

KANSAS CITY LIFE INSURANCE COMPANY

Decades of Dependability

KANSAS CITY LIFE INSURANCE COMPANY



2008

ANNUAL REPORT





1904



Major
William Warner
1895 – 1899



J.B. Reynolds
1904 – 1937



1924

1895

1900

1920

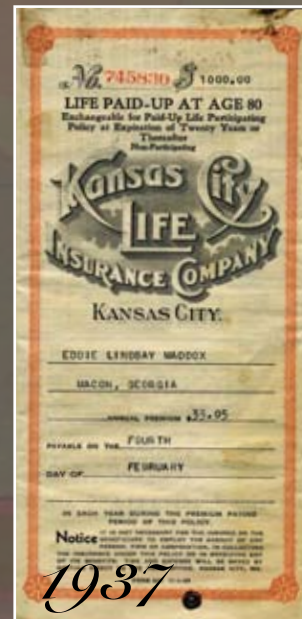
1940

H.S. Halbert
1899 – 1904

D.T. Torrens
1937 – 1939



1920s



1937

TY ASSURED



W.E. Bixby
1939 – 1964



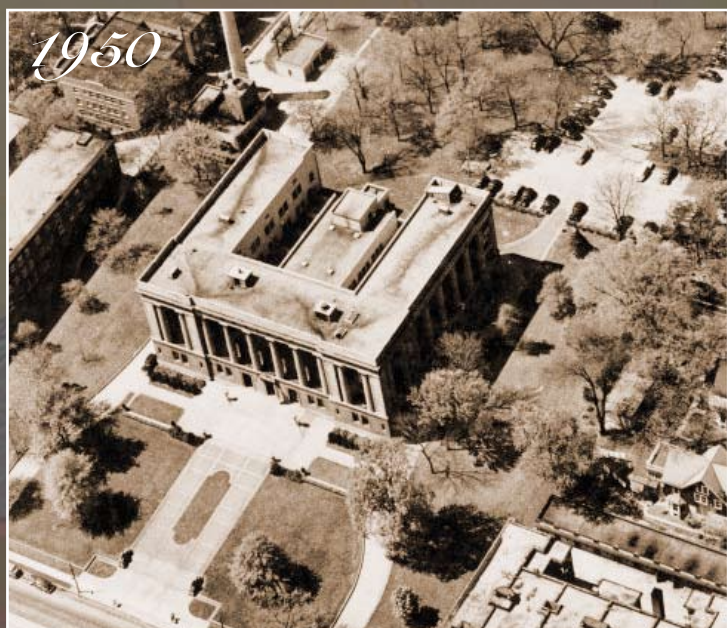
W.E. "Walt" Bixby
1990 – 1998



1960

1980

2000



J.R. Bixby
1964 – 1990



R. Philip Bixby
1998 – present



MESSAGE FROM THE PRESIDENT



Looking back at 2008, the economic challenges of the past year were significant, testing the resiliency of virtually every company across the globe. Despite the economic situation, Kansas City Life Insurance Company was and remains prepared to provide quality financial products and services for generations to come. The Company's capital position continues to be strong, and it maintains a solid, diversified investment portfolio. In fact, 96% of the Company's fixed maturity security holdings were in investment grade securities at December 31, 2008, up from 94% in 2007, and approximately one-third of these investments were in AAA rated investments. Further, Kansas City Life has no long-term debt, which contributes to the Company's ability to seek opportunities for growth during these difficult times.

In spite of the long-term focus and financial strength, Kansas City Life felt the effect of the economic downturn, as the Company recorded a net loss of \$17.1 million or \$1.47 per share for 2008. This compares to net income of \$35.7 million or \$3.01 per share for the prior year. The decline in earnings was largely the result of realized losses on investments. Excluding the impact of realized gains and losses on investments, net earnings after tax were

\$16.9 million, compared to \$32.1 million a year ago.

The net realized loss was the result of the continued deep economic recession. This impact has been felt across all sectors and has affected values of virtually all financial assets. The Company incurred net realized investment losses after taxes of \$34.0 million, primarily during the last half of the year due to write-downs of securities determined to be other-than-temporarily impaired. The economic downturn has also affected net investment income through reduced yields and a lower amount of invested assets. As a result, net investment income declined \$13.0 million for the year compared with 2007.

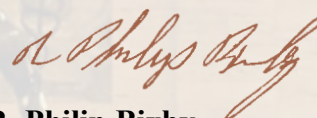
Total insurance revenues increased 2% for the year, largely due to a 3% increase in premiums. New premiums increased 20% for the year, led by a 55% increase in the sale of immediate annuities and a 37% increase in group life insurance sales. New individual life premiums increased 5%,

while group accident and health premiums increased 9%. However, contract charges declined 2%, primarily due to lower balances of certain products. New deposits declined 1% compared with an 8% increase a year earlier. This decline largely occurred in the variable life and annuity products, where consumers were affected by the negative performance in the equity markets. New deposits for variable life products declined 22% and new variable annuity deposits declined 13% versus the prior year. However, deposits related to universal life were flat relative to 2007 and fixed deferred annuities increased 15%. Renewal premiums declined 1% and renewal deposits declined 4% versus the prior year.

Total benefits and expenses increased 4% in 2008 compared with 2007, primarily due to a \$4.4 million increase in death benefits, a \$1.8 million increase in the amortization of deferred acquisition costs and value of business acquired and a \$4.5 million increase in operating expenses. Mortality experience deteriorated during the year but remained within pricing expectations. The amortization of deferred acquisition costs increased, primarily reflecting a reduction of variable account balances due to policyholder withdrawals and a decline in the market value of these account balances. Operating expenses increased in 2008, primarily due to increases in employee medical plan and benefit costs combined with a reduction in employee benefit plan accruals in 2007.

The steep economic downturn has dramatically changed the landscape for many individuals and families, demonstrating the potential impact of unexpected and unforeseen events. The mission of Kansas City Life is to ensure that individuals and families are prepared and protected against many of the unpredictable elements of life. Life insurance and its unique attributes offer immediate peace of mind, and the power of its protection has been proven repeatedly throughout history. In these uncertain economic times, the Company's field force representatives, comprised of general agents and agents, have been challenged to help their clients and prospective clients fully understand just how important Security Assured can be.

Despite the economic situation, Kansas City Life is committed and fully prepared to provide quality financial products and services to prospective policyholders and to fulfill its commitment to all of those who already have come to entrust the Company to provide for their future needs. Kansas City Life's dependability has been documented and tested throughout the past 113 years, and it remains committed to provide Security Assured for future generations.



R. Philip Bixby
*President, Chief Executive Officer and
Chairman of the Board*

THE KANSAS CITY LIFE GROUP OF COMPANIES



Kansas City Life Insurance Company

Since 1895, Kansas City Life Insurance Company (www.kclife.com) has been dedicated to the present and future financial security of its customers. With more than 2,000 general agents and agents serving 48 states and the District of Columbia, Kansas City Life serves individuals, families, small businesses and corporations with universal life, term life, whole life, variable life insurance,* variable annuities,* fixed annuities and a diverse range of group products. The Company and its subsidiaries provide financial services, including insurance and investments.* Kansas City Life has been providing **Security Assured** for more than 113 years.



Old American Insurance Company

Since 1939, the mission of Old American Insurance Company (www.oaic.com) has been to provide peace of mind to the senior market and, in turn, enhance the quality of life for policyholders and their beneficiaries. Agents assist individuals ages 50 – 85 through final arrangements planning, charitable giving life insurance, and Social Security and retirement income replacement insurance. The subsidiary operates in 46 states and the District of Columbia.



Sunset Financial Services Inc.*

Sunset Financial Services (www.sunsetfinancial.com) is a full-service brokerage firm and registered investment advisor. Sunset Financial Services' registered representatives are primarily affiliated with Kansas City Life. Investment options include variable products, mutual funds, stocks and bonds, money market funds, CDs and asset management products.



Sunset Life Insurance Company of America

Originally founded in 1937 in Olympia, Wash., Sunset Life (www.sunsetlife.com) provides a competitive portfolio of traditional and interest-sensitive products. Kansas City Life purchased Sunset Life in 1974 and its operations were consolidated into the Company's Home Office in 1999. The Sunset Life sales force was integrated into the Kansas City Life sales force in 2006.

**Securities are distributed through Sunset Financial Services Inc., 3520 Broadway, Kansas City, MO 64111, 816-753-7000. Member FINRA and SIPC.*

FINANCIAL RATINGS

A.M. Best: A (Excellent)

The rating represents A.M. Best's opinion of Kansas City Life's financial strength and its ability to meet ongoing obligations to policyholders.

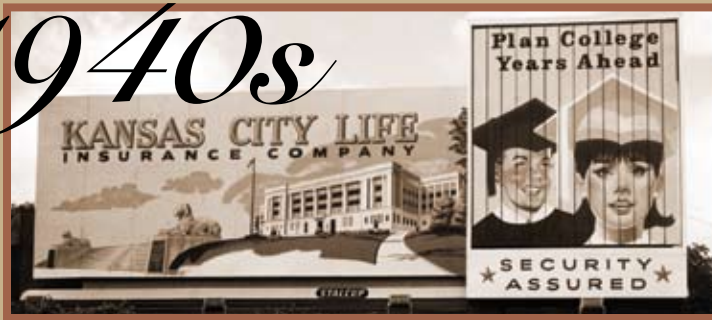
Standard and Poor's: A (Strong)

The financial strength rating represents Standard & Poor's opinion of the financial security characteristics of an insurance organization. This opinion is with respect to the organization's ability to pay under its insurance policies and contracts, in accordance with their terms.

*Two granite lionesses grace
the entrance to Kansas
City Life's Home Office,
a lasting symbol of the
Company's strength and
dependability throughout
more than 113 years.*



1940s



1953



Kansas City Life has evolved throughout the decades, but its promise to provide Security Assured remains timeless. (1940s) Kansas City Life advertised on roadside billboards during the 1940s. (1953) The Great Depression and wars of the time period tested the Company's resolve. Pictured are Air Force 1st Lieutenant Walt Bixby's cap and dog tags from 1953, and a war-service policy issued by the Company.

CORPORATE HIGHLIGHTS

SALES AND MARKETING MESSAGE

Throughout the course of 2008, Kansas City Life Insurance Company stood tall in the path of one of our nation's most trying economic periods. Despite the struggles endured by many, the Company continued to provide policyholders with the same quality and services they have come to expect from a Company dedicated to providing Security Assured for more than 113 years.

It is our commitment to sound business practices, integrity and ethics that have forged this Company into what it is today. These notions are the cornerstone of our business philosophy as we seek to maintain consistent, long-term profitable growth. Leading our efforts for growth is Donald E. Krebs, MSM, CLU, ChFC, Senior Vice President, Sales and Marketing, who continues to focus on building strong partnerships with our field force, while also establishing new partnerships through recruiting.

One of the Company's unrelenting goals is to continually strengthen the relationships it creates with members of the field force, comprised of dedicated general agents and agents who sell Kansas City Life's products. During 2008, resources were redirected to provide additional one-on-one support for the field force. A Home Office team of specialized individuals, whose primary responsibility is to be in the field and in the agencies on a regular basis, was created. While other companies continue to eliminate such premier services, Kansas City Life believes

these are key components within its relationship-based value proposition. It is this value proposition that distinguishes the Company from all others in the industry.

Recruiting talented and committed field force members is a must in order to strengthen and grow the Company. But Kansas City Life is not looking for just anyone. Standards are implemented to find professionals whose business philosophy mirrors Kansas City Life's – a philosophy founded on honesty, integrity and sound business practices that has stood the test of time.

Twenty-two new general agents from across the nation joined our team in 2008. These newest additions will represent Kansas City Life with the utmost dignity, while providing solid sales production. Looking forward, it is imperative to recruit individuals who strongly believe in the Company's core values.

To help established and new field force members remain competitive, Kansas City Life streamlined and enhanced its product portfolio in 2008. The modifications afford the Company with an opportunity to provide a more competitive product portfolio to our valued field force. Ultimately, Kansas City Life will continue to monitor the marketplace to ensure its products remain competitive, innovative and profitable.

These product changes along with the redirection of our training resources and our continued recruiting efforts, will further strengthen our

continued commitment to growth. While the Company recognizes the impact of the economic crisis, it still believes this is an excellent opportunity to help people discover the unequalled power of life insurance. With the enhancements implemented in 2008, Kansas City Life's general agents and agents have eagerly accepted this challenge.

Kansas City Life is in business to ensure individuals and families are prepared for the unpredictable elements of life, and strongly believes in the immediate, life-long peace of mind life insurance can provide. The Company is committed to providing financial security to policyholders for generations to come. Kansas City Life will always uphold its commitment to provide premium services and continue its 113-year tradition of bringing value to shareholders.

INDIVIDUAL INSURANCE

Kansas City Life Insurance Company remains committed to its Individual Insurance segment with a primary focus on the distribution of life insurance products through the Company's field force.

The Company's life insurance products are marketed through independent general agents and agents who sell face-to-face to their clients. The Company's objective is to deliver competitive products at a reasonable cost, quality customer service, excellent financial strength, and superior sales and marketing support to the field force.

In addition, representatives of American Republic Insurance Company have offered the Company's life insurance products to their clients since 2006. The Company's life insurance products are also available through the agents of GuideOne Insurance Company. The ability to offer Kansas City Life products allows these representatives to provide for the life insurance needs of their clients, complementing the types of insurance products provided by American Republic and GuideOne. Representatives from both companies are expected to continue contributing to the Company's growth in new life insurance sales.

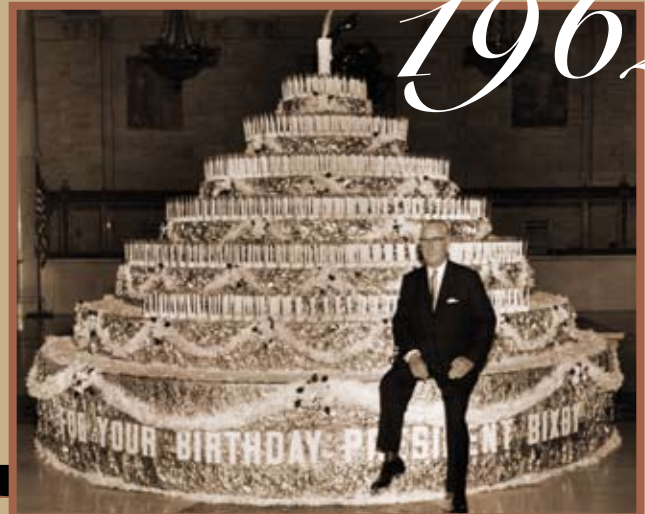
The Individual Insurance segment generated approximately 53% of consolidated customer revenues in 2008. Total new premiums increased 31% from \$13.9 million in 2007 to \$18.2 million in 2008, and new individual life premiums decreased 2% from 2007. New immediate annuity premiums increased from \$8.1 million in 2007 to \$12.6 million in 2008, while total renewal premiums increased 1% in 2008.

New universal life deposits were flat in 2008 compared with 2007. New variable universal life deposits decreased 22%, following a 5% increase in 2007. New variable annuity deposits also declined 13%. These declines reflect the difficult economic environment, increased competition, and the continued impact of alternative products in the marketplace. However, new fixed deferred annuity deposits increased \$4.1 million or 15% in 2008. This increase can largely be attributed to changes in



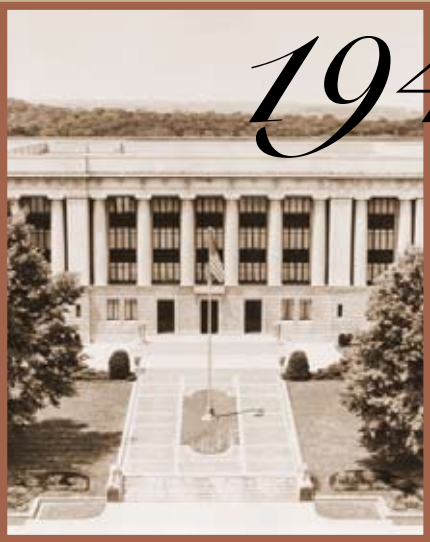
1957

(1957) The Company expands its Home Office in 1957. (1962) President W.E. Bixby celebrates his birthday at the Home Office with a large birthday cake containing thousands of candles, each representing an insurance application filed the month of his birthday.



1962

1945



*(1945) The Kansas City Life Home Office.
(1985) The Home Office building committee, shown in front of the South Building's construction.*

1985



consumer preferences, resulting from the volatility in the equity markets.

Kansas City Life intends to grow the Individual Insurance segment through recruiting quality general agents and agent representatives, along with the potential addition of other third-party marketing relationships.

GROUP INSURANCE

Kansas City Life Insurance Company's Group Insurance segment markets dental, life, short- and long-term disability, and vision insurance products primarily to small and mid-size organizations. Products are primarily sold through Group Insurance representatives who target a nationwide network of independent general agents, group brokers and also through the Company's career general agents.

By emphasizing these sales, Group Insurance's core distribution set an annualized premium sales record of \$11.5 million in 2008, which followed a record of more than \$10 million in 2007. This is in addition to Group Insurance products sold through selective third-party marketing arrangements.

The Group Insurance segment generated 21% of the Company's customer revenues in 2008, an increase from 20% in 2007. Contributing to the higher customer revenues, new group dental premiums increased 32% in 2008. However, policyholder benefits for Kansas City Life's group product line increased \$2.9 million or 10% in 2008, largely because of an increase in group dental benefits paid.

For 2009 and beyond, the Group Insurance operation continues to focus on three key areas of opportunity:

1. Grow in-force premiums, both through Kansas City Life's group representative sales force as well as selective third-party marketing arrangements.
2. Reduce expense ratios through deployment of new technologies that improve administrative efficiency.
3. Enhance the product portfolio with new product offerings and more flexible options.

SUNSET FINANCIAL SERVICES INC.

Kansas City Life Insurance Company's in-house broker dealer facilitates the purchase, sale and management of securities such as variable universal life and variable annuity products. Through this effective alliance, Sunset Financial Services gives registered representatives the flexibility to market a full range of fixed and variable products through a single relationship.

In the face of unprecedented 2008 market performance both in domestic and foreign markets, Sunset Financial Services' gross revenue decreased 9% for the year. This compares with a 17% increase from 2007. Looking ahead to 2009 and beyond, Sunset Financial Services will continue working with Kansas City Life to help recruit and retain quality agencies and producers.



Today, the Kansas City Life Home Office is a Kansas City, Mo., fixture – an enduring symbol of the Company's commitment to provide Security Assured for another 100 years and beyond.



OLD AMERICAN INSURANCE COMPANY

Long an industry leader in the final expense market, Old American Insurance Company's mission to provide peace of mind to the senior market has helped enhance the quality of life for policyholders and their beneficiaries for nearly 70 years.

In order to provide this peace of mind, Old American sells products that are designed to cover necessary costs following a death and also to provide comfort to surviving family members that money will be available for ongoing living expenses.

The Kansas City Life subsidiary proved once again they would remain an industry leader. Old American exceeded its 2007 annualized sales by 5%, and unlike prior years during this decade when sales for most of Old American's independent general agencies were flat, 37% of agencies exceeded their 2008 sales projections.

Additionally, the Company's approach to lead generation is one of the most sophisticated in the industry and will remain a driving force behind Old American sales. During 2008, Old American also focused on redefining sales territories for its general agencies in order to effectively meet the sales needs of the Company.

Thanks to these and other enhancements to products, compensation and distribution expansion, Old American produced 26% of consolidated insurance revenues in 2008. New premiums increased by 11% in 2008, following a 5% increase in 2007.

For nearly seven decades, Old American has continued to chart the course while other competitors have come and gone. The Company's future objective is to remain on the same path of growth it has produced the past two years through its nationwide general agency system with exclusive territories. Undoubtedly, Old American will continue to evaluate additional ways to increase overall sales and customer retention in order to reach its mission of delivering peace of mind to the senior market.



R. Philip Bixby
President, Chief Executive Officer and Chairman of the Board



Walter E. Bixby, LLIF
Vice Chairman of the Board,
Kansas City Life Insurance Company
President, Old American Insurance Company



Charles R. Duffy Jr., FLMI
Senior Vice President,
Operations



Tracy W. Knapp
Senior Vice President,
Finance



Donald E. Krebs,
MSM, CLU, ChFC
Senior Vice President,
Sales and Marketing



Mark A. Milton,
FSA, CERA, MAAA
Senior Vice President
and Actuary



William A. Schalekamp,
JD, CLU, FLMI
Senior Vice President, General
Counsel and Secretary

**KANSAS CITY LIFE
INSURANCE COMPANY**

**OLD AMERICAN INSURANCE
COMPANY**

**SUNSET LIFE INSURANCE
COMPANY OF AMERICA**

**SUNSET FINANCIAL
SERVICES INC.**

**HOME OFFICE
3520 BROADWAY
KANSAS CITY, MO 64111
PHONE: 816-753-7000**

**VISIT US ON THE INTERNET:
WWW.KCLIFE.COM
WWW.OAIC.COM
WWW.SUNSETLIFE.COM
WWW.SUNSETFINANCIAL.COM**

SENIOR OFFICERS

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Kevin G. Barth

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Commerce Bank
Kansas City, Missouri

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President, Chief Executive Officer and
Chairman of the Board
Kansas City Life Insurance Company
Kansas City, Missouri

Walter E. Bixby, LLIF

Vice Chairman of the Board
Kansas City Life Insurance Company
President
Old American Insurance Company
Kansas City, Missouri

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Retired Senior Vice President,
Corporate Strategy and Development
Embarq
Overland Park, Kansas

Michael Braude

Retired President and Chief Executive Officer
Kansas City Board of Trade
Kansas City, Missouri

John C. Cozad

President
Cozad Company, LLC
Platte City, Missouri

Richard L. Finn

Retired Senior Vice President, Finance
Kansas City Life Insurance Company
Kansas City, Missouri

Nancy Bixby Hudson

Investor
Lander, Wyoming

Daryl D. Jensen, MAAA, FLMI

Vice President of Finance
Western Institutional Review Board
Olympia, Washington
Retired President and Vice Chairman of the Board
Sunset Life Insurance Company of America
Kansas City, Missouri

Tracy W. Knapp

Senior Vice President, Finance
Kansas City Life Insurance Company
Kansas City, Missouri

Cecil R. Miller, CPA

Retired Partner
KPMG LLP
Kansas City, Missouri

Bradford T. Nordholm

Chief Executive Officer
Starwood Energy Group Global, LLC
Greenwich, Connecticut

William A. Schalekamp, JD, CLU, FLMI

Senior Vice President, General Counsel and
Secretary
Kansas City Life Insurance Company
Kansas City, Missouri

E. Larry Winn Jr.

Retired Member of Congress
Kansas, Third Congressional District
Prairie Village, Kansas

SENIOR OFFICERS

KANSAS CITY LIFE INSURANCE COMPANY

R. Philip Bixby

President, Chief Executive Officer and
Chairman of the Board

Walter E. Bixby, LLIF

Vice Chairman of the Board
Kansas City Life Insurance Company
President
Old American Insurance Company

Charles R. Duffy Jr., FLMI

Senior Vice President, Operations

Tracy W. Knapp

Senior Vice President, Finance

Donald E. Krebs, MSM, CLU, ChFC

Senior Vice President, Sales and Marketing

Mark A. Milton, FSA, CERA, MAAA

Senior Vice President and Actuary

William A. Schalekamp, JD, CLU, FLMI

Senior Vice President, General Counsel
and Secretary

Kathleen A. Hunzicker, M.D.

Vice President and Medical Director

David A. Laird, CPA, FLMI

Vice President and Controller

Robert J. Milroy

Vice President, Underwriting and
New Business

John L. Nogalski, CPA, FLMI

Vice President, Taxes

Bruce G. Olberding

Vice President, Broker Dealer
President, Sunset Financial Services

Richard D. Ropp, FLMI, ACS

Vice President, Customer Services

Stephen E. Ropp

Vice President, Operation Services

J. Todd Salash

Vice President, Computer
Information Services

Dan L. Schick, CPA, CLU, FLMI

Vice President and Auditor

Jeffrey M. Seeman

Vice President, Group

Philip A. Williams, CFA

Vice President, Securities

OLD AMERICAN INSURANCE COMPANY

R. Philip Bixby

Chairman of the Board

Walter E. Bixby, LLIF

President

John C. Alderton

Vice President, Sales

Gary K. Hoffman, JD, CLU, FLMI

Vice President, Associate General
Counsel and Secretary

Tracy W. Knapp

Chief Financial Officer

Robert J. Milroy

Vice President, Underwriting
and New Business

David A. Laird, CPA, FLMI

Vice President and Controller

Richard D. Ropp, FLMI, ACS

Vice President, Customer Services

SUNSET LIFE INSURANCE COMPANY OF AMERICA

R. Philip Bixby

President, Chairman of the Board

Daryl D. Jensen, MAAA, FLMI

Vice Chairman of the Board

Donald E. Krebs, MSM, CLU, ChFC

Vice President, Sales and Marketing

David A. Laird, CPA, FLMI

Vice President and Controller

Robert J. Milroy

Vice President, Insurance Services and
Assistant Secretary

Mark A. Milton, FSA, CERA, MAAA

Vice President and Actuary

Richard D. Ropp, FLMI, ACS

Vice President, Policy Administration

James F. Aldrich, JD, CLU, CPCU, FLMI, HIA

Secretary

STOCKHOLDER INFORMATION

CORPORATE HEADQUARTERS

Kansas City Life Insurance Company
3520 Broadway
Post Office Box 219139
Kansas City, MO 64121-9139
Telephone: 816-753-7000
Fax: 816-753-4902
Internet: <http://www.kclife.com>
E-mail: kclife@kclife.com

NOTICE OF ANNUAL MEETING

The annual meeting of stockholders will be held at 9 a.m. Central Time on Thursday, April 23, 2009, at Kansas City Life's corporate headquarters.

TRANSFER AGENT

Cheryl Keefer, Assistant Secretary
Kansas City Life Insurance Company
Post Office Box 219139
Kansas City, MO 64121-9139

10-K REQUEST

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

SECURITY HOLDERS

As of January 31, 2009, Kansas City Life had approximately 2,500 security holders, including individual participants in security position listings.

STOCK AND DIVIDEND INFORMATION

Stock Quotation Symbol NASDAQ – KCLI

The following table presents the high and low prices for the Company's common stock for the periods indicated and the dividends declared per share during such periods.

	<u>High</u>	<u>Low</u> (Per share)	<u>Dividend Paid</u>
2008:			
First quarter	\$ 49.15	\$ 39.36	\$ 0.27
Second quarter	52.85	41.51	0.27
Third quarter	57.93	41.16	0.27
Fourth quarter	53.93	33.06	0.27
			<u>\$ 1.08</u>
2007:			
First quarter	\$ 52.28	\$ 44.35	\$ 2.27
Second quarter	47.95	44.61	0.27
Third quarter	50.79	38.18	0.27
Fourth quarter	50.48	40.00	0.27
			<u>\$ 3.08</u>

A quarterly dividend of \$0.27 per share was paid February 10, 2009.

NASDAQ market quotations are compiled according to Company records and may reflect inter-dealer prices, without markup, markdown or commission and may not necessarily represent actual transactions.



KANSAS CITY LIFE

**KANSAS CITY LIFE INSURANCE COMPANY
HOME OFFICE: KANSAS CITY, MISSOURI**