KANSAS CITY LIFE INSURANCE CO
Form 11-K
July 01, 2013

United States
Securities and Exchange Commission
Washington, D. C. 20549
Form 11-K
ý ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the Fiscal Year ended December 31, 2012
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 2-40764
Kansas City Life Insurance Company Savings and Profit Sharing Plan
A. (Full Title of the Plan)

Kansas City Life Insurance Company
3520 Broadway
Kansas City, Missouri 64111-2565
B. (Name and Address of Issuer of Securities Held Pursuant to the Plan)
Required Information
Pursuant to the section of the General Instructions to Form 11-K entitled "Required Information," this Annual Report on Form 11-K for the fiscal year ended December 31, 2012, consists of the audited financial statements of the Kansas City Life Insurance Company Savings and Profit Sharing Plan for the year ended December 31, 2012, and the related schedule thereto. The Kansas City Life Insurance Company Savings and Profit Sharing Plan is subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and in accordance with Item 4 of the section of the General Instructions to Form 11-K entitled "Required Information," the financial statements and schedule furnished herewith have been prepared in accordance with the financial reporting requirements of ERISA, in lieu of the requirements of Items 1-3 of that section of the General Instructions. Schedules I, II and III are not submitted because they are either not applicable, the required information is included in the financial statements or notes thereto, or they are not required under ERISA.

Kansas City Life
Insurance Company
Savings and Profit Sharing Plan
Financial Statements
and
Supplemental Schedule
2012

KANSAS CITY LIFE INSURANCE COMPANY
SAVINGS and PROFIT SHARING PLAN

STATEMENTS of NET ASSETS AVAILABLE for BENEFITS
(amounts in thousands)

	December 31	
	2012	2011
Assets:		
Investments, at fair value:		
Mutual funds	$38,106	$33,213
Guaranteed investment contract	22,917	19,711
Kansas City Life Insurance Company common stock	22,879	19,944
Total investments	83,902	72,868
Contribution receivable from employer	1,270	1,286
Notes receivable from participants	1,207	1,220
Total assets	86,379	75,374
Adjustment from fair value to contract value for fully benefit-responsive investment contract (Note 4)	(1,585)	(1,366)
Net assets available for benefits	$84,794	$74,008

See accompanying Notes to Financial Statements.

KANSAS CITY LIFE INSURANCE COMPANY
SAVINGS and PROFIT SHARING PLAN

STATEMENT of CHANGES in NET ASSETS AVAILABLE for BENEFITS
(amounts in thousands)

	Year ended December 31 2012
Changes to net assets:	
Investment:	
Interest income	$618
Dividend income	1,554
Net appreciation in fair value of investments	7,346
Net change in investments	9,518
Contributions:	
Participants	2,672
Employer, net of forfeitures	3,081
Total contributions	5,753
Interest income on notes receivable from participants	41
Distributions	
Benefits paid to participants and beneficiaries	4,515
Operating expenses, net	11
Total distributions	4,526
Net increase	10,786
Net assets available for benefits:	
Beginning of year	74,008
End of year	$84,794

See accompanying Notes to Financial Statements.

KANSAS CITY LIFE INSURANCE COMPANY
SAVINGS and PROFIT SHARING PLAN
Notes to Financial Statements
(amounts in thousands)

1. DESCRIPTION OF PLAN

The following description of the Kansas City Life Insurance Company Savings and Profit Sharing Plan (the Plan) provides only general information. Participants should refer to the Plan document for a more comprehensive description of the Plan's provisions.

General

The Plan is a defined contribution benefit plan sponsored by Kansas City Life Insurance Company (the Company or KCL) and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Management believes it is in compliance with such provisions.

Plan Administration

The Plan is administered by an Administrative Committee appointed by the Executive Committee of the Company, who are officers of the Company. The Plan has three Trustees who are also officers of the Company. The Plan engages a separate independent record keeper. In 2011 and through the first half of 2012 the Company used JP Morgan Retirement Plan Services LLC. In the second half of 2012 the Plan changed the record keeper to Wells Fargo Institutional Retirement and Trust.

Eligibility

Each employee who is at least 21 years of age is eligible to participate in the elective deferral portion of the Plan as soon as administratively possible after their date of hire or subsequently reaching age 21. An employee is eligible to participate in the matching Company contribution and the discretionary profit sharing contribution of the Plan immediately after becoming a participant of the Plan.

Contributions

Participants may elect to contribute to the Plan any percentage not to exceed 100% of their monthly base salary subject to maximum contribution limitations established by the Internal Revenue Code (IRC). Contribution percentages can be changed each payroll processing cycle (i.e., semi-monthly). The maximum contribution for any participant who is classified as highly compensated is 8%. Participants who have attained the age of 50 before the end of each plan year are eligible to make catch-up elective contributions. Participants may also contribute amounts representing distributions from other qualified plans.

For 2012 and 2011 the Company matched participant contributions up to 8% of the participant's salary. The Company may also contribute an additional profit sharing amount up to 4% of participants' salary, depending upon corporate profits. On March 13, 2013 the Company made a 4% profit sharing contribution of $1,270, based upon 2012 corporate profits.

Participant Accounts

Each participant's account is credited with the participant's contribution and allocations of the Company's contributions and the Plan's net investment income. Allocations are based on participant earnings or account balances, as defined. Each participant is entitled to the benefit that can be provided from the participant's vested account. Participants are allowed to direct the investment of their contributions among the 21 investment options offered by the Plan. Participants may change investment options at any time.

Voting Rights

Each participant is entitled to exercise voting rights attributable to the shares allocated to his or her account and is notified by the Company on behalf of the Trustees prior to the time that such rights are to be exercised. The Trustees are not permitted to vote any allocated share for which instructions have not been given by a participant.

Vesting

Participants are fully vested immediately in their contributions and any actual earnings thereon. Company contributions vest to the participant 20% after two years of employment, and an additional 20% each year thereafter until the participant is fully vested in Company contributions. In the event a participant shall be terminated from employment with the Company due to death, retirement or disability, the participant's Company contributions shall become fully vested.

KANSAS CITY LIFE INSURANCE COMPANY
SAVINGS and PROFIT SHARING PLAN
Notes to Financial Statements
(amounts in thousands)

Forfeited Accounts
Any participant who terminates employment will forfeit the nonvested portion of their account balance as of the date of separation. Forfeited balances under the Plan are used at times to reduce the Company's matching contributions. For 2012, the total forfeitures of terminated non-vested account balances were $26, of which $12 was used to offset Company contribution.

Notes Receivable from Participants
Participants may request a loan from their vested account balance in the Plan under the terms and conditions established by the Administrative Committee. The amount that may be borrowed is limited in accordance with the IRC Section 72(p). Loans will be made for a period no longer than five years, except for loans used to acquire a primary residence. The loans are secured by the balance in the participant's account and bear interest at current market rates at the time of issuance. Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. As of December 31, 2012, rates on outstanding loans range from 3.25% to 7.5%. Principal and interest is paid ratably through payroll deductions.

Payment of Benefits
All distributions shall be in the form of a lump sum payment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
The accompanying financial statements of the Plan have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”).

Use of Estimates
The preparation of the financial statements requires the plan administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Valuation of Investments and Income Recognition
Investments in mutual funds are reported at fair value based upon the net asset value of the mutual fund shares held based on the unadjusted closing price at year end. Shares of Company common stock are reported at fair value based upon the unadjusted closing price at year-end. The cost of investments sold is determined on the average cost basis. Purchases and sales of securities are recorded on the trade date.

Investments in the Guaranteed Investment Contract are reported at the contract value as stated in the guaranteed investment contract. An investment contract is generally permitted to be valued at contract value, rather than fair value, to the extent it is fully benefit-responsive. The fully benefit-responsive investment contract is included at fair value in the investments of the Plan and are adjusted to contract value in the Statements of Net Assets Available for Benefits. The fair value is determined based upon the contract's prorata share of the fair value of the assets in the underlying separate account. The Statement of Changes in Net Assets Available for Benefits is presented on a contract basis.

The Plan's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, in accordance with FASB Accounting Standards Codification (ASC) 820 which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

KANSAS CITY LIFE INSURANCE COMPANY
SAVINGS and PROFIT SHARING PLAN
Notes to Financial Statements
(amounts in thousands)

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1	Valuations are based upon quoted prices for identical instruments traded in active markets. Level 1 assets include publicly traded mutual funds and common stock such as Kansas City Life Insurance Company common stock, which are traded in active markets.
Level 2	Valuations are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. Valuations are obtained from third-party pricing services or inputs that are observable or derived principally from or corroborated by observable market data. Level 2 assets include the Guaranteed Investment Contract.
Level 3	Valuations are generated from techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of discounted cash flow models, spread-based models, and similar techniques, using the best information available in the circumstances.

As required by FASB ASC 820, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety.

KANSAS CITY LIFE INSURANCE COMPANY
SAVINGS and PROFIT SHARING PLAN
Notes to Financial Statements
(amounts in thousands)

The following tables present by level, within the fair value hierarchy, the Plan's assets at fair value.

	December 31, 2012			
	Total	Level 1	Level 2	Level 3
Mutual funds:				
Bond funds	$6,036	$6,036	$—	$—
Asset Allocation funds	21,943	21,943	—	—
Stock funds	10,127	10,127	—	—
Total Mutual funds	38,106	38,106	—	—
Guaranteed investment contract	22,917	—	22,917	—
Kansas City Life Insurance Company common stock	22,879	22,879	—	—
Total	$83,902	$60,985	$22,917	$—

	December 31, 2011			
	Total	Level 1	Level 2	Level 3
Mutual funds:				
Bond funds	$4,944	$4,944	$—	$—
Asset Allocation funds	6,855	6,855	—	—
Stock funds	21,414	21,414	—	—
Total Mutual funds	33,213	33,213	—	—
Guaranteed investment contract	19,711	—	19,711	—
Kansas City Life Insurance Company common stock	19,944	19,944	—	—
Total	$72,868	$53,157	$19,711	$—

There were no transfers between Levels 1, 2 and 3 during the years ending December 31, 2012 and 2011.

Interest income is recorded as earned. Dividend income is recorded on the ex-dividend date. Net appreciation (depreciation) in fair value of investments includes realized gains and losses in investments sold during the year as well as appreciation or depreciation of the investments held at the end of the year.

Notes Receivable
Participant loans are classified as notes receivable from participants, and measured at their unpaid principal balance plus any accrued but unpaid interest. The Form 5500 presents notes receivable from participants as an investment.

Operating Expenses
All expenses of maintaining the Plan are paid by the Company.

Payments of Benefits
Benefits are recorded when paid.

KANSAS CITY LIFE INSURANCE COMPANY
SAVINGS and PROFIT SHARING PLAN
Notes to Financial Statements
(amounts in thousands)

3. INVESTMENTS

The fair value of individual investments that represent 5% or more of the Plan's net assets available for plan benefits follows:

	December 31	
	2012	2011
Investments:		
Kansas City Life Insurance Company common stock	$22,878	$19,944
MetLife Managed Guaranteed Investment Contract	22,917	19,711
Principal Midcap Fund	6,924	**
Mainstay Large Cap Growth	4,513	**
Fidelity Value Fund	*	6,182
American Funds Growth Fund of America	*	4,462

* Funds were removed in 2012.
** Funds were added in 2012

During 2012, the Plan's investments (including investments bought, sold, and held during the year) increased in value as follows:

	Year ended December 31, 2012
Net change in fair value	
Mutual Funds	$4,051
Kansas City Life Insurance Company common stock	3,295
Total	$7,346

4. GUARANTEED INVESTMENT CONTRACT

The Plan has a fully benefit-responsive guaranteed investment contract with MetLife Insurance Company (MetLife). MetLife maintains the contributions in a separate account. The Statements of Net Assets Available for Benefits presents the fair value of the investment contracts as well as the adjustment of the fully benefit-responsive investment contracts from fair value to contract value. Fair value is determined based on the assets underlying the contract which are considered Level 2 investments. Contract value represents contributions made under the contract, plus earnings, and less participant withdrawal and administrative expenses. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value without restriction. The average yield was 4.32% and 6.61% and crediting interest rates were 3.03% and 3.29% respectfully for 2012 and 2011. The crediting interest rate is based upon an agreed-upon formula with the issuer, but cannot be less than zero. Such interest rates are reviewed and reset on a quarterly basis.

5. RELATED-PARTY TRANSACTIONS

Transactions resulting in Plan assets being transferred to or used by a related party are prohibited under ERISA unless a specific exemption applied. JP Morgan and Wells Fargo are parties-in-interest as defined by ERISA as a result of being the record keeper of the Plan. The Plan invests in funds managed by an affiliate of JP Morgan. KCL is a party-in-interest as defined by ERISA as a result of being the plan sponsor. The Plan engages in transactions involving the acquisition or disposition of common stock of the Company. All of the above transactions are exempt from the “prohibited transactions” provisions of ERISA and the Internal Revenue Code.

6. TAX STATUS

The IRS has issued a determination letter dated February 27, 2013 that, in form, the Plan and Trust forming a part thereof, meet the requirements of the Internal Revenue Code Section 401(a) as a qualified plan and trust. The Plan sponsor believes the Plan is currently being operated in compliance with the applicable requirements of the Internal Revenue Code. If the Plan qualifies in operation, the Trust's earnings will be exempt from taxation, the Company's contributions will be deductible, and each participant will incur no current tax liability on either the Company's contributions or any earnings of the trust credited to the participant's account prior to the time that such contributions or earnings are withdrawn or made available to the participant. At the time a distribution occurs (whether because of retirement, termination, death, disability or voluntary withdrawal of funds), any amounts distributed (comprised of Company contributions, employee pretax contributions, and earnings on contributions of the Company or the participant) shall be taxed to the participant at the tax rate then in effect.

KANSAS CITY LIFE INSURANCE COMPANY
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Notes to Financial Statements
(amounts in thousands)

GAAP requires plan management to evaluate tax positions taken by the plan and recognize a tax liability (or asset) if the plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The plan administrator has analyzed the tax positions taken by the plan, and has concluded that as of December 31, 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The plan administrator believes it is no longer subject to income tax examinations for years prior to 2009.

7. PLAN TERMINATION

Although the Company has not expressed any intent to terminate the Plan, it may do so at any time by adoption of a written resolution by the Company's Board of Directors or the Executive Committee of the Board of Directors. Upon termination of the Plan, participants' accounts would become fully vested and non-forfeitable and distributions would be made as promptly as possible.

8. RISKS AND UNCERTAINTIES

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participant's account balances and the amounts reported in the Statement of Net Assets Available for Benefits. The Plan's exposure to a concentration of credit risk is limited by the diversification of investments across the participant directed fund elections. Additionally, the investments within each participant directed fund election are further diversified into varied financial instruments, with the exception of investments in Company stock. All investment decisions are made, and the resulting risks are borne, exclusively by the Plan participant who made such decisions.

The Plan provides for investment in the Company's common stock. At December 31, 2012 and 2011, approximately 27% of the Plan's total assets were invested in the common stock of the Company. The underlying values of the Company's common stock are dependent upon various factors including the performance of the Company and the market's evaluation of such performance.

9. RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

The following reconciles net assets available for plan benefits per the financial statements to the Form 5500:

	December 31	
	2012	2011
Net assets available for benefits per the financial statements	$84,794	$74,008
Adjustment from contract value to fair value for fully benefit-responsive investment contract	1,585	1,366
Net assets available for benefits per the Form 5500	$86,379	$75,374

The following is a reconciliation of net appreciation in fair value of investments per the financial statements to the Form 5500:

	Year ended December 31, 2012
Net appreciation in fair value of investments	$7,346
Adjustment from fair value to contract value for fully benefit-responsive investment contracts for the year ended December 31, 2011	(1,366)
Adjustment from fair value to contract value for fully benefit-responsive investment contracts for the year ended December 31, 2012	1,585
Net appreciation in fair value of investments per the Form 5500	$7,565

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date that the financial statements have been issued.

KANSAS CITY LIFE INSURANCE COMPANY
SAVINGS and PROFIT SHARING PLAN

Schedule H, Line 4i – Schedule of Assets (Held at end of Year)
Employer Identification Number: 44-0308260
Plan Number: 003
December 31, 2012
(amounts in thousands)

(a)	(b) Identity of issue, borrower, lessor or similar party		(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost **	(e) Current Value
	Participant directed investments:				
	Common stock:				
*		599,542	shares of Kansas City Life Insurance Company		$22,879
	Mutual funds:				
		77,111	shares of American Beacon Large Cap Value Investor		1,584
		11,979	shares of DFA Emerging Markets Portfolio		330
		45,029	shares of Harbor International Fund Institutional		2,797
		565,507	shares of Mainstay Large Cap Growth		4,513
		441,022	shares of Principal Midcap Fund		6,924
		83,996	shares of Prudential Jennison Small Company		1,968
*		165,471	shares of SSgA S&P 500 Index		3,827
*		120,568	shares of Dodge & Cox Income Fund		1,671
*		324,250	shares of PIMCO Total Return - Admin		3,645
*		56,200	shares of Vanguard Intermediate Term Treasury - Admiral		658
*		5,788	shares of Vanguard Short Term Federal		63
*		61,315	shares of Calamos Growth and Income-A		1,947
		3,194	shares of JPMorgan SmartRetirement Income-Select		52
		11,112	shares of JPMorgan SmartRetirement 2010-Select		177
		131,257	shares of JPMorgan SmartRetirement 2015-Select		2,115
		126,544	shares of JPMorgan SmartRetirement 2020-Select		2,061
		153,193	shares of JPMorgan SmartRetirement 2030-Select		2,469
		78,400	shares of JPMorgan SmartRetirement 2040-Select		1,263
		2,747	shares of JPMorgan SmartRetirement 2050-Select		42
					38,106
	Guaranteed investment contract:				
			MetLife Managed Guaranteed Investment Contract contract value	$21,332	22,917
	Notes Receivable from Participants				
			(Interest rates range from 3.25% to 7.5%; maturing from 2013 to 2022)		1,207
	Total Assets Held for Investment Purposes				$85,109

* Party-in-interest to the Plan for all or part of the year.

** Cost information is not required as all investments are participant directed.

See accompanying Report of Independent Registered Public Accounting Firm.

Report of Independent Registered Public Accounting Firm
The Trustees of the Kansas City Life Insurance Company
Savings and Profit Sharing Plan and the
Board of Directors of Kansas City Life Insurance Company:

We have audited the accompanying statements of net assets available for benefits of the Kansas City Life Insurance Company Savings and Profit Sharing Plan (the Plan) as of December 31, 2012 and 2011, and the related statement of changes in net assets available for benefits for the year ended December 31, 2012. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2012 and 2011, and the changes in net assets available for benefits for the year ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule H, line 4i - Schedule of Assets (Held at End of Year) as of December 31, 2012, is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ KPMG LLP
KPMG LLP
Kansas City, Missouri
July 1, 2013

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, Kansas City Life Insurance Company by Charles R. Duffy, Jr., as plan trustee of the Kansas City Life Insurance Company Savings and Profit Sharing Plan, has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Kansas City Life Insurance Company Savings and Profit Sharing Plan

By: Kansas City Life Insurance Company

/s/ Charles R. Duffy, Jr.
Charles R. Duffy, Jr.
Senior Vice President, Operations
July 1, 2013