KANSAS CITY LIFE INSURANCE CO
Form 10-K
February 27, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014 or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-33348
KANSAS CITY LIFE INSURANCE COMPANY
(Exact name of registrant as specified in its charter)

Missouri	44-0308260
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3520 Broadway, Kansas City, Missouri	64111-2565
(Address of principal executive offices)	(Zip Code)

816-753-7000
Registrant's telephone number, including area code
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
$1.25 par value common stock	NASDAQ Capital Market LLC

Securities registered pursuant to section 12(g) of the Act:
None
(Title of class)
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ¨ No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer x

Non-accelerated filer ¨ Smaller reporting company ¨

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

Yes ¨ No x

At December 31, 2014, 10,825,205 shares of Kansas City Life Insurance Company's common stock par value $1.25 were outstanding, and the aggregate market value of the common stock (based upon the average of bid and ask price according to Company records) on June 30, 2014 of Kansas City Life Insurance Company held by non-affiliates was approximately $149,936,451.

Documents incorporated by reference: Portions of the registrant's definitive proxy statement relating to its 2015 annual meeting of shareholders (the “2015 Proxy Statement”) are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The 2015 Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

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PART I

Item 1. Business

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

General

Kansas City Life Insurance Company (Kansas City Life) was incorporated under the assessment laws of Missouri in 1895 as the Bankers Life Association. In 1900, its present corporate title was adopted and it was reorganized as a stock life insurance company in 1903. Kansas City Life operates in 48 states and the District of Columbia.

Kansas City Life is the parent company. Sunset Life Insurance Company of America (Sunset Life) and Old American Insurance Company (Old American) are wholly-owned subsidiaries. Sunset Financial Services (SFS) is a wholly-owned wholesale broker-dealer that assists in the distribution and marketing of Kansas City Life proprietary variable life and variable annuity products through third party broker-dealers and in the servicing of closed blocks of variable insurance business retained by the Company. The Company also has several non-insurance subsidiaries that individually and collectively are not material. These entities combined comprise the consolidated entity (the Company).

In 1974, the Company acquired Sunset Life in a stock acquisition transaction. Sunset Life is a life insurance company that was organized in 1937 that marketed and sold business, primarily in the western region of the United States. In 2006, the Sunset Life sales force was integrated into the Kansas City Life sales force by appointing Sunset Life agents as agents of Kansas City Life. All of Sunset Life’s operations, administration, and accounting are consolidated as part of the Company’s home office operations. Sunset Life maintains its closed block of business, but does not solicit new sales. Sunset Life is included in the Individual Insurance segment and its individual insurance products include traditional life, immediate annuity, universal life, and fixed deferred annuity products. Sunset Life operates in 43 states and the District of Columbia.

In 1991, the Company acquired Old American in a stock acquisition transaction. Old American is a life insurance company that was organized in 1939. Old American sells final expense traditional life insurance products, primarily to the senior market, as well as a term product targeted to younger individuals. These products are marketed nationwide through a general agency system with exclusive territories, using direct response marketing to supply agents with leads. Old American’s administrative and accounting operations are integrated as part of the Company’s home office, and it operates and maintains a separate and independent field force. Old American is identified as a separate segment, and operates in 47 states and the District of Columbia.

In 1997, the Company entered into a coinsurance assumption and servicing agreement with another insurer to acquire a block of traditional life and universal life products. Under this agreement, the Company assumed 100% of the policy liabilities as defined in the contract on a coinsurance basis. Investments equal to the policy reserves are held in a trust to secure payment of the estimated liabilities relating to the policies. This closed block of policies is included in the Individual Insurance segment.

In 2003, the Company acquired GuideOne Life Insurance Company (GuideOne). GuideOne principally marketed traditional life and annuity products, as well as universal life and fixed deferred annuity products. Subsequent to the purchase, the Company merged GuideOne into Kansas City Life as a closed block of policies. In addition, the Company entered into a marketing arrangement with GuideOne Mutual Insurance Company, which allows GuideOne Mutual’s agents to sell the Company’s various traditional, interest sensitive, and variable life and annuity products.

In 2006, the Company entered into a Master General Agent and Marketing Agreement which enables American Republic Insurance Company (American Republic) agents to market Kansas City Life’s insurance products. This agreement offers the Company additional distribution opportunities, while offering American Republic’s agents competitive life and annuity products to strengthen their portfolio of available products in which to serve their clients.

In 2013, the Company completed a reinsurance and servicing agreement for a closed block of variable universal life insurance policies and variable annuity contracts from American Family Life Insurance Company (American Family). Under the reinsurance agreement, the Company assumed 100% of the separate account liabilities on a modified coinsurance basis and 100% of the general account liabilities on a coinsurance basis. This transaction included a servicing arrangement with American Family until the policies and contracts were transitioned to administration by the Company in 2014. The Company receives fees based upon both specific transactions and the fund value of the

block of policies, as provided under modified coinsurance transactions. The separate account fund balances were not recorded as separate accounts on the Company's financial statements, as they are required to be included in American Family's separate account balances. The Company recorded the fixed fund accounts as a separate block under its general accounts, and the Company also receives certain ongoing fees associated with specific transactions.

In 2014, the Company completed a divestiture of certain non-proprietary agent relationships related to SFS with Securities America (SAI). Under this agreement SFS transferred the servicing of certain accounts primarily related to non-proprietary broker-dealer

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and registered investment advisory accounts to SAI. SFS will continue as a wholly-owned wholesale broker-dealer subsidiary of Kansas City Life to provide support for Kansas City Life's proprietary products and those variable products specifically associated with the American Family transaction. This transaction does not represent a strategic shift that will have a major effect on the consolidated entity's financial results nor does the Company believe that there is any material impact to the consolidated entity's financial position. In addition, the Company entered into a marketing arrangement with SAI, which allows SAI's representatives to sell the Company's various traditional, interest sensitive, and variable life and annuity products.

Business Segments

The Company has three reportable business segments, which are generally defined based on the nature of the products and services offered: Individual Insurance, Group Insurance, and Old American.

The Individual Insurance segment consists of individual insurance products for both Kansas City Life and Sunset Life, as well as the coinsurance and reinsurance transactions. The Individual Insurance segment generated approximately 53% of consolidated insurance revenues for the year ended December 31, 2014, compared to 58% and 49% for the years ended December 31, 2013 and 2012, respectively.

The Group Insurance segment is operated as part of Kansas City Life and its administrative and accounting operations are integrated as part of the Company’s home office. This segment generated 20% of consolidated insurance revenues for the year ended December 31, 2014, compared to 18% and 21% for the years ended December 31, 2013 and 2012, respectively.

The Old American segment accounted for 27% of consolidated insurance revenues for the year ended December 31, 2014, compared to 24% and 30% for the years ended December 31, 2013 and 2012, respectively.

For more information concerning the Company’s business segments, please see Note 19 - Segment Information and the Operating Results by Segment section in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Products, Marketing, and Distribution

The Company markets individual life insurance and annuity products, including traditional and interest sensitive products through its sales force and third-party marketing arrangements. The interest sensitive products include an array of universal life, variable universal life, fixed deferred annuities, and variable annuities. The group products marketed by the Company include life, dental, vision, and disability. The Company offers proprietary investment products through its wholesale broker-dealer, SFS, for variable life and variable annuity products.

The following table details the Company’s consolidated direct and assumed premiums and deposits by product for the years ended December 31.

	2014	% of Total		2013	% of Total		2012	% of Total	
Traditional life insurance	$123,488	27	%	$120,503	25	%	$117,445	28	%
Immediate annuities	27,488	6	%	55,915	12	%	12,497	3	%
Group life insurance	13,613	3	%	12,502	2	%	11,360	3	%
Group accident & health insurance	56,606	12	%	53,876	11	%	50,641	12	%
Other	997	—	%	1,192	—	%	1,449	—	%
Total premiums	222,192	48	%	243,988	50	%	193,392	46	%
Universal life insurance	93,715	20	%	101,117	21	%	96,776	23	%
Variable universal life insurance	30,210	7	%	27,513	6	%	10,984	3	%
Fixed annuities	70,305	15	%	80,040	17	%	93,432	22	%
Variable annuities	44,521	10	%	30,831	6	%	26,640	6	%
Total deposits	238,751	52	%	239,501	50	%	227,832	54	%
Total	$460,943	100	%	$483,489	100	%	$421,224	100	%

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The following table provides the geographic distribution of direct and assumed premiums and deposits for those states greater than 5% of the total for the years ended December 31.

	2014			2013			2012	
Missouri	7	%	Missouri	9	%	Missouri	8	%
Ohio	7	%	Texas	7	%	Texas	7	%
Texas	6	%	California	6	%	California	6	%
California	6	%	Colorado	6	%	Kansas	6	%
Colorado	5	%	All others	72	%	Colorado	6	%
All others	69	%	Total	100	%	Florida	5	%
Total	100	%				All others	62	%
						Total	100	%

Individual Insurance

The Individual Insurance segment is comprised of sales of non-group products from Kansas City Life and the closed blocks of Sunset Life, GuideOne Life, and the reinsurance transactions originated in both 1997 and 2013. This segment also includes sales from third-party marketing arrangements, including American Republic and GuideOne Mutual. This segment offers an array of traditional whole life, term life, universal life products, fixed deferred and immediate annuity products, and variable universal life and annuity products.

Products are marketed through a nationwide sales force of independent general agents, agents, and third-party marketing arrangements. These general agents and agents are contracted individually and are not exclusive with Kansas City Life. The Company does not restrict general agents or agents to designated sales territories. Kansas City Life provides commissions and allowances based on sales results. In addition, the Company has identified selected occasions to use additional third-party arrangements for product specific or market niche sales opportunities.

Kansas City Life offers a portfolio of life insurance products for individuals. Universal life products have the ability to deliver flexibility in coverage and competitive long-term cash values or premiums that guarantee coverage for a desired period or through the insured’s lifetime. In 2013, the Company began offering an indexed universal life product. Sales of this product were not material to the Company's financial results in 2014 or 2013. Kansas City Life also offers variable universal life products that combine the advantages of a range of investment options with life insurance. In addition, Kansas City Life offers traditional whole life products, products geared towards juveniles that offer additional coverage as the child ages, and term life insurance products for a wide range of ages and coverage.

Kansas City Life offers multiple fixed deferred annuity products. In addition, Kansas City Life offers immediate annuity products with a broad variety of payout options, including guaranteed specified amounts and life contingencies. A variety of immediate annuity options are offered, in association with policy and contract holder benefit options, as well as new product sales. Conversion of policies and contracts involving life contingencies, as required under U.S. generally accepted accounting principles (GAAP), can result in sizeable premium fluctuations from time to time. Kansas City Life also offers variable annuity products which allow the policyholder options that include either single or flexible premium contracts combined with the advantages of a range of investment options and the advantages of an annuity.

Finally, in both the individual life insurance products and annuity products, selected riders are also available for added coverage and protection.

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The following table details direct and assumed premiums and deposits by product for the Individual Insurance segment for the years ended December 31.

	2014	% of Total		2013	% of Total		2012	% of Total	
Traditional life insurance	$47,054	15	%	$46,251	14	%	$45,873	16	%
Immediate annuities	27,488	9	%	55,915	16	%	12,497	4	%
Other	467	—	%	571	—	%	674	—	%
Total premiums	75,009	24	%	102,737	30	%	59,044	20	%
Universal life insurance	93,715	30	%	101,117	30	%	96,776	34	%
Variable universal life insurance	30,210	10	%	27,513	8	%	10,984	4	%
Fixed annuities	70,305	22	%	80,040	23	%	93,432	33	%
Variable annuities	44,521	14	%	30,831	9	%	26,640	9	%
Total deposits	238,751	76	%	239,501	70	%	227,832	80	%
Total	$313,760	100	%	$342,238	100	%	$286,876	100	%

The following table provides the geographic distribution of direct and assumed premiums and deposits for those states greater than 5% of the total for the Individual Insurance segment for the years ended December 31.

	2014			2013			2012	
Ohio	9	%	Missouri	10	%	California	7	%
California	7	%	California	7	%	Missouri	7	%
Missouri	7	%	Colorado	7	%	Colorado	7	%
Colorado	7	%	Florida	6	%	Florida	7	%
Washington	6	%	Texas	6	%	Kansas	6	%
Texas	6	%	Washington	6	%	Texas	6	%
Florida	5	%	All others	58	%	Washington	5	%
All others	53	%	Total	100	%	All others	55	%
Total	100	%				Total	100	%

Closed Blocks

The Company has closed blocks of business that are primarily from three sources. First, the Company has sizeable blocks of business obtained through the acquisition of certain companies. Second, the Company has entered into reinsurance assumption transactions. The third source results from when the Company determines that it no longer intends to actively market selected products or to remain active in certain markets. These closed blocks of business decline in premiums, deposits, and insurance in force over time. However, the Company seeks to actively conserve this business. In 2014, 5% of total premiums and 27% of total deposits were from closed blocks, compared to 5% and 26%, respectively in 2013.

Group Insurance

Kansas City Life offers multiple group insurance products primarily to small and medium size employers (2-500 lives). This segment offers group life, long-term and short-term disability, dental, and vision products both on an employer-paid basis and voluntary employee-paid basis.

This segment primarily uses two marketing approaches. The first is to market business using Kansas City Life's internal sales representatives and an independent general agent and agent field force. This business is administered internally. The second is through selectively identified independent third-party arrangements that support this segment's marketing and product portfolio. Generally, business sold through these arrangements is administered by the third parties or through specifically-identified reinsurance arrangements.

The Group Insurance segment underwrites and designs products and services to meet the needs of employers and employees based on factors such as employer contribution toward cost of coverage, number of employees, benefits desired versus product cost, and plan design features. Life insurance plans include flexible plan designs, such as accidental death and dismemberment coverage,

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waiver of premium coverage, and policy conversion and portability privileges. Disability plans are designed based on factors including benefit period and maximum benefits. Dental plans are designed based on factors including coinsurance percentages and plan maximums.

The following table details direct premiums by product for the Group Insurance segment for the years ended December 31.

	2014	% of Total		2013	% of Total		2012	% of Total	
Group life insurance	$13,613	19	%	$12,502	19	%	$11,360	18	%
Group dental insurance	33,813	48	%	30,627	46	%	27,194	44	%
Group disability insurance	22,793	33	%	23,249	35	%	23,447	38	%
Total	$70,219	100	%	$66,378	100	%	$62,001	100	%

The following table provides the geographic distribution of direct premiums for those states greater than 5% of the total for the Group Insurance segment for the years ended December 31.

	2014			2013			2012	
Michigan	9	%	Michigan	7	%	Missouri	10	%
Missouri	9	%	Missouri	9	%	Texas	8	%
Texas	7	%	Texas	7	%	North Carolina	7	%
North Carolina	6	%	North Carolina	6	%	Indiana	6	%
South Carolina	5	%	All others	71	%	All others	69	%
Indiana	5	%	Total	100	%	Total	100	%
All others	59	%						
Total	100	%						

Old American

Old American sells traditional life insurance products geared toward final expense needs. This segment is marketed through a nationwide general agency sales force with exclusive territories, using direct response marketing to supply agents with leads. The Company manages the territories based upon production and directly supports and subsidizes general agent managers and agents with marketing leads and allowances based upon sales results. The Old American segment consists of individual insurance products designed primarily as final expense products for the senior market. Agents primarily market to individuals in the age range of 50 to 85, principally through final arrangements planning. Old American offers final expense products that include preferred and standard products with guaranteed level death benefits for individuals in good health and sub-standard products with graded or increasing benefits for those individuals who cannot qualify for standard or preferred risk due to health issues. Old American also offers a juvenile product designed for parents or grandparents to insure children of ages up to 15 and a term life insurance product to individuals ages from 20 to 65.

Old American has focused on expanding its sales territories, recruiting, and agent productivity for its general agencies in order to effectively meet the sales goals of the Company. The driving force behind Old American’s sales efforts is the approach to support its field force through its lead generation efforts.

Old American's gross premiums totaled $77.4 million for the year ended December 31, 2014, compared to $75.3 million for the year ended December 31, 2013. Virtually all of Old American's gross premiums are in traditional life insurance products. This segment also has a small, closed block of individual accident and health business with total gross premiums of $0.7 million in 2014 and $0.8 million in 2013.

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The following table provides the geographic distribution of direct premiums for those states greater than 5% of the total for the Old American segment for the years ended December 31.

	2014			2013			2012	
Texas	7	%	Texas	7	%	Texas	7	%
Missouri	7	%	Missouri	7	%	Missouri	7	%
California	6	%	California	6	%	California	6	%
Illinois	6	%	Illinois	6	%	Illinois	6	%
All others	74	%	All others	74	%	All others	74	%
Total	100	%	Total	100	%	Total	100	%

Reinsurance

Ceded Reinsurance Arrangements

Consistent with the general practice of the life insurance industry, the Company enters into traditional agreements of indemnity reinsurance with other insurance companies to support sales of new products and its in force business. The reinsurance arrangements have taken various forms over the years. The Company has reinsurance in force on all of the following bases: automatic and facultative; yearly renewable term (YRT) and coinsurance; and excess and quota share basis. For additional information pertaining to the Company's significant reinsurers, along with additional information pertaining to reinsurance, please see Note 16 - Reinsurance.

Currently, new sales of traditional life and universal life products are reinsured on a YRT basis in excess of the Company's retention limits, while sales of certain term life insurance products are reinsured on a quota share (a portion of each policy is reinsured) coinsurance basis. Sales of group disability income products are reinsured on a quota share coinsurance basis. New group life sales are reinsured on an excess of retention basis, with the accidental death and dismemberment benefits being 100% reinsured. During 2014 and 2013, the Company's maximum retention limit was $0.5 million on individual life products and $0.1 million on group life business.

In addition to reinsurance coverage for new business, the Company has also engaged in various reinsurance arrangements for in force blocks of business:

- In 1991, the Company purchased Old American Insurance Company. Old American had an existing coinsurance agreement in place that ceded on a 100% coinsurance basis certain whole life policies issued by Old American prior to December 1, 1986. These policies had life insurance in force of $23.3 million at December 31, 2014 (2013 - $26.3 million) with a ceded reserve for future policy benefits under this agreement of $13.5 million (2013 - $15.1 million).
- In 1998, Old American executed a coinsurance agreement resulting in the ceding of 100% of its retained risk on a closed block of individual accident and health business. At December 31, 2014, the reserve credit on these policies was $15.5 million (2013 - $16.5 million).
- In 2002, Sunset Life entered into a yearly renewal term bulk reinsurance agreement whereby it ceded 80% of its retained mortality risk on traditional and universal life policies. This was accomplished through a reinsurance pool involving four primary reinsurers. In June 2012, Sunset Life recaptured approximately 9% of the outstanding bulk reinsurance agreement. At December 31, 2014, the ceded insurance in force was approximately $1.0 billion (2013 - $1.0 billion) with reserves of $4.0 million (2013 - $4.0 million).

Assumed Reinsurance Arrangements

The Company also targets strategic growth opportunities through assumed reinsurance:

- In 1997, the Company acquired a block of traditional life and universal life products by way of a coinsurance and servicing agreement with another insurer. Investments equal to the statutory policy reserves are held in a trust to secure payment of the estimated liabilities relating to the policies. At December 31, 2014, the block had $1.0 billion of life insurance in force (2013 - $1.1 billion), future policy benefits of $46.8 million (2013 - $49.0 million) and policyholder account balances of $134.7 million (2013 - $139.8 million).
- In 2013, the Company completed a 100% modified coinsurance agreement for separate accounts, a 100% coinsurance agreement for the fixed fund general account and a servicing agreement for a block of variable universal life insurance policies and variable annuity contracts from American Family. At December 31, 2014, the block had $3.0 billion of life insurance in force (2013 - $3.2 billion), future policy benefits of $0.6 million (2013 - $0.8 million), and

policyholder account balances of $27.2 million (2013 - $26.0 million). See Note 9 - Separate Accounts - for additional information.

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Governmental Regulations

The Company is subject to state regulations in its states of domicile and in the states in which it does business. Although the federal government generally does not regulate the business of insurance, federal initiatives often have an impact on the business in a variety of ways, including the taxation of insurance companies and the tax treatment of insurance products along with activities of the Federal Insurance Office (FIO). In addition, the Company is a stock life insurance company and is subject to the rules and regulations of the United States Securities and Exchange Commission (SEC). SFS is a registered broker-dealer, which is regulated by the Financial Industry Regulatory Authority (FINRA) and the SEC.

State Regulation

State insurance laws establish extensive regulation and supervisory agencies with broad regulatory authority, including the power to:

- Grant and revoke licenses to companies to transact business and to license agents;
- Regulate and supervise trade practices and market conduct;
- Establish guaranty associations which levy mandatory fees used for insurers with solvency issues;
- Approve policy forms, advertising, and marketing materials;
- Establish reserve requirements;
- Prescribe the form and content of required financial statements and reports;
- Determine the reasonableness and adequacy of statutory capital and surplus;
- Perform financial, market conduct, and other examinations;
- Define acceptable accounting principles for statutory reporting purposes;
- Regulate the type and amount of permitted investment activity; and
- Limit the amount of dividends that can be paid without prior regulatory approval.

The Company’s life insurance entities are subject to periodic examinations by state regulatory authorities. Financial statements are prepared and examined on a basis other than GAAP, namely statutory accounting principles. The most recently completed examination performed by the State of Missouri occurred as of December 31, 2009 for Kansas City Life, Sunset Life, and Old American. There were no adjustments recommended to any of the insurance companies as a result of that examination. The Company has been notified of a regulatory scheduled examination to occur in 2015 based upon the year ended December 31, 2014.

The National Association of Insurance Commissioners (NAIC) has received regulatory authority by the respective state departments of insurance. Accordingly, the NAIC has been able to establish more consistency for insurers with regard to financial reporting requirements. In one such measure, the NAIC has adopted risk-based capital (RBC) guidelines to assist in the evaluation of the adequacy of statutory capital and surplus in relation to an insurance company’s risks. RBC requirements are intended to be used by insurance regulators as an early warning tool to identify deteriorating or weakly capitalized insurance companies for the purpose of initiating regulatory action. RBC guidelines consist of target statutory surplus levels based on the relationship of statutory capital and surplus to the sum of weighted risk exposures. At December 31, 2014 and 2013, the statutory capital and surplus of each of the Company’s insurance entities was substantially above the required levels. The NAIC continues to assess solvency issues and makes recommendations to enhance the existing guidelines, such as solvency modernization and own risk and solvency assessment (ORSA). While the Company is not subject to these regulations based on current business volumes, it continues to monitor them for ongoing developments.

The Company and its insurance subsidiaries have received inquiries from a number of state regulatory authorities regarding its use of the U.S. Social Security Administration's Death Master File (“Death Master File”) and its compliance with state unclaimed property and escheatment laws. 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. It is possible that audits and/or the enactment of new state laws could result in identifying payments to beneficiaries more quickly than under the current legislative and regulatory standards established for life insurance claims or may provide for additional escheatment of funds deemed abandoned under state laws. The audits could also result in administrative penalties. Given the legal and regulatory uncertainty in this area, it is also possible that life insurers, including the Company, may be subject to claims concerning their business

practices. West Virginia, for example, has initiated litigation against a large number of life insurance companies, including Old American.

Under insurance solvency or guaranty laws in most states in which the Company operates, insurers doing business can be assessed for policyholder losses related to insolvencies of other insurance companies. The amount and timing of any future assessments on the Company under these laws cannot be reasonably estimated and are beyond the control of the Company. For the three years ended December 31, 2014, the Company's assessments, net of related premium tax credits, were not material.

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Federal Regulation

The federal government generally does not directly regulate the business of insurance. An exception is the Federal Reserve's ability to regulate certain life insurance companies affiliated with savings bank organizations and those life insurers deemed to be systematically important financial institutions. However, the federal government does regulate through legislation and administrative policies several aspects of the business including but not limited to:

- The Sarbanes-Oxley Act (SOX) regarding financial reporting internal controls;
- Pension regulations and other qualified retirement plans such as 401(k) plans;
- Certain employer hiring considerations, specifically including but not limited to race, age, and sexual discrimination;
- The sale of securities and investment-related products;
- Corporate and individual taxation;
- Prescribe the form and content of required financial statements and reports;
- Define acceptable accounting principles for reporting purposes;
- Health care reform; and
- Other federal initiatives.

In addition, legislation which has been passed and is also being contemplated could result in the federal government assuming some role in the regulation or oversight of insurance companies. Specifically, the Dodd-Frank Wall Street Reform and Consumer Protection Act may enhance and expand the federal government's role in insurance company regulation. This includes the formation and activities of the Federal Insurance Office (FIO).

As a publicly traded stock life insurance entity, the Company is also subject to the SEC's regulations for such items as financial reporting requirements, accounting rules, public disclosure of accounting practices and policies, internal control regulations as defined under SOX, a wide variety of governance considerations promulgated under proxy statements and proxy disclosure related matters, and other items as may be enacted by legislation. These regulations place an expanded burden on insurance companies both in financial aspects as well as the timely filing and reporting of items covered under each of these requirements. In addition, future enactments may have a material impact on the Company, depending upon the regulation and its requirements.

Life insurance companies are taxed under the life insurance company provisions of the Internal Revenue Code of 1986, as amended (the Code). Provisions of the Code have various impacts on the Company and changes to the Code that may be enacted in the future could also negatively impact the Company's net income and stockholders' equity.

Competition and Ratings

The Company operates in the life insurance sector of the financial services industry in the United States. This industry is highly competitive with respect to products, pricing, selection of products, and quality of service. No single competitor or any small group of competitors dominates any of the markets in which the Company operates. General economic conditions may affect future results. Many of the Company's competitors are considerably larger and may have substantially greater financial resources, higher ratings from rating agencies, broader and more diversified product lines, and more agency relationships.

The Company's insurance products compete with a wide variety of other products, including products from other insurance companies, financial intermediaries, and other institutions. In addition, competition arises from a number of features, including crediting rates, policy terms and conditions, service provided to distribution channels and policyholders, ratings reputation, and agent compensation. Insurance products also compete with products offered from mutual funds; traditional bank investments; and other investment and retirement funding alternatives offered by asset managers, banks, and broker-dealers.

The sales agents for the Company's products use the financial strength ratings assigned to an insurer by independent rating agencies as one factor in their sales materials. The market has generally been influenced by those insurers with the highest ratings. However, the degree to which ratings and changes in ratings affect sales and persistency cannot be definitively measured.

Following is a summary of the Company's insurance ratings and outlook for the three insurance companies, as assigned by the A.M. Best Company, which is an independent rating agency.

	2014	2013	2012

Kansas City Life	A (Excellent) Stable	A (Excellent) Stable	A (Excellent) Stable
Sunset Life	A- (Excellent) Stable	A- (Excellent) Stable	A- (Excellent) Stable
Old American	A- (Excellent) Stable	B++ (Good) Positive	B++ (Good) Stable

Financial strength ratings generally involve quantitative and qualitative evaluations by rating agencies of a company’s financial condition and operating performance. Generally, rating agencies base their ratings upon information furnished to them by the

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insurer and upon their own investigations, studies, and assumptions. Ratings are based upon factors of concern to policyholders, agents, and intermediaries and are not directed toward the protection of investors and are not recommendations to buy, sell, or hold securities.

In addition to the financial strength ratings, rating agencies use an “outlook statement” to indicate a medium or long-term trend which, if continued, may lead to a rating change. A positive outlook indicates a rating may be raised and a negative outlook indicates a rating may be lowered. A stable outlook is assigned when ratings are not likely to be changed. Outlook statements should not be confused with expected stability of the issuer’s financial or economic performance. A rating may have a stable outlook to indicate that the rating is not expected to change, but a stable outlook does not preclude a rating agency from changing a rating at any time without notice.

A.M. Best Company ratings currently range from “A++” (Superior) to “F” (In Liquidation), and include 16 separate ratings categories. Within these categories, “A++” (Superior) and “A+” (Superior) are the highest, followed by “A” (Excellent) and “A-” (Excellent), then followed by “B++” (Good) and “B+” (Good). A.M. Best Company reviews its ratings of insurance companies from time to time. There can be no assurance that any particular rating will continue or that it will not be changed or withdrawn entirely if, in its judgment, circumstances so warrant.

Employees

The Company had 436 full-time employees at December 31, 2014. The Company experienced no work stoppages or strikes and considers relations with its employees to be good. None of the Company’s employees are represented by a union.

Access to Public Filings

Additional information about the Company beyond what is included in this Form 10-K is available at the Company’s website: www.kclife.com. You may also read and copy these materials at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549, or obtain them by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website that contains reports, proxy, other information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov. You may also access the SEC website through a link on the Company’s website. The Company will provide a copy of any of those reports free of charge upon request.

None of the information on the Company’s website that is not otherwise expressly set forth or incorporated by reference in the Form 10-K is a part of this Form 10-K.

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Item 1A. Risk Factors

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

Strategic, Product, and Operational Risks:

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

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

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

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

The Company may be unable to attract agencies and agents.

The Company sells insurance and annuity products through independent agents and agencies. These agencies and agents are not captive and may sell products of the Company's competitors. The Company's ability to compete is dependent upon, among other things, its ability to attract agents and agencies to market its insurance products, its ability to develop competitive and profitable products, its ability to control unit cost growth, and its maintenance of strong financial strength ratings. Sales and the results of operations and financial condition could be adversely affected if the Company is unsuccessful in attracting agencies and agents.

The Company's ability to retain agents is dependent upon a number of factors, including: the ability of the Company to maintain a competitive compensation system while also offering products with competitive features and benefits for policyholders; the ability to maintain a level of service and support activities that effectively support the agent and agents needs; and the ability to approve and monitor agent and agents sales and business practices that are consistent with regulatory requirements and expectations of the Company.

The Company's ability to maintain competitive unit costs is dependent upon the level of new sales.

The Company's ability to maintain competitive unit costs is dependent upon a number of factors, such as the level of new sales, persistency (continuation or renewal) of existing business, and expense management. A decrease in sales or the amount of total existing business or deterioration in the profitability of the existing business without a corresponding reduction in expenses may result in higher unit costs, which would affect the Company's operating results.

The Company's policy claims fluctuate from period to period, resulting in earnings volatility.

The Company's financial results may fluctuate from period to period due to fluctuations in policy claims incurred by the Company. However, the Company reinsures a significant amount of the mortality risk on fully underwritten and newly issued individual life insurance contracts. The Company regularly reviews retention limits for continued appropriateness and these limits may be changed in the future. If the Company was to experience significant adverse mortality or morbidity experience, it is expected that a significant portion of that expense would be reimbursed by reinsurers.

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

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

Assumptions and estimates involve judgment and are subject to changes and revision over time.

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

The Company’s reserves for future policy benefits may prove to be inadequate.

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

The amortization of DAC, VOBA, and deferred revenue liability (DRL) may change, impacting both the level of the asset and the timing of the Company’s net income.

Amortization of DAC, VOBA, and DRL depends on the actual and expected profits generated by the lines of business that incurred the costs. Expected profits are dependent on assumptions regarding a number of factors, including investment returns, benefit payments, expenses, mortality, and policy persistency. Due to the nature of the business, the Company cannot anticipate the exact pattern of profit emergence. As a result, amortization of DAC, VOBA, and DRL will vary from period to period as actual profits replace expected profits and future expected profits are re-projected based on management’s best estimates as of the reporting dates. To the extent that actual experience emerges less favorably than expected or expectations for future profits decrease, the DAC and VOBA assets and the DRL may be reduced. This would likely result in increased amortization and reduced profitability in the period assumptions are modified to reflect changes in management expectations.

The Company is dependent on the performance of others and continued consumer confidence.

The Company’s results may be affected by the performance of others because the Company has entered into various arrangements involving other parties. For example, most of the Company’s products are sold through independent distribution channels, and variable universal life and annuity deposits are invested in funds managed by third parties. Additionally, the Company’s operations are dependent on various technologies, some of which are provided by other parties.

As with all financial services companies, the Company’s ability to conduct business is dependent upon consumer confidence in the industry and its products. Actions of competitors and financial difficulties of other companies in the industry could undermine consumer confidence and adversely affect retention of existing business and future sales of the Company’s insurance and investment products.

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

The Company has devoted significant resources to develop risk management policies and procedures and will continue to do so in the future. However, the Company's policies and procedures used to identify, monitor, and manage risks may not be fully effective. Many of the methods of managing risk and exposures are based upon the use of observed historical policyholder and market behavior or statistics based on historical models. As a result, these methods may not effectively identify or evaluate the magnitude of existing or future exposures, which could be significantly greater than the historical measures indicate. An example of such risks includes the risk of pandemics, which could cause a large number of deaths. Other risk management methods depend

upon the evaluation of information regarding markets, agents, clients, catastrophe occurrence, or other matters that are publicly available or otherwise accessible. This information may not always be accurate, complete, up-to-date, or properly evaluated. Management of operational, legal, and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective. Additional risks and uncertainties not currently known or that the Company currently deems to be immaterial may adversely affect the business, financial condition, and/or operating results.

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

The Company’s financial strength rating, which is intended to measure its ability to meet policyholder obligations, is an important factor affecting public confidence in most of the Company’s products and, as a result, the Company’s competitiveness. Rating organizations periodically review the financial performance and condition of insurers, including the Company, and downgrades of insurance companies occur frequently.

A downgrade in the Company’s rating could adversely affect the Company’s ability to sell its products, retain existing business, and compete for attractive acquisition opportunities. Rating organizations assign ratings based upon several factors. While most of the factors relate to the rated company, some of the factors relate to the views of the rating organization, general economic conditions, and circumstances outside the rated company’s control. In addition, rating organizations use various models and formulas to assess the strength of a rated company, and from time to time rating organizations have, in their discretion, altered the models. Changes to the models could impact the judgment of the rating organizations of the rating to be assigned to a company. The Company cannot predict what actions rating organizations may take or what actions the Company may be required to take in response to the actions of the rating organizations.

The Company may be unable to complete additional acquisitions or realize its anticipated financial results from its acquisitions.

One of the Company’s growth strategies is to acquire other life insurance companies and/or blocks of business. The Company’s previous acquisitions have increased earnings by allowing the Company to realize certain operating efficiencies or increase sales. However, there can be no assurance that suitable acquisitions presenting opportunities for continued growth and operating efficiencies will continue to be available to the Company. Further, sufficient capital to fund acquisitions may not be available at the time opportunities arise.

The completion of an acquisition may be more costly or take longer than expected. There may be unforeseen liabilities that arise in connection with businesses that the Company acquires. Additionally, the Company assumes or otherwise becomes responsible for the obligations of policies and liabilities of other insurers it acquires. Any regulatory, legal, financial, or other adverse development affecting the other insurer could also have an adverse effect on the Company.

The Company may be unable to maintain effective internal controls over financial reporting.

The Company is subject to the Sarbanes-Oxley Act, which requires companies to establish, maintain, assess, and update its internal controls over financial reporting. The Company's disclosure controls and internal controls over financial reporting may not prevent or detect all errors or misstatements. While the Company assesses its controls on an ongoing basis, these controls can only provide reasonable assurance that the required financial objectives are met and adhered to. There are inherent limitations of internal controls that include, but are not limited to, resource constraints, undetected errors, fraud, and collusion. The Company believes that its internal controls provide reasonable assurance that its financial statements are materially correct. However, undetected ineffective internal controls could result in errors or misstatements in the Company's financial statements.

Investment and Asset/Liability Management Risks:

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

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

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Interest rate fluctuations could negatively affect the Company’s spread income or otherwise impact its business.
Interest rate fluctuations or sustained low interest rate environments could negatively affect earnings because the profitability of certain products depends in part on interest rate spreads. These products include fixed deferred annuities, single premium immediate annuities, interest-sensitive whole life, universal life, and the fixed portion of variable universal life insurance and variable annuity business. In addition, the Company offers riders, including guaranteed minimum withdrawal benefits and guaranteed minimum death benefits. Changes in interest rates or sustained low interest rate environments may reduce both the profitability and the return on invested capital.
Some of the Company’s products, principally fixed annuities, interest-sensitive whole life, universal life, and the fixed portion of variable universal life insurance and variable annuity business have interest rate guarantees that expose the Company to the risk that changes in interest rates will reduce the spread, or the difference between the amounts the Company is required to credit to policyholder contracts and the amounts earned by the Company on general account investments. Declines in spread or instances where the returns on the general account investments are not sufficient to support the interest rate guarantees on these products could have a material adverse effect on the results of operations.
In periods of increasing interest rates, the Company may not be able to replace the assets in the general account with higher yielding assets needed to fund the higher crediting rates that may be necessary to keep interest sensitive products competitive. The Company, therefore, may have to accept a lower spread and profitability or face a decline in sales, loss of existing contracts from non-renewed maturities, early withdrawals, or surrenders. In periods of declining interest rates, the Company has to reinvest the cash received from interest or return of principal on investments in lower yielding instruments then available. Moreover, issuers of fixed-income investment securities and borrowers related to the Company’s commercial mortgage investments may prepay these obligations in order to borrow at lower market rates, which may exacerbate the risk for the Company of having to reinvest at lower rates.
The Company is entitled to reset the interest rates it credits on fixed-rate annuities. Because many of the Company’s policies have guaranteed minimum interest or crediting rates, spreads could decrease and potentially become negative.
Increases in interest rates may cause increased surrenders and withdrawals of insurance products. In periods of increasing interest rates, policy loans and surrenders and withdrawals of life insurance policies and annuity contracts may increase, as policyholders seek to buy products with higher returns. These outflows may require investment assets to be sold at a time when the prices of those assets are lower because of the increase in market interest rates, which may result in realized investment losses. Further, higher interest rates may result in significant unrealized losses on investments. These net unrealized losses could negatively impact stockholders' equity. This could result in negative impacts, such as the ability to pay policyholder and stockholder dividends. In addition, higher interest rates may reduce the fair value of policyholders' separate account investments, which may reduce the Company's revenues from asset-based management fees.
While the Company develops and maintains asset/liability management programs and procedures designed to mitigate the effect on spread income in rising or falling interest rate environments, no assurance can be given that changes in interest rates will not affect such spreads. Additionally, the Company’s asset/liability management programs incorporate assumptions about the relationship between short-term and long-term interest rates (i.e., the slope of the yield curve) and relationships between risk-adjusted and risk-free interest rates, market liquidity, and policyholder behavior in periods of changing interest rates and other factors. The effectiveness of the Company’s asset/liability management programs and procedures may be negatively affected whenever actual results differ from these assumptions.
Prolonged periods of low interest rates can affect policyholder behavior and negatively impact earnings.
As interest rates decline, policyholders may become more likely to extend the retention or duration of fixed-rate products previously purchased and may seek alternatives to fixed-rate products for new purchases. Policyholders may add premiums or deposits to existing policies or contracts with terms upon which the Company is no longer offering on new products. Many of the products sold in earlier periods may have minimum guaranteed interest crediting rates or other features that are greater than those being offered in the current low interest rate environment. Additionally, cash flows from existing investments, including interest and principal payments, may be reinvested at lower interest rates relative to prior periods. As a result, a prolonged low interest rate environment can result in significant changes to cash flows, lower investment income, compressed product spreads, reduced earnings, and increased surplus strain.

In addition, the Company may change its risk profiles in regards to selecting investment opportunities to reduce the impact on earnings.

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

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

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

Fixed maturity securities, equity securities, and short-term investments are reported at fair value in the Consolidated Balance Sheets and represent the majority of total cash and invested assets. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820 establishes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The level in the fair value hierarchy is based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). An asset or liability’s classification within the fair value hierarchy is based on the lowest level of input that is significant to its valuation.

During periods of market disruption, including periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity, it may be difficult to value certain securities if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were previously acquired and valued in active markets with significant observable data that are now valued in illiquid markets with little observable data. In such cases, more securities may be classified in Level 3 and, therefore, require more subjectivity and management judgment. As such, valuations may include inputs and assumptions that are less observable or require greater estimation as well as valuation methods which are more complex or require increased estimation, thereby resulting in values which may have greater variance from the value at which the investments may or could be ultimately sold. Further, rapidly changing credit and equity market conditions could materially impact the valuation of securities as reported in the consolidated financial statements, and the period to period changes in value could vary significantly. Decreases in value could have a material adverse effect on the Company’s results of operations or financial condition.

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

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

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

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

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

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

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

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

The Company invests in certain low income housing real estate properties specifically to generate state and federal tax credits. Economic forces may negatively impact the ongoing performance of these investments and regulatory bodies may reduce the availability of tax credits.

In recent periods, both the state and federal governments have offered selected tax credits for low income housing real estate properties. These tax credits have become the targets of certain regulators to either reduce or to eliminate the available credits that companies can receive. The willingness of regulators to reduce or eliminate these available credits could have a negative impact on the Company's tax strategy. In addition, the economic environment may negatively impact the operating performance of these properties and result in either losses for these properties or tax credit recapture to the holders of these credits. Accordingly, these items may negatively impact or impair the value of the properties or the current or future ability to realize or maintain tax credits previously recognized or tax credits to be realized in the future.

The Company's mortgage loan investments are subject to default and volatility in performance.

As an asset class, mortgage loans have experienced heightened delinquency and default risk in certain historical periods due to difficult economic conditions. These conditions may result in a negative impact on the performance of the underlying collateral, resulting in declining values and volatility in the ability of the holders to repay these instruments. An increase in defaults on the Company's mortgage loan investments could have an adverse effect on the Company's results of operations and financial condition.

The Company may be exposed to environmental liability from its commercial loan and real estate investments.

The Company customarily conducts environmental assessments prior to making commercial mortgage loans secured by real estate and before taking title to real estate. Based on the Company's environmental assessments made through the date of the financial statements, the Company believes that any compliance costs associated with environmental laws and regulations or any remediation of affected properties would not have a material adverse effect on the Company's results of operations or financial condition. However, no assurance can be provided that material compliance costs will not be incurred by the Company in future periods.

The Company's mortgage loan investments in the Pacific region of the United States may subject it to losses resulting from certain natural catastrophes in this area.

The Company has a sizeable concentration of commercial mortgage loans in the Pacific region of the United States. This concentration exposes the Company to potential losses resulting from certain natural catastrophes, such as earthquakes and fires, which may occur in the region. The Company diversifies its commercial mortgage loan portfolio in this region by both location and type of property in an effort to reduce catastrophic exposure. However, such diversification does not eliminate the risk of such losses, which could have a material adverse effect on the Company's business, financial position, results of operations, or cash flows.

The Company's mortgage loan investments in regions with significant concentration may subject it to losses resulting from the impact of an economic downturn in that region.

The Company has a sizeable concentration of commercial mortgage loans in certain regions of the United States. Severe adverse economic conditions in these regions could have a material adverse effect on the Company's business,

financial position, results of operations, or cash flows.

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Liquidity and Capital Resources Risks:

Adverse capital and credit market conditions may significantly affect the Company's ability to meet liquidity needs, as well as access to capital and cost of capital.

The capital and credit markets can experience extreme volatility and disruption. The volatility and disruption can exert downward pressure on availability of liquidity and credit for certain sectors and issuers. Although the Company has not issued new equity or debt securities in recent years, the Company's results of operations, financial condition, cash flows, and statutory capital position could be materially adversely affected by future disruptions in the capital and credit markets.

The Company's level of cash and investments, along with expected cash inflows from investments and operations, is believed to be adequate to meet anticipated short-term and long-term policyholder and operational obligations. However, withdrawal and surrender levels may differ from anticipated levels for a variety of reasons, such as changes in economic conditions, changes in policyholder behavior, changes in agent practices, or changes in the Company's claims-paying ability or financial strength ratings. Any of these occurrences could adversely affect the Company's profitability and financial condition. In the event that the Company's current internal sources of liquidity do not satisfy these needs, additional financing may be required and, in such case, the Company may not be able to successfully obtain additional financing on favorable terms, or at all. The availability of additional financing will depend on a variety of factors, such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, the Company's credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of long- or short-term financial prospects if the Company incurs large realized or unrealized investment losses or if the level of business activity is decreased due to a market downturn. Similarly, access to funds may be impaired if regulatory authorities or rating agencies take negative actions against the Company.

Disruptions, uncertainty, or volatility in the capital and credit markets may also limit the Company's access to external sources of liquidity, which could be required to operate its business. Such market conditions could limit the Company's ability to replace maturing liabilities in a timely manner; satisfy capital requirements; fund redemption requests on insurance or other financial products; generate fee income and market-related revenue; meet liquidity needs; and access the capital necessary to grow the business. As such, the Company could be forced to delay raising capital, utilize available internal resources, or bear an unattractive cost of capital, which could decrease the Company's profitability and significantly reduce financial flexibility and liquidity.

The Company's ability to grow depends in large part upon the continued availability of capital.

The Company deploys significant amounts of capital to support its sales and acquisition efforts. Although the Company believes it has sufficient capital to fund its immediate growth and capital needs, the amount of capital available could vary in the future due to a variety of circumstances, some of which are neither predictable nor foreseeable, nor within the Company's control. A lack of sufficient capital could impair the Company's ability to grow.

Regulatory Risks:

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

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

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

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

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

Publicly held companies in general and the financial services industry in particular are sometimes the target of law enforcement investigations and the focus of increased regulatory scrutiny.

The financial services industry has become the focus of increased scrutiny by regulatory and law enforcement authorities relating to allegations of improper special payments, price-fixing, bid-rigging, and other alleged misconduct, including payments made by insurers and other financial services providers to brokers and the practices surrounding the placement of insurance business and sales of other financial products.

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

Like all publicly traded companies, the Company is required to comply with GAAP. A number of organizations are instrumental in the development and interpretation of GAAP, such as the SEC, the FASB, the American Institute of Certified Public Accountants (AICPA), and the Public Accounting Oversight Board (PCAOB).

GAAP is subject to constant review by these organizations and others in an effort to address emerging accounting issues and develop interpretative accounting guidance on a continual basis. The implementation of new accounting guidance could result in substantial costs and or changes in assumptions or estimates, which could negatively impact the results of operations for the Company. Accordingly, the Company can give no assurance that future changes to GAAP or the required adherence to International Financial Reporting Standards (IFRS) will not have a negative impact on the Company.

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

Changes to tax law or interpretations of existing tax law could adversely affect the Company and its ability to compete with non-insurance products or could reduce the demand for certain insurance products.

Under the Internal Revenue Code of 1986, as amended (the Code), income tax payable by policyholders on investment earnings is deferred during the accumulation period of certain life insurance and annuity products. This favorable tax treatment may give certain of the Company’s products a competitive advantage over other non-insurance products. To the extent that the Code is revised to reduce the tax-deferred status of life insurance and annuity products or to increase the tax-deferred status of competing products, all life insurance companies, including the Company, would be adversely affected with respect to their ability to sell such products. Further, depending upon grandfathering provisions, life insurance companies would be affected by the surrenders of existing annuity contracts and life insurance policies. Changes in tax law, which have reduced the federal income tax rates on corporate dividends in certain circumstances, could make the tax advantages of investing in certain life insurance or annuity products less attractive. Additionally, changes in tax law based on proposals to establish new tax-advantaged retirement and life savings plans, if enacted, could reduce the tax advantage of investing in certain life insurance or annuity products. The

Company cannot predict what changes to tax law or interpretations of existing tax law may ultimately be enacted or whether such changes could adversely affect the Company.

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Litigation Risk:
Financial services companies are frequently the targets of litigation, including class action litigation, which could result in substantial judgments.
A number of civil jury verdicts have been returned against insurers, broker-dealers, and other providers of financial services involving sales or claims practices; alleged agent misconduct; failure to properly supervise representatives; relationships with agents or other persons with whom the insurer does business; and other matters. Often these lawsuits have resulted in the award of substantial judgments that are disproportionate to the actual damages, including material amounts of punitive non-economic compensatory damages. In some states, juries, judges, and arbitrators have substantial discretion in awarding punitive and non-economic compensatory damages, which creates the potential for unpredictable material adverse judgments or awards in any given lawsuit or arbitration. Arbitration awards are subject to very limited appellate review. In addition, in some class actions and other lawsuits, companies have made material settlement payments.
The Company, like other financial services companies, is involved in litigation and arbitration in the ordinary course of business. Although the Company makes every effort to appropriately accrue liability for litigation and other legal proceedings, the outcome of such matters (including any amount of settlement, judgment, or fine) is inherently difficult to predict. As a result, an adverse development or an increase in associated legal fees could have a negative impact on the financial condition of the Company.
Catastrophic Event Risk:
The Company is exposed to the risks of climate change, natural disasters, pandemics, terrorism, or other acts that could adversely affect the Company’s operations.
While the Company has implemented risk management and contingency plans and taken preventive measures and other precautions, no predictions of specific scenarios can be made nor can assurance be given that there are not scenarios that could have an adverse effect on the Company. Climate change, a natural disaster, a pandemic, or an outbreak of an easily communicable disease could adversely affect the mortality or morbidity experience of the Company or its reinsurers. A pandemic could also have an adverse effect on lapses and surrenders of existing policies, as well as sales of new policies. In addition, a pandemic could result in large areas being subject to quarantine, with the result that economic activity slows or ceases, adversely affecting the marketing or administration of the Company’s business. These effects, in turn, could have an adverse financial effect on the Company. The possible macroeconomic effects of climate change, natural disasters, or pandemics could also adversely affect the Company’s asset portfolio, as well as many other variables.
Information Technology Risk:
The failure of the Company’s cyber-security or other information system security controls or those of the Company's third-party providers may result in the unauthorized disclosure of sensitive or confidential corporate or customer information. Such failures could damage the Company's reputation and hinder its ability to conduct business. The Company's contingency planning and disaster recovery programs may be insufficient to address unanticipated events. In addition, the Company's reputation could be damaged by inaccurate presentations made in social media.
As part of the Company’s normal course of business, the Company uses computer systems to collect, process, and retain sensitive and confidential corporate and customer information. In addition, the Company uses third-party vendors and cloud technology on a limited basis for storage, processing, and data support of certain activities. The Company relies on commercial technologies and third parties to maintain the security of that information. The Company's information systems are subject to computer viruses, malicious software code, or other unauthorized computer-related actions. The Company is not aware of any material breach of cybersecurity, administrative, or technical controls having occurred. However, preventive actions taken by the Company to reduce the risk of cyber-incidents and protect the Company's information may be insufficient to prevent cyber-attacks or other security breaches. Any security breach involving the misappropriation, loss, or other unauthorized disclosure of confidential information by the Company could severely damage its reputation, expose it to an increase in the risk of litigation, disrupt its operations, cause incurrence of significant technical, legal, and operating expenses, or otherwise harm its business.

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

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ability to conduct business, damage to the Company's reputation, result in substantial remediation costs, and subject the Company to regulatory sanctions, legal claims, or other unidentified consequences.

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

Reinsurance Risks:

Significant adverse mortality experience may result in the loss of, or higher prices for, reinsurance.

Prolonged or severe adverse mortality or morbidity experience could result in increased reinsurance costs, and ultimately, reinsurers not being willing to offer coverage. If the Company was unable to maintain its current level of reinsurance or purchase new reinsurance protection in amounts considered sufficient, the Company would either have to be willing to accept an increase in net exposures or revise pricing to reflect higher reinsurance premiums. If this were to occur, the Company may be exposed to reduced profitability and cash flow strain or may not be able to price new business at competitive rates.

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

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

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

Premium rates charged by the Company are based, in part, on the assumption that reinsurance will be available at a certain cost. Under certain reinsurance agreements, the reinsurer may increase the rate it charges the Company for the reinsurance. Therefore, if the cost of reinsurance were to increase for existing business, or if reinsurance were to become unavailable for new business, or if alternatives to reinsurance were not available, the Company could be adversely affected.

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

The use of reinsurance introduces variability in the Company’s financial statements.

The timing of premium payments to and receipt of expense allowances from reinsurers may differ from the Company’s receipt of customer premium or deposit payments and incurrence of expenses. Further, the administration of reinsurance arrangements introduces risk of operational error and judgment that can be challenged by the counterparty. As a result, reinsurance introduces variability in certain components of the Company’s financial statements including, but not limited to, cash flows and potential liquidity concerns.

The Company’s administration of reinsurance contracts introduces potential variability in the Company’s financial statements.

Reinsurance contracts provide provisions that are subject to interpretation by the parties to the agreement. The administration of these agreements introduces a risk of operational error or a risk of conflicting judgments that may be challenged by the counterparty. As a result, the administration of reinsurance contracts could introduce variability in certain components of the Company’s financial statements including, but not limited to premiums, policyholder benefits, cash flows and potential liquidity concerns.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company’s home office is located at 3520 Broadway in Kansas City, Missouri. The Company owns and wholly occupies two five-story buildings consisting of approximately 236,000 square feet on an eight-acre site.

The Company owns various other properties held for investment.

Item 3. Legal Proceedings

The life insurance industry, including the Company and its subsidiaries, has been subject to an increase in litigation in recent years. Such litigation has been pursued on behalf of purported classes of insurance purchasers, often questioning the conduct of insurers in the marketing of their products.

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

Although no assurances can be given and no determinations can be made at this time, management believes that the ultimate liability, if any, with respect to these other claims and legal actions would not have a material effect on the Company's business, results of operations, or financial position.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Stockholder Information

Corporate Headquarters

Kansas City Life Insurance Company
3520 Broadway
Post Office Box 219139
Kansas City, Missouri 64121-9139
Telephone: (816) 753-7000
Fax: (816) 753-4902
Internet: www.kclife.com
E-mail: kclife@kclife.com

Notice of Annual Meeting

The annual meeting of stockholders will be held at 9 a.m. on Thursday, April 23, 2015 at Kansas City Life's corporate headquarters.

Transfer Agent

Janice Poe, Stock Agent and Assistant Secretary
Kansas City Life Insurance Company
Post Office Box 219139
Kansas City, Missouri 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

At January 31, 2015, Kansas City Life had approximately 3,023 security holders, including individual participants in security position listings.

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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	Dividends Paid
2014:			
First quarter	$50.62	$43.60	$0.27
Second quarter	48.68	40.62	0.27
Third quarter	46.99	43.29	0.27
Fourth quarter	49.82	43.90	0.27
			$1.08
2013:			
First quarter	$39.93	$36.35	$0.27
Second quarter	39.06	34.01	0.27
Third quarter	45.31	38.10	0.27
Fourth quarter	49.95	43.15	0.27
			$1.08

On January 26, 2015, the Kansas City Life Board of Directors declared a quarterly dividend of $0.27 per share, paid on February 11, 2015 to stockholders of record on February 5, 2015.

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.

The Company has determined at this time that all compensation shall be paid in cash. As a result, the Company currently offers no equity compensation or equity compensation plan to its employees.

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Performance Comparison

The following graph provides a comparison of the cumulative total return on Kansas City Life's common stock over the last five fiscal years to the S&P 500 Index (“S&P 500”) and to a peer comparison group (“Peer Group”). The graph assumes that $100 was invested on December 31, 2009, and that all dividends were reinvested on the last day of each quarter. Points on the graph represent performance as of the last business day of each of the years indicated.

Comparison of 5 Year Cumulative Total Return

Among Kansas City Life, the S&P 500, and a Peer Group

	2009	2010	2011	2012	2013	2014
Kansas City Life	$100.00	$114.91	$118.12	$142.52	$182.92	$188.35
S&P 500	100.00	115.03	117.47	136.18	180.18	204.75
Peer Group	100.00	134.32	135.64	153.63	242.58	293.24

The Peer Group index weights individual company returns for stock market capitalization. The companies included in the Peer Group index are shown in the following table.

American Equity Investment Life Holding Co.	Primerica, Inc.
American National Insurance Co.	Protective Life Corporation
FBL Financial Group, Inc.	StanCorp Financial Group, Inc.
Horace Mann Educators Corp.	Symetra Financial Corporation
Kemper Corporation	Torchmark Corporation
National Western Life Insurance Co.	United Fire and Casualty
The Phoenix Companies, Inc.	Universal American Corp.

The Peer Group index has changed during the five-year period. Unitrin, Inc. changed its name to Kemper Corporation in 2011. Delphi Financial Group, Inc. and Harleysville Group Inc. were removed in 2012 due to being acquired, and they were replaced with Symetra Financial Corporation and Primerica, Inc. Due to data availability, the starting date for the total return calculation for both Symetra Financial Corporation and Primerica, Inc. is March 31, 2010. Presidential Life Corporation was removed in 2013 due to being acquired, and it was replaced with American National Insurance Co. The chart above only includes the data from the current peer group member companies listed above.

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The companies in the Peer Group index include many of the same companies used by the Compensation Committee in evaluating compensation. The group of companies used by the Compensation Committee can be found in the Compensation Disclosure and Analysis section of the Company's Proxy Statement.

The disclosure set forth above under the caption "Performance Comparison" shall not be deemed to be soliciting material and is not incorporated by reference into any of the Company's prior filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, as amended, that incorporated future filings or portions thereof.

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Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased Open Market/Benefit Plans		Average Purchase Price Paid per Share	Total Number of Shares Purchased as a Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
1/1/14 - 1/31/14	—	1	$—	—	1,000,000
	507	2	47.74		
2/1/14 - 2/28/14	—	1	—	—	1,000,000
	—	2	—		
3/1/14 - 3/31/14	—	1	—	—	1,000,000
	633	2	48.20		
4/1/14 - 4/30/14	—	1	—	—	1,000,000
	—	2	—		
5/1/14 - 5/31/14	—	1	—	—	1,000,000
	—	2	—		
6/1/14 - 6/30/14	—	1	—	—	1,000,000
	—	2	—		
7/1/14 - 7/31/14	—	1	—	—	1,000,000
	74	2	45.46		
8/1/14 - 8/31/14	26,915	1	44.58	26,915	973,085
	—	2	—		
9/1/14 - 9/30/14	51,993	1	46.20	51,993	921,092
	5	2	45.96		
10/1/14 - 10/31/14	54,617	1	46.21	54,617	866,475
	231	2	44.35		
11/1/14 - 11/30/14	9,213	1	48.44	9,213	857,262
	—	2	—		
12/1/14 - 12/31/14	—	1	—	—	857,262
	—	2	—		
Total	144,188			142,738	

[1] On January 27, 2014, the Company's Board of Directors authorized the repurchase of up to 1,000,000 shares of its common stock through January 26, 2015. The Company purchased 142,738 shares at an average price of $46.05 under the program in 2014. On January 26, 2015, the Company's Board of Directors authorized the repurchase of up to 1,000,000 shares of its common stock through January 25, 2016.

[2] Included in this column are the total shares purchased from the employee stock ownership (ESOP) plan sponsored by the Company during the consecutive months of January through December 2014.

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Item 6. Selected Financial Data

Amounts in thousands, except per share data.

	Year Ended December 31				
	2014	2013	2012	2011	2010
Income Statement Data:					
Revenues:					
Insurance revenues	$284,197	$299,984	$235,983	$228,399	$245,830
Net investment income	164,968	169,740	176,154	177,228	175,859
Realized investment gains	3,369	3,872	18,436	3,142	535
Other revenues	12,485	9,997	9,354	10,274	9,139
Total revenues	$465,019	$483,593	$439,927	$419,043	$431,363
Net income	$29,990	$30,063	$41,150	$26,133	$22,302
Per Common Share Data:					
Net income, basic and diluted	$2.74	$2.73	$3.71	$2.29	$1.95
Cash dividends to stockholders	1.08	1.08	1.35	1.08	1.08
Stockholders' equity	68.61	65.85	67.69	62.84	59.25

	December 31				
	2014	2013	2012	2011	2010
Balance Sheet Data:					
Assets	$4,571,867	$4,509,760	$4,519,003	$4,398,242	$4,333,102
Stockholders' equity	742,759	722,323	746,824	710,705	679,472
Life insurance in force	31,984,043	32,023,747	28,701,373	29,202,126	29,708,102

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
Amounts are stated in thousands, except share data, or as otherwise noted.
Management's Discussion and Analysis of Financial Condition and Results of Operations for the three years ended December 31, 2014 is intended to provide in narrative form the perspective of the management of Kansas City Life Insurance Company (the Company) on its financial condition, results of operations, liquidity, and certain other factors that may affect its future results. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes included in this document.

Overview

Kansas City Life Insurance Company is a financial services company that is predominantly focused on the underwriting, sales, and administration of life insurance and annuity products. The consolidated entity (the Company) primarily consists of three life insurance companies. Kansas City Life Insurance Company (Kansas City Life) is the parent company. Sunset Life Insurance Company of America (Sunset Life) and Old American Insurance Company (Old American) are wholly-owned subsidiaries.

Kansas City Life markets individual insurance products, including traditional, interest sensitive, and variable products through a nationwide sales force of independent general agents, agents, and third-party marketing arrangements. Kansas City Life also markets group insurance products, which include life, dental, vision, and disability products through its sales force of independent general agents, agents, group brokers, and third-party marketing arrangements. Kansas City Life operates in 48 states and the District of Columbia.

Sunset Life is a life insurance company that maintains its current block of business, but does not solicit new sales. Sunset Life is included in the Individual Insurance segment and its individual insurance products include traditional and interest sensitive products. Sunset Life operates in 43 states and the District of Columbia.

Old American focuses on selling final expense life insurance products to the senior market. Old American markets its products nationwide through a general agency system, with exclusive territories, using direct response marketing to supply agents with leads. Old American's administrative and accounting operations are integrated as part of the Company's home office but it operates and maintains a separate marketing function and independent field force. Old American operates in 47 states and the District of Columbia.

The Company offers variable life insurance and variable annuity products to the public through third-party broker-dealers. Sunset Financial Services (SFS), a wholly-owned broker-dealer, assists in the distribution and marketing of those products through those third-party entities. SFS is also responsible for servicing closed blocks of variable life insurance and variable annuity products on behalf of the Company. Prior to November 14, 2014, SFS was a full-service broker-dealer offering variable insurance products, investment products and other securities to the public. The transaction that led to the change in operations were initially made public in the Form 8-K filed by the Company on July 21, 2014.

The Company operates in the life insurance sector of the financial services industry in the United States. This industry is highly competitive with respect to pricing, selection of products, and quality of service. No single competitor or any small group of competitors dominates any of the markets in which the Company operates.

Strong sales competition, highly competitive products, and an ever-changing economic environment present significant challenges to the Company from a new sales perspective. The Company's primary emphasis is on expanding sales of individual life insurance products. The Company's continued focus is on delivering competitive products for a reasonable cost, prompt customer service, excellent financial strength, and effective sales and marketing support to the field force.

The Company earns revenues primarily from premiums received from the sale of traditional life insurance, immediate annuities, and accident and health policies; from contract charges on interest sensitive products; from earnings on its investment portfolio; and from the sale of investment assets.

Insurance revenues from the sale of traditional life insurance, immediate annuity products, and accident and health products are reported as premium income for financial statement purposes. Considerations for supplementary contracts with life contingencies are reported as other revenues. Deposits received from the sale of interest sensitive products, namely universal life insurance products, fixed deferred annuities, variable universal life, variable annuities, and supplementary contracts without life contingencies, are not reported as premium revenues. These deposits are

reported as additions to the policyholders' account balances and are reflected as deposits in Financing Activities section of the Consolidated Statements of Cash Flows. Accordingly, insurance revenues on these products are recognized over time in the form of contract charges assessed against policyholder

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account balances, charges assessed on the early surrender of policyholder account balances, and other charges deducted from policyholder balances.

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

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

The Company generates cash largely through premiums collected from the sale of insurance products, deposits through the sale of universal life-type and deposit-type products, and through investment activity. The principal uses of cash are for the insurance operations and include the purchase of investments, payment of insurance benefits and other withdrawals from policyholder accounts, operating expenses, premium taxes, and costs related to acquiring new business. In addition, cash is used to pay income taxes and stockholder dividends, as well as to fund potential acquisition opportunities.

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

Business Changes

In the last quarter of 2014, the Company completed a divestiture of certain non-proprietary agent relationships related to SFS with Securities America (SAI). Under this agreement SFS transferred the servicing of certain accounts primarily related to non-proprietary broker-dealer and registered investment advisory accounts to SAI. SFS will continue as a wholly-owned wholesale broker-dealer subsidiary of Kansas City Life to provide support for Kansas City Life's proprietary products and those variable products specifically associated with the American Family transaction. The overall impact of this change is not expected to be significant.

Reinsurance Transaction

In April 2013, the Company acquired a block of variable universal life insurance policies and variable annuity contracts from American Family. The transfer was comprised of a 100% modified coinsurance transaction for 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. During 2014, this transaction contributed contract charges of $16.8 million, policyholder benefits and interest credited to policyholder account balances of $3.8 million, and amortization of deferred acquisition costs of $4.4 million. This transaction contributed contract charges of $13.0 million, policyholder benefits and interest credited to policyholder account balances of $3.1 million, and amortization of deferred acquisition costs of $3.6 million for the nine months ended December 31, 2013.

Immaterial Correction of Errors

During the first quarter of 2012, the Company identified an error related to the amortization period for unrecognized actuarial gains and losses for its pension plan resulting in a reduction to net periodic pension expense of $2.0 million before applicable income taxes and an after-tax increase of $1.3 million to net income and stockholders' equity. The excess amortization had been previously recorded during 2011. Please refer to Note 14 - Pensions and Other Postemployment Benefits for additional information.

During the second quarter of 2012, the Company identified an error in the presentation of treasury stock held for the benefit of the Company's deferred compensation plans. This treasury stock was previously recorded as a component of other assets but should have been recorded in stockholders' equity as treasury stock. The Company reclassified $6.2 million (188,621 shares) from other assets to treasury stock. This error had no material impact on net income in the current or prior reporting periods.

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Management has evaluated these errors both quantitatively and qualitatively, and concluded that these corrections were not material to the consolidated financial statements.

Cautionary Statement on Forward-Looking Information

This report reviews the Company's financial condition and results of operations, and historical information is presented and discussed. Where appropriate, factors that may affect future financial performance are also identified and discussed. Certain statements made in this report include "forward-looking statements" that fall within the meaning of the Private Securities Litigation Reform Act of 1995. 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, expressions with similar meaning.

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

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

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

Critical Accounting Estimates

The preparation of the financial statements requires management to use a variety of assumptions and estimates. Actual results may differ from these estimates under different assumptions or conditions. The profitability of life insurance and annuity products is dependent on actual experience, and differences between actual experience and pricing assumptions may result in variability of net income in amounts which may be material. On an ongoing basis, the Company evaluates the estimates, assumptions, and judgments based on historical experience and other information that the Company believes to be relevant under the circumstances. A detailed discussion of significant accounting policies is provided in Note 1 – Nature of Operations and Significant Accounting Policies.

Valuation of Investments and Impairments

Securities

Fixed maturity and equity securities, which are classified as available for sale, are carried at fair value in the Company's Consolidated Balance Sheets, with unrealized gains or losses recorded in accumulated other comprehensive income. The Company's fair value of fixed maturity and equity securities is derived from external pricing services, brokers, and internal matrices and calculations.

The Company monitors the various markets in which its investments are traded. The Company uses various methodologies and techniques to determine a best-estimate of fair value of its investments. However, all factors may not be known or publicly available from which to determine a value and, as such, the fair value used by the Company may not be truly indicative of the actual value available in an active market or an actual exit price if the Company were to sell the security in the current market. See further discussion of the valuation techniques and processes identified in Note 4 – Investments and Note 5 – Fair Value Measurements.

The Company has a policy and process in place to identify securities that could potentially have an impairment that is other-than-temporary. Please refer to Note 1 for information concerning these factors and a description of these risks

and uncertainties. The evaluation of loan-backed and similar asset-backed securities, particularly including residential mortgage-backed securities (MBS), requires considerable use of estimates and judgment. Specifically, the Company performs discounted cash flow projections on these securities to evaluate whether the value of the investment is expected to be fully realized. Please see the Analysis of Investments section for additional information.

Mortgage Loans
Mortgage loans are stated at cost, adjusted for amortization of premium and accrual of discount, less an allowance for loan losses. Management's periodic evaluation and assessment of the adequacy of the allowance is based on known and inherent risks in the portfolio, historical and industry data, current economic conditions, and other relevant factors. The Company assesses the amount it maintains in the mortgage loan allowance through an assessment of what the Company believes are relevant factors at both the macro-environmental level and specific loan basis, which are detailed in Note 6 – Financing Receivables. Generally, the Company establishes the allowance for loan losses using a collective impairment methodology at an overall portfolio level that relies on monitoring certain metrics such as debt service coverage and loan-to-value, as well as other qualitative factors. If the Company determines through its evaluation that a loan has an elevated specific risk profile or it does not expect to collect all contractual cash flows, it then individually assesses the loan's risk profile and may assign an additional specific allowance value.
To the extent the Company's review and valuation determines a loan is impaired, that amount is charged to the allowance for loss and the loan balance is reduced. In the event that a property is foreclosed upon, the carrying value is written down to the lesser of the current fair value or book value of the property with a charge to the allowance for loan losses and a corresponding reduction to the mortgage loan asset. See the Mortgage Loans section of Note 4 for additional information.
Deferred Acquisition Costs, Value of Business Acquired, and Deferred Revenue Liability
Deferred acquisition costs (DAC), principally agent commissions and other selling, selection and issue costs, which are related directly to the successful acquisition of new or renewal insurance contracts, are capitalized as incurred. These costs for life insurance products are generally deferred and amortized over the premium paying period. 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.
Historically, when a new block of business was acquired or when an insurance company was purchased, a portion of the purchase price was allocated to a separately identifiable intangible asset, called value of business acquired (VOBA). 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. The concept of VOBA is no longer applied to business combinations. Rather, under current guidance for business combinations, all amounts are reported at fair value at acquisition and an intangible asset (liability) may result due to differences between fair value and consideration paid.
For additional information pertaining to DAC and VOBA, please see Note 1.
Similarly, deferred revenue liabilities (DRL) represent the capitalization of revenues received from contracts as compensation for services to be provided by the Company in future periods. Such loads and charges are reported as unearned revenue in the period received and are subsequently recognized as income over the policy benefit period, using the same assumptions and factors used to amortize DAC. Like DAC, these amounts are amortized in relation to estimated gross profits for interest sensitive and variable insurance products. However, unlike DAC, the amortization of the DRL results in a recognition of revenue rather than expense.

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The following table illustrates the estimated sensitivity on a pre-tax basis to DAC and VOBA assets, as well as DRL on interest sensitive products that could occur in a twelve-month period for an unlocking adjustment due to potential changes in significant assumptions. Changes in assumptions of the same magnitude in the opposite direction would have an impact of a similar magnitude but opposite direction of the examples provided. Information included in the table is intended to illustrate potential sensitivity of future expected gross profits or amortization trends.

Amounts in millions

			Potential One-Time Reduction To		
Critical Accounting Estimate	Determination Methodology	Sensitivity	DAC Asset	VOBA Asset	Deferred Revenue Liability
Mortality Experience	Based on Company mortality experience. Industry experience and trends are also considered.	A 2.5% increase in expected mortality experience for all future years:	$2.3	$1.0	$1.1
Surrender Rates	Based on Company surrender experience. Industry experience and trends are also considered.	A 10% increase in expected surrender rates for all future years:	$1.6	$0.5	$0.2
Interest Spreads	Based on expected future investment returns and expected future crediting rates applied to policyholder account balances; future crediting rates include constraints imposed by policy guarantees.	A 10 basis point reduction in future interest rate spreads:	$2.2	$0.7	$0.7
Maintenance Expenses	Based on Company experience using an internal expense allocation methodology.	A 10% increase in future maintenance expenses:	$1.8	$0.2	$0.6

Future Policy Benefits

The Company establishes liabilities for amounts payable under insurance policies, including traditional life insurance, immediate annuities with life contingencies, supplementary contracts with life contingencies, and accident and health insurance. These liabilities originate from new premiums, as well as 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 using a net level premium method, based upon estimates at the time of issue for investment yields, mortality, and withdrawals. These estimates include provisions for experience less favorable than initially expected. Mortality assumptions are based on Company experience expressed as a percentage of standard mortality tables. The 2001 Valuation Basic Table and the 1975-1980 Select and Ultimate Basic Table serve as the basis for most mortality assumptions.

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

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

experience.

Policyholder Account Balances

Policyholder account balances include universal life insurance, fixed deferred annuity contracts, variable universal life, variable annuities, and investment-type contracts. Liabilities for these policyholder account balances are included without reduction for potential surrender charges and deferred front-end contract charges. These liabilities originate from new deposits and conversions from other products. The account balances for these types of contracts are equal to cumulative deposits, less contract charges and withdrawals, plus interest credited. Front-end contract charges are deferred and amortized over the term of the policies. Policyholder benefits incurred in excess of related policyholder account balances are charged to policyholder benefits expense. Interest on policyholder account balances is credited as earned.

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

Pensions and Other Postemployment Benefits (OPEB)

The measurement of pension and other postemployment benefit obligations and costs depends on a variety of assumptions. Changes in the valuation of pension obligations and assets supporting this obligation can significantly impact the funded status. Assumptions are made regarding the discount rate, expected long-term rate of return on plan assets, health care claim costs, health care cost trends, retirement rates, and mortality. Generally, the discount rate, expected return on plan assets, and mortality tables have the most significant impact on the cost. See Note 14 for further details.

Income Taxes

Deferred income taxes are recorded based on the differences between the tax bases of assets and liabilities and the amounts at which they are reported in the consolidated financial statements. Recorded amounts are adjusted to reflect changes in income tax rates and other tax law provisions as they become enacted. Deferred income tax assets are subject to ongoing evaluation of whether such assets will be realized. The ultimate realization of deferred income tax assets generally depends on the reversal of deferred tax liabilities and the generation of future taxable income and realized gains during the periods in which temporary differences become deductible. Deferred income taxes include future deductible differences relating to unrealized losses on investment securities. The Company evaluates the character and timing of unrealized gains and losses to determine whether available 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 is believed to be insufficient to fully realize the assets.

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Consolidated Results of Operations

Summary of Results

The Company earned net income of $30.0 million in 2014 compared to $30.1 million in 2013 and $41.2 million in 2012. Net income per share was $2.74 in 2014 versus $2.73 in 2013 and $3.71 in 2012.

The following table presents variances between the results for the two years ended December 31, 2014 and 2013. Positive amounts reflect favorable impacts to net income.

	2014 Versus 2013	2013 Versus 2012
Insurance and other revenues	$(13,299)	$64,644
Net investment income	(4,772)	(6,414)
Net realized investment gains	(503)	(14,564)
Policyholder benefits and interest credited to policyholder account balances	11,879	(49,067)
Amortization of deferred acquisition costs	(3,660)	(9,186)
Operating expenses	8,884	(453)
Income tax expense	1,398	3,953
Total variance	$(73)	$(11,087)

Information on these variances are presented below.

Sales

The Company’s marketing plan for individual products focuses on three main aspects: providing financial security with respect to life insurance, the accumulation of long-term value, and future retirement income needs. For additional information on the Company's products, marketing, and distribution, please see Item 1. Business. The primary emphasis is on the growth of individual life insurance business, including new premiums for individual life products and new deposits for universal life and variable universal life products. Consumer preferences and customer choices are very hard to predict and significantly influence life and annuity insurance purchases. These changing preferences and choices can result in large fluctuations period to period. The Company attempts to provide a varied portfolio of products that support consumer needs and is constantly assessing new products and opportunities.

Sales of the Company's products are primarily made through the Company’s existing sales force. The Company emphasizes growth of the sales force with the addition of new general agents and agents. The Company believes that increased sales will result through both the number and productivity of general agents and agents. The Company also places an emphasis on training and direct support to the field force to assist new agents in their start-up phase. In addition, the Company provides support to existing agents to stay abreast of the ever-changing regulatory environment and to introduce agents to new products and enhanced features of existing products. The Company also selectively utilizes third-party marketing arrangements to enhance its sales objectives. This allows the Company the flexibility to identify niches or pursue unique opportunities in the existing markets and to react quickly to take advantage of opportunities when they occur.

The Company recognizes conversions of policies and contracts on interest sensitive products to traditional life and annuity products as new premiums at the time of conversion. Most notably, the Company has fixed deferred annuities that may convert to immediate annuities. Deferred annuity contracts typically provide for such conversions as one of several settlement options, and the volume of such conversions can vary based upon the individual needs and decisions of contract owners. In addition, the timing of these conversions can often result in large fluctuations period to period.

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

	2014	% Change	2013	% Change	2012
New premiums:					
Traditional life insurance	$17,694	— %	$17,759	1 %	$17,527
Immediate annuities	27,466	(51)%	55,892	348 %	12,470
Group life insurance	3,454	16 %	2,985	20 %	2,492
Group accident and health insurance	14,240	(2)%	14,551	25 %	11,648
Total new premiums	62,854	(31)%	91,187	107 %	44,137
Renewal premiums	159,338	4 %	152,801	2 %	149,255
Total premiums	222,192	(9)%	243,988	26 %	193,392
Reinsurance ceded	(56,644)	(1)%	(57,458)	— %	(57,303)
Net premiums	$165,548	(11)%	$186,530	37 %	$136,089

Consolidated total premiums decreased $21.8 million or 9% in 2014 compared to 2013, as a $28.3 million or 31% decrease in new premiums was partially offset by a $6.6 million or 4% increase in renewal premiums. The decrease in new premiums largely resulted from a $28.4 million decrease in new immediate annuity premiums. Immediate annuity receipts can have sizeable fluctuations, as receipts from deferred annuities are based upon the individual needs and decisions of contract owners. Conversions from fixed deferred annuities totaled $17.4 million in 2014, down from $42.4 million in 2013. Excluding the conversions from fixed deferred annuities, total new premiums decreased $3.3 million or 7% in 2014 compared to the prior year. Partially offsetting the decline in new immediate annuity premiums, new group life premiums increased $0.5 million or 16%. The increase in renewal premiums reflected a $0.6 million increase in group life renewal premiums and a $3.0 million or 8% increase in group accident and health renewal premiums, primarily in the dental line. In addition, individual life insurance renewal premiums increased $3.1 million or 3%, principally from the Old American segment.

Consolidated total premiums increased $50.6 million or 26% in 2013 compared to 2012, as total new premiums increased $47.0 million and total renewal premiums increased $3.6 million. The largest component in the increase in new premiums was a $43.4 million increase in new immediate annuity premiums. As noted above, immediate annuity receipts can have sizeable fluctuations, as receipts from policyholders largely result from one-time premiums rather than recurring premiums and the conversions from fixed deferred annuities are based upon the individual needs and decisions of contract owners. Conversions from fixed deferred annuities totaled $42.4 million during 2013. Conversions increased in 2013, as compared to 2012, reflecting an increase in eligible deferred annuities and changes in marketing and policyholder communications. In addition, new group accident and health premiums increased $2.9 million, largely in the dental line. Finally, new group life insurance premiums increased $0.5 million or 20% compared to one year earlier. These increases were primarily due to the addition of new distributors and increased sales from existing sales representatives. The increase in renewal premiums was primarily due to a $2.8 million or 3% increase in individual life insurance premiums, principally from the Old American segment. This increase was largely due to higher sales in earlier periods.

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

	2014	% Change	2013	% Change	2012
New deposits:					
Universal life insurance	$11,087	(37)%	$17,627	42 %	$12,388
Variable universal life insurance	772	(46)%	1,429	154 %	563
Fixed annuities	41,821	(9)%	46,040	(19)%	56,788
Variable annuities	32,568	65 %	19,791	10 %	18,039
Total new deposits	86,248	2 %	84,887	(3)%	87,778
Renewal deposits	152,503	(1)%	154,614	10 %	140,054
Total deposits	$238,751	— %	$239,501	5 %	$227,832

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

Total new deposits increased $1.4 million or 2% in 2014, following a $2.9 million or 3% decline in 2013 compared to the same periods one year earlier. The increase in 2014 resulted from a $12.8 million or 65% increase in new variable annuity deposits. Partially offsetting this was a $6.5 million or 37% decrease in new universal life deposits and a $4.2 million or 9% decrease in new fixed annuity deposits. The decline in 2013 resulted from a $10.7 million decrease in new fixed annuity deposits. Partially offsetting this change, new universal life deposits increased $5.2 million, new variable universal life deposits increased $0.9 million, and new variable annuity deposits increased $1.8 million.

Total renewal deposits decreased $2.1 million or 1% in 2014, following a $14.6 million or 10% increase in 2013. The reinsurance transaction on variable products increased renewal deposits $25.2 million in 2014 and $20.0 million for the last nine months of 2013. Excluding this transaction, renewal deposits decreased $7.3 million or 5% in 2014, reflecting a $5.5 million decline in fixed annuity renewal deposits, a $0.9 million decline in universal life renewal deposits, and a $0.5 million decline in renewal variable annuity deposits. Excluding this transaction, 2013 renewal deposits decreased $5.4 million or 4%. This reflected a $2.6 million decline in fixed annuity renewal deposits, a $1.3 million decrease in variable annuity renewal deposits, a $0.9 million decrease in universal life renewal deposits, and a $0.6 million decline in variable universal life renewal deposits.

Insurance Revenues

Insurance revenues consist of premiums, net of reinsurance, and contract charges. Insurance revenues are affected by the level of new sales, the type of products sold, the persistency of policies, general economic conditions, and competitive forces.

Contract charges consist of cost of insurance, expense loads, amortization of unearned revenues, and surrender charges on policyholder account balances. The cost of insurance and expense loads are earned over time by the continued persistency of these products. Surrender charges result from charges levied for withdrawals of policies during time frames defined in the policy contract. Finally, a component of contract charges is the recognition over time of the deferred revenue liability (DRL) from certain fixed and variable universal life policies. This liability arises from front-end loads on such policies and is recognized in concert with the future expected gross profits, similar to the amortization of DAC. If it is determined that it is appropriate to change the assumptions of future experience, then an unlocking adjustment is recognized for the block of business being evaluated. Certain assumptions, such as interest spreads and surrender rates, may be interrelated. As such, unlocking adjustments often reflect revisions to multiple assumptions. In addition, the Company may also consider refinements in estimates for other unusual or one-time occurrences for events such as administrative or actuarial system upgrades. These items are applied to the appropriate financial statement line items similar to unlocking adjustments.

Total contract charges increased $5.2 million or 5% in 2014 and $13.6 million or 14% in 2013, relative to the same periods one year earlier. The largest factor in the 2014 increase was the reinsurance transaction, which contributed $16.8 million to contract charges in the twelve months of 2014. This compares to a contribution of $13.0 million from this reinsurance transaction in the last nine months of 2013, as the transaction occurred in April of 2013. Excluding this transaction, total contract charges on all blocks of business increased $1.4 million or 1% in 2014. This increase was principally due to the unlocking described below. The increase in 2013 also largely resulted from the American Family reinsurance transaction, which contributed $13.0 million to contract charges. Excluding this transaction, total contract charges on all blocks of business increased $0.6 million or 1% in 2013. Reserves loads on the Company's open blocks of business increased $1.2 million or 9%. Partially offsetting the changes in reserve loads, cost of insurance charges decreased $0.8 million or 1% from the runoff of closed blocks.

Included in total contract charges are groups of policies and companies that the Company considers to be closed blocks. The closed blocks of business reflect products and entities that have been purchased but to which the Company is not actively pursuing marketing efforts to generate new sales. The Company services these policies to achieve long-term profit streams. Total contract charges on these closed blocks equaled 42% of total consolidated contract charges during 2014, compared to 41% in 2013. This increase can be attributed to the reinsurance transaction,

which is considered a closed block. Excluding this transaction, total contract charges on closed blocks equaled 32% of total consolidated contract charges during 2014, down from 33% in 2013. The decline in 2014 reflects the runoff of the business.

At least annually, a review is performed of the assumptions related to profit expectations. If it is determined the assumptions should be revised, the impact is recorded as a change in the revenue reported in the current period as an unlocking adjustment. The Company had unlocking in the DRL in both 2014 and 2013. The unlocking adjustments in both years were primarily associated with mortality and interest margins. This unlocking resulted in a decrease to the deferred revenue liability and an increase to contract charges of $1.8 million and $1.1 million in 2014 and 2013, respectively.

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Investment Revenues

Gross investment income is largely composed of interest, dividends, and other earnings on fixed maturity securities, equity securities, short-term investments, mortgage loans, real estate, and policy loans. Gross investment income decreased $4.0 million or 2% in 2014 and $5.8 million or 3% in 2013 compared to the same periods one year earlier. The decline in 2014 reflected lower overall yields earned and available on certain investments, which were partially offset by an increase in average assets. In addition, investment expenses increased $0.8 million as compared to prior year, largely due to expenses associated with real estate. In 2013, the return associated with an increase in the average invested assets was more than offset by the lower yields earned and available in the market at the risk level that the Company believed to be acceptable to manage policyholder liabilities.

Fixed maturity securities provided a majority of the Company’s investment income during 2014. Approximately 75% of the Company's investments were in fixed maturity securities at both December 31, 2014 and December 31, 2013. Net investment income from these investments declined $1.3 million or 1% compared to 2013, as a decline in yields earned was partially offset by an increase in average assets.

Investment income from commercial mortgage loans decreased $3.2 million or 8% in 2014. This decline was primarily due to lower yields earned and to a lower mortgage loan portfolio balance compared to the prior year, primarily from maturities and principal paydowns that have exceeded new mortgage loan originations. The decline in income from commercial mortgages was also tempered by increased prepayment fees of $2.7 million in 2014 relative to 2013. The increase in prepayment fees during 2014 was primarily due to one large loan prepayment in the fourth quarter.

Investment income from real estate properties increased $1.1 million or 10% in 2014, largely due to the purchase and development of real estate in recent years.

The Company realizes investment gains and losses from several sources, including write-downs of investment securities and mortgage loans, the change in the mortgage loan loss allowance, and sales of investment securities and real estate. Many securities purchased by the Company contain call provisions, which allow the issuer to redeem the securities at a particular price on or at a particular date or within a particular time frame. Depending upon the terms of the call provision and price at which the security was purchased, a gain or loss may be realized.

The Company recorded net realized investment gains of $3.4 million in 2014, $3.9 million in 2013, and $18.4 million in 2012. During 2014, investment losses of $1.5 million were due to write-downs of investment securities that were considered other-than-temporarily impaired. Offsetting these losses, the Company recorded a $4.5 million net gain from investment securities.

During 2013, investment losses of $1.1 million were due to write-downs of investment securities that were considered other-than-temporarily impaired. In addition, the Company recorded losses of $0.1 million on both mortgage loans and real estate investments. Offsetting these losses, the Company recorded a $5.2 million net gain from investment securities.

The Company reviews and analyzes its securities on an ongoing basis to determine whether impairments exist that are other-than-temporary. Based upon these analyses, specific security credit impairments may be written down through earnings as a realized investment loss if the security’s fair value is considered to be other-than-temporarily impaired. Non-credit impairments are charged to other comprehensive income (loss).

The following analysis covers write-downs recorded through earnings that exceeded $0.5 million on a consolidated basis. During 2014, the Company had one security written down through earnings that was equal to $0.7 million on a consolidated basis. This position is an investment in a company within the oil exploration and production sector that is challenged by the reduced oil prices and reduced demand for exploration. During 2013, the Company had one security written down through earnings that was equal to $0.5 million on a consolidated basis. This investment was a collateralized debt obligation that was written down due to an increase in projected future losses on the underlying collateral. During 2012, two securities were written down. The first was a collateralized debt obligation that was written down by $0.5 million due to an increase in projected future losses on the underlying collateral. The second was a corporate security that was written down by $0.6 million due to the expected settlement value after the issuer filed for bankruptcy.

Other Revenues

Other revenues consist primarily of supplementary contract considerations; policyholder dividends left with the Company to accumulate; income received on the sale of low income housing tax credit (LIHTC) investments by a subsidiary of the Company; and net fees charged on products and sales from the Company's broker-dealer subsidiary, SFS. Other revenues increased $2.5 million or 25% in 2014, following a $0.6 million or 7% increase in 2013. The increase in 2014 was primarily due to the gain realized from the divestiture of certain non-proprietary agent relationships related to SFS, described above in Business Changes.

Policyholder Benefits

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

Policyholder benefits decreased $9.0 million or 4% in 2014 compared to 2013, predominantly the result of a decrease in benefit and contract reserves. Several factors contributed to the change in reserves. The largest factor was a decrease in immediate annuity premiums, principally due to a lower volume of conversions of fixed deferred annuities. Policyholder reserves for immediate annuity premiums are established on an approximately equal and offsetting basis, and a decrease in premiums results in a decrease to the change in reserves on a comparative basis. In addition, an increase in supplementary contract payments reduced benefit and contract reserves on a year-over-year basis. Partially offsetting these items, changes in the fair value of the GMWB rider contributed a $7.2 million increasing impact in benefit and contract reserves, as discussed further below. In addition, the Company refined its reserve calculation methodology for newly issued business beginning in 2013 such that it now uses a modal reserve methodology. This reserve refinement resulted in a $4.2 million increase in the change in reserves on a comparative basis. In addition, death benefits, net of reinsurance, decreased in 2014 compared to 2013. Partially offsetting the decreases in reserves and net death benefits were increases in supplementary contract and annuity payments and an increase in group benefit payments, largely from the group dental product.

Policyholder benefits increased $51.8 million or 32% in 2013 compared to 2012. This change resulted from increases in benefit and contract reserves, net death benefits, and other benefits, net of reinsurance. Several factors contributed to the change in reserves. The largest factor was an increase in new immediate annuity premiums resulting from conversions of fixed deferred annuities. Conversions increased in 2013, reflecting an increase in eligible deferred annuities and changes in marketing and policyholder communications. Also, the Company refined its reserve calculation estimate for new traditional life insurance issues in 2013 related to adjustments used for modal premiums. The refinements allow for more precise calculations of the reserve liability and resulted in a $4.0 million decrease to the reserve liability. In addition, the change in the fair value of the GMWB rider resulted in a $2.7 million decreasing impact in benefit and contract reserves. In addition, an increase in supplementary contract payments reduced benefit and contract reserves. Also, the recapture of a block of previously reinsured policies in 2012 increased benefit and contract reserves, with no corresponding increase in 2013. The increase in other benefits was primarily due to higher supplementary contract and immediate annuity payments and increased dental benefits.

The Company has a GMWB rider for variable annuity contracts that is considered to be a financial derivative and, as such, is accounted for at fair value. The Company determines the fair value of the GMWB rider using a risk-neutral valuation method. The value of the riders will fluctuate depending on market conditions. At December 31, 2014, the fair value of the liability increased $3.6 million compared to the fair value at December 31, 2013. This change can be largely attributed to decreases in risk-free swap rates, partially offset by favorable capital market returns. At December 31, 2013, the fair value of the liability decreased $3.6 million compared to the fair value at December 31, 2012. This change can be primarily attributed to favorable returns in the capital markets and increases in risk-free swap rates.

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. As account balances fluctuate, so will the amount of interest credited to policyholder account balances. Interest credited to policyholder account balances decreased $2.8 million or 4% in 2014 and $2.7 million or 3% in 2013. The decline in 2014 was due to lower average crediting rates, including reduced interest bonuses, as well as a decrease in policyholder account balances. The decline in 2013 reflected lower policyholder account balances and a decline in crediting rates compared to 2012. In both 2014 and 2013, the Company lowered crediting rates on in force funds at the beginning of each year and adjusted new money rates in response to changing market rates for those products not

already at their minimum crediting rate.

Total policyholder account balances decreased $24.2 million or 1% during 2014, following a $31.8 million or 1% decrease in 2013. The average interest rate credited to policyholder account balances was 3.67% in 2014, 3.75% in 2013, and 3.89% in 2012. Investment yields on the assets matched to these liabilities were 5.03% in 2014, 5.24% in 2013, and 5.51% in 2012.

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Amortization of DAC

The amortization of DAC increased $3.7 million or 10% in 2014, following a $9.2 million or 33% increase in 2013. The increase in 2014 reflected an unlocking adjustment that increased DAC amortization $1.7 million compared to an unlocking adjustment that increased DAC amortization $0.2 million in 2013. In addition, DAC amortization also increased due to the reinsurance transaction on variable products, which contributed $4.4 million to DAC amortization in 2014, compared to $3.6 million in 2013. Included in DAC amortization for the reinsurance transaction was a $0.4 million reduction from an unlocking adjustment in 2014. Excluding the reinsurance transaction, the amortization of deferred acquisition costs increased $2.8 million or 8% in 2014 compared with the prior year. Another factor was the refinement in reserve calculation estimate for new traditional life insurance issues mentioned above. These refinements in 2013 resulted in a comparative $1.9 million decrease in amortization of DAC for traditional life products in 2014.

The increase in 2013 was due, in part, to the reinsurance transaction on variable products. This transaction added $3.6 million to amortization in 2013. Excluding this transaction, the amortization of deferred acquisition costs increased $5.6 million or 20% in 2013 compared with the prior year. This increase reflected modal refinements, as described above, totaling $3.6 million. These refinements reduced the DAC asset and increased DAC amortization, however the offsetting impact on reserves resulted in an immaterial impact to net income. Also contributing to the increase was an unlocking adjustment that increased DAC amortization $0.2 million in 2013, compared to an unlocking adjustment that decreased DAC amortization $1.3 million in 2012.

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 attainment of new business, expenses from the Company’s operations, the amortization of VOBA, and other expenses. In total, operating expenses decreased $8.9 million or 8% in 2014. This change followed a $0.5 million or less than 1% increase in 2013. The decrease in 2014 was primarily attributable to lower salary and benefit costs and a decrease in the amortization of VOBA, as discussed below. The decrease in benefit costs was largely due to reduced retirement, incentive, and deferred compensation plan expenses. The increase in 2013 was primarily due to higher employee salaries and employee benefit costs, consulting fees, and fees related to the servicing arrangement on the block of policies acquired from American Family. Partially offsetting these changes were decreases in depreciation expense, legal fees, and amortization of VOBA, as discussed below.

The amortization of VOBA will generally decline over time, as policies run off. In addition, VOBA is evaluated on an ongoing basis for unlocking adjustments. If necessary, adjustments are made to the current period VOBA amortization. The amortization of VOBA decreased $2.6 million or 49% in 2014, principally due to an unlocking adjustment that decreased VOBA amortization $1.5 million in 2014 compared to an unlocking adjustment that increased VOBA amortization $0.9 million in 2013. The amortization of VOBA decreased $1.7 million or 24% in 2013 compared to 2012, primarily the result of unlocking adjustments in both 2013 and 2012. Unlocking increased DAC amortization $0.9 million in 2013. This compares to an unlocking adjustment that increased DAC amortization $2.4 million in 2012. In addition, the Company had refinements in methodology in 2013 that increased VOBA amortization $0.3 million.

Income Taxes

The Company recorded income tax expense of $13.0 million or 30% of income before tax in 2014, compared to income tax expense of $14.4 million or 32% of income before tax in 2013 and income tax expense of $18.3 million or 31% of income before tax in 2012. The decrease in tax expense in 2014 versus 2013 was primarily due to lower income before tax, a reduction in nondeductible expenses, and investments in affordable housing tax credits. The decrease in the effective tax rate in 2014 was primarily due to favorable changes in low income housing tax credit investments, as further discussed below, and a reduction in nondeductible expenses. The decrease in tax expense in 2013 versus 2012 was primarily due to lower income before tax. Favorable changes in low income housing tax credit investments decreased the effective rate in 2013, but this was offset by the impact of higher nondeductible expenses.

On December 31, 2014, the Company elected to early adopt FASB Accounting Standards Update (ASU) No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. ASU No. 2014-01 permits reporting entities to

make an accounting policy election to use the proportional amortization method. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). Please refer to Note 3 - Adoption of New Accounting Principle for information regarding the adoption.

The Company's investment in affordable housing decreased tax expense in 2014, as low income housing credits earned exceeded the proportional amortization of the investment by $1.6 million or 4% of income before tax. In 2013, low income housing credits earned exceed the proportional amortization of the investments by $1.3 million or 3% of income before tax. The favorable changes resulted in a decrease of the effective tax rate when compared to prior year.

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Operating Results by Segment

The Company has three reportable business segments, which are defined based on the nature of the products and services offered: Individual Insurance, Group Insurance, and Old American. The Individual Insurance segment consists of individual insurance products for both Kansas City Life and Sunset Life. In addition, the reinsurance assumption transaction and acquired blocks are included with the Individual Insurance segment. The Individual Insurance segment is marketed through a nationwide sales force of independent general agents and third-party marketing arrangements. The Group Insurance segment consists of sales of group life, group disability, dental, and vision products. This segment uses internal sales representatives to market through a nationwide sales force of general agents, agents, and independent brokers, and also markets products through third party providers that market directly or through independent brokers. Old American consists of individual insurance products designed largely as final expense products. These products are marketed through a nationwide general agency sales force with exclusive territories, using direct response marketing to supply agents with leads. For more information, refer to Note 19.

Individual Insurance

The following table presents financial data of the Individual Insurance business segment for the years ended December 31. Amounts attributable to the American Family reinsurance transaction are included in the results for the years ended December 31, 2014 and 2013.

	2014	2013	2012
Insurance revenues:			
Net premiums	$32,280	$60,369	$16,885
Contract charges	118,649	113,454	99,894
Total insurance revenues	150,929	173,823	116,779
Investment revenues:			
Net investment income	152,986	157,580	163,706
Net realized investment gains, excluding other-than-temporary impairment losses	4,923	4,680	20,714
Net impairment losses recognized in earnings:			
Total other-than-temporary impairment losses	(2,176)	(1,031)	(2,491)
Portion of impairment losses recognized in other comprehensive income (loss)	647	(73)	809
Net other-than-temporary impairment losses recognized in earnings	(1,529)	(1,104)	(1,682)
Total investment revenues	156,380	161,156	182,738
Other revenues	12,267	9,847	9,196
Total revenues	319,576	344,826	308,713
Policyholder benefits	117,511	136,114	86,627
Interest credited to policyholder account balances	76,463	79,294	82,043
Amortization of deferred acquisition costs	23,668	20,440	14,712
Operating expenses	62,653	71,267	70,711
Total benefits and expenses	280,295	307,115	254,093
Income before income tax expense	39,281	37,711	54,620
Income tax expense	11,632	11,974	16,624
Net income	$27,649	$25,737	$37,996

The net income for this segment in 2014 was $27.6 million, compared to $25.7 million in 2013 and $38.0 million in 2012. Factors contributing to the increase in 2014 were increases in contract charges and other revenues, along with decreases in interest credited to policyholder account balances and operating expenses. Partially offsetting these

favorable items was a decrease in net investment income and an increase in the amortization of deferred acquisition costs. In addition, a $28.1 million decrease in net premiums

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was partially offset by a $18.6 million decrease in policyholder benefits, in large part related to the conversion of fixed deferred annuity products. Additional information on these items is presented below.

The Individual Insurance segment is central to the Company's overall performance and contributed 53% of consolidated insurance revenues for the year ended December 31, 2014, compared to 58% and 49%, respectively, for the years ended December 31, 2013 and 2012. In addition, this segment provided 92% of consolidated net income for the year ended December 31, 2014, compared to 85% and 93%, respectively, for the years ended December 31, 2013 and 2012.

Total insurance revenues decreased $22.9 million or 13% in 2014, following a $57.0 million or 49% increase in 2013 compared to the same periods one year earlier. In 2014, gross premiums decreased 27%, contract charges increased 5%, and reinsurance ceded increased 1%. In 2013, gross premiums increased 74%, contract charges increased 14%, and reinsurance ceded was essentially flat.

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

	2014	% Change	2013	% Change	2012
New premiums:					
Traditional life insurance	$4,922	3 %	$4,776	4 %	$4,607
Immediate annuities	27,466	(51)%	55,892	348 %	12,470
Total new premiums	32,388	(47)%	60,668	255 %	17,077
Renewal premiums	42,621	1 %	42,069	— %	41,967
Total premiums	75,009	(27)%	102,737	74 %	59,044
Reinsurance ceded	(42,729)	1 %	(42,368)	— %	(42,159)
Net premiums	$32,280	(47)%	$60,369	258 %	$16,885

Total premiums for this segment decreased $27.7 million or 27% in 2014, following a $43.7 million or 74% increase in 2013. Total new premiums decreased $28.3 million in 2014, due to a $28.4 million decline in new immediate annuity premiums. Immediate annuity receipts can have sizeable fluctuations, as receipts from policyholders largely result from one-time premiums rather than recurring premiums and the conversions from fixed deferred annuities are based upon the individual needs and decisions of contract owners. Conversions from fixed deferred annuities totaled $17.4 million, down from $42.4 million in 2013. As mentioned above, conversions increased in 2013, reflecting an increase in eligible deferred annuities and changes in marketing and policyholder communications. Total new premiums increased $43.6 million in 2013 from 2012. This increase was primarily due to a $43.4 million increase in new immediate annuity premiums, reflecting the conversions mentioned above. Total renewal premiums increased 1% in 2014 and were essentially flat in 2013, compared to the same periods in the prior years.

The following table provides detail by new and renewal deposits for the three years ended December 31. New deposits are also detailed by product.

	2014	% Change	2013	% Change	2012
New deposits:					
Universal life insurance	$11,087	(37)%	$17,627	42 %	$12,388
Variable universal life insurance	772	(46)%	1,429	154 %	563
Fixed annuities	41,821	(9)%	46,040	(19)%	56,788
Variable annuities	32,568	65 %	19,791	10 %	18,039
Total new deposits	86,248	2 %	84,887	(3)%	87,778
Renewal deposits	152,503	(1)%	154,614	10 %	140,054
Total deposits	$238,751	— %	$239,501	5 %	$227,832

Total new deposits increased $1.4 million or 2% in 2014, compared to a $2.9 million or 3% decline in 2013. The increase in 2014 resulted from a $12.8 million or 65% increase in new variable annuity deposits. Partially offsetting this improvement, new universal life deposits decreased $6.5 million or 37% and new fixed annuity deposits declined $4.2 million or 9%. The decline in 2013 resulted from a $10.7 million decrease in new fixed annuity deposits.

Partially offsetting this change, new universal life deposits

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increased $5.2 million, new variable universal life deposits increased $0.9 million, and new variable annuity deposits increased $1.8 million.

Total renewal deposits decreased $2.1 million or 1% in 2014, following a $14.6 million or 10% increase in 2013. The reinsurance transaction on variable products increased renewal deposits $25.2 million in 2014 and $20.0 million in 2013, as the transaction occurred in April of 2013. Excluding this transaction, renewal deposits decreased $7.3 million or 5% in 2014, reflecting a $5.5 million decline in fixed annuity renewal deposits and a $0.9 million decline in universal life renewal deposits. Further, excluding the impact of this transaction, 2013 renewal deposits decreased $5.4 million or 4% compared to the prior year. This reflected a $2.6 million decline in fixed annuity renewal deposits, a $1.3 million decrease in variable annuity renewal deposits, a $0.9 million decrease in universal life renewal deposits, and a $0.6 million decline in variable universal life renewal deposits.

Contract charges increased $5.2 million or 5% in 2014 and $13.6 million or 14% in 2013, compared to the same periods one year earlier. The increase in 2014 was largely due to the reinsurance transaction and unlocking. The reinsurance transaction contributed $16.8 million to contract charges in 2014 and $13.0 million for the last nine months of 2013, as the reinsurance transaction occurred in April of 2013. In addition, unlocking adjustments increased deferred revenue $1.8 million in 2014 and $1.1 million in 2013. The increase in 2013 was also largely due to the reinsurance transaction on variable products. Excluding this transaction, contract charges increased $0.6 million or 1%, as a $1.3 million increase in reserve loads was partially offset by a $0.8 million decrease in cost of insurance charges.

Total contract charges on closed blocks comprised 42% of total consolidated contract charges during 2014, up slightly from 41% in 2013. Total contract charges on closed blocks increased 7% from $46.6 million in 2013 to $49.7 million in 2014. This increase can be attributed to the reinsurance transaction, which is considered a closed block. Excluding this transaction, total contract charges on closed blocks equaled 32% of total consolidated contract charges during 2014 compared to 33% during 2013. This decline reflects the runoff of the business. Total contract charges on active blocks of business, where there is ongoing marketing for new sales, increased 3% in 2014 compared to 2013. This change, in part, reflected the unlocking mentioned above.

Net investment income decreased $4.6 million in 2014 and $6.1 million in 2013. The decline in 2014 reflected lower overall yields earned and available, partially offset by an increase in average assets. The decline in 2013 reflected an increase in average invested assets that was more than offset by lower yields earned.

Other revenues increased $2.4 million or 25% in 2014, following a $0.7 million or 7% increase in 2013. The increase in 2014 was primarily due to revenue resulting from the divestiture of certain non-proprietary agent relationships related to SFS described previously.

Policyholder benefits decreased $18.6 million or 14% in 2014, compared to a $49.5 million or 57% increase in 2013. The two largest factors in the 2014 decline were a decrease in benefit and contract reserves and a decrease in death benefits, net of reinsurance. Several factors contributed to the change in reserves. The largest factor was a decrease in immediate annuity premiums, principally due to a lower volume of conversions of fixed deferred annuities. Policyholder reserves for immediate annuity premiums are established on an approximately equal and offsetting basis, and a decline in premiums results in a decrease in the change in reserves on a comparative basis. Partially offsetting this decline, changes in the fair value of the GMWB rider resulted in a $7.2 million increasing impact in benefit and contract reserves. In addition, an increase in supplementary contract payments reduced benefit and contract reserves on a comparative basis year over year. Partially offsetting the decreases in reserves and net death benefits were increases in supplementary contract and annuity payments.

This increase in 2013 resulted from increases in benefit and contract reserves, net death benefits, and net other benefits. Several factors contributed to the change in reserves. The largest factor was an increase in new immediate annuity premiums resulting from conversions of fixed deferred annuities. Conversions increased in 2013, reflecting an increase in eligible deferred annuities and changes in marketing and policyholder communications. Policyholder reserves for immediate annuity premiums are established on an approximately equal and offsetting basis, and an increase in premiums results in an increase to reserves on a comparative basis. Also, the Company refined its reserve calculation methodology for new traditional life insurance issues in 2013. The refinements allow for more precise calculations of the reserve liability and resulted in a decrease to the reserve liability of $1.3 million. Also, an increase

in supplementary contract payments reduced benefit and contract reserves. In addition, the change in the fair value of the GMWB rider resulted in a $3.6 million decreasing impact in benefit and contract reserves. Also, the recapture of a block of previously reinsured policies in 2012 increased benefit and contract reserves with no corresponding increase in 2013. The increase in other benefits was primarily due to higher supplementary contract and immediate annuity payments.

Interest credited to policyholder account balances decreased $2.8 million or 4% in 2014 and $2.7 million or 3% in 2013. The decline in 2014 was due to lower average crediting rates, including reduced interest bonuses, as well as a decrease in policyholder account balances compared to 2013. The decline in 2013 reflected lower policyholder account balances and a decline in crediting rates compared to 2012.

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The amortization of DAC increased $3.2 million or 16% in 2014 and $5.7 million or 39% in 2013. The increase in 2014 reflected an unlocking adjustment that increased DAC amortization $1.7 million compared to an unlocking adjustment that increased DAC amortization $0.2 million in 2013. In addition, DAC amortization also increased due to the reinsurance transaction on variable products, which contributed $4.4 million to DAC amortization in 2014, compared to $3.6 million in 2013. Included in DAC amortization for the reinsurance transaction was a $0.4 million reduction from an unlocking adjustment in 2014. Excluding the reinsurance transaction, the amortization of deferred acquisition costs increased $2.4 million or 14% in 2014 compared with the prior year. Another factor was the refinement in reserve calculation estimate for new traditional life insurance issues mentioned above. These refinements in 2013 resulted in a comparative $1.0 million decrease in amortization of DAC for traditional life products in 2014.

The largest factor of the increase in 2013 was the amortization of the DAC asset that was established from the reinsurance transaction. This transaction added $3.6 million to amortization in 2013. Excluding this transaction, the amortization of deferred acquisition costs increased $2.1 million or 15% in 2013. This increase was primarily the result of unlocking adjustments in both 2013 and 2012. Unlocking increased DAC amortization $0.2 million in 2013, compared to an unlocking adjustment that decreased DAC amortization $1.3 million in 2012. As indicated above, the Company also had a refinement in its reserve method for new traditional life insurance issues in 2013 that impacted the amortization for each quarter. This change increased DAC amortization approximately $0.9 million in 2013, however the offsetting impact on reserves resulted in an immaterial impact to net income.

Operating expenses decreased $8.6 million or 12% in 2014, following a $0.6 million or 1% increase in 2013. The decrease in 2014 was primarily attributable to lower salary and benefit costs and a decrease in the amortization of VOBA, as discussed below. The decrease in benefit costs was largely due to reduced retirement, incentive, and deferred compensation plan expenses. The increase in 2013 was primarily due to higher employee salaries and employee benefit costs, consulting fees, and fees related to the servicing arrangement on the block of policies acquired from American Family. Partially offsetting these were decreases in depreciation expense, legal fees, and amortization of VOBA, as discussed below.

The amortization of VOBA decreased $2.4 million or 47% in 2014 and $1.7 million or 25% in 2013. The decrease in 2014 was principally due to an unlocking adjustment that decreased VOBA amortization $1.5 million in 2014 compared to an unlocking adjustment that increased VOBA amortization $0.9 million in 2013. The 2013 decline was primarily the result of unlocking adjustments in both 2013 and 2012. Unlocking increased VOBA amortization $0.9 million in 2013, compared to an unlocking adjustment that increased VOBA amortization of $2.4 million in 2012. In addition, the Company had refinements in methodology in 2013 that increased VOBA amortization $0.3 million.

Group Insurance

The following table presents financial data of the Group Insurance business segment for the years ended December 31.

	2014	2013	2012
Insurance revenues:			
Net premiums	$57,852	$53,021	$48,823
Total insurance revenues	57,852	53,021	48,823
Investment revenues:			
Net investment income	521	488	524
Other revenues	199	147	145
Total revenues	58,572	53,656	49,492
Policyholder benefits	33,421	29,144	26,803
Operating expenses	24,346	23,702	23,699
Total benefits and expenses	57,767	52,846	50,502
Income (loss) before income tax expense (benefit)	805	810	(1,010)

Income tax expense (benefit)	282	284	(354)
Net income (loss)	$523	$526	$(656)

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

	2014	% Change	2013	% Change	2012
New premiums:					
Group life insurance	$3,454	16 %	$2,985	20 %	$2,492
Group dental insurance	8,094	(3)%	8,330	83 %	4,553
Group disability insurance	6,146	(1)%	6,221	(12)%	7,095
Total new premiums	17,694	1 %	17,536	24 %	14,140
Renewal premiums	52,525	8 %	48,842	2 %	47,861
Total premiums	70,219	6 %	66,378	7 %	62,001
Reinsurance ceded	(12,367)	(7)%	(13,357)	1 %	(13,178)
Net premiums	$57,852	9 %	$53,021	9 %	$48,823

Sales from internal sales representatives through independent general agents and agents accounted for approximately 70% of this segment's total premiums during 2014, while sales from third-party providers made up the remaining portion of sales. No one third-party provider accounts for a majority of this segment's sales.

The Affordable Care Act (ACA) directly impacts this segment’s dental and vision products. Dental plans must meet federally regulated certification requirements, including purchases made outside public exchanges, to provide Essential Health Benefits to become a Qualified Health Plan. The Company has reviewed the complex and far-reaching requirements of this legislation and implemented changes to this segment’s dental and vision products to meet certification requirements in key states for 2015 enrollments. In 2014, many employers focused on addressing their medical benefits and compliance with ACA requirements and made relatively fewer changes in non-medical benefits. As a result, sales of non-medical benefits were lower in 2014. The Company believes it is well positioned for 2015 having achieved the necessary certification for the dental products.

New group direct premiums increased 1% in 2014 compared with the prior year. This increase reflected a $0.5 million or 16% increase in group life sales and a $0.3 million or 14% increase in long-term disability premiums. These sales increases were partially offset by a $0.3 million or 7% decrease in short-term disability sales and a $0.2 million or 3% decrease in dental premiums. New group premiums increased $3.4 million or 24% in 2013 compared with 2012. The increase in 2013 reflected a $3.8 million or 83% increase in dental premiums, a $0.5 million or 20% increase in group life sales, and a $0.3 million or 19% increase in long-term disability premiums. These sales increases were partially offset by a $1.1 million or 21% decrease in short-term disability sales.

Renewal premiums increased $3.7 million or 8% during 2014 compared with 2013. The renewal premium increase in 2014 was primarily due to a $3.4 million or 15% increase in group dental premiums and a $1.0 million or 11% increase in group life premiums. The increase in these product lines was the result of improved retention on existing business. Renewal premiums increased $1.0 million or 2% in 2013 compared with 2012. Renewal premium increases in 2013 included improvements of $0.6 million or 8% in group life and $0.7 million or 5% in the disability lines. These were partially offset by a $0.3 million or 2% decrease in the dental line.

This segment uses targeted reinsurance in several of its product lines to help mitigate risk and allow for a higher volume of sales and profitability. While most of the Company’s group products are reinsured, the group dental product is not reinsured. Reinsurance ceded premiums totaled $12.4 million in 2014, a decrease of $1.0 million or 7% compared with 2013. Reinsurance ceded premiums in 2013 totaled $13.4 million, an increase of $0.2 million or 1% compared with 2012.

Policyholder benefits increased $4.3 million or 15% in 2014 compared with 2013. This was largely the result of a $2.9 million increase in dental benefits and a $0.6 million increase in group life benefit payments. In 2013, policyholder benefits increased $2.4 million or 9% compared with 2012. This increase was primarily the result of a $1.8 million increase in dental benefits and a $0.6 million increase in group life benefit payments. The increased sales in the group dental line drove the increase in benefits for both 2014 and 2013. This segment prices products to achieve an expected return given certain benefit expectations assumed at sale. Product results are reviewed each year to determine if profit expectations were met and adjustments to renewal premiums are necessary.

As part of the evaluation of each group and each product's performance, this segment identifies and tracks a policyholder benefit ratio, which is derived by dividing policyholder benefits, net of reinsurance, by total revenues. This ratio allows for a measure of

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the comparability of product and marketing changes over time. Generally, within each product line, a lower ratio reflects improved results. The overall ratio for the group segment was 58% in 2014 and 55% in both 2013 and 2012. The increase in 2014 was primarily from the long-term disability line.
Operating expenses consist of commissions, fees to third-party marketing and administrative organizations, and expenses from the segment's operations. Operating expenses for this segment increased $0.6 million or 3% in 2014, largely from increased commissions paid on new and renewal sales. Operating expenses were flat in 2013 as compared to 2012.
Old American
The following table presents financial data of the Old American business segment for the years ended December 31.

	2014	2013	2012
Insurance revenues:			
Net premiums	$75,822	$73,535	$70,773
Total insurance revenues	75,822	73,535	70,773
Investment revenues:			
Net investment income	11,461	11,672	11,924
Net realized investment gains (losses), excluding other-than-temporary impairment losses	(21)	325	(560)
Net impairment losses recognized in earnings:			
Total other-than-temporary impairment losses	—	(1)	(35)
Portion of impairment losses recognized in other comprehensive income (loss)	(4)	(28)	(1)
Net other-than-temporary impairment losses recognized in earnings	(4)	(29)	(36)
Total investment revenues	11,436	11,968	11,328
Other revenues	19	3	13
Total revenues	87,277	85,506	82,114
Policyholder benefits	52,014	46,736	46,748
Amortization of deferred acquisition costs	17,220	16,788	13,330
Operating expenses	15,145	16,048	16,151
Total benefits and expenses	84,379	79,572	76,229
Income before income tax expense	2,898	5,934	5,885
Income tax expense	1,080	2,134	2,075
Net income	$1,818	$3,800	$3,810

Net income for this segment totaled $1.8 million in 2014 and $3.8 million in 2013 and 2012. The decrease in net income for 2014 was primarily due to a $5.3 million increase in policyholder benefits. The change in policyholder benefits was due to increased benefit and contract reserves. Partially offsetting this increase was a $2.3 million increase in net premiums and a $0.9 million decrease in operating expenses. The 2013 results reflected increases in premiums and net realized investment gains, along with a decrease in benefit and contract reserves. These favorable changes were offset by increases in death benefits, net of reinsurance, and amortization of DAC.

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The following table presents gross premiums by new and renewal business, less reinsurance ceded, for the three years ended December 31.

	2014	% Change	2013	% Change	2012
New individual life premiums	$12,772	(2)%	$12,983	—%	$12,920
Renewal premiums	64,598	4%	62,285	4%	59,819
Total premiums	77,370	3%	75,268	3%	72,739
Reinsurance ceded	(1,548)	(11)%	(1,733)	(12)%	(1,966)
Net premiums	$75,822	3%	$73,535	4%	$70,773

Total new premiums decreased 2% in 2014 and were flat in 2013. Renewal premiums on traditional life business totaled $64.6 million, a $2.3 million increase versus the prior year. The Company continues to experience increases in renewal premiums, which are largely the result of growth in new sales in prior periods and favorable retention of business.

This segment focuses on the recruitment and development of new agencies and agents, with the intent and direction being to generate improved production from existing agencies and agents, and expanding or opening territories believed to offer additional growth opportunities. Further, this segment also focuses on servicing its policyholders and creating and maintaining products that are priced to be competitive in the senior market.

Net investment income decreased $0.2 million or 2% in 2014 and $0.3 million or 2% in 2013. Old American's investment portfolio is predominantly invested in fixed maturity securities and mortgage loans. While average invested assets increased in both years, the overall portfolio yields declined in both periods. The declining yields reflected the reduced rates available in the fixed income market. In addition, Old American had a small net realized investment loss in 2014 compared with a net realized investment gain of $0.3 million in 2013. These gains and losses are largely from calls and sales of certain investments.

Policyholder benefits increased $5.3 million in 2014 due to an increase in benefit and contract reserves. This increase was the result of several factors, including a larger in-force block of business, fewer policy terminations, the low interest rate environment, and the 2013 change in reserve calculation methodology. The reserve method change was a transition from a mean reserve calculation to a more refined modal reserve calculation on new policies issued beginning in 2013. For business issued in 2013 and continuing to remain in force in 2014, the reserve calculation resulted in a $3.1 million increase in the change in reserves compared to one year earlier. Total policyholder benefits were flat in 2013 compared with 2012. Net death benefits increased in 2013, reflecting less favorable mortality results and an increase in the overall block of business. While mortality remained within pricing assumptions, the increase in death benefits, in part, reflected the growth of sales in recent years. In addition, the change in reserving methodology for new policies, described above, reduced benefit and contract reserves by $2.8 million in 2013.

The Company uses the policyholder benefit ratio to measure comparability of improvement in revenue results to changes in contract benefits. This ratio is derived by dividing policyholder benefits, net of reinsurance, by total revenues excluding realized investment gains and losses. The ratio has remained relatively consistent over the years ended December 31, 2014, 2013, and 2012.

	2014	2013	2012
Total revenue	$87,277	$85,506	$82,114
Less: Realized investment gains (losses)	(25)	296	(596)
Revenue excluding realized investment gains (losses)	87,302	85,210	82,710
Policyholder benefits	52,014	46,736	46,748
Policyholder benefit ratio	60%	55%	57%

The amortization of DAC increased $0.4 million or 3% during 2014 compared to prior year. This increase reflects the growth of DAC that has resulted from increased sales in recent periods. This was partially offset by a decrease in amortization that resulted from the prior year refinement in reserve calculation estimate for new traditional life insurance issues mentioned previously. These refinements resulted in a $1.0 million decrease in amortization of DAC

for traditional life products in 2014. The amortization of DAC increased $3.5 million or 26% in 2013 compared with 2012. These increases were primarily the result of the change in reserve methodology, as described above.

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Operating expenses decreased $0.9 million or 6% in 2014 and $0.1 million or 1% in 2013 compared with the prior years. The decrease in 2014 was largely the result of an increase in the portion of commissions and production allowances that were capitalized and the elimination of VOBA amortization. In 2013, the Company amortized the final $0.2 million of the value of business acquired (VOBA) from the original acquisition of Old American more than 20 years earlier.

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Analysis of Investments

The Company seeks to protect policyholders' benefits and achieve a desired level of organizational profitability by optimizing risk and return on an ongoing basis through managing asset and liability cash flows, monitoring credit risk, avoiding high levels of investments that may be redeemed by the issuer, maintaining sufficiently liquid investments and avoiding undue asset concentrations through diversification, among other things.

The primary sources of investment risk to which the Company is exposed include credit risk, interest rate risk, and liquidity risk. The Company's ability to manage these risks is essential to the success of the organization. In particular, the Company devotes considerable resources to both the credit analysis of each new investment and to ongoing credit positions. 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. Credit risk is managed primarily through industry, issuer, and structure diversification.

For additional information regarding the Company's asset/liability management program, please see the Asset/Liability Management section within Item 7A: Quantitative and Qualitative Disclosures About Market Risk.

The following table provides asset class detail of the investment portfolio at December 31. Fixed maturity and equity securities represented 77% and 75% of the entire investment portfolio at December 31, 2014 and 2013.

	2014	% of Total		2013	% of Total	
Fixed maturity securities	$2,726,731	76	%	$2,618,620	74	%
Equity securities	24,881	1	%	23,116	1	%
Mortgage loans	541,180	15	%	629,256	18	%
Real estate	181,082	5	%	137,630	4	%
Policy loans	83,553	2	%	83,518	2	%
Short-term investments	39,107	1	%	40,712	1	%
Other investments	462	—		12,517	—	
Total	$3,596,996	100	%	$3,545,369	100	%

The Company uses actual or equivalent Standard & Poor's ratings to determine the investment grading of fixed maturity securities available for sale. The Company had 95% of its fixed maturity securities available for sale above investment grade at December 31, 2014, compared with 93% one year earlier.

The fair value of fixed maturity securities with unrealized losses was $285.8 million at December 31, 2014, compared with $625.9 million one year earlier. The decrease primarily reflected a decline in market interest rates during 2014. Ninety-four percent of security investments with an unrealized loss were investment grade and accounted for 82% of the total unrealized losses. One year earlier, 91% of securities with an unrealized loss were investment grade and accounted for 90% of the total unrealized losses. At December 31, 2014, the Company had gross unrealized losses on fixed maturity and equity securities of $11.8 million that were offset by $186.4 million in gross unrealized gains. At December 31, 2013, the Company had $33.9 million in gross unrealized losses on fixed maturity and equity securities, offset by $158.3 million in gross unrealized gains. At December 31, 2014, 89% of the fixed maturity and equity securities portfolio had unrealized gains, an increase from 76% at December 31, 2013. The increase largely reflects an overall decrease in interest rates during 2014. The Company had a decrease in gross unrealized losses in most categories from year-end 2013 to year-end 2014 due to a decline in market interest rates during 2014. Gross unrealized losses on fixed maturity and equity securities for less than 12 months accounted for $2.9 million or 25% of the security values in a gross loss position at December 31, 2014. Gross unrealized losses on fixed maturity and equity security investments of 12 months or longer increased from $7.6 million at December 31, 2013 to $8.9 million at December 31, 2014.

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The following table summarizes the Company's investments in fixed maturity and equity securities available for sale with unrealized losses at December 31, 2014 and should be considered in conjunction with information in Note 4.

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

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The following table summarizes the Company's investments in fixed maturity and equity securities available for sale with unrealized losses at December 31, 2013 and should be considered in conjunction with information in Note 4.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	$578,006	$553,790	$24,216
Unrealized losses of 20% or less and greater than 10%	40,186	34,087	6,099
Subtotal	618,192	587,877	30,315
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	9,047	6,993	2,054
Twelve months or greater	908	680	228
Total investment grade	9,955	7,673	2,282
Below investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	173	131	42
Total below investment grade	173	131	42
Unrealized losses greater than 20%	10,128	7,804	2,324
Subtotal	628,320	595,681	32,639
Securities owned with realized impairment:			
Unrealized losses of 10% or less	41,367	40,125	1,242
Unrealized losses of 20% or less and greater than 10%	—	—	—
Subtotal	41,367	40,125	1,242
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	—	—	—
Total investment grade	—	—	—
Below investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	—	—	—
Total below investment grade	—	—	—
Unrealized losses greater than 20%	—	—	—
Subtotal	41,367	40,125	1,242
Total	$669,687	$635,806	$33,881

At December 31, 2014, 89% of the unrealized losses were less than 20% of the amortized cost, compared to 93% at December 31, 2013.

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

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

The following table provides information on fixed maturity securities with gross unrealized losses by actual or equivalent Standard & Poor's rating at December 31, 2013.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	$21,794	4 %	$1,206	4 %
AA	112,762	18 %	5,668	18 %
A	214,381	34 %	9,179	29 %
BBB	220,890	35 %	12,294	39 %
Total investment grade	569,827	91 %	28,347	90 %
BB	13,350	2 %	1,650	5 %
B and below	42,767	7 %	1,438	5 %
Total below investment grade	56,117	9 %	3,088	10 %
	$625,944	100 %	$31,435	100 %

The Company's residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities that were rated below investment grade were 40% of the total at December 31, 2014 and 2013.

A substantial portion of investment securities that have unrealized losses are either corporate debt issued with investment grade credit ratings or other investment securities. Other investment securities are largely composed of asset-backed securities. The discounted future cash flow calculation typically becomes the primary determinant of whether any portion and to what extent an unrealized loss is due to credit on loan-backed and similar asset-backed securities with significant indications of potential other-than-temporary impairment. Such indications typically include below investment grade ratings and significant unrealized losses for an extended period of time, among other factors. The Company identified 22 and 24 non-U.S. agency mortgage-backed securities that were determined to have such indications at December 31, 2014 and December 31, 2013, respectively. Discounted future cash flow analysis was performed for each of these securities to determine if any portion of the impairment was due to credit and deemed to be other-than-temporary. This amount is recognized as a realized loss in the Company's Consolidated Statements of Comprehensive Income and the carrying value of the security is written down by the same amount. The portion of an impairment that is determined not to be due to credit is recorded as a component of accumulated other comprehensive income in the Consolidated Balance Sheets. The discount rate used in calculating the present value of future cash flows was the investment yield at the time of purchase for each security. The initial default rates were assumed to remain constant over a 24-month time frame and grade down thereafter, reflecting the general perspective of a more stabilized residential housing environment in the future.

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The following tables present the range of significant assumptions used in projecting the future cash flows of the Company's residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities at December 31. The Company believes that the assumptions below are reasonable and they are based largely upon the actual historical results of the underlying security collateral.

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

	2013											
	Initial Default Rate				Initial Severity Rate				Prepayment Speed			
Vintage	Low		High		Low		High		Low		High	
2003	0.8	%	5.5	%	35	%	41	%	16.0	%	30.0	%
2004	1.0	%	6.9	%	35	%	51	%	8.0	%	20.0	%
2005	3.9	%	13.2	%	40	%	64	%	6.0	%	18.0	%
2006	5.7	%	7.5	%	35	%	85	%	8.0	%	16.0	%
2007	11.4	%	11.4	%	52	%	52	%	8.0	%	8.0	%

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

The Company closely monitors its investments in securities classified as subprime. Subprime securities include all bonds or portions of bonds where the underlying collateral is made up of home equity loans or first mortgage loans to borrowers whose credit scores at the time of origination were lower than the level recognized in the market as prime. The Company’s classification of subprime does not include Alt-A or jumbo loans, unless the collateral otherwise meets the preceding definition. Less than 1% of the Company's invested assets were in these types of investments at December 31, 2014 and 2013.

The Company has investments in non-U.S. Agency structured securities. Structured securities include asset-backed, residential mortgage-backed securities, along with collateralized debt obligations, collateralized mortgage obligations and other collateralized obligations. The Company monitors these securities through a combination of an analysis of vintage, credit ratings, and other factors.

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The following tables divide these investment types among vintage and credit ratings at December 31, 2014.

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

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

The following tables divide these investment types among vintage and credit ratings at December 31, 2013.

	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Residential & non-agency MBS: [1]			
Investment grade:			
Vintage 2003 and earlier	$12,641	$12,178	$463
2004	8,939	8,808	131
Total investment grade	21,580	20,986	594
Below investment grade:			
2004	36,094		