KANSAS CITY LIFE INSURANCE CO
Form 10-Q
May 10, 2004

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 March 31, 2004

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

Class	*Outstanding April 29, 2004*
Common Stock, $1.25 par value	11,926,669 shares

KANSAS CITY LIFE INSURANCE COMPANY
TABLE OF CONTENTS

Part I Financial Information
Item 1. Financial Statements

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

	March 31 2004 (Unaudited)	December 31 2003
ASSETS		
Investments:		
Fixed maturities available for sale, at fair value	$ 2,943,804	$ 2,814,485
Equity securities available for sale, at fair value	64,463	63,808
Mortgage loans	437,292	456,656
Real estate	115,980	112,691
Policy loans	112,556	114,420
Short-term investments	50,802	71,823
Other investments	749	903
Total investments	3,725,646	3,634,786
Cash	8,090	20,029
Accrued investment income	41,464	39,132
Deferred acquisition costs	236,633	241,057
Value of business acquired	104,387	106,334
Reinsurance recoverable	153,116	151,577
Other assets	58,090	54,306
Separate account assets	317,356	304,691
Total assets	$ 4,644,782	$ 4,551,912
LIABILITIES		
Future policy benefits	$ 869,354	$ 872,114
Policyholder account balances	2,258,912	2,239,223
Policy and contract claims	35,800	33,012
Other policyholder funds	100,889	101,084
Notes payable	130,896	133,670
Income taxes	51,061	36,918
Other liabilities	207,789	186,762
Separate account liabilities	317,356	304,691
Total liabilities	3,972,057	3,907,474
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	23,503	23,310
Retained earnings	691,070	688,800

Accumulated other comprehensive income	49,321	23,418
Less treasury stock, at cost (2004 - 6,569,695 shares; 2003 - 6,572,087 shares)	(114,290)	(114,211)
Total stockholders' equity	672,725	644,438
Total liabilities and stockholders' equity	$ 4,644,782	$ 4,551,912

See accompanying Notes to Consolidated Financial Statements.

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

	Quarter Ended March 31	
	2004	2003
REVENUES		
Insurance revenues:		
Premiums	$ 47,051	$ 47,293
Contract charges	29,149	26,115
Reinsurance ceded	(12,518)	(10,267)
Total insurance revenues	63,682	63,141
Investment revenues:		
Net investment income	50,727	47,536
Realized investment gains (losses)	803	(21,774)
Other revenues	2,534	2,544
Total revenues	117,746	91,447
BENEFITS AND EXPENSES		
Policyholder benefits	50,570	49,763
Interest credited to policyholder account balances	24,309	20,331
Amortization of deferred acquisition costs and value of business acquired	9,746	10,638
Operating expenses	25,739	24,971
Total benefits and expenses	110,364	105,703
Income before income tax expense (benefit)	7,382	(14,256)
Income tax expense (benefit)	1,787	(6,798)
NET INCOME (LOSS)	$ 5,595	$ (7,458)
Basic and diluted earnings per share:		
Net income (loss)	$ 0.47	$ (0.62)

See accompanying Notes to Consolidated Financial Statements.

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

	Quarter Ended March	
	2004	
OPERATING ACTIVITIES		
Net cash provided	$ 17,152	$
INVESTING ACTIVITIES		
Purchases of investment securities:		
Fixed maturities	(214,806)	(1

Equity securities	(1,304)	
Sales of investment securities:		
Fixed maturities	25,055	
Equity securities	765	
Maturities and principal paydowns of investment securities:		
Fixed maturities	106,657	1
Equity securities	265	
Purchases of other investments	(14,262)	(
Sales, maturities and principal paydowns of other investments	32,068	
Net sale (purchase) of short-term investments	21,021	(1
Net additions to property and equipment	(428)	
Net cash used	(44,969)	(
FINANCING ACTIVITIES		
Proceeds from borrowings	915	
Repayment of borrowings	(3,689)	
Deposits on policyholder contracts	69,236	
Withdrawals from policyholder account balances	(47,665)	(
Net transfers to separate accounts	(3,213)	
Change in other deposits	3,505	
Cash dividends to stockholders	(3,325)	
Net disposition (acquisition) of treasury stock	114	
Net cash provided	15,878	
Increase (decrease) in cash	(11,939)	
Cash at beginning of year	20,029	
Cash at end of period	$ 8,090	$ 1

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 the accompanying 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). These items have been prepared in accordance with accounting principles generally accepted in the United States of America (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 2003 Form 10-K and the 2003 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 March 31, 2004 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.

Insurance Company Acquisition
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. The purchase price of the acquisition was $59.4 million and added $393.1 million in assets on the acquisition date, including an identifiable intangible asset called the value of business acquired (VOBA) of $38.0 million. The financial position and results of operations of GuideOne have been included in these financial statements on a GAAP basis using the purchase method of accounting since July 1, 2003. As of October 1, 2003, GuideOne was merged into Kansas City Life Insurance Company. For segment reporting purposes, GuideOne is included in the Kansas City Life - Individual segment.

Significant Accounting Policies
These significant accounting policies should be read in conjunction with statements and disclosures made in the Company s 2003 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.

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 and the profitability of the products is dependent on the assumptions used in the pricing of the products. 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, 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 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.

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 new 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 must be reflected in the current period s income as an unlocking adjustment.

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 2003 Form 10-K and the 2003 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.

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 over the contract period. A reserve is provided for the portion of premiums written which relates to unexpired terms of coverage.

Deposits related to universal life 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.

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 pooling 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 recoverable 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

FASB Interpretation (FIN) 46, Consolidation of Variable Interest Entities, was issued January 2003. This is an interpretation of Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements. This interpretation requires the consolidation of entities in which an enterprise absorbs a majority of the entity s expected losses, receives a majority of the entity s expected residual returns, or both, as a result of ownership, contractual terms or other financial interests in the entity. This interpretation was adopted July 1, 2003 and had no material impact. Subsequently in December 2003, the FASB issued a revision known as FIN 46R, which replaces FIN 46. The Company will be required to apply FIN 46R to variable interest entities created after December 31, 2003. This revised interpretation was adopted on January 1, 2004, with no material impact.

Statement of Position (SOP) 03-01, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts, was issued in July 2003 by the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants. The SOP addresses: 1) separate account presentation; 2) accounting for an insurance company s proportionate interest in separate accounts; 3) transfers of assets from the general account to a separate account; 4) valuation of certain insurance liabilities and policy features such as guaranteed minimum death benefits and annuitization benefits; and 5) accounting for sales inducements. This SOP was adopted on January 1, 2004, with no material impact.

All other Standards and Interpretations of those Standards issued during 2004 did not relate to accounting policies and procedures pertinent to the Company at this time.

Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income, which includes unrealized investment gains or losses on securities available for sale and the change in the additional minimum pension liability. First quarter comprehensive income equaled $31.5 million and $16.1 million for 2004 and 2003, respectively. For the periods presented, comprehensive income varied from net income solely due to changes in unrealized investment gains and losses on securities, net of applicable deferred acquisition costs and taxes.

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 11,925,257 and 11,977,317 for the first quarters of 2004 and 2003, respectively.

Income Taxes

Deferred income taxes are recorded on the differences between the tax bases of assets and liabilities and the amounts at which they are reported in the consolidated financial statements. Recorded amounts are adjusted to reflect changes in income tax rates and other tax law provisions as they become enacted. For the first quarter, the effective tax rate was an expense of 24.2% for 2004, versus a benefit of 47.7% for 2003. Actual tax rates differ from the enacted rates primarily due to tax credits received from affordable housing investments and a reversal of taxes accrued related to a recently closed tax year.

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 was divided into two segments. The Kansas City Life - Individual 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. GuideOne is included in the Kansas City Life Individual Segment. The Kansas City Life - Group segment consists of sales of group life, disability, dental products and administrative services only. Group 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. The Old American segment sells final expense insurance products nationwide through its general agency system, using direct response marketing to supply agents with leads in their exclusive territories.

Separate investment portfolios are maintained for each of the companies. However, investments are allocated to the group 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.

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

		Kansas City Life Individual	Kansas City Life Group	Sunset Life	Old American	Total
Insurance revenues:						
First quarter:						
	2004	$ 31,646	$ 11,024	$ 3,950	$ 17,062	$ 63,682
	2003	30,009	11,423	4,290	17,419	63,141
Net investment income:						
First quarter:						
	2004	$ 40,405	$ 80	$ 6,964	$ 3,278	$ 50,727
	2003	36,098	80	7,602	3,756	47,536
Net income (loss):						
First quarter:						
	2004	$ 3,949	$ (310)	$ 1,350	$ 606	$ 5,595
	2003	(5,424)	(985)	(63)	(986)	(7,458)

3. 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 and financial position.

4. 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.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

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 instead of 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

In the first quarter of 2004, the Company s net income increased $13.1 million versus the prior year, to a total of $5.6 million. Net income per share increased to $0.47, compared with a net loss per share of $0.62 in last year s first quarter. The largest factor in the increase was the improvement in realized investment gains and losses. The Company recorded realized investment gains of $0.8 million, a $22.6 million increase over last year s realized investment losses. This improvement was the result of a general improvement in the overall market, but particularly in the airline sector. Partially offsetting this improvement was an increase in interest credited on policyholder account balances of $4.0 million, primarily the result of the GuideOne acquisition and a $0.8 million increase in policyholder benefits due to an increase in mortality.

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 table below reconciles the premiums included in insurance revenues and provides detail by new and renewal business. New premiums are also detailed by product. The second table below reconciles deposits with the Consolidated Statements of Cash Flows and provides detail by new and renewal deposits. New deposits are also detailed by product.

New premiums decreased 5% versus last year, primarily due to a 58% decrease in the sale of immediate annuities. Sales of annuity products slowed during the second half of 2003, consistent with the results during the first quarter of 2004. Individual life insurance sales increased 39% over the prior year. Group life sales increased 48%, and group accident and health grew 68% as its third party marketing arrangements have generated strong sales in the long-term disability line. In addition, the group segment reintroduced a stop loss product in late 2003, which had the effect of improving revenues for the first quarter 2004. Renewal premiums grew 1% in the first quarter versus a year ago, largely due to the acquisition of GuideOne.

	Quarter Ended March 31			
	2004	% chg	2003	% chg
New premiums:				
Individual life insurance	$ 3,484	39	$ 2,514	(20)
Immediate annuities	2,878	(58)	6,825	830
Group life insurance	417	48	281	6
Group accident and health insurance	3,820	68	2,275	(15)
Individual accident and health insurance	642	-	-	-
Total new premiums	11,241	(5)	11,895	75
Renewal premiums	35,810	1	35,398	(5)
Total premiums	$ 47,051	(1)	$ 47,293	7

New deposits decreased 26% during the first quarter, largely due to a 35% decrease in fixed annuity sales. New deposits on universal life products increased 1%. Variable annuity deposits increased 7%, but were offset by a 45% decrease in variable universal life deposits. Despite an improving economy, interest sensitive products continue to be favored by consumers as they seek safety combined with consistent returns. Renewal deposits grew 17%, primarily due to contracts received in the GuideOne acquisition.

	Quarter Ended March 31			
	2004	% chg	2003	% chg
New deposits:				

Universal life insurance	$ 2,241	1	$ 2,220	8
Variable universal life insurance	631	(45)	1,152	(49)
Fixed annuities	19,537	(35)	30,063	81
Variable annuities	7,194	7	6,714	9
Total new deposits	29,603	(26)	40,149	49
Renewal deposits	39,633	17	33,731	(6)
Total deposits	$ 69,236	(6)	$ 73,880	17

Insurance Revenues

Insurance revenues consist of premiums and contract charges, less reinsurance ceded. Insurance revenues increased 1% or $0.5 million in the first quarter. Overall premiums decreased 1% in the first quarter due to the decrease in annuities. Contract charges earned in the first quarter increased 12%, largely due to the addition of GuideOne s portfolio of universal life and annuity products. Reinsurance ceded has increased from $10.3 million in the first quarter of 2003 to $12.5 million in 2004. The Company has expanded its use of reinsurance over the past few years, particularly in group accident and health products. In addition, the GuideOne acquisition accounted for 31% of the growth in reinsurance premiums paid in the first quarter.

The volatility of the equity markets continues to influence consumers preferences favorably toward interest sensitive products and more traditional life and annuity insurance products. Consumers continue to desire a broad portfolio of products with safety and competitive return objectives, which the Company strives to provide. Variable insurance products 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.

Insurance revenues may be affected by the persistency of policyholders, which may be influenced by economic conditions as well as competitive forces and fluctuations in mortality experience. The Company s persistency and mortality experience have been consistent with expectations over time.

Investment Revenues

Net investment income increased 7% in the first quarter to $50.7 million, an increase of $3.2 million over first quarter 2003. This increase was due to additional invested assets, largely from the acquisition of GuideOne and strong sales, partially offset by a decline in interest rates.

As discussed above, the Company recorded realized investment gains of $0.8 million, a $22.6 million increase over last years realized investment losses. The following table provides detail concerning realized investment gains and losses for the first quarters of 2004 and 2003.

	Quarter Ended March 31	
Realized Investment Gains and Losses	2004	2003
Gross gains resulting from:		
Sales of investment securities	$ 2,765	$ 1,606
Investment securities called	308	371
Sales of real estate	286	166
Total gross gains	3,359	2,143
Gross losses resulting from:		
Sales of investment securities	(1,706)	(5,108)
Write-downs of investment securities	-	(18,631)
Investment securities called	(915)	(174)
Total gross losses	(2,621)	(23,913)
Amortization of deferred acquisition costs	65	(4)
Realized investment gains (losses)	$ 803	$ (21,774)

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 that these fluctuations represent an other than temporary decline in value, the value of the investment is adjusted by charging off the loss against income. For the first quarter of 2004 the Company s analysis did not identify any other than temporary declines in value. In the first quarter of 2003, the Company recorded $18.6 million in other than temporary declines in value, which were primarily due to investments in the airline industry.

Policyholder Benefits and Interest Credited to Policyholder Account Balances

Policyholder benefits and interest credited to policyholder account balances increased 7% or $4.8 million in the first quarter 2004, versus the prior year. This increase was largely the result of interest credited on policyholder account balances of approximately $280 million, which were received in the GuideOne acquisition. In addition, an increase in mortality on life business, primarily in the Kansas City Life Individual Insurance business segment, was partially offset by lower policyholder benefits in the other business segments. Actual mortality experience will fluctuate within short periods of time but over longer periods has historically been within long-range assumptions used to determine product pricing and reserving for future policy benefits.

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

The amortization of DAC was $7.8 million and $9.0 million the first quarters of 2004 and 2003, respectively. The amortization of VOBA was $1.9 million in first quarter of 2004 and $1.6 million in first quarter 2003. Additionally, VOBA was established on June 30, 2003 at $38.0 million due to the acquisition of GuideOne.

Operating Expenses

Insurance operating expenses increased 3% in the first quarter of 2004. The largest factor in this increase was the inclusion of operating expenses of GuideOne.

Income Taxes

The effective income tax rate was an expense of 24.2% for the first quarter of 2004 versus a benefit of 47.7% for the prior year period. The income tax rate in both years was affected by tax credits generated from the Company s investments in affordable housing. Also, in 2003 the Company benefited from the reversal of taxes accrued related to a recently closed tax year.

Operating Results by Segment

The following schedules provide key supplemental financial information for each of the Company s four reportable operating segments for the first quarters of 2004 and 2003 and are reconciled to the financial statements contained herein (in thousands):

	Kansas City Life Individual	Kansas City Life Group	Sunset Life
2004 (first quarter):			
Premiums:			
New premiums	$ 5,349	$ 4,237	$ 111
Renewal premiums	8,347	9,152	1,401
Total premiums	13,696	13,389	1,512
Contract charges	23,427	-	5,722
Reinsurance ceded	(5,477)	(2,365)	(3,284)
Total insurance revenues	$ 31,646	$ 11,024	$ 3,950
Net investment income	40,405	80	6,964
Realized investment gains (losses)	768	-	(145)
Other revenues	1,429	687	398
Policyholder benefits and interest credited to policyholder account balances	49,179	7,354	6,226
Expenses and taxes	21,120	4,747	3,591
Net income (loss)	$ 3,949	$ (310)	$ 1,350

Deposits:				
New deposits	28,530	-	1,073	
Renewal deposits	31,483	-	8,150	
Total deposits	$ 60,013	$ -	$ 9,223	$

	Kansas City Life Individual	Kansas City Life Group	Sunset Life	
2003 (first quarter):				
Premiums:				
New premiums	$ 7,597	$ 2,556	$ 275	$
Renewal premiums	6,256	10,149	1,392	
Total premiums	13,853	12,705	1,667	
Contract charges	20,355	-	5,760	
Reinsurance ceded	(4,199)	(1,282)	(3,137)	
Total insurance revenues	$ 30,009	$ 11,423	$ 4,290	$
Net investment income	36,098	80	7,602	
Realized investment gains (losses)	(16,310)	-	(3,495)	
Other revenues	1,613	789	131	
Policyholder benefits and interest credited to policyholder account balances	42,100	8,366	6,065	
Expenses and taxes	14,734	4,911	2,526	
Net loss	$ (5,424)	$ (985)	$ (63)	$
Deposits:				
New deposits	33,513	-	6,636	
Renewal deposits	26,881	-	6,850	
Total deposits	$ 60,394	$ -	$ 13,486	$

Kansas City Life Insurance Company - Individual Insurance

Insurance revenues for this segment increased 6% in the first quarter. Excluding GuideOne, insurance revenues decreased 10% in the first quarter. New premiums decreased 30% in the first quarter compared with a year ago, primarily due to a 58% decrease in new sales of immediate annuity premiums. Partially due to the GuideOne acquisition, individual life premiums increased 105% and individual accident and health premiums also increased.

New deposits decreased 15%, reflecting the decrease in deferred annuities. Universal life deposits increased 34%. Variable annuity deposits increased 7%, but were offset by a 45% decrease in new variable universal life deposits.

Contract charges increased 15% in first quarter 2004, largely due to the addition of the GuideOne portfolio of universal life and annuity products.

Net investment income for this segment grew 12% for the first quarter 2004. This increase reflects the growth in investable assets from the prior year due to the GuideOne acquisition and sales growth. Realized investment gains totaled $0.8 million in the first quarter, a $17.1 million improvement over the realized investment loss in 2003.

Policyholder benefits and interest credited to policyholder account balances increased 17% in the first quarter 2004, largely due to interest credited on business received in the GuideOne acquisition and increased mortality. Other benefits, which are included in policyholder benefits, increased 71%, reflecting increased benefits for annuities and supplemental contracts, but were largely offset by related reserve decreases. The change in other benefits is largely due to the acquisition of GuideOne. Surrender benefits, which are part of policyholder benefits, increased 21% in the first quarter, but was also offset by a reserve decrease. These benefits generally tend to follow interest rate fluctuations. The interest rate environment has generally increased over a year ago and as such, this benefit has increased.

Net income for this segment increased from a $5.4 million loss in the first quarter of 2003 to $3.9 million of income in the first quarter of 2004. This improvement was largely due to the change in realized investment gains and losses, as discussed above.

Kansas City Life Insurance Company - Group Insurance

Insurance revenues for the Group insurance segment decreased 4% in the first quarter. This was attributable to lower premiums in the dental line, which experienced the loss of a third party marketing arrangement at December 31, 2003. However, new group life premiums increased 48%, reflecting strong sales from the independent group agents. In addition, the Company s third party marketing arrangements have resulted in strong sales of accident and health insurance products. Premiums from the long-term disability line increased $1.0 million over last year. The stop loss line was reintroduced in late 2003 and generated $0.6 million in premiums in the first quarter 2004.

Policyholder benefits decreased 12% in the first quarter of 2004, due to an increase in reinsurance ceded benefits in group life insurance. Overall, the claims ratio (total benefits divided by total insurance revenues) for this segment improved versus last year, moving from 73% in 2003 to 67% in 2004.

The net loss in operating results narrowed from $1.0 million for the first quarter 2003 to $0.3 million for the first quarter of 2004.

Sunset Life Insurance Company of America

Insurance revenues for this segment decreased 8% in the first quarter. Total life and annuity premiums decreased 9% in the first quarter, largely due to reduced immediate annuity sales.

Policyholder benefits increased 3% in first quarter 2004. This increase is primarily the result of an increase in death benefit payments, net of reinsurance.

Net income for this segment was $1.4 million in the first quarter, compared to a $0.1 million loss last year. The primary reason for this change was reduced realized investment losses, which moved from a loss of $3.5 million in 2003 to a loss of $0.1 million in 2004.

Old American Insurance Company

Insurance revenues decreased 2% in the first quarter. New life premiums in this segment grew 5% over last year, continuing the pace from last year. Policyholder benefits decreased 11% versus a year ago in part due to the decrease in claims liabilities.

Net income for this segment was $0.6 million in the first quarter, versus a loss of $1.0 million a year ago. This change was due to the change in realized investment gains and losses, which moved from a loss of $2.0 million in 2003 to a gain of $0.2 million in 2004.

Liquidity and Capital Resources

Liquidity

Statements made in the Company s Form 10-K and the 2003 Annual Report to Stockholders remain pertinent, as the Company s liquidity position is materially unchanged from year-end.

The Company and each insurance subsidiary meets liquidity requirements primarily through positive cash flows from its 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 $17.2 million at March 31, 2004, down from $26.5 million a year ago. This decrease is primarily due to an increase in policyholder benefit payments, including the addition of GuideOne, and increases in reinsurance ceded paid on premium receipts, operating expenses and reinsurance receivables. Net cash used in investing activities was $45.0 million in the first quarter 2004 versus $66.5 million in 2003. The decrease is largely due to a decrease in sales and calls of fixed maturity securities.

Net cash provided from financing activities was $15.9 million in 2004, versus $35.5 million in 2003. This decrease is primarily the result of three factors, including a decrease in deposits on policyholder contracts, an increase in policyholder withdrawals, and a decrease in deposits from other sources. Net borrowings totaled $130.9 million at March 31, 2004, down $2.8 million from year-end 2003.

Asset and liability maturities and yields are closely managed and exposure to changing interest rates is minimized so that funds will be available as needed to meet future policyholder obligations. Cash flow testing is performed to ensure sufficient interest spreads are earned.

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 year-end, outstanding balances under this agreement totaled $109.3 million in maturities of less than one year. The primary purpose for these borrowings is to ensure access to liquidity. This is accomplished through the purchase of highly liquid, marketable securities from the proceeds of these borrowings.

The Company established a two-year note payable for $2.0 million associated with the GuideOne purchase, due in June 2005. Outstanding borrowings of $18.6 million are related to the conversion of certain real estate joint ventures to tenant in common real estate ownership in the fourth quarter of 2003. The Company has two construction loans related to investment properties totaling $1.0 million.

The Company has unsecured revolving lines of credit of $60 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.

	March 31 2004	December 31 2003
Total assets less separate accounts	$ 4,327,426	$ 4,247,221
Total stockholders' equity	672,725	644,438
Ratio of stockholders' equity to assets less separate accounts	16%	15%

The ratio of equity to assets less separate accounts has remained relatively constant. Unrealized investment gains on available for sale securities, which are included as a part of stockholders equity, increased $49.6 million in the first quarter. This compares to an $82.8 million increase for the entire year in 2003 and a $37.6 million increase in the first quarter 2003. These changes reflect lower interest rates and improving credit markets.

Stockholders equity increased $28.3 million from year-end. Accumulated other comprehensive income increased $25.9 million from year-end, reflecting the increase in unrealized investment gains on securities. Consolidated book value per share equaled $56.40 at March 31, 2004, a 4% increase from year-end 2003.

During the first quarter of 2004, 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 2004.

On April 26, 2004, the Board of Directors declared a quarterly dividend of $0.27 per share, unchanged from last year, that will be paid May 24, 2004 to stockholders of record as of May 10, 2004.

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 Form 10-K and the 2003 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.

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. 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 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 payment of principal or interest might not occur.

Over the past three years, credit defaults in the marketplace have increased significantly relative to historical norms. The increase in the default rate has been attributed to several factors, including the economic slowdown experienced by the U.S. economy, the increased use of leverage by corporate issuers, fraud and adverse legal judgments against corporations, among others. A default by a rated issuer usually involves some loss of principal to the investor, as evidenced by the write-downs taken by the Company. 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.

As market interest rates fluctuate, so will the value of the Company s investment portfolio and its stockholders equity. At March 31, 2004, the Company had an unrealized investment gain of $72.8 million, net of related taxes, policyholder account balances and deferred policy acquisition costs, compared to $46.9 million at year-end 2003. This increase is primarily the result of changes in the term structure of interest rates, volatility in credit spreads within the corporate bond market, and the realization of losses on certain securities. The Company continues its practice of the limited use of derivatives as a form of risk mitigation.

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 the spreads between interest yields on investments and rates credited to the policyholder s accounts.

Item 4. Controls and Procedures

(a) *Evaluation of disclosure controls and procedures.* The Chief Executive Officer and Chief Financial Officer of Kansas City Life Insurance Company have concluded, based on their evaluation as of the end of the period covered by this report, that the Company's disclosure controls and procedures are effective for gathering, analyzing and disclosing the information the Company is required to disclose in the Company's reports under the Securities Exchange Act of 1934.

(b) *Changes in internal controls.* There were no significant changes in the Company's internal controls over financial reporting or in other factors that could significantly affect those controls made during the quarter covered by this report, that have, or are reasonably likely to materially affect the Company's internal control over financial reporting.

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 4. Results of Votes of Security Holders

On April 22, 2004, the Annual Stockholders Meeting was held at 3520 Broadway, Kansas City, Missouri. At this meeting, there were 11,926,985 shares outstanding and eligible to vote, and 10,309,650 shares were represented at the meeting either in person or by proxy.

The following Directors received the number of votes indicated and were elected for a three year term:

William R. Blessing	10,366,757
Cecil R. Miller	10,361,312
Bruce W. Gordon	9,806,221
Bradford T. Nordholm	10,372,700
Richard L. Finn	10,373,905

The following Directors continued their term of office after the meeting:

J. R. Bixby	Walter E. Bixby
R. Philip Bixby	Daryl D. Jensen
Warren J. Hunzicker	Nancy Bixby Hudson
Tracy W. Knapp	William A. Schalekamp
E. Larry Winn, Jr.	Webb R. Gilmore

Item 5. Other Information.

3520 Broadway, Kansas City, MO 64111

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

For Immediate Release: May 10, 2004

Kansas City Life Announces First Quarter 2004 Results

Kansas City Life Insurance Company recorded net income of $5.6 million or $0.47 per share in the first quarter of 2004, reversing the Company's net loss of $7.5 million or $0.62 per share for the first quarter of the prior year. The largest factor in the improved results was an increase in investment revenues, primarily from a change in net realized investment gains and losses. This change more than offset increased benefits paid to policyholders. In addition, the Company's first quarter results continue to reflect the addition of GuideOne Life Insurance Company, which was acquired on June 30, 2003.

Total investment revenues were $51.5 million in the first quarter 2004, an increase of $25.8 million from the prior year due to net realized losses on investments in the first quarter of 2003. The Company recorded net realized investment gains of $0.8 million in the current period versus net realized investment losses of $21.8 million for the same period last year. The realized losses in the first quarter of 2003 were primarily due to the highly distressed airline industry. As the economy and credit markets improved during 2003 and into early 2004, so too has the credit quality and value of the Company's investment securities.

Growth in net investment income also contributed to the Company's increased investment revenue. In spite of the continuing low interest rate environment, which affects the Company's fixed income investment portfolio, net investment income grew $3.2 million or 6.7% from the prior year. The growth was fueled by the addition of GuideOne and increased investments resulting from new product sales during the past year.

Partially offsetting the Company's improved investment results was the increase in interest credited to policyholder account balances. The addition of GuideOne and increased policyholder balances resulting from new product sales during the past year resulted in a $4.0 million or 19.6% increase in interest credited. The Company also experienced an increase in other policyholder benefits paid, due to a rise in mortality in the Kansas City Life Individual Insurance business segment. Mortality experience will fluctuate within short periods of time but over longer periods has historically been within long-range assumptions. This increase in mortality was largely offset by lower policyholder benefits in other business segments and reduced amortization expense.

(Continued on next page)

The acquisition of GuideOne in 2003 will continue to affect the comparison of financial results for the Company through the second quarter of 2004. In addition to the areas noted above, GuideOne is also contributing significantly to insurance revenues and new product sales. Primarily attributable to GuideOne, contract charges increased $3.0 million or 11.6% in the first quarter 2004 versus the prior year. Further, GuideOne contributed 8% and 9% of the Company's new life and annuity sales, respectively, during the first quarter.

On April 26, 2004, the Board of Directors declared a quarterly dividend of $0.27 per share, payable on May 24, 2004 to stockholders of record on May 10, 2004.

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 $446 million in 2003, and assets and life insurance in force were $4.6 billion and $32.6 billion, respectively, as of December 31, 2003. The Company operates in 48 states and the District of Columbia. For more information, please visit www.kclife.com.

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

	Quarter ended March 31 2004	Quarter ended March 31 2003
Revenues	$ 117,746	91,447
Net income (loss)	$ 5,595	(7,458)
Net income(loss) per share, basic and diluted	$ 0.47	(0.62)
Dividends paid	$ 0.27	0.27

A quarterly dividend of $.27 per share will be paid May 24 to shareholders of record as of May 10.

Average number of shares outstanding	11,925,257	11,977,317

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

(31)a Rule 13a-15(e)/15d-15(e) Certifications.

(31)b Rule 13a-15(e)/15d-15(e) Certifications.

(32) Item 32 - Section 906 Certification.

(b) Reports on Form 8-K:

1. On February 13, 2004, the Company filed a Form 8-K Item 12 the press rel financial condition as of December 31, 2003.

2. On March 12, 2004, the Company filed a Form 8-K Item 12 the stockhold reflecting the financial condition as of December 31, 2003.

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 Vice Chairman of the Board

/s/Tracy W. Knapp
Tracy W. Knapp
Senior Vice President, Finance

Date: May 7, 2004