized losses of \$195.0 million at December 31, 2022. This decrease reflected lower interest rates at December 31, 2023.

The Company has advance funding agreements with the FHLB. These funds are used in an arbitrage program. Interest earned from this program was \$7.2 million during 2023 and \$3.1 million during 2022. Total obligations outstanding under these agreements, which mature between 2026 and 2029, were \$100.0 million at both December 31, 2023 and December 31, 2022, and are reported as Policyholder Account Balances in the Consolidated Balance Sheets. Accrued interest totaled \$1.1 million at December 31, 2023 and \$0.6 million at December 31, 2022. Interest is credited based on variable rates set by the FHLB. Cash interest payments were \$5.3 million during 2023 and \$1.5 million during 2022.

Our statutory equity exceeds the minimum capital deemed necessary to support our insurance business, as determined by the risk-based capital calculations and guidelines established by the National Association of Insurance Commissioners (NAIC). We believe these statutory limitations impose no practical restrictions on future dividend payment plans. See further discussion in Note 19 - Statutory Information and Stockholder Dividends Restriction.

In January 2024, the Board of Directors authorized the purchase of up to one million of our shares on the open market through January 2025. No shares were purchased under this authorization during 2023 or 2022. The timing and amount of any share repurchases will be determined by our management based on market conditions and other factors.

On January 22, 2024, the Board of Directors declared a quarterly dividend of \$0.14 per share that was paid February 7, 2024 to stockholders of record at February 1, 2024.

### **Minimum Rate Guarantees**

Our rate guarantees for those products with minimum crediting rate provisions are identified in the following table. 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 74% of total policyholder account balances were at the minimum guaranteed rate at both December 31, 2023 and December 31, 2022.

	December 31, 2023				
	Fixed Annuities	Universal Life	Variable Life and Annuities	Supplemental Contracts and Annuities Without Life Contingencies	Total
0% to 1%	\$ 207,603	\$ 114,671	\$ 3,226	\$ 2,445	\$ 327,945
Greater than 1% to 3%	348,110	314,556	91,353	26,181	780,200
Greater than 3% to 4%	296,357	278,933	7,291	17,003	599,584
Greater than 4%	42,868	337,644	—	10,397	390,909
Total	<u>\$ 894,938</u>	<u>\$ 1,045,804</u>	<u>\$ 101,870</u>	<u>\$ 56,026</u>	<u>\$ 2,098,638</u>

  

	December 31, 2022				
	Fixed Annuities	Universal Life	Variable Life and Annuities	Supplemental Contracts and Annuities Without Life Contingencies	Total
0% to 1%	\$ 423,425	\$ 103,710	\$ 8,398	\$ 4,317	\$ 539,850
Greater than 1% to 3%	147,178	313,236	96,801	31,176	588,391
Greater than 3% to 4%	345,550	286,168	7,758	17,727	657,203
Greater than 4%	44,603	347,069	—	3,187	394,859
Total	<u>\$ 960,756</u>	<u>\$ 1,050,183</u>	<u>\$ 112,957</u>	<u>\$ 56,407</u>	<u>\$ 2,180,303</u>

Effective April 1, 2022, the Company reinsured a block of fixed annuity business with an average crediting rate of 3.75% to a certified domestic reinsurer. The contract reinsured \$516.2 million in policyholder account balance liabilities and created a deposit asset on reinsurance. The above table includes those amounts on a gross basis. The Deposit Asset on Reinsurance balance included in the Consolidated Balances Sheets was \$419.4 million at December 31, 2023 and \$484.4 million at December 31, 2022.

### **Fixed Annuity Contracts**

Fixed annuity contracts accumulate deposits over time with interest credited. Deposits may be flexible or single-premium. The timing and magnitude of outgoing cash flows from these contracts is dependent upon many factors, primarily due to contract owner rights to surrender or annuitize the policy value during the term of the contract and benefit options that are provided upon death. We make estimates and projections of future cash flows on fixed annuities based upon the economic environment, ranges of future economic changes, and historical contract holder behavior.

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



The following table provides fixed annuity contract values within maturity date ranges as of December 31. The values and date ranges provided below do not necessarily represent our expected outflow of funds from these contracts, as these cash flows may be significantly impacted by the needs and decisions of the contract owners.

	2023	%	2022	%
		of Total		of Total
One year or less	\$ 169,136	19 %	\$ 136,864	14 %
Two years	37,121	4 %	80,952	9 %
Three years	47,834	5 %	42,046	4 %
Four years	64,382	7 %	53,041	6 %
Five years	52,315	6 %	71,528	7 %
Six years or more	524,150	59 %	576,325	60 %
Total	<u>\$ 894,938</u>	<u>100 %</u>	<u>\$ 960,756</u>	<u>100 %</u>

Fixed 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 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 annuities by summary ranges of applicable surrender charges as of December 31.

	2023	%	2022	%
		of Total		of Total
None	\$ 535,525	60 %	\$ 574,481	60 %
Less than 5%	175,880	20 %	187,150	19 %
5% and greater	183,533	20 %	199,125	21 %
Total	<u>\$ 894,938</u>	<u>100 %</u>	<u>\$ 960,756</u>	<u>100 %</u>

As previously mentioned, the Company reinsured a block of fixed annuity business to a certified domestic reinsurer effective April 1, 2022. The contract reinsured \$516.2 million in policyholder account balance liabilities and created a deposit asset on reinsurance. The Deposit Asset on Reinsurance balance included in the Consolidated Balances Sheets was \$419.4 million at December 31, 2023 and \$484.4 million at December 31, 2022.

#### ***Asset/Liability Management***

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

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

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

We aggregate similar policyholder liabilities into portfolios and then match specific investments with these liability portfolios. In 2023 and 2022, all of our portfolios had investment yields near or in excess of crediting rates on matched liabilities. We monitor the risk to portfolio investment margins on an ongoing basis.

We perform cash flow scenario testing through models of our in force business. These models reflect specific product characteristics and include assumptions based on current and anticipated experience regarding the relationships between short-term and long-term interest rates (i.e., the slope of the yield curve), credit spreads, market liquidity, and other factors, including

policyholder behavior in certain market conditions. In addition, these models include asset cash flow projections, reflecting interest payments, sinking fund payments, scheduled principal payments, and optional bond calls and prepayments.

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

## **Risk Factors**

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

### **Strategic and Operational Risks:**

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

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

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

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

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

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

***We may not be able to attract and retain quality employees.***

Our success is dependent upon our ability to attract, engage, and retain quality employees and to maintain optimal staffing levels. Competition to attract and retain quality employees is high and it has become more challenging to fill open positions in the current environment. Costs to recruit and retain employees could rise significantly. The unexpected loss of services of one or more of the Company's key personnel or a significant reduction in key operational or support areas could have a material adverse effect on the Company's operations due to the unique skills, and cumulative knowledge of our business, years of industry experience and the potential difficulty of quickly finding qualified replacements. The Company has historically managed to sustain lower employee turnover levels and has retained valued employees with longer periods of experience in the Company's products, business and systems. However, as these individuals attain retirement age, the Company is exposed to the loss of proprietary knowledge in many of its key technical and operational areas. In addition, the Company's executive officers are not subject to employee contracts. Our ability to attract and retain employees is dependent on a number of factors such as competitive compensation and benefits, a dynamic culture, a hybrid work environment, and our reputation.

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

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

We establish and carry a reserve liability based on current estimates of how much will be needed to pay for future benefits and claims. The assumptions and estimates used in connection with establishing and carrying reserves are inherently uncertain and

in some cases are mandated by regulators, irrespective of a company's actual experience. If actual experience is significantly different from assumptions or estimates or if regulators decide to increase or change regulations, current reserves may prove to be inadequate in relation to estimated future benefits and claims. As a result, a charge to earnings would be incurred in the quarter in which we change reserves.

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

***We may face difficult economic conditions that could adversely affect our operations.***

Market factors, including inflation, changes in interest rates, consumer spending, government actions, market volatility, recession, and disruptions and strength of the capital markets may result in investment losses, changes in insurance liabilities, increased counterparty risks, impairments, increased valuation allowances, increases in reserves, reduced net investment income and changes in unrealized gain or loss positions.

Inflation risk is the risk that inflation will undermine the performance of an investment, the value of an asset, or the purchasing power of a stream of income. In periods of elevated inflation, the sales and persistency of insurance products may be negatively impacted. In addition, the cost of various selling and general operating expenses may increase during periods of high inflationary pressure.

In addition, higher unemployment, lower personal income, lower corporate earnings, lower consumer spending, elevated incidence of claims, lapses or surrenders of policies, reduced demand for our products, and deferred or canceled payments of insurance premiums may negatively affect our operating results.

***Risk management policies and procedures may not be fully effective and could leave us exposed to unidentified or unanticipated risk, which could negatively affect business or result in losses.***

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

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

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

***Projected operating results for acquisitions may not be achieved and the ability to integrate acquisitions and achieve anticipated operating efficiencies may not be successful.***

Actual operating results may vary significantly from projected results of acquired companies and blocks of business. Projected operating results are estimates of future results based on assumptions made by management at the time of the acquisition. General economic, political, and market conditions may have a material impact on the reliability of these projections. We may not be able to realize the projected value of acquired assets or we may underestimate the value of the liabilities assumed. Our financial position and results of operations could be negatively impacted if the projections are materially inaccurate. This could result in the write-down of acquired assets, impairment to goodwill, impairment to intangible assets, increases to assumed liabilities, and other negative impacts to our financial statements.

We may not achieve efficient operational integration of acquisitions or may not achieve operating efficiencies that were projected at the time of acquisition. Failure to achieve either or both of these could result in increased expenses and negatively impact our financial position and results of operations.

#### **Reinsurance Risks:**

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

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

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

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

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

#### **Investment Risks:**

***Our investments are subject to market, credit, and inflation risks.***

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

Our invested assets, primarily including fixed maturity securities, are subject to customary risks of credit defaults and changes in fair value. The value of our mortgage loan and real estate portfolios also depends on the financial condition of the borrowers and tenants occupying the properties which we have financed and changes in the real estate market. Factors that may affect the overall default rate on and fair value of our invested assets include interest rate levels and changes, availability and cost of liquidity, financial market performance, changes in collateral values, state and federal regulations, and general economic conditions, as well as particular circumstances affecting the properties or businesses of individual borrowers and tenants. Our real estate investments are concentrated in commercial real estate, and we may be subject to heightened risks associated with a lack of diversification in our real estate investments.

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

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

Inflation erodes the value of fixed rate assets. When inflation increases, the value of the fixed interest payments on bonds decreases. As a result, investors demand higher yields on fixed income bonds to compensate for the risk of inflation eroding the purchasing power of the bond's returns. Increasing rates of inflation could lead to significant increases in unrealized losses on investments.

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

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

Some of our products, principally fixed annuities, interest-sensitive whole life, universal life, and the fixed portion of variable universal life insurance and variable annuity business, have interest rate guarantees that expose us to the risk that changes in interest rates will reduce the spread, or the difference between the amounts we are required to credit to policyholder contracts and the amounts earned on general account investments. Because many of our policies have guaranteed minimum interest or crediting rates, spreads could decrease and potentially become negative. Declines in spread or instances where the returns on the general account investments are not sufficient to support the interest rate guarantees on these products could have a material adverse effect on our financial statements. In periods of declining interest rates, we may have to reinvest the cash received from interest or return of principal on investments in lower yielding instruments than available. Moreover, issuers of fixed income investment securities and borrowers related to our commercial mortgage investments may prepay these obligations in order to borrow at lower market rates, which may increase our risk to have to reinvest at lower rates.

In periods of increasing interest rates, we may not be able to replace the assets in the general account with higher yielding assets needed to fund the higher crediting rates that may be necessary to keep interest sensitive products competitive. Therefore, we may have to accept a lower spread and profitability or face a decline in sales, loss of existing contracts from non-renewed maturities, early withdrawals, or surrenders. Increases in interest rates may cause increased surrenders of insurance products. In periods of increasing interest rates, policy loans and surrenders and withdrawals of life insurance policies and annuity contracts may increase, as policyholders seek to buy products with higher returns. These outflows may require investment assets to be sold at a time when the prices of those assets are lower because of the increase in market interest rates, which may result in realized investment losses. Increases in interest rates may also negatively affect the value of our real estate investments. Further, higher interest rates may result in significant unrealized losses on investments. These net unrealized losses could have a negative effect on stockholders' equity. This could negatively impact the ability to pay policyholder and stockholder dividends. In addition, higher interest rates may reduce the fair value of policyholders' separate account investments, which may reduce our revenues from asset-based management fees.

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

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

As interest rates decline, policyholders may become more likely to extend the retention or duration of fixed-rate products previously purchased and may seek alternatives to fixed-rate products for new purchases. Policyholders may add premiums or deposits to existing policies or contracts with terms upon which we are no longer offering on new products. Many of the products sold in earlier periods may have minimum guaranteed interest crediting rates or other features that are greater than those being offered in a 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 statutory surplus strain. In addition, we may change our risk profiles in regards to selecting investment opportunities to reduce the impact on earnings.

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

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

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

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

***Equity market volatility could negatively impact our profitability.***

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

- We have exposure to equity price risk through investments.
- We earn investment management fees and mortality and expense fee income based upon the value of assets held in our separate accounts from both direct and reinsurance arrangements. Revenues from these sources fluctuate with changes in the fair value of the separate accounts.
- Volatility in equity markets may discourage customers from purchasing variable universal life and variable annuity products that have returns linked to the performance of the equity markets. This volatility may also result in existing customers withdrawing cash values or reducing investments in those products.
- We have equity price risk to the extent that it may affect the liability recognized under guaranteed minimum death benefits and guaranteed minimum withdrawal benefit provisions of the variable contracts. Periods of significant and sustained downturns in equity markets, increased equity volatility, or reduced interest rates could result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with such products, which ultimately could result in a reduction to net income.
- The amortization of DAC relating to variable products can fluctuate with changes in the performance of the underlying separate accounts due to the impact on estimated gross profits.
- The Company has a defined benefit pension plan that is frozen. Declining financial markets could have several impacts on this plan including but not limited to: a decrease in the plan's investment values; additional pension expense; a reduction in comprehensive income; and an increase in contributions. In addition, the funding requirements

of our pension plan are sensitive to interest rate changes. Should interest rates decrease, plan liabilities may increase. Should interest rates increase, plan assets may decrease.

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

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

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

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

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

#### **Regulatory Risks:**

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

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

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

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

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



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

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

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

**Litigation Risk:**

***Legal proceedings are unpredictable and could produce one or more unexpected outcomes that could materially and adversely affect our financial results.***

We are, from time to time, subject to litigation and other legal proceedings in the ordinary course of business. Some of these proceedings may involve matters particular to our unique business practices, the conduct of our agents, or to matters that pertain to general industry business practices. Some lawsuits may seek class action status that, if granted, could expose the Company to potentially significant liability by virtue of the size of the putative classes. These matters often raise difficult factual and legal issues and are subject to uncertainties and complexities. The outcomes of these matters are difficult to predict, and the amounts or ranges of potential loss at particular stages in the proceedings are in most cases difficult or impossible to ascertain. Judges and juries have substantial discretion in awarding punitive and compensatory damages which creates the potential for material adverse judgments or awards. Given the inherent unpredictability of litigation, there can be no assurance that any current or future litigation will not have a material adverse effect on the Company's results of operations or cash flows in any particular reporting period.

**Catastrophic Event Risk:**

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

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

**Information Technology Risk:**

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

As part of the normal course of business, we use computer systems to collect, process, and retain sensitive and confidential corporate and customer information. In addition, we use third-party vendors and cloud technology for storage, processing, and data support of certain activities. We rely on commercial technologies and third parties to maintain the security of that

information. Our information systems are subject to computer viruses, malicious software code, and other unauthorized computer-related actions. Preventive actions taken by the Company to reduce the risk of cyber incidents and to protect our information may be insufficient to prevent cyber attacks or other security breaches. Any security breach involving the misappropriation, loss, or other unauthorized disclosure of confidential information could severely damage our reputation, expose us to an increase in the risk of litigation, disrupt our operations, incur significant technical, legal, and operating expenses, or otherwise harm our business.

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

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