

KANSAS CITY LIFE INSURANCE CO

Form 10-K

March 01, 2006

Edgar Filing: KANSAS CITY LIFE INSURANCE CO - Form 10-K

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FOR ANNUAL AND TRASITION REPORTS

FORM 10-K

- X ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]
For the Fiscal Year ended December 31, 2005 or
- [] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the Transition Period from _____ to _____
Commission File Number 2-40764

KANSAS CITY LIFE INSURANCE COMPANY

(Exact Name of Registrant as Specified in its Charter)

Missouri
(State or Other Jurisdiction of
Incorporation or Organization)

44-0308260
(I.R.S. Employer
Identification Number)

3520 Broadway, Kansas City, Missouri
(Address of Principal Executive Offices)

64111-2565
(Zip Code)

Registrant's Telephone Number, including Area Code: 816-753-7000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class
None

Name of Each Exchange on
Which Registered
None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

(Title of Class)

Edgar Filing: KANSAS CITY LIFE INSURANCE CO - Form 10-K

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 No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act)

Yes No

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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

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

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. o

As of December 31, 2005, 11,918,634 shares of the Company's capital stock par value \$1.25 were outstanding, and the aggregate market value of the common stock (based upon the average bid and asked price according to Company records) on June 30, 2005 of Kansas City Life Insurance Company held by non-affiliates was approximately \$191,947,111.

KANSAS CITY LIFE INSURANCE COMPANY

TABLE OF CONTENTS

PART I.....	3
Item 1. Business.....	3
Item 2. Properties.....	4
Item 3. Legal Proceedings.....	4
Item 4. Submission of Matters to a Vote of Security Holders.....	4
PART II.....	5
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.....	5
Item 6. Selected Consolidated Financial Data.....	7
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.....	8
Item 7A. Quantitative and Qualitative Disclosures About Market Risk.....	27
Item 8. Financial Statements and Supplementary Data.....	30
Consolidated Balance Sheets.....	30
Consolidated Statements of Income.....	31
Consolidated Statements of Stockholders’ Equity.....	32
Consolidated Statements of Cash Flows.....	33
Notes to Consolidated Financial Statements.....	34
Report of Independent Registered Public Accounting Firm.....	64
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	66
Item 9A. Controls and Procedures.....	66
Item 9B. Other Information.....	66
PART III.....	67
Item 10. Directors and Executive Officers of the Registrant.....	67
Item 11. Executive Compensation.....	70
Item 12. Security Ownership of Certain Beneficial Owners and Management.....	73
Item 13. Certain Relationships and Related Transactions.....	78
Item 14. Principal Accounting Fees and Services.....	78
PART IV.....	80
Item 15. Exhibits, Financial Statement Schedules.....	80
Signatures.....	82
Supplemental Information.....	83
Schedule I – Summary of Investments – Other Than Investments in Related Parties.....	83
Schedule II – Condensed Financial Information of Registrant.....	84
Schedule III – Supplementary Insurance Information.....	87
Schedule IV – Reinsurance Information.....	88
Schedule V – Valuation and Qualifying Accounts.....	89

PART I

Item 1. BUSINESS

Kansas City Life Insurance Company (the Company) 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 legal reserve company in 1903.

The Company primarily consists of three insurance companies: Kansas City Life Insurance Company (Kansas City Life) the parent company, and wholly owned subsidiaries Sunset Life Insurance Company of America (Sunset Life) and Old American Insurance Company (Old American). The Company also has several non-insurance subsidiaries that are neither material individually or in the aggregate.

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

Sunset Life individual insurance products include traditional and interest sensitive products. To improve the efficiency of marketing efforts, the Sunset Life sales force has been integrated into the Kansas City Life sales force by appointing Sunset Life agents as agents of Kansas City Life effective January 1, 2006. Sunset Life will continue as a life insurance company with its current block of business. Sunset Life operates in 43 states and the District of Columbia. Sunset Life's administrative and accounting operations are part of the Company's home office operations and administration.

Old American sells final expense insurance products nationwide through its general agency system, with exclusive territories, using direct response marketing to supply agents with leads. Old American operates in 46 states and the District of Columbia. Old American's administrative and accounting operations are part of the Company's home office but it operates and maintains a separate and independent field force.

The Company has three reportable business segments: Individual Insurance, Group Insurance and Old American. The Individual Insurance segment consists of individual insurance products for both Kansas City Life and Sunset Life. These products generate approximately 57% of consolidated revenues from customers. Group Insurance segment revenues account for 17% of consolidated revenues from customers and the Old American segment accounts for 26% of consolidated revenues from customers.

The Company and its subsidiaries are subject to state regulations in their states of domicile and in the states in which they do 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.

Edgar Filing: KANSAS CITY LIFE INSURANCE CO - Form 10-K

The Company and its subsidiaries had 541 full-time employees as of December 31, 2005. The Company considers relations with its employees to be good.

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

Access to Public Filings

The Company provides access to its annual report on Form 10-K, and will provide access as they become available during the year for all quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed with the Securities and Exchange Commission (SEC) under the 1934 Act, free of charge. These documents may be accessed on The Company's website at the following address: <http://www.kclife.com> and will be provided as soon as is practicable after filing with the SEC, although not always on the same day. They may also be found on the SEC's website at <http://www.sec.gov>.

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 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. 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 have no material effect on the Company's business, results of operations or financial position.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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: <http://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 20, 2006, at Kansas City Life's corporate headquarters.

TRANSFER AGENT

Cheryl Keefer, Assistant Secretary

Kansas City Life Insurance Company

Post Office Box 219139

Kansas City, Missouri 64121-9139

10-K REQUEST

Edgar Filing: KANSAS CITY LIFE INSURANCE CO - Form 10-K

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

SECURITY HOLDERS

As of January 31, 2006, Kansas City Life had approximately 545 security holders, including individual participants in security position listings.

-5-

STOCK AND DIVIDEND INFORMATION

Stock Quotation Symbol

NASDAQ KCLI

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 during such periods.

		Bid <u>High</u>		<u>Low</u>		Dividend <u>Paid</u>
		<i>(per share)</i>				
2005:						
First quarter	\$	50.58	\$	46.29	\$	0.27
Second quarter		50.90		45.00		0.27
Third quarter		52.55		47.00		0.27
Fourth quarter		51.97		49.73		0.27
					\$	1.08
2004:						
First quarter	\$	48.20	\$	41.55	\$	0.27
Second quarter		43.44		36.92		0.27
Third quarter		44.83		39.70		0.27
Fourth quarter		49.76		39.80		0.27
					\$	1.08

A quarterly dividend of \$0.27 per share was paid February 14, 2006.

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.

Item 6. SELECTED CONSOLIDATED FINANCIAL DATA**SELECTED CONSOLIDATED FINANCIAL DATA**

(amounts in thousands, except share data)

	2005	2004	2003	2002	2001
Revenues:					
Insurance revenues	\$ 239,039	\$ 250,101	\$ 272,644	\$ 248,581	\$ 249,085
Net investment income	194,608	197,975	194,763	194,235	203,091
Realized investment gains (losses)	6,113	45,929	(29,280)	(18,240)	(15,748)
Other revenues	10,312	8,468	9,387	14,779	11,270
Total revenues	\$ 450,072	\$ 502,473	\$ 447,514	\$ 439,355	\$ 447,698
Net income	\$ 36,184	\$ 57,687	\$ 14,793	\$	