

Make the *Right* Move

with Kansas City Life Insurance Company





The Game of Chess

Make the Right Move with Kansas City Life

Strategy. Goals. Concentration. Protection. Precision. Relationships. In the game of chess, these components create a solid player; a player who devises creative solutions to put their plan into action. And so it is in business; the same components create a solid business partner.

Since 1895, Kansas City Life has devised long-term goals; concentrating on its known strategies to remain successful while adapting to an ever-changing environment. Perhaps the most significant factor in the success of Kansas City Life's 116-year history is the strategic relationships that have developed over time.

On the following pages, you'll find stories detailing two of Kansas City Life's most prominent agencies that recently celebrated centennial anniversaries with our Company – Morris Financial Group and Generations Financial Resources. The leaders of these agencies, along with their predecessors, have continually evaluated their position to best fit their strategy. And with each change in position, these leaders brought new knowledge to the forefront from which to determine their next moves; adapting to the changes in front of them. Throughout the past 100 years, however, one thing has remained a constant – their teamwork and strategic partnership with Kansas City Life.



Centennial Agency

Morris Financial Group



For nearly 30 years, the late G. Clair Plank (seated) successfully positioned Morris Financial Group. Current General Agent Mike Morris took over the agency in 1990, and has continued the agency's successful operations.

For Morris Financial Group in Springfield, Mo., the growth of a legacy has been 100 years in the making as the agency recently celebrated their centennial anniversary with Kansas City Life Insurance Company.

Originally founded as the Missouri Agency by W.S. Lowry, this southern Missouri agency's roots run deep with passionate leaders dedicated to the insurance industry. W.S. created the foundation for the agency and ran it for nearly 60 years before turning over leadership to G. Clair Plank in 1968. G. Clair led the agency to its first-ever Agency Building Award (ABA) in 1978, the most esteemed Kansas City Life agency honor. In 1982, G. Clair welcomed Mike Morris to the agency, and when G. Clair stepped back from his leadership role in 1990, Mike was named general agent and the agency became known as the Morris Financial Group.

Since taking on the leadership role, General Agent Mike Morris led the agency to three consecutive Agency Building Awards from 2001 to 2003. In 2009, the agency claimed its first-ever President's Quality Service Award – an award presented to an agency

that represents the highest ethical practices and maintains superb customer service.

Although the agency has seen various leaders throughout its time, they all have held a shared commitment of operating with honesty, integrity and the utmost professional standards. And laying truth to those sentiments is the fact that Morris Financial Group has many second and third generation clients, some of which have owned Kansas City Life policies for nearly 85 years.

"All of my predecessors had a part in laying this foundation," says Mike. "Since our agency got up and running we've had quality people in place to guide us and for that we're very fortunate. Our number one priority is to service our clients and provide them with the best. Integrity is extremely important to us. We are a people organization and we strive to provide the best service that we possibly can."

The bonds created by Morris Financial Group have been established over time, and built on the guidance and trust of key influencers. The celebration of 100 years is a testament to the solidarity and teamwork Morris Financial Group has fostered throughout its remarkable history.



Centennial Agency

Generations Financial Resources



General Agent Shelley Rowe and her late father, former General Agent Ernie Rowe, have strategically aligned their agency with Kansas City Life since 1911.

The story of Generations Financial Resources began more than 100 years ago and still continues to this day. The agency, led by General Agent Shelley Rowe, LUTCF, was the first in Kansas City Life Insurance Company's history to reach 100 years in business with the Company. Kansas City Life's most historic agency can be traced back to 1911 – when Jack Allen Sr. founded the agency near Denver, Colo.

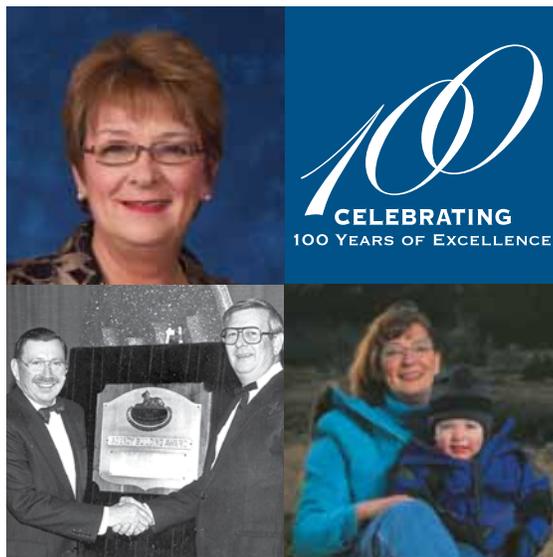
After nearly 30 years at the helm, Jack Allen Sr. passed the agency down to his son, Jack Allen Jr., who took the agency to new heights. Under Jack Jr.'s guidance, the agency won Kansas City Life's first-ever Agency Building Award (ABA) in 1948, and also went on to win the honor two more times before retiring in 1967.

Upon his retirement, Jack Jr. divided the agency up into thirds with some of his most trusted agents: Ernie Rowe, Fred Provenzano and Andy Anderson. Ernie took the primary portion of the agency in 1967, and later, after Ernie retired, the leadership

was passed on to his daughter, Shelley, in 1995. And just three years after taking over the agency, Shelley and her team accomplished an ABA "three-peat," winning the Company's top agency honor each year from 1997 to 1999.

"This agency has been in place for more than 100 years and we value relationships the same as if we are dealing with our own extended family," says Shelley. "This milestone represents all the people, past and present, on our team who accomplish all of their individual goals. Growth, focus and accomplishment describe Generations Financial Resources. Our tagline is "Your growth is our focus." We all want to grow and do better in life, therefore each and every individual's growth is our focus. We want people to accomplish what they want to become."

Generations Financial Resources has been a cornerstone of Kansas City Life Insurance Company since 1911. The deep-rooted commitment of each general agent in charge, as well as its agents, has fueled the agency's illustrious success. It's no doubt the agency will continue to build upon the successful 100 years it's already established.



The Kansas City Life Group of Companies



Kansas City Life Insurance Company

Since 1895, Kansas City Life Insurance Company (www.kclife.com) has been dedicated to the present and future financial security of its customers. Kansas City Life and its subsidiaries provide financial services, including life insurance and investments, to consumers throughout 49 states and the District of Columbia. More than 2,500 general agents and agents serve individuals, families, small businesses and corporations with a diverse range of products including universal life, term life, whole life, variable life insurance,* variable annuities,* fixed deferred annuities and group products. Kansas City Life has been providing Security Assured for more than 116 years.



Old American Insurance Company

Since 1939, the mission of Old American Insurance Company (www.oaic.com) has been to provide peace of mind to the senior market and, in turn, enhance the quality of life for policyholders and their beneficiaries. Agents assist individuals ages 50 to 85 through final arrangements planning, charitable giving life insurance, and Social Security and retirement income replacement insurance. In addition, Old American began targeting individuals ages 20 to 65 in 2009 with its Level Term 20 life insurance product. The subsidiary operates in 47 states and the District of Columbia.



Sunset Financial Services Inc.*

Sunset Financial Services (www.sunsetfinancial.com) is a full-service brokerage firm and registered investment advisor. Sunset Financial Services' registered representatives are also licensed with Kansas City Life. Investment options include variable products, mutual funds, stocks and bonds, money market funds, CDs and asset management products.



Sunset Life Insurance Company of America

Sunset Life Insurance Company of America (www.sunsetlife.com) was originally founded in 1937 in Olympia, Wash. Kansas City Life purchased Sunset Life in 1974 and its operations were consolidated into the Company's Home Office in 1999. The Sunset Life sales force was integrated into the Kansas City Life sales force in 2006.

Financial Ratings, evaluated by A.M. Best

Kansas City Life Insurance Company: A (Excellent; Stable Outlook)

Old American Insurance Company: B++ (Good; Positive Outlook)

Sunset Life Insurance Company: A- (Excellent; Stable Outlook)

These ratings represent A.M. Best's opinion of the financial strength and stability of Kansas City Life, Old American and Sunset Life Insurance Companies and each company's ability to meet ongoing obligations to policyholders, as of June 2011.

There are 16 financial strength ratings offered by A.M. Best, ranging from A++ (Superior) to F (In liquidation).

Please refer to the Company's Form 10-K and Proxy Statement as filed with the Securities and Exchange Commission (SEC).

**Securities are distributed through Sunset Financial Services Inc., 3520 Broadway, Kansas City, MO 64111, 816-753-7000. Member FINRA and SIPC.*

Message from the President

The year 2011 was one of slow, yet volatile, economic recovery. The economic challenges of the past several years magnified the difficulty we all shared in 2011 of having to make choices that might have offered the promise of near-term relief or benefit but would have had the effect of delaying or detracting from the ability to achieve our long-term objectives. During 2011, these choices were faced by individuals, households, businesses of all types, and even governments across the globe. As we have for the past 116 years, Kansas City Life Insurance Company remained steadfast in our focus and decision-making to achieve the long-term objective of providing Security Assured to all of those whom we serve.

Kansas City Life recorded net income for 2011 of \$26.1 million or \$2.29 per share, an increase of \$3.8 million or \$0.34 per share compared to 2010. In addition to improved earnings, the Company completed several important initiatives during the year in areas that favorably impact policyholders, general agents and agents, associates and shareholders. Among the highlights of the changes benefiting policyholders were improved features in the Company's popular living benefit riders and lowering the costs of certain term life products. To further enhance relationships with current general agents and agents, along with attracting prospective representatives, the Company added a new general agent contract that provides greater flexibility in compensation for agencies and agents. These initiatives directly support the Company's growth objectives, which when combined with maintaining a strong investment portfolio and capital position, enhance the opportunity for attractive shareholder returns.

Several factors contributed to the Company's 17% earnings growth in 2011, most significantly including increased investment revenues and lower policyholder benefits. Although lower sales of immediate annuities led to lower insurance revenues, sales of new individual life insurance and



group accident and health insurance increased for the year. New individual life insurance premiums increased \$0.7 million or 4% for the year, largely due to growth in sales within the Old American segment. New group accident and health insurance premiums increased \$0.4 million or 3% for the twelve months, primarily due to greater short-term disability product sales.

Total investment revenues increased \$4.0 million or 2% for the year ended 2011. Included in the improvement was a \$2.6 million increase in realized investment gains for the year. While the historically low interest rate environment negatively affected yields on fixed-rate security investments, the impact of lower yields on securities was partially offset by the decision to increase the Company's allocation to higher-yielding commercial mortgage investments. The difficult economic environment and sustained period of low interest rates makes it an increasing challenge for financial service companies and investors to satisfy both near-term and long-term objectives.

Policyholder benefits declined \$27.2 million or 15% for the year, largely due to the lower sales of immediate annuities and the reduced benefit and contract reserves that result from these lower



sales. In addition, policyholder benefits were further reduced as a result of the release of non-guaranteed interest on certain products, lower claims, and refinements in estimates from an actuarial system conversion during the year.

The amortization of deferred acquisition costs (DAC) increased \$6.9 million or 26% for the twelve months, primarily due to refinements in estimates and unlocking of assumptions regarding universal life and traditional products. Finally, operating expenses increased \$5.5 million or 5% for the year, largely due to increases in employee and agent benefit costs and legal expenses. Agent benefit costs include changes in the charge-off and allowance for doubtful agent receivable balances.

Consistent with its history, and recognizing the commitment that investors have with the Company, on January 23, 2012, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.27

per share that was paid on February 8, 2012 to stockholders of record on February 2, 2012.

The theme of this 2011 annual report is an analogy of the Company relative to the intricate game of chess. Just as the game requires many individual steps, with the entire focus of each decision on a singular, ultimate objective, Kansas City Life is unwavering in its commitment to achieve the objective of providing Security Assured to all of those whom we serve. The Company's rich tradition of more than a century of performance is a testament to this commitment.



R. Philip Bixby

*President, Chief Executive Officer and
Chairman of the Board*

Corporate Highlights

For 116 years, Kansas City Life Insurance Company has been committed to providing Security Assured. This term is the foundation of our Company, and in recent years, its meaning has never resonated more.

Despite operating in an unpredictable economy, Kansas City Life Insurance Company continues to maintain a well managed, diversified investment portfolio and a strong capital position. The individuals who represent us know when they sell a Kansas City Life Insurance Company policy they are protecting and securing their customers with the tradition and legacy of a Company whose integrity, customer service and solid financial foundation date back to 1895.

Moving forward, the Company will continue to make steps that are calculated and decisive; maintaining its concentration toward Security Assured along with long-term, sustainable growth.

Individual Insurance

Kansas City Life Insurance Company's Individual Insurance segment provides financial security to consumers in 48 states. Life insurance products are distributed through two channels: the Company's field force, and through alliances with third-party marketing arrangements.

Company's field force

The Company's field force is represented by independent agencies, which are operated by general agents and agents across the U.S. and in certain locations in Europe. Kansas City Life Insurance Company provides each agency with the product portfolio and marketing support necessary to succeed in servicing consumers in their local markets. The Company's expanding product portfolio and individual one-on-one support from the Home Office are attractive recruiting resources, setting Kansas City Life apart from many in the industry.



Shown above are four of the nine symbols on Kansas City Life's front doors. The shield with chevrons for protection; burning torches for progress; oak leaf for strength; and owl for wisdom.

Third-party alliances

Independent alliances with American Republic Insurance Company and GuideOne Mutual Insurance Company allow representatives from both companies to distribute Kansas City Life's products. These agreements provide representatives with the complementary products and services they need to offer financial security to their clients.

Life insurance sales

Life insurance sales and new business production at Kansas City Life are measured by new premiums recorded and new deposits received. Premiums include receipts from traditional individual life insurance and immediate annuity products. Deposits are received from universal life insurance, variable universal life insurance and fixed deferred and variable annuity products.

The Individual Insurance segment generated approximately 49% of consolidated insurance revenues for the year ended December 31, 2011 and approximately 54% for the years ended December 31, 2010 and 2009.

Total new deposits decreased \$10.0 million or 10% in 2011, following a \$3.2 million or 3% decrease in 2010. The decline in 2011 was largely due to a decrease in new fixed deferred annuities, which can largely be attributed to lower interest rates and increased competition from alternative products.

Renewal deposits increased \$5.8 million or 4% in 2011 compared to a \$1.8 million or 1% increase in 2010. The improvement in 2011 was due to an increase in renewal fixed deferred annuity deposits. This increase reflected favorable fixed rates on these products relative to alternative fixed-rate products available in the market, as well as increased sales in recent years.

Future growth

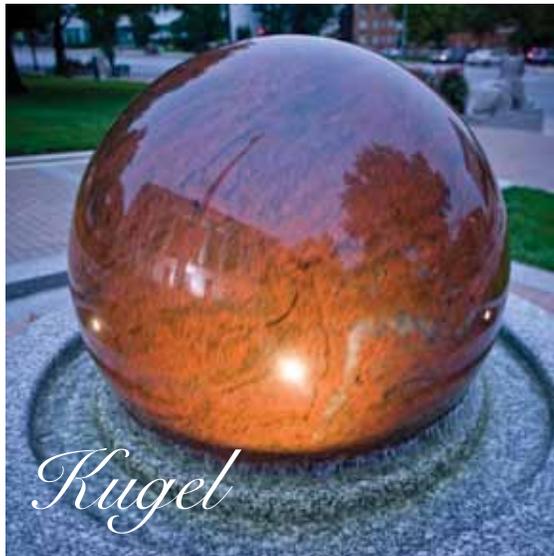
The Individual Insurance segment is an essential part of Kansas City Life's core business, representing a majority of the Company's revenue and net income.

The Company plans to continue to grow the segment by recruiting talented general agents and agents. Enhancements to the product portfolio, increased focus on sales development and superior marketing support are elements that will be emphasized to attract new field representatives.

As an additional point of emphasis, the Company will also seek potential third-party marketing relationships, such as those established with American Republic and GuideOne, to enhance future sales.

Group Insurance

Kansas City Life Insurance Company offers several insurance products in the Group Insurance segment, including dental, life, vision, and short- and long-term disability. These offerings encompass both traditional, employer-funded group insurance, as well as voluntary, employee-paid products.



When Kansas City Life Insurance Company celebrated its 100th anniversary, the Kugel fountain was constructed as a tribute to our first century of service and is symbolic of our enduring commitment to policyowners.

The Group Insurance segment markets its products primarily to small and mid-size organizations. Group products are sold through sales representatives who target a nationwide network of independent general agents and group brokers, along with the Company's career general agents. The sales network is this segment's core distribution system. The Company also markets Group products through select third-party marketing arrangements.

The Group Insurance segment generated 22% of the Company's consolidated insurance revenues in 2011, compared to 20% in 2010 and 2009. Total Group premiums increased \$2.9 million or 5% in 2011, following a \$1.3 million or 2% increase in 2010.

Moving forward, the Group Insurance segment is focused on three primary areas of emphasis to improve sales:

1. Growing in-force business, both through the Company's sales representatives as well as select third-party marketing arrangements.
2. Improving administrative efficiency through greater use of customer-facing technology, designed to reduce expenses and improve customer service.
3. Enhancing the segment's product portfolio, through delivery of new product offerings and flexible options to meet the dynamic needs of the employee benefits market.

Sunset Financial Services Inc.

Kansas City Life Insurance Company's in-house broker/dealer facilitates the purchase, sale and management of securities, such as variable universal life and variable annuity products. Through this alliance, Sunset Financial Services (SFS) provides registered representatives the flexibility to market a full range of fixed and variable products through a single relationship.

Despite continued market volatility, SFS achieved a 13% increase in gross revenue for 2011, following a 16% increase in 2010.

Moving forward, SFS has laid the groundwork for increased sales and improved performance. Further, SFS will continue working with Kansas City Life to help recruit and retain quality agencies and producers.

Old American Insurance Company

— 20 years with Kansas City Life

Old American Insurance Company celebrated its 20th year as a strategic partner with Kansas City Life Insurance Company in 2011.

Founded in 1939 by the Thomas McGee family, Old American was created to satisfy the need of a forgotten market segment, as the leaders at the time believed everyone should be insurable regardless of their age. This vision allowed for tremendous growth during the next several decades with Old American offering peace of mind to the senior market across the country.



The McGee family owned and operated Old American until 1986. During the next five years, Old American saw different ownership until the leaders of Kansas City Life noticed Old American's excellent foothold in the senior market.

Kansas City Life purchased Old American on October 31, 1991, and a new chapter of history began. Walter E. Bixby III, a fourth generation member of the Bixby family, has served as the Company's President since 1996.

After completing the purchase, Kansas City Life evaluated Old American's product offerings and focused on its core mission – to insure the senior market. The Company also reassessed its marketing and distribution into the more-current versions of what is used today. During the last five years, Old American has seen excellent growth and has focused on its lead generation and territorial approach to remain successful.

In 2011, Old American focused on improving territory penetration, recruiting and agent productivity for its general agencies in order to effectively meet the sales goals of the Company.

Old American accounted for 30% of Kansas City Life's consolidated insurance revenues in 2011 compared to 26% in 2010 and 2009. Old American's new premiums increased 9% in 2011. The increase in new premiums reflects a combination of expanded distribution efforts and improved agency productivity.

Old American continues to focus on the recruitment and development of new agencies and agents, along with improved production from existing agencies and agents. Two of the Company's 26 general agencies produced at least 2,000 new policies during the year and two of the Company's agencies generated more than 3,000 new policies.

Now, after more than 70 years, Old American continues to adapt its approach to keep pace with the changing needs of the final expense insurance market. As always, Old American will remain focused on its mission that has guided the Company for more than seven decades – delivering peace of mind to the senior market.



Senior Officers

Kansas City Life Insurance Company

R. Philip Bixby

President, Chief Executive Officer and Chairman of the Board

Walter E. Bixby, LLIF

Vice Chairman of the Board
Kansas City Life Insurance Company
President
Old American Insurance Company

Charles R. Duffy Jr., FLMI

Senior Vice President, Operations

Tracy W. Knapp

Senior Vice President, Finance

Donald E. Krebs, MSM, CLU, ChFC

Senior Vice President, Sales and Marketing

Mark A. Milton, FSA, CERA, MAAA

Senior Vice President and Actuary

Gregory M. Galvin

Vice President, Real Estate

David A. Laird, CPA, FLMI

Vice President and Controller

A. Craig Mason, Jr.

Vice President, General Counsel and Secretary

Robert J. Milroy*

Vice President, Underwriting and New Business

John L. Nogalski, CPA, FLMI

Vice President, Taxes

Bruce G. Olberding

Vice President, Broker Dealer

Richard D. Ropp, FLMI, ACS

Vice President, Customer Services and Claims

Stephen E. Ropp

Vice President, Insurance Services

J. Todd Salash

Vice President, Computer Information Services

Dan L. Schick, CPA, CLU, FLMI

Vice President and Auditor

Jeffrey M. Seeman

Vice President, Group

Philip A. Williams, CFA

Vice President, Securities

Old American Insurance Company

R. Philip Bixby

Chairman of the Board

Walter E. Bixby, LLIF

President

John C. Alderton

Vice President, Sales

Gary K. Hoffman, JD, CLU, FLMI

Vice President, Associate General Counsel and Secretary

Tracy W. Knapp

Chief Financial Officer

David A. Laird, CPA, FLMI

Vice President and Controller

Robert J. Milroy*

Vice President, Underwriting and New Business

Richard D. Ropp, FLMI, ACS

Vice President, Customer Services and Claims

Stephen E. Ropp

Vice President, Insurance Services

Sunset Life Insurance Company of America

R. Philip Bixby

President, Chairman of the Board

Walter E. Bixby, LLIF

Vice Chairman of the Board

Donald E. Krebs, MSM, CLU, ChFC

Vice President, Sales and Marketing

David A. Laird, CPA, FLMI

Vice President and Controller

Robert J. Milroy*

Vice President, Insurance Services and Assistant Secretary

Mark A. Milton, FSA, CERA, MAAA

Vice President and Actuary

Richard D. Ropp, FLMI, ACS

Vice President, Policy Administration

Matthew R. O'Connor

Secretary

**Robert J. Milroy retired from the Company in February 2011.*

Kansas City Life Insurance Company

Old American Insurance Company

Sunset Financial Services Inc.

Sunset Life Insurance Company of America

Home Office
3520 Broadway
Kansas City, MO 64111
816-753-7000

Visit us on the Internet:
www.kclife.com
www.oaic.com
www.sunsetfinancial.com
www.sunsetlife.com

Board of Directors

– Kansas City Life Insurance Company



Kevin G. Barth

President and Chief Operating Officer
Commerce Bank
Kansas City, Mo.

R. Philip Bixby

President, Chief Executive Officer
and Chairman of the Board
Kansas City Life Insurance Company
Kansas City, Mo.

Walter E. Bixby, LLIF

Vice Chairman of the Board
Kansas City Life Insurance Company
President
Old American Insurance Company
Kansas City, Mo.

William R. Blessing

Retired Senior Vice President,
Corporate Strategy and Development
Embarq
Overland Park, Kan.

Michael Braude

Retired President
and Chief Executive Officer
Kansas City Board of Trade
Kansas City, Mo.

James T. Carr

President and Chief Executive Officer
National Association of
Intercollegiate Athletics
Kansas City, Mo.

John C. Cozad

President
Cozad Company, LLC
Platte City, Mo.

Richard L. Finn

Retired Senior Vice President, Finance
Kansas City Life Insurance Company
Kansas City, Mo.

Nancy Bixby Hudson

Investor
Lander, Wyo.

Tracy W. Knapp

Senior Vice President, Finance
Kansas City Life Insurance Company
Kansas City, Mo.

Cecil R. Miller, CPA

Retired Partner
KPMG, LLP
Kansas City, Mo.

Mark Milton, FSA, CERA, MAAA

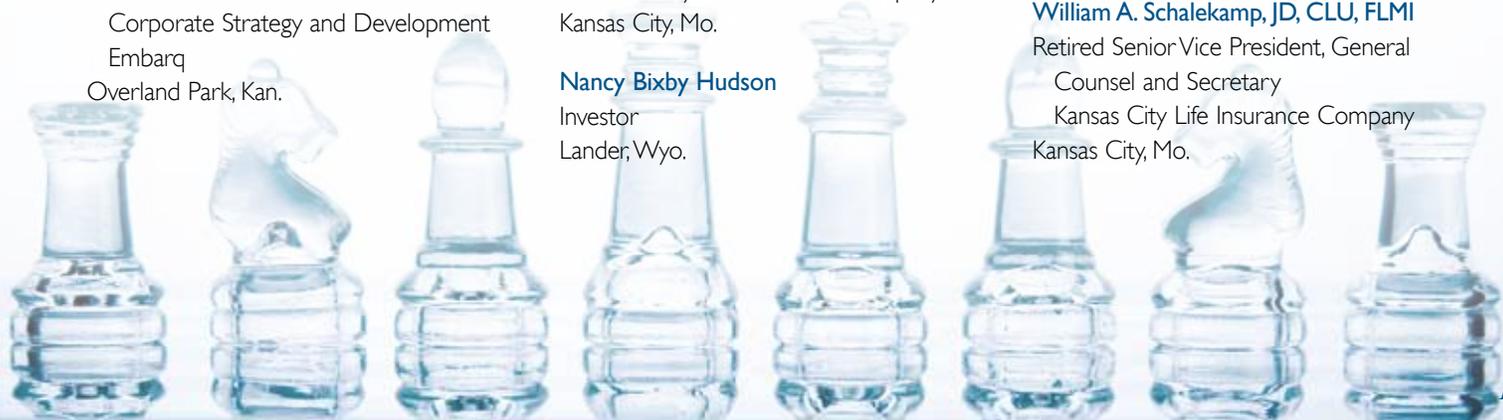
Senior Vice President and Actuary
Kansas City Life Insurance Company
Kansas City, Mo.

Bradford T. Nordholm

Chief Executive Officer
Starwood Energy Group Global, LLC
Greenwich, Conn.

William A. Schalekamp, JD, CLU, FLMI

Retired Senior Vice President, General
Counsel and Secretary
Kansas City Life Insurance Company
Kansas City, Mo.



Stockholder Information

CORPORATE HEADQUARTERS

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Kansas City, MO 64121-9139
Telephone: 816-753-7000
Fax: 816-753-4902
Internet: <http://www.kclife.com>
Email: kclife@kclife.com

NOTICE OF ANNUAL MEETING

The annual meeting of stockholders will be held at 9 a.m. on Thursday, April 19, 2012, at Kansas City Life Insurance Company's corporate headquarters.

TRANSFER AGENT

Janice Poe, Stock Agent and Assistant Secretary
Kansas City Life Insurance Company
Post Office Box 219139
Kansas City, MO 64121-9139

10-K REQUEST

Stockholders may request a free copy of Kansas City Life's Form 10-K, as filed with the Securities and Exchange Commission, by writing to Secretary, Kansas City Life Insurance Company.

SECURITY HOLDERS

As of January 31, 2012, Kansas City Life had approximately 3,556 security holders, including individual participants in security position listings.

Please refer to the Company's Form 10-K and Proxy Statement as filed with the Securities and Exchange Commission (SEC).

Stock & Dividend Information

Stock and Dividend Information

The following table presents the high and low prices for the Company's common stock for the periods indicated and the dividends declared per share and paid during such periods. The Company's common stock is traded on the NASDAQ Capital Market under the symbol "KCLI."

	High	Low	Dividend Paid
2011:			
First quarter	\$ 34.45	\$ 29.70	\$ 0.27
Second quarter	32.35	28.48	0.27
Third quarter	31.57	28.37	0.27
Fourth quarter	36.07	30.16	0.27
			<u>\$ 1.08</u>
2010:			
First quarter	\$ 33.50	\$ 24.86	\$ 0.27
Second quarter	35.85	27.84	0.27
Third quarter	32.63	28.58	0.27
Fourth quarter	33.77	30.42	0.27
			<u>\$ 1.08</u>

A quarterly dividend of \$0.27 per share was paid February 8, 2012.

NASDAQ market quotations are compiled according to Company records and may reflect inter-dealer prices, without markup, markdown or commission and may not necessarily represent actual transactions.



KANSAS CITY LIFE

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