KANSAS CITY LIFE INSURANCE CO
Form 10-Q
November 08, 2005

United States

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

Quarterly Report Under Section 13 or 15 (d) of the

Securities Exchange Act of 1934

For the Quarter ended September 30, 2005

Commission File No. 2-40764

Kansas City Life Insurance Company

3520 Broadway

Kansas City, Missouri 64111-2565

Phone: (816) 753-7000

IRS Number: 44-0308260

Incorporated in the State of Missouri

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, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No______

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

Yes X No______

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the most recent date available.

Class	*Outstanding October 14, 2005*
Common Stock, $1.25 par value	11,916,876 shares

KANSAS CITY LIFE INSURANCE COMPANY

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Part I Financial Information

Item 1. Financial Statements

KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share data)

	September 30 2005 (Unaudited)	December 31 2004
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	$ 2,899,335	$ 2,962,114
Equity securities available for sale, at fair value	56,747	63,099
Mortgage loans	458,482	430,632
Real estate	93,183	91,519
Policy loans	103,263	108,546
Short-term investments	30,013	67,980
Other investments	3,294	2,081
Total investments	3,644,317	3,725,971
Cash	2,755	4,147
Accrued investment income	43,227	39,928
Deferred acquisition costs	227,541	229,712
Value of business acquired	91,842	96,853
Reinsurance receivables	159,613	156,839
Property and equipment	30,311	31,595
Other assets	27,471	27,118
Separate account assets	364,760	353,983
Total assets	$ 4,591,837	$ 4,666,146
LIABILITIES		
Future policy benefits	$ 857,353	$ 863,754
Policyholder account balances	2,293,839	2,295,783
Policy and contract claims	33,453	34,200
Other policyholder funds	95,306	96,853
Notes payable	33,682	92,220
Income taxes	45,018	53,703
Other liabilities	181,566	182,754
Separate account liabilities	364,760	353,983
Total liabilities	3,904,977	3,973,250
STOCKHOLDERS' EQUITY		
Common stock, par value $1.25 per share Authorized 36,000,000 shares, issued 18,496,680 shares	23,121	23,121
Additional paid in capital	24,904	24,279
Retained earnings	749,128	733,499
Accumulated other comprehensive income	5,598	26,231
Less treasury stock, at cost (2005 - 6,571,764 shares; 2004 - 6,550,287 shares)	(115,891)	(114,234)
Total stockholders' equity	686,860	692,896
Total liabilities and stockholders' equity	$ 4,591,837	$ 4,666,146

See accompanying Notes to Consolidated Financial Statements.

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KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(amounts in thousands, except share data)

	Quarter ended September 30		Nine Months ended September 30	
	2005	2004	2005	2004
REVENUES				
Insurance revenues:				
Premiums	$ 42,275	$ 49,209	$ 134,736	$ 143,579
Contract charges	28,525	28,797	85,422	87,327
Reinsurance ceded	(13,605)	(13,802)	(41,304)	(40,662)
Total insurance revenues	57,195	64,204	178,854	190,244
Investment revenues:				
Net investment income	49,340	48,558	144,991	147,676
Realized investment gains (losses)	(94)	2,809	863	4,336
Other revenues	2,617	2,243	7,833	6,511
Total revenues	109,058	117,814	332,541	348,767
BENEFITS AND EXPENSES				
Policyholder benefits	42,120	44,011	131,555	139,969
Interest credited to policyholder account balances	22,624	25,856	68,532	73,203
Amortization of deferred acquisition costs and value of business acquired	9,987	10,142	29,292	30,602
Operating expenses	22,161	22,817	68,447	72,428
Total benefits and expenses	96,892	102,826	297,826	316,202
Income before income tax expense	12,166	14,988	34,715	32,565
Income tax expense	3,264	3,455	9,428	7,915
NET INCOME	$ 8,902	$ 11,533	$ 25,287	$ 24,650
Basic and diluted earnings per share:				
Net income	$ 0.75	$ 0.97	$ 2.12	$ 2.07

See accompanying Notes to Consolidated Financial Statements.

KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(amounts in thousands)

	Nine Months ended September 30 2005	2004
OPERATING ACTIVITIES		
Net cash provided	$ 29,862	$ 27,976
INVESTING ACTIVITIES		
Purchases of investments:		
Fixed maturity securities	(434,355)	(627,035)
Equity securities	(4,123)	(4,657)
Mortgage loans	(76,158)	(43,614)
Real estate	(11,244)	(5,988)
Other investment assets	(543,219)	(573,464)
Sales of investments:		
Fixed maturity securities	127,320	120,880
Equity securities	10,015	3,316
Real estate	9,699	16,377
Other investment assets	585,256	636,650
Maturities and principal paydowns of investments:		
Fixed maturity securities	319,161	338,844
Mortgage loans	49,357	82,033
Net additions to property and equipment	(667)	(1,345)
Net cash provided (used)	31,042	(58,003)
FINANCING ACTIVITIES		
Proceeds from borrowings	26,064	3,960
Repayment of borrowings	(84,602)	(26,765)
Deposits on policyholder account balances	188,149	205,720
Withdrawals from policyholder account balances	(181,386)	(152,096)
Net transfers to separate accounts	1,468	(8,449)
Change in other deposits	(1,299)	(2,770)
Cash dividends to stockholders	(9,658)	(9,765)
Net disposition (acquisition) of treasury stock	(1,032)	534
Net cash provided (used)	(62,296)	10,369
Decrease in cash	(1,392)	(19,658)
Cash at beginning of year	4,147	20,029
Cash at end of period	$ 2,755	$ 371

See accompanying Notes to Consolidated Financial Statements.

Kansas City Life Insurance Company

Notes to Consolidated Financial Statements

(amounts in thousands, except share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited consolidated financial statements, the accompanying notes to these financial statements and Management s Discussion and Analysis of Operations of Kansas City Life Insurance Company include the accounts of the Company and its subsidiaries, principally Sunset Life Insurance Company of America (Sunset Life), and Old American Insurance Company (Old American). On June 30, 2003, the Company acquired all of the issued and outstanding stock of GuideOne Life Insurance Company (GuideOne) from GuideOne Financial Group, Inc. and GuideOne Mutual Company. As of October 1, 2003, GuideOne was merged into Kansas City Life Insurance Company. GuideOne is included in the Kansas City Life Individual Insurance segment.

The unaudited consolidated financial statements have been prepared in accordance with U. S. generally accepted accounting principles (GAAP) for interim financial reporting and with the instructions to Form 10-Q of Regulation S-X. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements and as such, these unaudited interim financial statements should be read in conjunction with the Company's 2004 Form 10-K and the 2004 Annual Report to Stockholders. Management believes that the disclosures are adequate to make the information presented not misleading, and all normal and recurring adjustments necessary to present fairly the financial position at September 30, 2005 and the results of its operations for all periods presented have been made. The results of operations for any interim period are not necessarily indicative of the Company s operating results for a full year.

Significant intercompany transactions have been eliminated in consolidation and certain reclassifications have been made to the prior year results to conform with the current year s presentation.

Business Changes

The stock purchase agreement entered into by Kansas City Life Insurance Company to sell Generations Bank to a consortium of local investors organized as Generations Bancorp expired as of September 30, 2005. The sale was not consummated due to a delay in regulatory approval of the Generations Bancorp application by the Office of Thrift Supervision. The Company had entered into the stock purchase agreement on October 25, 2004, to sell Generations Bank for $10.1 million. A gain of approximately $1.9 million was expected on the sale. The bank subsidiary and the results of its operations are not material to the financial statements of the Company and are not disclosed separately.

On December 14, 2004, the Company signed an asset purchase agreement to sell its administrative claims paying services contracts as a defined block of business to The Epoch Group, L. C. for $0.2 million on January 1, 2005. The administrative claims paying services, marketed as KCL Benefit Solutions, are part of the Group Insurance business segment. One-half of the purchase price was received in February 2005. The other half is due in subsequent years, subject to certain persistency requirements. This block of business and the results of operations are not material to the financial statements of the Company and are not disclosed separately.

Significant Accounting Policies

These significant accounting policies should be read in conjunction with statements and disclosures made in the Company s 2004 Form 10-K as filed with the United States Securities and Exchange Commission.

The preparation of the consolidated financial statements requires management of the Company to make estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period. These estimates are inherently subject to change and actual results could differ from these estimates.

Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Continued)

The Company maintains a diversified securities portfolio. The Company s securities available for sale are carried at fair value in the Company s balance sheet. The Company receives fair values for its securities portfolio from a variety of external sources. Various measures have been taken to manage the portfolio s credit and interest rate risks, as discussed in the Company s 2004 Form 10-K and the 2004 Annual Report to Stockholders. The Company performs a review of its securities' fair values on an ongoing basis to determine changes in the value of the portfolio. Several factors are analyzed in evaluating these securities, including an analysis of the issuing company, its industry, valuation levels and subsequent developments. Based upon these inputs, the Company establishes its securities values in accordance with GAAP.

Deferred acquisition costs (DAC), principally agent commissions and other selling, selection and issue costs, which vary with and are directly related to the production of new business, are capitalized as incurred. These deferred costs are then amortized in proportion to future premium revenues or the expected future profits of the business, depending upon the type of product. Profit expectations are based upon assumptions of future interest spreads, mortality margins, expense margins and policy and premium persistency experience. These assumptions involve judgment and are compared to actual experience on an ongoing basis. If it is determined that the assumptions related to the profit expectations for interest sensitive and variable insurance products should be revised, the impact of the change is reported in the current period s income as an unlocking adjustment.

When a new block of business is acquired, a portion of the purchase price is allocated to a separately identifiable intangible asset, called the 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 in proportion to future premium revenues or the expected future profits, depending on the type of business acquired. Similar to DAC, the assumptions regarding future experience can affect the carrying value of VOBA, including interest spreads, mortality, expense margins and policy and premium persistency experience. Significant changes in these assumptions can impact the carrying balance of VOBA and produce changes that are reflected in the current period s income as an unlocking adjustment.

Premiums for traditional life insurance products are reported as revenue when due. Premiums on accident and health, disability and dental insurance are reported as earned ratably over the contract period in proportion to the amount of insurance protection provided. A reserve is provided for the portion of premiums written which relate to unexpired terms of coverage.

Deposits related to universal life, fixed deferred annuity contracts and investment-type products are credited to policyholder account balances. Revenues from such contracts consist of amounts assessed against policyholder account balances for mortality, policy administration and surrender charges, and are recognized in the period in which the services are provided.

The Company establishes liabilities for amounts payable under insurance policies, including traditional life insurance, annuities and accident and health insurance. Generally, amounts are payable over an extended period of time. Principal assumptions used in pricing policies and in the establishment of liabilities for future policy benefits are mortality, morbidity, expenses, persistency, investment returns and inflation. Differences between actual experience and assumptions used in the pricing of these policies and in the establishment of liabilities may result in variability of net income.

Policyholder account balances include universal life insurance, fixed deferred annuity contracts and investment-type contracts. The account balances for universal life contracts are equal to cumulative premiums, less contract charges, plus interest credited. The account balances for fixed deferred annuities and investment contracts are equal to the cumulative deposits less any applicable contract charges plus interest credited. The profitability of these products is also dependent on principal assumptions similar to traditional insurance products, and differences between actual experience and pricing assumptions may result in variability of net income.

Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Continued)

In the normal course of business, the Company cedes risks to other insurers primarily to protect the Company against adverse fluctuations in mortality experience. The Company also assumes risks ceded by other companies. Reinsurance is effected on individual risks and through various quota share arrangements. Business is reinsured primarily through yearly renewable term and coinsurance agreements. Under yearly renewable term insurance, the Company pays annual premiums and the reinsurer reimburses claims paid related to this coverage. Under coinsurance, the reinsurer receives a proportionate share of the premiums less applicable commissions and is liable for a corresponding share of policy benefits. The Company remains contingently liable if the reinsurer should be unable to meet obligations assumed under the reinsurance contract.

Reinsurance receivables includes amounts related to paid benefits and estimated amounts related to unpaid policy and contract claims, future policy benefits and policyholder account balances. The cost of reinsurance is accounted for over the terms of the underlying reinsured policies using assumptions consistent with those used to account for the policies.

New Accounting Pronouncements

In March 2004, the Emerging Issues Task Force reached further consensus on Issue No. 03-1 The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (EITF 03-1). EITF 03-1 provides guidance for determining the meaning of other-than-temporarily impaired and its application to certain debt and equity securities within the scope of Statement of Financial Accounting Standards No. 115 Accounting for Certain Investments in Debt and Equity Securities (SFAS 115) and investments accounted for under the cost method. The guidance requires that investments which have declined in value due to credit concerns or solely due to changes in interest rates must be recorded as other-than-temporarily impaired unless the Corporation can assert and demonstrate its intention to hold the security for a period of time sufficient to allow for a recovery of fair value up to or beyond the cost of the investment, which might mean maturity. This issue also requires disclosures assessing the ability and intent to hold investments in instances in which an investor determines that an investment with a fair value less than cost is not other-than-temporarily impaired.

The guidance in EITF 03-1 was effective for other-than-temporary impairment evaluations made in reporting periods beginning after June 15, 2004. However, the guidance contained in paragraphs 10-20 of this Issue in EITF Abstracts has been delayed by FASB Staff Position (FSP) EITF Issue 03-1-1, The Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, posted on September 30, 2004. At the November 2004 meeting, the FASB staff indicated that the Board is expected to undertake a comprehensive reconsideration of the guidance in EITF 03-1 and that the measurement and recognition guidance in paragraphs 10-20 of that Issue continue to be deferred by FSP EITF Issue 03-1-1. However, other provisions of EITF 03-1, including its disclosure requirements, have not been deferred. The disclosure requirements continue to be effective in annual financial statements for fiscal years ending after December 15, 2003, for investments accounted for under FASB Statements of Financial Accounting Standards 115 and 124. For all other investments within the scope of this Issue, the disclosures continue to be effective in annual financial statements for fiscal years ending after June 15, 2004.

In June 2005, the Financial Accounting Standards Board (FASB) decided not to provide additional guidance on the meaning of other-than-temporary impairment, but directed the staff to issue proposed FSP EITF 03-1-a, Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, as final. The final FSP will supersede EITF 03-1 and EITF Topic No. D-44, Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value. The final FSP (retitled FSP FAS 115-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments) will replace the guidance set forth in paragraphs 10-18 of Issue 03-1 with references to existing other-than-temporary impairment guidance, such as FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities , SEC Staff Accounting Bulletin No. 59, Accounting for Noncurrent Marketable Equity Securities , and APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. FSP FAS 115-1 will codify the guidance

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Continued)

set forth in EITF Topic D-44 and clarify that an investor should recognize an impairment loss no later than when the impairment is deemed other than temporary, even if a decision to sell has not been made. The FASB decided that FSP FAS 115-1 would be effective for other-than-temporary impairment analysis conducted in periods beginning after September 15, 2005. The FASB directed the staff to proceed to a draft of a final FSP for vote by written ballot.

In September 2005, the FASB decided to include in the final draft of FASB Staff Position FSP FAS 115-1 guidance similar to that provided in EITF 03-1 regarding the accounting for debt securities subsequent to an other-than-temporary impairment. The Board also decided to add a footnote to clarify that the final FSP will not address when a debt security should be designated as nonaccrual or how to subsequently report income on a nonaccrual debt security. In addition, the Board decided that (1) the FSP would be applied prospectively and (2) the effective date would be reporting periods beginning after December 15, 2005. The new standard is not expected to have a material impact on the financial statements.

In December 2004, FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) "Accounting for Stock-Based Compensation" (FAS 123R). This statement requires recognition in the financial statements of the fair-value-based measurement method of stock-based compensation issued to employees. FAS 123R is effective January 1, 2006. Historically the Company has expensed all stock-based compensation using a fair-value-based measurement method. The Company is currently evaluating FAS 123R but does not believe this new standard will have a material impact on the financial statements.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154 Accounting Changes and Error Corrections (FAS 154). The Statement replaces APB Opinion No. 20 and FAS 3. FAS 154 requires retrospective application to prior periods financial statements of changes in accounting principle. However, if it is impracticable to determine the effects of such changes, then other rules apply. FAS 154 is effective January 1, 2006. Currently, the Company is not aware of any circumstances that require the application of FAS 154, and there is no anticipated impact on the financial statements.

All other Standards and Interpretations of those Standards issued during 2005 did not relate to accounting policies and procedures pertinent to the Company at this time.

Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net income and other comprehensive income (loss). Other comprehensive income (loss) includes the unrealized investment gains or losses on securities available for sale (net of reclassification adjustments for realized investment gains or losses) net of deferred acquisition costs, and the change in the additional minimum pension liability. Other comprehensive income (loss) includes deferred income taxes on these items.

For the third quarter of 2005, comprehensive loss was $22.7 million, which consisted of net income of $8.9 million and other comprehensive loss of $31.6 million. For the third quarter of 2004, comprehensive income was $47.4 million, which consisted of net income of $11.5 million and other comprehensive income of $35.9 million.

For the nine months ended 2005, comprehensive income was $4.7 million, which consisted of net income of $25.3 million and other comprehensive loss of $20.6 million. For the nine months ended 2004, comprehensive income was $30.0 million, which consisted of net income of $24.7 million and other comprehensive income of $5.3 million.

Income Per Share

Due to the Company s capital structure and the absence of other potentially dilutive securities, there is no difference between basic and diluted earnings per common share for any of the periods reported. The weighted average number of shares outstanding were 11,925,389 and 11,928,520 for the nine months ended 2005 and 2004, respectively.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Continued)

Income Taxes

The third quarter income tax expense was $3.3 million or 27% of income before tax for 2005, versus $3.5 million or 23% of income before tax for the prior year period. The nine months ended income tax expense was $9.4 million or 27% of income before tax for 2005, versus $7.9 million or 24% of income before tax for the prior year period.

The income tax rate in both years was reduced by tax credits generated from the Company s investments in affordable housing. The effect of the affordable housing credits on the effective tax rate was a benefit of $0.7 million or 6% of income before tax for the third quarter of 2005, and a benefit of $1.5 million or 10% of income before tax for the third quarter 2004. The effect of the affordable housing credits on the effective tax rate was a benefit of $2.2 million or 6% of income before tax for the nine months ended 2005, and a benefit of $3.4 million or 11% of income before tax for the nine months ended 2004.

2. SEGMENT INFORMATION

Company operations have been classified and summarized into four reportable segments. The segments, while generally classified along Company lines, are based upon distribution method, product portfolio and target market. The Parent Company is divided into two segments. The Kansas City Life Individual Insurance segment consists of sales of variable life and annuities, interest sensitive products and traditional life insurance products through a nationwide sales force of independent general agents. The Kansas City Life - Group Insurance segment consists of sales of group life, disability, stop loss and dental products. Also, this segment offered administrative claims paying services, marketed as KCL Benefit Solutions, through year-end 2004. Group Insurance segment products and services are marketed by a nationwide sales force of independent general agents and group brokers, along with third party marketing arrangements. The Sunset Life segment consists of sales of interest sensitive and traditional products through a nationwide sales force of independent general agents. Effective June 30, 2005, the Sunset Life segment no longer sold new term life insurance and the Sunset Life agents were encouraged to become licensed to sell Kansas City Life individual insurance and annuity products. New sales will be curtailed at Sunset Life by the end of 2005. The Old American segment sells final expense insurance products nationwide through its general agency system with exclusive territories, using direct response marketing to supply agents with leads.

Separate investment portfolios are maintained for each of the companies. However, investments are allocated to the Group Insurance segment based upon its cash flows. Its investment income is modeled using the year of investment method. Home office functions are fully integrated for the three companies in order to maximize economies of scale. Therefore, operating expenses are allocated to the segments based upon internal cost studies, which are consistent with industry cost methodologies.

Inter-segment revenues are not material. The Company operates solely in the United States and no individual customer accounts for 10% or more of the Company's revenue.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Continued)

The following schedule provides, in thousands, the financial performance of each of the four reportable operating segments of the Company.

		Kansas City Life Individual	Group	Sunset Life	Old American	Total
Insurance revenues:						
Third quarter:	2005	$ 26,843	$ 10,404	$ 3,454	$ 16,494	$ 57,195
	2004	32,930	10,659	3,744	16,871	64,204
Nine months:	2005	$ 88,439	$ 30,336	$ 10,366	$ 49,713	$ 178,854
	2004	96,108	32,280	10,973	50,883	190,244
Net investment income:						
Third quarter:	2005	$ 39,401	$ 59	$ 6,703	$ 3,177	$ 49,340
	2004	38,566	81	6,673	3,238	48,558
Nine months:	2005	$ 115,045	$ 179	$ 20,192	$ 9,575	$ 144,991
	2004	116,804	230	20,859	9,783	147,676
Net income (loss):						
Third quarter:	2005	$ 5,760	$ (393)	$ 1,682	$ 1,853	$ 8,902
	2004	8,713	(624)	1,380	2,064	11,533
Nine months:	2005	$ 18,810	$ (1,870)	$ 4,622	$ 3,725	$ 25,287
	2004	17,031	(1,974)	5,292	4,301	24,650

3. PENSIONS AND OTHER POSTRETIREMENT BENEFITS

Components of net periodic benefit cost:

	Pension Benefits Quarter ended September 30		Other Benefits Quarter ended September 30	
	2005	2004	2005	2004
Service cost	$ 582	$ 434	$ 168	$ 189
Interest cost	1,914	1,341	279	352
Expected return on plan assets	(1,951)	(1,197)	(19)	(19)
Amortization of:				
Unrecognized actuarial loss (gain)	754	617	(29)	6
Unrecognized prior service cost	(170)	(120)	(152)	-
Net periodic benefits cost	$ 1,129	$ 1,075	$ 247	$ 528

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Continued)

	Pension Benefits Nine Months ended September 30		Other Benefits Nine Months ended September 30	
	2005	2004	2005	2004
Service cost	$ 1,746	$ 1,605	$ 448	$ 567
Interest cost	5,741	4,959	824	1,055
Expected return on plan assets	(5,853)	(4,427)	(42)	(57)
Amortization of:				
Unrecognized actuarial loss	2,262	2,283	4	19
Unrecognized prior service cost	(510)	(445)	(152)	-
Net periodic benefits cost	$ 3,386	$ 3,975	$ 1,082	$ 1,584

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act (the Act) was signed into law. The Act includes a federal subsidy to sponsors of retiree health plans that provide a prescription drug benefit that is at least actuarially equivalent to the benefit to be provided under Medicare Part D. As of December 31, 2004, the Company evaluated the provisions of the Act and determined that the benefits provided by the Company s postretirement benefit plans were actuarially equivalent thereto, and estimated the accumulated postretirement benefit obligation (APBO) to incorporate the impact of the Act. As of December 31, 2004, the estimated reduction to the APBO was $7.1 million, and this change did not have a material impact on the net periodic postretirement benefit cost for the year ended December 31, 2004. This change decreased the 2005 net periodic benefit cost by $0.5 million.

On June 17, 2005, the Company amended the Kansas City Life Insurance Company Employee Benefits Plan and the Kansas City Life Insurance Company Agent and General Agent Health and Dental Plan (the Plans), to eliminate prescription drug coverage as of January 1, 2006. Since prescription drug coverage to retirees will become available under the Act on January 1, 2006, participants of the Plans will be able to obtain coverage under the Medicare Prescription Drug Plan as of this date. At the same time, the Company has elected to reduce required retiree premium payments to the Plans.

A re-measurement of the APBO was calculated for the amendment to the Plans and the assumption of reduced retiree premium payments, which resulted in an additional reduction of $4.2 million in the APBO on the June 17, 2005 re-measurement date. The change in the APBO will result in an additional decrease of $0.4 million in the net periodic postretirement benefit cost, for a total decrease of $0.9 million for the year ending December 31, 2005.

4. COMMITMENTS

In the normal course of business the Company has open purchase and sale commitments. At September 30, 2005, the Company had purchase commitments of $16.2 million and sales commitments of $16.4 million. Subsequent to September 30, 2005, the Company entered into purchase commitments of $16.6 million. Typically, these purchase and sales commitments are for mortgage loans, real estate and affordable housing investments. On October 5, 2005, one of the sale commitments for commercial real estate was settled with net proceeds of $13.0 million and resulted in a realized gain of $2.4 million.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Continued)

5. CONTINGENT LIABILITIES

The life insurance industry, including the Company, has been subject to an increase in litigation in recent years. Such litigation has been pursued on behalf of purported classes of policyholders and other claims and legal actions in jurisdictions where juries often award punitive damages, which are grossly disproportionate to actual 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 claims and actions, would have no material effect on the Company s business, results of operations or financial position.

6. GUARANTEES AND INDEMNIFICATIONS

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

<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>

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, phrases or expre 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, which may affect the Company s ability to sell its products;
- 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 deferred acquisition costs and the value of business acquired;
- Regulatory, accounting or tax changes that may affect the cost of, or the demand for, the Company s products or services;
- 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.

Consolidated Results of Operations

The Company s net income decreased $2.6 million in the third quarter of 2005, versus the same quarter in the prior year, to a total of $8.9 million. Net income per share decreased to $0.75 per share versus $0.97 per share in last year's third quarter. The decline in the results of the third quarter was largely due to a small realized investment loss versus realized investment gains in the prior year. A decline in both individual life and annuity premiums was generally offset by declines in policyholder benefits, interest credited to policyholder account balances and operating expenses.

Net income increased $0.6 million to $25.3 million for the nine months, and net income per share increased to $2.12 per share versus $2.07 per share for the same period in the prior year. Net income increased as declines in insurance and investment revenues were overcome by declines in policyholder benefits, interest credited to policyholder account balances and operating expenses. Insurance revenues decreased, reflecting declines in life and annuity premiums. Accident and health premiums declined primarily due to reduced premiums in the group dental line. A decline in contract charges resulted primarily due to an unlocking adjustment of unearned revenues in the second quarter of 2005, and a reduction in surrender charges. Net investment income declined on a year-to-date basis, reflecting a decrease in investment yields. Additionally, realized investment gains were $3.5 million less than a year ago. Policyholder benefits decreased, largely due to reduced death benefits and lower group accident and health benefits, primarily from the group dental line. Interest credited to policyholder account balances declined as a result of lower crediting rates. Amortization of deferred acquisition costs decreased due to the unlocking of assumptions in the second quarter of 2005. Finally, operating expenses decreased, primarily due to cost savings resulting from the integration of GuideOne operations into the home office, reduced pension and post retirement benefit costs and an adjustment in agent benefit plan accrual.

Sales

The Company measures sales in terms of new premiums and deposits. Premiums are included in insurance revenues in the Consolidated Statements of Income, while deposits are shown in the Consolidated Statements of Cash Flows. The first set of tables below reconciles premiums included in insurance revenues and provides detail by new and renewal business. New premiums are also detailed by product. The second set of tables reconciles deposits with the Consolidated Statements of Cash Flows and provides detail by new and renewal deposits. New deposits are also detailed by product.

For the third quarter, new individual life premiums increased 19% and group life premiums increased 7%. These increases were offset by declines in immediate annuity premiums and group accident and health premiums. For the nine months, new individual life sales increased 5%, but immediate annuity premiums decreased 29%, group life premiums declined 9% and group accident and health premiums decreased 27%. Individual life products have been the primary focus for premium sales during the year. Immediate annuity sales declined as a result of the Company s focus toward agencies that deliver a more balanced mix of life and annuity sales and a reclassification described in the *Insurance Revenues* section noted below. Group accident and health premiums declined primarily due to the loss of a sizeable group dental case at mid-year 2004. Renewal premiums declined 5% for the third quarter and 3% for the nine months.

	Quarter ended September 30			
	2005	%	2004	%
New premiums:				
Individual life insurance	$ 3,951	19	$ 3,312	8
Immediate annuities	(58)	(101)	5,553	(51)
Group life insurance	327	7	306	(67)
Group accident and health insurance	2,405	(6)	2,550	(29)
Individual accident and health insurance	-	-	98	(93)
Total new premiums	6,625	(44)	11,819	(41)
Renewal premiums	35,650	(5)	37,390	(1)
Total premiums	$ 42,275	(14)	$ 49,209	(15)

	Nine Months ended September 30			
	2005	%	2004	%
New premiums:				
Individual life insurance	$ 10,005	5	$ 9,508	14
Immediate annuities	8,412	(29)	11,860	(63)
Group life insurance	1,014	(9)	1,117	(23)
Group accident and health insurance	7,134	(27)	9,721	15
Individual accident and health insurance	-	-	406	(70)
Total new premiums	26,565	(19)	32,612	(36)
Renewal premiums	108,171	(3)	110,967	2
Total premiums	$ 134,736	(6)	$ 143,579	(10)

Total new deposits declined 14% in the third quarter and 22% in the nine months. Fixed deferred annuities decreased 16% in the third quarter and 27% in the nine months. The Company s focus for both the third quarter and nine months was to develop distribution efforts within agencies that write a balanced mix of life and annuity products. This resulted in a lower volume of sales of fixed deferred annuities. New deposits on variable universal life decreased 33% in the third quarter and 36% in the nine months. New deposits on universal life products decreased 1% in the third quarter and 11% in the nine months. Renewal deposits declined 2% in the third quarter but increased 2% in the nine months, largely due to increased renewal deposits from fixed deferred and variable annuities. In total, deposits declined 7% in the third quarter and 9% in the nine months.

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	Quarter ended September 30			
	2005	%	2004	%
New deposits:				
Universal life insurance	$ 2,503	(1)	$ 2,536	10
Variable universal life insurance	438	(33)	651	(6)
Fixed deferred annuities	15,669	(16)	18,592	(66)
Variable annuities	6,183	(11)	6,931	(37)
Total new deposits	24,793	(14)	28,710	(59)
Renewal deposits	37,348	(2)	37,920	7
Total deposits	$ 62,141	(7)	$ 66,630	(36)

	Nine Months ended September 30			
	2005	%	2004	%
New deposits:				
Universal life insurance	$ 7,189	(11)	$ 8,083	23
Variable universal life insurance	1,686	(36)	2,632	7
Fixed deferred annuities	41,161	(27)	56,197	(53)
Variable annuities	20,082	(13)	23,133	(9)
Total new deposits	70,118	(22)	90,045	(41)
Renewal deposits	118,031	2	115,675	12
Total deposits	$ 188,149	(9)	$ 205,720	(20)

Insurance Revenues

Insurance revenues consist of premiums and contract charges, less reinsurance ceded. Insurance revenues decreased 11% in the third quarter. Total premiums decreased 14% in the third quarter of 2005. Individual life premiums declined 3% in the third quarter. A decline in immediate annuity premiums for the quarter was due to two factors. First, the Company has focused distribution efforts toward agencies that deliver a more balanced mix of life and annuity sales and second, due to a reclassification identified below. Accident and health premiums were down 4% in the third quarter, primarily from the elimination last year of an individual accident and health product obtained in the GuideOne acquisition.

Insurance revenues decreased 6% for the first nine months. Total premiums decreased 6% in the nine months. Individual life premiums declined 2% for the nine months. Immediate annuity premiums declined 28%, reflecting the distribution focus on life insurance and changes to the immediate annuity product line made in 2004. Finally, accident and health premiums were down 10% due to the termination of an individual accident and health product and a large group accident and health dental carrier.

In the third quarter 2005, the Company reclassified a $1.7 million overstatement of immediate annuity premiums which occurred in the first half of 2005. This reclassification of immediate annuity premiums was exactly offset by a corresponding reclassification to immediate annuity benefit withdrawals included in policyholder benefits. The net effect of the reclassifications had no impact on net income, but annuity premiums were reduced by $1.7 million in the third quarter for this reclassification and policyholder benefits were likewise reduced.

Contract charges decreased 1% for the third quarter and 2% for the nine months. Specifically, contract charges decreased $0.3 million in the third quarter of 2005 primarily due to reduced surrender charges. Contract charges declined $1.9 million for the nine months, primarily due to an unlocking adjustment, in the second quarter of 2005. Certain contract charges for universal life insurance are not recognized in income immediately but are deferred as unearned revenues and are amortized into income in a manner similar to the amortization of deferred acquisition costs or DAC. These contract charges, which are recorded as unearned revenues, are recognized into income in proportion to the expected future gross profits of the business. In the same manner as DAC, profit expectations are based upon assumptions of future interest spreads, mortality margins, expense margins and policy and premium persistency experience. At least annually, a review is performed of the assumptions related to profit expectations. If

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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.

Reinsurance ceded decreased 1% in the third quarter but increased 2% for the nine months. The increase for the year was largely due to increased sales of individual life products, and sales of certain group long-term disability and stop loss products where the Company reinsures 80% or more of its sales.

Insurance revenues are affected by the level of new sales, the type of products sold, and the persistency of policyholders, all of which may be influenced by a variety of economic conditions and expectations, as well as competitive forces. Consumers desire broad portfolios of products that offer safety and competitive return objectives, which the Company strives to provide. The Company offers a full range of products, including variable insurance products, which allow policyholders to participate in both the equity and fixed income markets. Interest sensitive and traditional insurance products combine safety of principal with competitive interest returns.

Investment Revenues

Net investment income increased 2% in the third quarter but declined 2% for the nine months. The increase in net investment income was primarily the result of reduced investment expenses for the quarter. The decline in investment income for the nine months was due to a decline in investment yields, despite an increase in the average investment assets. In addition, investment expenses increased $0.6 million for the nine month period relative to the prior year, primarily due to a $1.9 million increase in real estate expenses in the second quarter of 2005.

The Company recorded a small realized investment loss for the third quarter versus realized investment gains of $2.8 million in last year's third quarter. For the nine months, the Company reflected realized investment gains of $0.9 million compared to $4.3 million a year ago. The following table provides detail concerning realized investment gains and losses for the third quarter and nine month periods of 2005 and 2004.

	Quarter ended September 30		Nine Months ended September 30	
Realized Investment Gains and Losses	2005	2004	2005	2004
Gross gains resulting from:				
Sales of investment securities	$ 269	$ 2,306	$ 1,567	$ 6,965
Investment securities called	181	337	985	686
Sales of real estate	1,271	2,555	1,562	4,145
Other investment gains	-	-	1,050	-
Total gross gains	1,721	5,198	5,164	11,796
Gross losses resulting from:				
Sales of investment securities	(1,659)	(2,268)	(3,938)	(6,049)
Write-downs of investment securities	-	-	-	(555)
Investment securities called	(66)	(114)	(202)	(1,123)
Sales of real estate	(197)	-	(197)	-
Total gross losses	(1,922)	(2,382)	(4,337)	(7,727)
Amortization of deferred acquisition costs	107	(7)	36	267
Realized investment gains (losses)	$ (94)	$ 2,809	$ 863	$ 4,336

The Company regularly evaluates the quality of its investment portfolio. Occasionally, in a diversified portfolio, certain investments may suffer market price deterioration due to a wide variety of factors. Distressed securities are placed onto watch lists that are then further analyzed to identify any specific securities that the Company believes may have experienced other than temporary declines in fair value. To the extent that the Company believes these fluctuations represent an other than temporary decline in value, the value of the investment is adjusted by a charge to income as a realized investment loss. The Company's analysis identified no securities with other than temporary impairment in the third quarter of 2005 or for the nine months ended 2005.

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As of September 30, 2005, the Company had investments with unrealized losses of $32.8 million on investments with a fair value of $1.4 billion. As of December 31, 2004, the Company had investments with unrealized losses of $19.3 million on investments with a fair value of $1.0 billion.

Other Revenues

Other revenues increased $0.4 million in the third quarter and $1.3 million for the nine months. These increases were primarily the result of sales of state tax credits generated from affordable housing investments and fees received from the Company s broker/dealer subsidiary. Partially offsetting these increases was a decline in other revenues from the sale of KCL Benefit Solutions, which provided administrative claims paying services as part of the group insurance business segment.

Policyholder Benefits

Policyholder benefits consist of death benefits (mortality), annuity benefits, accident and health benefits, and surrenders. These benefits are shown net of reinsurance and the corresponding change in the reserve liability for future policy benefits. Policyholder benefits decreased 4% or $1.9 million in the third quarter and 6% or $8.4 million in the nine months.

The decline in these benefits largely resulted from declines in death benefits and accident and health benefits, and the $1.7 million reclassification described in the *Insurance Revenues* section. The decline in death benefits reflects favorable mortality experience. Benefits paid on accident and health business declined primarily due to a decline in the group dental product line, which was the result of the mid-year 2004 loss of a sizable dental group. In addition, individual accident and health benefits declined, primarily the result of a $2.0 million termination in 2004 of a product received in the GuideOne acquisition.

Interest Credited to Policyholder Account Balances

Interest was credited to policyholder account balances for universal life, fixed deferred annuities and other investment-type products. Interest credited to policyholder account balances decreased 13% in the third quarter and 6% in the nine months, due to lower crediting rates.

Amortization of Deferred Acquisition Costs (DAC) and Value of Business Acquired (VOBA)

The amortization of DAC was $8.3 million for the third quarter of 2005, which was the same as for 2004. DAC amortization for the nine months totaled $24.1 million versus $25.2 million in 2004. There was no unlocking adjustment in the third quarter of 2005. However, the amortization of DAC for the nine months 2005 contained an unlocking adjustment of $2.2 million, thereby lowering DAC amortization for the nine month period.

For certain life insurance and annuity products, DAC is amortized in proportion to the expected future gross profits of the business. Profit expectations are based upon assumptions of future interest spreads, mortality margins, expense margins and policy and premium persistency experience. 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 of the change is recorded as a change in DAC amortization in the current period due to an unlocking adjustment.

The amortization of VOBA was $1.7 million in the third quarter of 2005 and $1.8 million for the same period in 2004. VOBA amortization for the nine months was $5.2 million in 2005 and $5.4 million in 2004.

Operating Expenses

Operating expenses consist of commissions and production allowances, the capitalization of commissions and production allowances on certain products, expenses associated with operations, insurance related taxes and other expenses. Operating expenses decreased 3% in the third quarter and 5% for the nine months of 2005. Commissions and production allowances increased $0.6 million for the third quarter but declined $1.0 million for the nine months. These changes were partially offset by the capitalization of these costs. Expense savings, as expected, are being achieved through the integration of GuideOne Life s operations into the home office. The integration was completed in late 2004, and the Company has realized $2.5 million in reduced expenses through the first nine months of 2005 as a result. Operating expenses have also declined due to reduced pension and post retirement benefit costs and an adjustment in agent benefit plan accrual.

Income Taxes

The third quarter income tax expense was $3.3 million or 27% of income before tax for 2005, versus $3.5 million or 23% of income before tax for the prior year period. Income tax expense for the nine months was $9.4 million or 27% of income before tax for 2005, versus $7.9 million or 24% of income before tax for the prior year period.

The income tax rate in both years was reduced by tax credits generated from the Company s investments in affordable housing. The effect of the affordable housing credits on the effective tax rate was a benefit of $0.7 million or 6% of income before tax for the third quarter of 2005 and $1.5 million or 10% of income before tax for the third quarter of 2004. The effect of the affordable housing credits on the effective tax rate was a benefit of $2.2 million or 6% of income before tax for the nine months ended 2005 and $3.4 million or 11% of income before tax for the nine months ended 2004.

Operating Results by Segment

The Company manages its performance through four business segments: the Individual Insurance business of Kansas City Life in the parent company, the Group Insurance operation in the parent company, and its two life insurance subsidiaries: Sunset Life and Old American. The following describes and analyzes the financial performance of each of these four segments. Refer to Note 2 - Segment Information in the Notes to the Consolidated Financial Statements.

Kansas City Life Insurance Company Individual Insurance

The following table presents financial data of the Kansas City Life Insurance Company Individual Insurance business segment for the third quarters and first nine months of 2005 and 2004 and are reconciled to the financial statements contained herein (in thousands):

	Quarter ended September 30		Nine Months ended September 30	
	2005	2004	2005	2004
Insurance revenues:				
Premiums	$ 10,360	$ 15,719	$ 38,819	$ 43,415
Contract charges	23,031	23,112	68,699	70,180
Reinsurance ceded	(6,548)	(5,901)	(19,079)	(17,487)
Total insurance revenues	26,843	32,930	88,439	96,108
Investment revenues:				
Net investment income	39,401	38,566	115,045	116,804
Realized investment gains	205	3,115	874	4,448
Other revenues	2,427	1,453	7,197	3,963
Total revenues	68,876	76,064	211,555	221,323
Policyholder benefits	23,965	25,250	74,183	80,216
Interest credited to policyholder account balances	18,428	21,059	56,100	60,102
Amortization of deferred acquisition costs and value of business acquired	5,509	5,363	15,534	15,962
Operating expenses	13,512	13,183	40,613	43,062
Total benefits and expenses	61,414	64,855	186,430	199,342
Income before income tax expense	7,462	11,209	25,125	21,981
Income tax expense	1,702	2,496	6,315	4,950
Net income	$ 5,760	$ 8,713	$ 18,810	$ 17,031

Premium information is provided in the table below.

	Quarter ended September 30			
	2005	%	2004	%
New premiums:				
Individual life insurance	$ 1,753	33	$ 1,317	45
Immediate annuities	(58)	(101)	5,553	(48)
Individual accident and health insurance	-	-	98	(93)
Total new premiums	1,695	(76)	6,968	(46)
Renewal premiums	8,665	(1)	8,751	1
Total premiums	$ 10,360	(34)	$ 15,719	(27)

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	Nine Months ended September 30			
	2005	%	2004	%
New premiums:				
Individual life insurance	$ 4,389	14	$ 3,842	46
Immediate annuities	8,236	(30)	11,798	(62)
Individual accident and health insurance	-	-	406	(70)
Total new premiums	12,625	(21)	16,046	(54)
Renewal premiums	26,194	(4)	27,369	28
Total premiums	$ 38,819	(11)	$ 43,415	(23)

Deposit information is provided in the table below.

	Quarter ended September 30			
	2005	%	2004	%
New deposits:				
Universal life insurance	$ 2,383	1	$ 2,353	31
Variable universal life insurance	438	(33)	651	(6)
Fixed deferred annuities	15,629	(11)	17,552	(67)
Variable annuities	6,183	(11)	6,931	(37)
Total new deposits	24,633	(10)	27,487	(58)
Renewal deposits	30,436	(1)	30,796	10
Total deposits	$ 55,069	(6)	$ 58,283	(38)

	Nine Months ended September 30			
	2005	%	2004	%
New deposits:				
Universal life insurance	$ 6,801	(3)	$ 6,997	47
Variable universal life insurance	1,686	(36)	2,632	7
Fixed deferred annuities	39,901	(26)	53,646	(50)
Variable annuities	20,082	(13)	23,133	(9)
Total new deposits	68,470	(21)	86,408	(38)
Renewal deposits	96,827	5	92,307	13
Total deposits	$ 165,297	(8)	$ 178,715	(19)

Net income for this segment in the third quarter was $5.8 million, down $3.0 million from 2004. Net income was $18.8 million for the nine months, which was an increase of $1.8 million from 2004. The decrease in the third quarter was largely the result of a $2.9 million decrease in realized investment gains. For 2005, this segment had $0.2 million in realized gains compared with $3.1 million in 2004. Insurance revenues declined in the third quarter primarily due to a decline in immediate annuity premiums. This decline was due to reduced immediate annuity sales and the reclassification described earlier. Premiums on individual life insurance products increased 7% and contract charges were flat. Policyholder benefits and interest credited to policyholders account balances declined in the quarter, partially offsetting the decrease in insurance revenues. Declines in insurance and investment revenues for the nine months were more than offset by decreases in policyholder benefits, interest credited to policyholder account balances and operating expenses. This segment contributed 65% of consolidated net income for the third quarter 2005, which was down from 76% in 2004. This segment contributed 74% of consolidated net income for the nine months of 2005, up from 69% in 2004. This segment also contributed 47% of consolidated insurance revenues for the third quarter and 49% for the nine months.

Insurance revenues for this segment decreased 18% in the third quarter and 8% in the nine months. Contract charges were flat in the third quarter but declined 2% in the nine months. The decline in contract charges for the nine month period was largely due to an unlocking adjustment of $1.0 million earlier in 2005.

In the third quarter, new individual life premiums increased 33% but immediate annuity premiums declined, reflecting the reduced sales and the reclassification described earlier. For the nine months, new individual life premiums increased 14% compared to 2004, reflecting improved sales. However, new immediate annuity premiums decreased 30%, reflecting a focus on more balanced product distribution. Total new deposits decreased 10% for the third quarter and 21% for the nine months of 2005 when compared to the same periods of 2004, primarily reflecting a decrease in fixed deferred and variable annuities. New universal life deposits increased 1% for the third quarter but declined 3% for the nine months.

Net investment income for this segment increased 2% for the third quarter but declined 2% in the nine months. Although average invested assets increased over the nine month period, investment income decreased due to reduced investment yields and increased investment expenses associated with the $1.9 million increase in real estate expenses in the second quarter. This segment experienced realized investment gains of $0.2 million for the third quarter versus a realized gain of $3.1 million for the same period a year ago. Realized investment gains totaled $0.9 million for the nine month period, down from the $4.4 million in realized investment gains for the same period last year.

Other revenues increased $1.0 million in the third quarter and $3.2 million for the nine months. These increases were due in part to the sale of state tax credits generated from affordable housing investments and fees received from the Company s broker/dealer subsidiary.

Policyholder benefits decreased 5% in the third quarter and 8% for the nine months relative to the same periods in 2004. Death benefits increased for the third quarter but declined for the nine months. Other benefits decreased primarily due to a decline in individual accident and health benefits and the reclassification described earlier. In 2004, this segment experienced benefit payments on a terminated block of business. In 2005, virtually no benefit payments were due from this block.

Interest credited to policyholder account balances decreased 12% in the third quarter and 7% in the nine months. This decrease was due to lower crediting rates, which were primarily the result of reduced investment yields.

The amortization of DAC and VOBA increased 3% in the third quarter but declined 3% in the nine months compared with results from one year earlier. The decrease in the nine months was the result of an unlocking adjustment in DAC during the second quarter.

Operating expenses consist of commissions and production allowances, the capitalization of commissions and production allowances on certain products, expenses associated with operations, insurance related taxes and other expenses. Operating expenses increased $0.3 million for the third quarter but declined $2.4 million for the nine months, compared with the same periods of 2004. The increase in the third quarter was primarily due to increased commission expenses, net of capitalization. However, expense savings continue to be realized from the integration of GuideOne into the home office. Approximately $2.5 million in expense savings have been realized during the first nine months of the year. Also, expenses have declined versus the prior year from reduced pension and post retirement benefit costs, an adjustment in agent benefit plan accrual, partially offset by an increase in general administrative expenses.

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Kansas City Life Insurance Company Group Insurance

The following table presents financial data of the Kansas City Life Insurance Company Group Insurance business segment for the third quarters and first nine months of 2005 and 2004 and are reconciled to the financial statements contained herein (in thousands):

	Quarter ended September 30		Nine Months ended September 30	
	2005	2004	2005	2004
Insurance revenues:				
Premiums	$ 12,759	$ 13,569	$ 37,950	$ 40,322
Reinsurance ceded	(2,355)	(2,910)	(7,614)	(8,042)
Total insurance revenues	10,404	10,659	30,336	32,280
Investment revenues:				
Net investment income	59	81	179	230
Other revenues	173	556	537	1,828
Total revenues	10,636	11,296	31,052	34,338
Policyholder benefits	6,361	7,440	19,739	22,633
Operating expenses	4,837	4,747	13,985	14,525
Total benefits and expenses	11,198	12,187	33,724	37,158
Loss before income tax benefit	(562)	(891)	(2,672)	(2,820)
Income tax benefit	(169)	(267)	(802)	(846)
Net loss	$ (393)	$ (624)	$ (1,870)	$ (1,974)

Premium information is provided in the table below.

	Quarter ended September 30			
	2005	%	2004	%
New premiums:				
Group life insurance	$ 327	7	$ 305	(67)
Group dental insurance	1,093	(9)	1,207	(49)
Group disability insurance	500	(33)	748	(37)
Group stop loss	749	32	568	-
Other group insurance	63	125	28	(36)
Total new premiums	2,732	(4)	2,856	(36)
Renewal premiums	10,027	(6)	10,713	(1)
Total group premiums	12,759	(6)	13,569	(11)
Other revenues	232	(64)	637	(12)
Total direct revenues	12,991	(9)	14,206	(11)
Reinsurance ceded	(2,355)	(19)	(2,910)	45
Total insurance and other revenues	$ 10,636	(6)	$ 11,296	(19)

	Nine Months ended September 30			
	2005	%	2004	%
New premiums:				
Group life insurance	$ 1,014	(9)	$ 1,117	(22)
Group dental insurance	2,928	(40)	4,901	(26)
Group disability insurance	1,614	(41)	2,758	61
Group stop loss	2,429	24	1,952	-
Other group insurance	163	48	110	(21)
Total new premiums	8,148	(25)	10,838	9
Renewal premiums	29,802	1	29,484	(5)
Total group premiums	37,950	(6)	40,322	(1)
Other revenues	716	(65)	2,058	(14)
Total direct revenues	38,666	(9)	42,380	(2)
Reinsurance ceded	(7,614)	(5)	(8,042)	77
Total insurance and other revenues	$ 31,052	(10)	$ 34,338	(11)

Insurance revenues for the Group Insurance segment decreased $0.3 million or 2% in the third quarter and $1.9 million or 6% in the nine months. These decreases were primarily due to reduced group dental and disability premiums in both periods. Group customers will occasionally change their insurance company providers due to their search for changes in service, product features or reduced costs. This was the situation at mid-year 2004 as this business segment lost a large dental case, which had provided annual premiums of approximately $3.1 million. However, the Company s other third party marketing arrangements produced improved sales of long-term disability products and stop loss products for the nine months. Total direct premiums from the long-term disability line increased $0.4 million or 9% over the nine months last year but remained flat for the quarter. The stop loss line generated additional total direct premiums of $0.1 million or 16% in the third quarter and $0.3 million or 16% in the nine months of 2005, compared to the same periods a year ago. The Company has used reinsurance in several of its group product lines to achieve improved profitability by mitigating risk. Reinsurance on premiums decreased 19% in the third quarter versus 2004, and decreased 5% in the nine months.

On January 1, 2005, the Company sold its administrative claims paying services, which generated other revenues in prior periods for this segment. Accordingly, other revenues declined in the third quarter and nine months of 2005.

Policyholder benefits decreased 15% in this segment in the third quarter of 2005, and 13% in the nine months. This decrease was primarily due to reduced dental benefits, which declined 7% or $0.4 million in the third quarter and 21% or $3.5 million in the nine months. These declines were due to the loss of the previously mentioned large dental case. Group life benefits decreased 32% in the third quarter, but increased $0.7 million or 18% for the nine months. This increase was primarily the result of a decrease in reinsurance ceded on death benefits of $1.3 million in the nine months over last year. However, the claims ratio (total policyholder benefits divided by total insurance revenues) for this segment improved versus last year, falling from 70% in 2004 to 65% in 2005, for the respective nine month periods.

Operating expenses consist of commissions, expenses associated with operations, insurance related taxes and other expenses. Operating expenses increased 2% in the third quarter but declined 4% for the nine months. This decrease was due to reduced commissions on new sales and reductions in staffing from the sale of the administrative claims paying services.

The net loss for this segment totaled $0.4 million for the third quarter of 2005, compared with $0.6 million in 2004. The net loss totaled $1.9 million for the nine months of 2005, compared with $2.0 million in 2004.

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Sunset Life Insurance Company of America

The following table presents financial data of the Sunset Life Insurance Company of America business segment for the third quarters and the nine months of 2005 and 2004 and are reconciled to the financial statements contained herein (in thousands):

	Quarter ended September 30		Nine Months ended September 30	
	2005	2004	2005	2004
Insurance revenues:				
Premiums	$ 1,377	$ 1,545	$ 4,278	$ 4,455
Contract charges	5,494	5,685	16,723	17,147
Reinsurance ceded	(3,417)	(3,486)	(10,635)	(10,629)
Total insurance revenues	3,454	3,744	10,366	10,973
Investment revenues:				
Net investment income	6,703	6,673	20,192	20,859
Realized investment gains (losses)	10	(192)	221	220
Other revenues	17	294	92	718
Total revenues	10,184	10,519	30,871	32,770
Policyholder benefits	1,112	833	3,772	3,649
Interest credited to policyholder account balances	4,196	4,797	12,432	13,101
Amortization of deferred acquisition costs and value of business acquired	1,180	1,360	3,570	4,269
Operating expenses	1,217	1,582	4,154	3,879
Total benefits and expenses	7,705	8,572	23,928	24,898
Income before income tax expense	2,479	1,947	6,943	7,872
Income tax expense	797	567	2,321	2,580
Net income	$ 1,682	$ 1,380	$ 4,622	$ 5,292

Premium and deposit information is provided in the tables below.

	Quarter ended September 30			
	2005	%	2004	%
New premiums:				
Individual life insurance	$ 37	(57)	$ 87	(59)
Immediate annuities	-	-	-	-
Total new premiums	37	(57)	87	(88)
Renewal premiums	1,340	(8)	1,458	9
Total premiums	$ 1,377	(11)	$ 1,545	(25)

	Nine Months ended September 30			
	2005	%	2004	%
New premiums:				
Individual life insurance	$ 127	(47)	$ 238	(47)
Immediate annuities	176	184	62	(91)
Total new premiums	303	1	300	(75)
Renewal premiums	3,975	(4)	4,155	2
Total premiums	$ 4,278	(4)	$ 4,455	(15)

	Quarter ended September 30			
	2005	%	2004	%
New deposits:				
Universal life insurance	$ 120	(35)	$ 184	(64)
Fixed deferred annuities	40	(96)	1,039	(60)
Total new deposits	160	(87)	1,223	(60)
Renewal deposits	6,912	(3)	7,124	(2)
Total deposits	$ 7,072	(15)	$ 8,347	(19)

	Nine Months ended September 30			
	2005	%	2004	%
New deposits:				
Universal life insurance	$ 388	(64)	$ 1,086	(41)
Fixed deferred annuities	1,260	(51)	2,551	(76)
Total new deposits	1,648	(55)	3,637	(71)
Renewal deposits	21,204	(9)	23,368	6
Total deposits	$ 22,852	(15)	$ 27,005	(22)

Net income for this segment was $1.7 million in the third quarter of 2005 and $4.6 million for the nine months. This represents a 22% increase in the quarter compared with 2004 but a 13% decline for the nine months. Decreases in insurance revenues during the third quarter were offset by an increase in investment revenues, decreases in interested credited to policyholder account balances and operating expenses. Insurance and investment revenues declined for the nine months. However, decreases in interest credited to policyholder account balances and DAC amortization partially offset the revenue declines. This segment contributed 19% of consolidated net income for the third quarter, up from 12% in 2004. This segment contributed 18% of consolidated net income for the nine months in 2005, compared with 21% in 2004. This segment also contributed 6% of consolidated insurance revenues for the third quarter and nine months in 2005, the same as in 2004.

Insurance revenues for this segment decreased 8% in the third quarter compared with 2004 and 6% in the nine months, primarily due to lower contract charges and individual life insurance premiums. Reinsurance ceded declined 2% in the third quarter but increased slightly for the nine months. Total premiums decreased 11% for the third quarter and 4% for the nine months. Total deposits declined 15% for both the third quarter and nine months. The decline in premiums and deposits is due to the transition of agents becoming licensed with Kansas City Life and the curtailment of new sales at Sunset Life by the end of 2005.

Net investment income was flat for the third quarter compared with 2004 but declined 3% for the nine months. Although average invested assets increased over the nine month period, yields for this same period declined. The Company recorded a small realized investment gain in the third quarter of 2005 versus a realized investment loss in 2004. For the nine months, realized investment gains were flat.

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Contributing to net income was a decrease in the amortization of deferred acquisition costs. Amortization of DAC declined 13% in the third quarter and 16% year-to-date compared with 2004. The decline in the amortization of DAC was primarily due to an unlocking adjustment of $0.4 million in the second quarter of 2005.

Death benefits decreased for both the third quarter and nine months. Mortality results remained within expectations for the Company for both the quarter and nine months.

Interest credited to policyholder account balances declined 13% in the third quarter and 5% for the nine months. These reductions were due to lower crediting rates, which were primarily the result of reduced investment yields.

Operating expenses include commission and production allowances, the capitalization of certain commission and production allowances, and expenses from operations. Operating expenses decreased 23% or $0.4 million in the third quarter as compared to 2004 but increased 7% or $0.3 million for the nine months. The increase in expenses for the nine months was due to the reduction, in 2004, of legal reserves of $0.6 million.

Old American Insurance Company

The following table presents financial data of the Old American Insurance Company business segment for the third quarters and the nine months of 2005 and 2004 and are reconciled to the financial statements contained herein (in thousands):

	Quarter ended September 30		Nine Months ended September 30	
	2005	2004	2005	2004
Insurance revenues:				
Premiums	$ 17,779	$ 18,376	$ 53,689	$ 55,387
Reinsurance ceded	(1,285)	(1,505)	(3,976)	(4,504)
Total insurance revenues	16,494	16,871	49,713	50,883
Investment revenues:				
Net investment income	3,177	3,238	9,575	9,783
Realized investment losses	(309)	(114)	(232)	(332)
Other revenues	-	(60)	7	2
Total revenues	19,362	19,935	59,063	60,336
Policyholder benefits	10,682	10,488	33,861	33,471
Amortization of deferred acquisition costs and value of business acquired	3,298	3,419	10,188	10,371
Operating expenses	2,595	3,305	9,695	10,962
Total benefits and expenses	16,575	17,212	53,744	54,804
Income before income tax expense	2,787	2,723	5,319	5,532
Income tax expense	934	659	1,594	1,231
Net income	$ 1,853	$ 2,064	$ 3,725	$ 4,301

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Premium information is provided in the table below.

	Quarter ended September 30			
	2005	%	2004	%
New premiums	$ 2,161	13	$ 1,908	(2)
Renewal premiums	15,618	(5)	16,468	(3)
Total premiums	$ 17,779	(3)	$ 18,376	(3)

	Nine Months ended September 30			
	2005	%	2004	%
New premiums	$ 5,489	1	$ 5,428	2
Renewal premiums	48,200	(4)	49,959	(4)
Total premiums	$ 53,689	(3)	$ 55,387	(3)

Net income for this segment was $1.9 million in the third quarter of 2005, a decrease of 10% from the prior year. Net income for this segment for the nine months of 2005 was $3.7 million, a decrease of 13% from the prior year. The decrease was a result of a decline in insurance revenues and an increase in policyholder benefits. Partially offsetting the decline in net income were favorable results in operating expenses. This segment contributed 21% of consolidated net income for the third quarter versus 18% in 2004, and 15% of consolidated net income for the nine months versus 17% a year ago. This segment also contributed 29% of consolidated insurance revenues for the quarter and 28% of consolidated revenues for the nine months.

Insurance revenues decreased 2% in both the third quarter and nine months of 2005, as total premiums decreased 3% in the third quarter and for the nine months. Policyholder benefits increased 2% in the third quarter of 2005 and 1% for the nine months, as death benefits increased in both periods relative to the prior year.

Net investment income declined 2% in the third quarter and nine months compared with 2004, due in part to an increase in investment expense. Average invested assets declined for the nine months, but yields increased slightly during the period.

Operating expenses include commission and production allowances, the capitalization of certain commission and production allowances, and expenses from operations. These expenses declined 21% for the third quarter and 12% for the nine months. This decrease was primarily due to a decrease in salaries and benefits, and general administrative expenses.

Income tax expense increased for the third quarter and nine months primarily due to lower affordable housing tax credits.

Liquidity and Capital Resources

Liquidity

Statements made in the Company's 2004 Form 10-K and the 2004 Annual Report to Stockholders remain pertinent, as the Company s liquidity position is materially unchanged from year-end.

The Company and each insurance subsidiary meet liquidity requirements primarily through positive cash flows from operations. The Company has sufficient sources of liquidity to satisfy operational requirements. Primary sources of cash flow are premiums, other insurance considerations and deposits, receipts for policyholder accounts, investment sales and maturities, investment income and access to credit from other financial institutions. The principal uses of cash are for the insurance operations, including the purchase of investments, payments of insurance benefits, operating expenses, withdrawals from policyholder accounts, costs related to acquiring new business, dividends and income taxes.

Cash provided from operations totaled $29.9 million for the nine months ended September 30, 2005, up from $28.0 million a year ago. Decreases in cash from insurance revenues were offset by a decrease in policyholder benefits and a reduction in operating expenses.

Net cash provided from investing activities was $31.0 million for the nine months, compared with net cash used of $58.0 million for the same period in 2004. Cash generated from investment maturities and principal paydowns decreased $52.4 million, sales of investments decreased $44.9 million and purchases of investments declined $186.3 million.

Net cash used from financing activities was $62.3 million for the nine months in 2005, versus net cash provided of $10.4 million in 2004. This change is partially the result of the Company reducing its net outstanding borrowings by $58.5 million from year-end 2004. In addition, the Company had a reduction in the net proceeds from policyholder account balances of $46.9 million versus 2004.

This information excludes net proceeds from variable insurance products. These proceeds are segregated into separate accounts and are not held in the Company s general investments because the policyholders, rather than the Company, assume the underlying investment risks.

Debt and Short-term Borrowing

The Company and certain subsidiaries have access to borrowing capacity through their membership affiliation with the Federal Home Loan Bank. At September 30, 2005, outstanding balances under this agreement totaled $32.0 million in maturities of less than one year. Outstanding borrowings of $1.2 million are related to real estate ownership, and the Company has one construction loan totaling $0.5 million.

Borrowings totaled $33.7 million at September 30, 2005, down $58.5 million from year-end. The Company has unsecured revolving lines of credit of $60.0 million with two major commercial banks with no balances outstanding.

Capital Resources

The Company considers existing capital resources to be more than adequate to support the current level of business activities.

The following table shows the capital adequacy for the Company.

	September 30 2005	December 31 2004
Total assets less separate accounts	$ 4,227,077	$ 4,312,163
Total stockholders' equity	686,860	692,896
Ratio of stockholders' equity to assets less separate accounts	16%	16%

The ratio of equity to assets less separate accounts has remained relatively constant, as identified above. Unrealized investment gains on available for sale securities, which are included as a part of stockholders equity, totaled $31.5 million at September 30, 2005 (net of related taxes, policyholder account balances and deferred acquisition costs). This represents a decrease of $20.6 million from year-end 2004.

Stockholders equity decreased $6.0 million from year-end. This decrease was largely the result of reduced unrealized gains on fixed maturity securities, which more than offset the increase from net income. Consolidated book value per share equaled $57.60 at September 30, 2005, which was a 1% decrease from year-end 2004.

During the nine months of 2005, the Company did not purchase any of its shares under the stock repurchase program. Under this program, the Company may purchase up to one million shares on the open market during 2005.

On November 7, 2005, the Board of Directors declared a quarterly dividend of $0.27 per share, unchanged from the prior year, that will be paid November 22, 2005 to stockholders of record as of November 17, 2005.

Current legislative activities are not expected to have a significant impact on the ongoing operations of the Company.

Item 3. **Quantitative and Qualitative Disclosures About Market Risk**

Statements made in the Company s 2004 Form 10-K and the 2004 Annual Report to Stockholders regarding the market and interest rate risk analysis remain pertinent.

The Company holds a diversified portfolio of investments that includes cash, bonds, preferred stocks, mortgage-backed securities, commercial mortgages and real estate. Each of these investments is subject, in varying degree, to market risks that can affect their return and their fair value. A majority of these assets are debt instruments of corporations or U.S. Government Sponsored Enterprises (GSE) and are considered fixed income investments. Thus, the primary market risks affecting the Company s portfolio are interest rate risk, credit risk and liquidity risk.

Interest rate risk arises from the price sensitivity of investments to changes in interest rates. Coupon and dividend income represent the greatest portion of an investment s total return for most fixed income instruments in stable interest rate environments. The changes in the fair market price of such investments are inversely related to changes in market interest rates. As interest rates fall, the coupon and dividend streams of existing fixed rate investments become more valuable and market values rise. As interest rates rise, the opposite effect occurs. Due to the complex nature of interest rate movements and their uneven effects on the value of fixed income investments, the Company uses sophisticated computer programs to help consider potential changes in the value of the portfolio.

Market changes rarely follow a linear pattern in one direction for any length of time. Within any diversified portfolio, an investor will likely find embedded options, both puts and calls, that change the structure of the cash flow stream. Mortgage-backed securities are particularly sensitive to interest rate changes. As long-term interest rates fall, homeowners become more likely to refinance their mortgage or move up to a larger home, causing a prepayment of the outstanding mortgage principal, which must then be reinvested at a lower rate. Should interest rates rise suddenly, prepayments expected by investors may decrease, extending the duration of a mortgage pool. This represents a further interest rate risk to investors.

As interest rates rise, policyholders may become more likely to surrender policies or to borrow against cash values, often to meet sudden needs in an inflationary environment or to invest in higher yielding opportunities elsewhere. This risk of disintermediation may force the Company to liquidate parts of its portfolio at a time when the fair market value of fixed income investments is falling. If interest rates fall, the Company may also be forced to invest new cash receipts at levels below the minimum guaranteed rates payable to policyholders, eroding profit margins. The Company can usually adapt to small sudden changes in interest rates, or even large changes that occur over longer periods of time. However, cash flow may increase or decrease over the course of the business cycle. Therefore, the Company takes steps to ensure that adequate liquidity is available to meet obligations in a timely manner. To this end, the Company utilizes an asset/liability management program, and the Company maintains lines of credit with commercial banks and other short-term borrowing arrangements with financial institutions.

The majority of the Company s investments are exposed to varying degrees of credit risk. Credit risk is the risk that the value of the investment may decline due to deterioration in the financial strength of the issuer and that the timely or ultimate payment of principal or interest might not occur. A default by a rated 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.

The Company mitigates credit risk by diversifying the investment portfolio across a broad range of issuers, investment sectors and security types, and by limiting the amount invested in any particular entity. With the exception of certain GSE s, there is no exposure to any single issuer greater than one percent of assets on a book value basis. The Company also invests in securities carrying a lien against physical assets. These securities can improve the likelihood of payment according to contractual terms and increase recovery amounts in the case of bankruptcy or restructuring.

Asset/Liability Management

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

Kansas City Life believes its asset/liability management programs and procedures, along with certain product features, provide protection for the Company against the effects of changes in interest rates under various scenarios.

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

The Company performs cash flow scenario testing through models of its in-force business. These models reflect specific product characteristics and include assumptions based on current and anticipated experience regarding the relationships between short-term and long-term interest rates (i.e., the slope of the yield curve), credit spreads, market liquidity and other factors, including policyholder behavior in certain market conditions. In addition, these models include asset cash flow projections, reflecting interest payments, sinking fund payments, principal payments, bond calls and mortgage prepayments.

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

The Company markets certain variable products. The policyholder assumes essentially all the investment earnings risk for the portion of the account balance invested in the separate accounts. However, the Company assesses certain charges based on the policy account values and changes to the account values can affect the Company's earnings. The portion of the policyholder's account balance invested in the fixed general account, if any, is affected by many factors, including the absolute level of interest rates, relative performance of the fixed income and equity markets, and the spreads between interest yields on investments and rates credited to the policyholder's accounts.

Item 4. Controls and Procedures

As required by Exchange Act Rule 13a-15(b), Kansas City Life Insurance Company management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation as of the end of the period covered by this report, of the effectiveness of the Company s disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this report. As required by Exchange Act 13a-15(d), Kansas City Life Insurance Company management, including the Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of the Company s internal control over financial reporting to determine whether any changes occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect the

Company s internal control over financial reporting. Based on that evaluation, there has been no such change during the period covered by this report.

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Part II: Other Information

Item 1. 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 5. Other Information

3520 Broadway, Kansas City, MO 64111

Contact: Tracy W. Knapp, Chief Financial Officer,
(816) 753-7299, Extension 8216

For Immediate Release: November 7, 2005, press release reporting financial results for the third quarter of 2005.

Kansas City Life Announces Third Quarter 2005 Results

Kansas City Life Insurance Company recorded third quarter net income of $8.9 million or $0.75 per share. Net income for the nine months ended September 30, 2005 was $25.3 million or $2.12 per share, a 3% increase over the prior year s $24.7 million or $2.07 per share. Although the third quarter 2005 results are lower than the same period last year, the decline was primarily due to $2.8 million in realized investment gains during the third quarter of 2004. Reductions in benefits and expenses during the first nine months have more than offset reductions in insurance and investment revenues.

New premiums on individual life products increased 19% for the third quarter and 5% for the nine months. However, insurance revenues declined 11% for the third quarter and 6% for the nine months, primarily due to lower annuity premiums and contract charges.

Net investment income increased 2% for the third quarter but declined 2% for the nine months. Although the low interest rate environment has negatively affected the yield earned on the Company s investment portfolio, gross investment income increased slightly from the first and second quarters of 2005 and net investment income improved slightly in the third quarter of 2005 versus the same period a year earlier. Net investment income, however, declined for the nine-month periods due to increased investment expense and lower gross investment yields in 2005.

Policyholder benefits and interest credited to policyholder account balances decreased $5.1 million for the third quarter and $13.1 million for the nine months, primarily due to reduced death benefits and lower crediting rates. Finally, operating expenses declined in the third quarter and nine months, primarily due to cost savings from the integration of GuideOne operations into the Home Office.

The Company continues to focus on growing its life insurance sales. Our success in new life insurance sales in 2005 has been the result of both improved production from current agencies and the recruitment of new agencies. Through an expanding sales force, the Company is committed to building upon its life insurance business.

The Company is pleased to announce that its Board of Directors has approved a quarterly dividend of $0.27 per share to be paid November 22, 2005 to shareholders of record as of November 17, 2005.

Kansas City Life Insurance Company (NASDAQ: KCLI) was established in 1895 and is based in Kansas City, Missouri. The Company s primary business is providing financial protection through the sale of life insurance and annuities. The Company's revenues were $502 million in 2004, and assets and life insurance in force were $4.7 billion and $31.0 billion, respectively, as of December 31, 2004. The Company operates in 48 states and the District of Columbia. For further information please refer to the Company s Form 10-Q at www.kclife.com.

(Continued on next page)

Kansas City Life Announces

Third Quarter 2005 Results

November 7, 2005; Page Two

KANSAS CITY LIFE INSURANCE COMPANY
CONDENSED CONSOLIDATED INCOME STATEMENT (Unaudited)
(amounts in thousands, except share data)

	Quarter ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Revenues	$ 109,058	$ 117,814	$ 332,541	$ 348,767
Net income	$ 8,902	$ 11,533	$ 25,287	$ 24,650
Net income per share, basic and diluted	$ 0.75	$ 0.97	$ 2.12	$ 2.07
Dividends paid	$ 0.27	$ 0.27	$ 0.81	$ 0.81
Average number of shares outstanding	11,923,181	11,931,172	11,925,389	11,928,520

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Item 6. Exhibits.

(a) Exhibits:

31(a)	Section 302 Certification.
31(b)	Section 302 Certification.
32(a)	Section 906 Certification.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KANSAS CITY LIFE INSURANCE COMPANY

/s/R. Philip Bixby
R. Philip Bixby

President, Chief Executive Officer

and Chairman of the Board

/s/Tracy W. Knapp
Tracy W. Knapp

Senior Vice President, Finance

Date: November 7, 2005