

Within the
Doors *of*
Kansas City Life Insurance Company



KANSAS CITY LIFE

2012 Annual Report

*The **symbols** which adorn the pages of this year's annual report are from the bronzed front doors on the North building of the Home Office. Each pierced panel is symbolic to Kansas City Life and the life insurance industry. Within the Doors of Kansas City Life lays the foundation of how we have guaranteed Security Assured for more than a century.*

In the summer of 1924, the doors of Kansas City Life Insurance Company's Home Office building opened to the public. Welcoming visitors at the entrance of the building are six heavily bronzed doors. These doors measure 14 feet high and seven feet wide and are divided into square sections. Within each section is a minutely and beautifully carved symbolic design that relates back to the ideals Kansas City Life strives to maintain in business and in our industry.

*Shield with chevrons for
Protection*



MESSAGE FROM THE PRESIDENT

The year 2012 was a remarkable chapter in the history of Kansas City Life Insurance Company, as the Company generated strong earnings and reached new heights in terms of assets and stockholders' equity. The Company recorded net income of \$39.9 million, the highest level of earnings since 2004, and the year ended with assets and stockholders' equity growing to \$4.5 billion and \$750 million, respectively. A highlight of the year was that the Company was able to share the favorable financial performance through the payment of a special dividend in December 2012.

These results were perhaps most notable because they were generated during a period of significant economic and political uncertainty, and they stand in contrast relative to the impact of the recent recession. However, Kansas City Life continues to successfully weather difficult periods of recession and uncertainty as the Company grows and prospers over time; and to share these benefits is reflected in the values upon which we operate.

The ability to maintain a long-term perspective is one of the most important attributes in providing Security Assured to those we serve. Many of the seeds for the harvest of 2012 were planted during the great recession, and only by having had financial strength during this difficult

period could the Company have taken the long-term view of knowing that sound investments would again bear rewards.

The challenges of globally low interest rates and fragile economic systems, along with political uncertainties of addressing public finance deficits and long-term debt, have certainly not abated. Despite these challenges, the Company is well positioned to deal with these and the many other challenges that we may potentially face in both the near- and long-term future.

During the past year, Kansas City Life pursued opportunities to reallocate investments, altered product marketing programs for certain existing products and developed new product features that were aimed at improving performance in the low interest rate environment. The Company also took measures to reduce exposure to potential future market volatility.

Another important step taken by the Company in 2012 was the promotion and expansion of marketing responsibilities for Kansas City Life Vice Chairman of the Board and President of Old American Insurance Company, Walter E. "Web" Bixby, LLIF. Having guided Old American to six consecutive years of growth in new premiums, Web was promoted to Executive Vice President at Kansas City Life.



This strengthens the Company's emphasis and priority of providing protection to policyholders through life insurance.

Kansas City Life will continue to maintain a diversified product portfolio and focus on cultivating strong relationships with its policyholders, agents, general agents and sales representatives, and we plan to expand upon these in the future. These relationships, together with leadership trained on long-term results and a commitment to a value system based on honor and integrity, create the foundation for our ability to meet challenges and provide for a prosperous future to all we serve.

— **R. Philip Bixby**
*President, Chief Executive Officer
and Chairman of the Board*

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 provides financial services, including life insurance and investments, to consumers throughout 48 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 117 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 broker/dealer and registered investment advisor. Sunset Financial Services' registered representatives are also licensed with Kansas City Life. Investment products offered include variable insurance 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; Stable 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 2012.

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

*Burning lamp for
Life*



*Helmet for
Valor*



*Dolphin for
Beauty*

*Shield with bar for
Guardianship*



CORPORATE HIGHLIGHTS

The promise of Security Assured has been a 117-year tradition at Kansas City Life Insurance Company. The goal of this mission is to not only safeguard individuals, families and businesses against the unpredictable elements of life, but is also the foundation on which the Company was built.

At times, this mission has also included safeguarding policyholders against the unpredictable elements of our economy. This unpredictable and difficult economic environment, with its sustained period of low interest rates, has made it challenging for financial service companies and investors to satisfy both short-term and long-term objectives for consumers.

However, despite operating in this unpredictable economy, Kansas City Life continues to maintain a well-managed, diversified investment portfolio and a strong capital position. The Company will continue its goal to remain at an excellent competitive position – and always live up to our mission – providing Security Assured during any economic cycle.

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 alliances with third-party marketing arrangements.

Company 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.

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

The symbolism within the doors ...

*Shield with chevrons for **Protection**
Shield with bars for **Guardianship***

Two shields adorn the bronze doors; the shield with chevrons denotes protection and the shield with horizontal bars represents guardianship.

*Helmet for **Valor***

A helmet, the symbol of knightly valor, is among the figures on the doors and also stands for mercy.

*Dolphin for **Beauty***

The graceful dolphin upon the doors is synonymous with beauty while the pine tree, growing tall against the sky behind the dolphin, stands for longevity.

*Owl for **Wisdom***

The owl on the doors is an ancient symbol for wisdom and insight.

*Oak leaf for **Strength***

The oak leaf carved in our bronze doors was taken from the pagan Greeks who believed all the simplest things in nature had significance. They saw the oak leaf as a symbol of strength.

*Burning lamp for **Life***

*Burning torches for **Progress**
Sun for the **Light** of the world*

Three other carvings complete the designs in the doors. One of these is a burning lamp, the flame of which denotes life, and the others are the sun and torches, also a flame, meaning progress.

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, 2012, as well as for the year ended December 31, 2011.

Total premiums increased \$4.9 million or 9% in 2012 compared to 2011. Total new premiums increased \$5.3 million or 45% in 2012 from the year prior due to higher sales of immediate annuities.

Total new deposits decreased from the prior year by \$2.6 million or 3% in 2012, following a \$10.0 million or 10% decrease in 2011. The decrease in 2012 was largely due to a \$5.3 million decrease in new fixed deferred annuity deposits. Total renewal deposits decreased from the prior year by \$3.6 million or 2% in 2012 following a \$5.8 million or 4% increase in 2011. The decline in 2012 was largely attributable to a decrease in fixed deferred annuity renewal deposits. The improvement in 2011 was due to an increase in renewal fixed deferred annuity deposits.

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.

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.

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 21% of the Company's consolidated insurance revenues in 2012, compared to 22% in 2011. Total Group premiums increased

\$0.8 million or 1% in 2012, following a \$2.9 million or 5% increase in 2011. Moving forward, the Group Insurance segment continues to focus on three primary areas of emphasis to improve sales:

1. Growing in-force business through the Company's sales representatives and 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 more 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.

SFS will continue working with Kansas City Life to help recruit and retain quality agencies and producers.

*Sun for the
Light
of the world*



*Owl for
Wisdom*

Eagle for
Reliability,
Protection & Security



OLD AMERICAN INSURANCE COMPANY

The need for final expense products among the senior market continues to increase as the country's population ages. With the final expense industry's strong demand, it is no surprise that Old American Insurance Company once again had another successful year as it carried out its mission to provide peace of mind to the senior market.

The Company's Peace of Mind mission is represented by a symbolic eagle. Prominently displayed in Old American Insurance Company's logo, the eagle stands for reliability, protection and security.

Old American carries out this mission through products that are designed to cover the necessary costs following the death of a loved one. These funds also provide comfort to surviving family members knowing that money will be available for ongoing expenses.

During 2012, 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. The Old American segment accounted for 30% of consolidated insurance revenues for the years ended December 31, 2012 and 2011. Old American's new sales increased 5% in 2012 and 9% 2011. Total renewal premiums increased 3% in 2012 and 2% in 2011.

The increase in new premiums reflects a combination of expanded distribution efforts and improved productivity from the Company's sales agents.

Old American continues to focus on the recruitment and development of new agencies and agents, along with generating improved production from existing agencies and agents. In addition, this segment has aggressively managed territories assigned to agencies and emphasized recruiting to improve production of new sales.

A family-oriented company with a long history, Old American is licensed in 47 states and the District of Columbia. Founded in 1939, the Company celebrated its 73rd year of business in 2012, of which more than 20 have been under its current parent company, Kansas City Life Insurance Company. Walter E. Bixby, a fourth generation member of the Bixby family that has led Kansas City Life since its early days, serves as Old American's President.

Looking forward, Old American will remain committed to delivering peace of mind through its successful nationwide general agency system with exclusive territories. Old American is focused on its core foundation for even further momentum to fuel profitable growth for its field force and the Company.

*Reliability, Protection
and Security.*



Reliability, protection and security. These three words have adorned the circular logo of Old American Insurance Company since its beginning days and represent a promise to our policyholders – a promise to provide peace of mind to the senior market.

When Old American was founded in 1939, the Company's philosophy was that nobody should be considered uninsurable simply on the basis of age. That philosophy still resonates with our mission of providing peace of mind to the senior market. Old American's products and services provide for financial needs following a death, but they also fulfill emotional needs as well.

***Reliability** on a company in business for 73 years; the comfort that comes from the **Protection** of insuring your loved ones; and last but not least, the **Security** that comes from knowing money will be available for final expenses as well as necessary living expenses.*

These three words will continue to represent our mission and our guiding philosophy to provide peace of mind to the senior market now and in the future.

SENIOR OFFICERS

Kansas City Life Insurance Company

R. Philip Bixby

President, Chief Executive Officer and
Chairman of the Board

Walter E. Bixby, LLIF

Executive Vice President and Vice
Chairman of the Board

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

Aaron L. Bush

Vice President, Corporate 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

John L. Nogalski, CPA, FLMI

Vice President, Taxes

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

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

Mark A. Milton, FSA, CERA, MAAA

Vice President and Actuary

Richard D. Ropp, FLMI, ACS

Vice President, Policy Administration

Matthew R. O'Connor

Secretary

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

*Burning torches for
Progress*



*Oak leaf for
Strength*

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

Executive Vice President and 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

Kansas City Life Insurance Company
3520 Broadway
Post Office Box 219139
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 18, 2013, 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, 2013, Kansas City Life had approximately 3,355 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

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
2012:			
First quarter	\$ 34.54	\$ 31.29	\$ 0.27
Second quarter	34.94	30.82	0.27
Third quarter	38.84	34.31	0.27
Fourth quarter*	39.36	34.61	0.54
			<u>\$ 1.35</u>
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>

*In the fourth quarter, the Company declared and paid two dividends. The first was for \$0.27 per share, which was declared in October 2012 and paid in November 2012. The second dividend was a special dividend of \$0.27 per share, which was declared and paid in December 2012.

A quarterly dividend of \$0.27 per share was paid February 13, 2013.

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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