KANSAS CITY LIFE INSURANCE CO
Form 10-Q
November 13, 2003

Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q

Quarterly Report Under Section 13 or 15 (d) of the
Securities Exchange Act of 1934

For the Quarter ended September 30, 2003

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 October 31, 2003
Common Stock, $1.25 par value	11,926,424 shares

Part I Financial InformationItem
1. Financial Statements

All financial statements are presented in thousands, except per share data.

Consolidated
Income Statement (Unaudited)

		Quarter ended September 30 2003	2002
Revenues			
Insurance revenues:			
Premiums and contract charges	$	87,346	71,781
Reinsurance ceded		(14,784)	(10,642)
Net insurance revenues		72,562	61,139
Investment revenues:			
Investment income, net		51,273	47,387
Realized investment losses, net		(5,129)	(8,919)
Other		2,252	2,439

Total revenues		120,958	102,046
Benefits and expenses			
Policyholder benefits (net of reinsurance ceded: quarter: $14,843 - 2003, $7,193 - 2002; nine months: $38,338- 2003, $24,614 - 2002)		81,978	66,956
Amortization of deferred acquisition costs		8,031	9,370
Insurance operating expenses (net of commissions ceded: quarter: $1,687 - 2003, $1,252 - 2002; nine months: $3,795 - 2003, $3,692 - 2002)		26,784	26,061
Total benefits and expenses		116,793	102,387
Pretax income (loss)		4,165	(341)
Federal income taxes (benefit):			
Current		(151)	1,842
Deferred		(3,412)	(2,984)
		(3,563)	(1,142)
Net income	$	7,728	801
Per common share:			
Net income, basic and diluted	$	0.65	0.07
Cash dividends	$	0.27	0.27

See accompanying Notes to Consolidated Financial Statements.

Consolidated
Balance Sheet

		September 30 2003 (Unaudited)	December 31 2002
Assets			
Investments:			
Fixed maturity securities available for sale, at fair value	$	2,670,894	2,141,439
Equity securities available for sale, at fair value		70,758	57,587
Mortgage loans, net		453,097	463,150
Short-term investments		150,625	186,770
Other investments		220,581	206,043
Total investments		3,565,955	3,054,989
Cash		6,410	2,532
Deferred acquisition costs		241,745	246,286
Other assets		363,548	306,578
Separate account assets		275,732	244,862
	$	4,453,390	3,855,247
Liabilities and equity			
Future policy benefits	$	871,293	811,634
Accumulated contract values		2,197,200	1,784,635
Notes payable		114,921	97,241
Current income taxes payable		-	1,902

Other liabilities		356,558	317,476
Separate account liabilities		275,732	244,862
Total liabilities		3,815,704	3,257,750
Stockholders' equity:			
Common stock		23,121	23,121
Paid in capital		23,122	22,605
Retained earnings		678,970	686,847
Accumulated other comprehensive income (loss), net of tax		26,416	(24,437)
Less treasury stock		(113,943)	(110,639)
Total stockholders' equity		637,686	597,497
	$	4,453,390	3,855,247

See accompanying Notes to Consolidated Financial Statements.

Consolidated
Statement of Cash Flows (Unaudited)

		Nine Months ended September 30 2003	2002
Operating activities			
Net cash provided	$	66,805	44,627
Investing activities			
Purchases of security investments available for sale:			
Fixed maturities		(872,111)	(570,382)
Equity securities		(3,376)	(5,476)
Sales of security investments available for sale		143,686	269,405
Maturities and principal paydowns of security investments available for sale:			
Fixed maturities		553,068	273,888
Equity securities		5,780	11,331
Purchases of other investments		(122,650)	(77,266)
Sales, maturities and principal paydowns of other investments		128,745	64,325
Net sale (purchase) of short-term investments		35,904	(38,281)
Acquisition of GuideOne Life Insurance Company		(59,150)	-
Cash acquired in GuideOne purchase		6,886	-
Net cash used		(183,218)	(72,456)
Financing activities			
Policyholder contract deposits		195,237	131,425
Withdrawals of policyholder contract deposits		(83,520)	(81,206)
Change in other deposits		5,363	1,842
Dividends paid to stockholders		(9,682)	(9,719)
Proceeds from borrowings		16,267	3,142
Repayment of borrowings		(587)	-

Other, net		(2,787)	(1,353)
Net cash provided		120,291	44,131
Increase in cash		3,878	16,302
Cash at beginning of year		2,532	4,365
Cash at end of period	$	6,410	20,667

See accompanying Notes to Consolidated Financial Statements.

Kansas City Life Insurance Company
Notes to Consolidated Financial Statements

Note 1 - 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), Old American Insurance Company (Old American) and GuideOne Life Insurance Company (GuideOne). These items have been prepared in accordance with accounting principles generally accepted in the United States (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 2002 Form 10-K and the 2002 Annual Report to Stockholders. Management believes that the disclosures are adequate to make the information presented not misleading, and all normal and recurring adjustments necessary to present fairly the financial position at September 30, 2003 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.

Critical Accounting Policies and Estimates

These critical accounting policies and estimates should be read in conjunction with statements and disclosures made in the Company s 2002 Form 10-K as filed with the Securities and Exchange Commission.

GAAP requires management to make certain estimates and assumptions, which affect amounts reported in the financial statements and accompanying notes. As such, the Company combines its actual experience with selected estimates in the preparation of its financial statements. The calculations used to estimate various components in the financial statements are necessarily complex and involve large amounts of data. Assumptions and estimates involve judgment and by their nature can be subject to revision over time.

The calculation of life insurance policy reserves is dependent upon estimates of future events. These estimates require judgments based upon the Company s past experience and estimates and assumptions about future mortality, persistency and interest rates. At any given time, earnings variability may result from changes in actual experience such as mortality or persistency, as well as changes in estimates of future experience.

Deferred acquisition costs, principally agent commissions and other selling, selection and issue costs which vary with and are directly related to the production of insurance revenue, are capitalized as incurred and amortized over future premium payments or the expected future profits of the business, depending on the type of products. Profit expectations are based upon estimates of future interest spreads, mortality margins, operating expenses and surrender experience. These estimates involve judgment, are reviewed not less than annually and are compared to actual experience on an ongoing basis. If it is determined that the assumptions related to interest sensitive and variable products should be revised as to the profit expectations for the business, the assumptions are unlocked, or changed, with the impact of the change flowing through the current period s earnings.

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 2002 Form 10-K and the 2002 Annual Report to Stockholders. The Company performs a rigorous 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.

Accounting Developments

The Financial Accounting Standards Board (FASB) issued Financial Accounting Standard (FAS) No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, in April 2003. This Standard amends and clarifies financial accounting and reporting for derivative instruments and for hedging activities under FAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This FAS was adopted on July 1, 2003 with no material impact.

FAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, was issued in May 2003. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This FAS was adopted on July 1, 2003 with no material impact. The FASB has proposed additional Interpretations to FAS No. 150 which would require interpretation in future periods.

FASB Interpretation (FIN) 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, was issued November 2002. This is an interpretation of FASB Statements No. 5, 57, and 107 and is a rescission of FASB interpretation No. 34. It requires certain guarantees to be recorded at fair value instead of when a loss is probably and reasonably estimated. FIN 45 also requires disclosures even when the likelihood of making any payments under the guarantee is remote. Although liability recognition only applies to guarantees issued or amended after January 1, 2003, disclosure requirements are presently effective. This interpretation was adopted January 1, 2003 and the Company is not aware of any guarantees that would have a material effect on its financial statements.

FIN 46, Consolidation of Variable Interest Entities, was issued January 2003. This is an interpretation of ARB No. 51, Consolidated Financial Statements. It concerns consolidating the assets, liabilities, and results of the activities of variable interest entities if a controlling financial interest exists. This interpretation was adopted July 1, 2003 and had no material impact. The FAS has proposed additional Interpretations to FIN 46 which would require interpretation for periods ending after December 15, 2003.

Derivatives Implementation Group (DIG) Issue No. B36, Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor Under Those Instruments, was issued April 2003. It concerns the treatment of derivatives related to Modified Coinsurance (Modco) and is an extension of FAS 133. This DIG will be adopted October 1, 2003 and it is anticipated that there will be 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. This Statement affects the treatment of variable annuity contracts. This SOP will be adopted January 1, 2004, and it is anticipated that there will be no material impact.

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 unfunded pension liabilities. Comprehensive income equaled $52.7 million and $57.9 million for the first nine months of 2003 and 2002, respectively. Third quarter comprehensive income was a loss of $8.0 million and income of $24.4 million for 2003 and 2002, 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.

Earnings Per Share

Due to the Company s capital structure and lack 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 numbers of shares outstanding were 11,949,992 and 11,998,980 for the nine months ended September 30, 2003 and 2002, respectively. The weighted average number of shares outstanding were 11,929,321 and 11,988,139 for the third quarters of 2003 and 2002, respectively.

Federal Income Taxes

Income taxes have been provided using the liability method. Under that method, deferred tax assets and liabilities are determined based on the differences between their financial reporting and their tax bases and are measured using the Federal income tax rate. The effective tax rate was a benefit of 120.4 percent for this year s nine months versus an expense of 20.7 percent last year. For the third quarter, the effective tax rates were benefits of 85.5 percent and 334.9 percent for 2003 and 2002, respectively. 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.

Note 2 - Notes Payable

The Company borrows short-term funds through its membership with the Federal Home Loan Bank (FHLB) and reinvests those funds at higher rates, thereby earning an interest spread on those funds. These activities also contribute significantly to the Company s liquidity position by providing established lines of credit for borrowing and by adding high quality marketable securities that could be sold if liquidity is needed. As a member of the FHLB with a capital investment of $9.6 million, the Company has the ability to borrow up to forty percent of its statutory assets, or $1.4 billion, from the FHLB when collateralized. As of September 30, 2003, the Company had short-term borrowings with the FHLB totaling $105.0 million with various maturities and a weighted average interest rate of 1.52 percent. These borrowings are secured by mortgage-backed securities totaling $130.4 million.

The Company had a $0.7 million real estate loan due December 2010, with an interest rate of 7.50 percent, secured by the property. The Company had a $1.0 million real estate loan due March 2008, with an interest rate of 7.75 percent, secured by the property. The Company had overnight Federal fund borrowings totaling $5.7 million with a daily maturity, an interest rate of 1.34 percent and secured by specific securities. The Company had a $2.0 million note payable to GuideOne Financial Group, Inc. related to the purchase of GuideOne Insurance Company, due June 30, 2005. This note has an interest rate equal to the prime rate published in the Wall Street Journal, which was 4 percent at September 30, 2003. Finally, the Company had a $0.5 million construction loan related to an investment property with an interest rate of 8.00 percent. The full amount of the note will be forgiven when the construction is complete and a certificate of occupancy is issued. Total borrowings equaled $114.9 million at September 30, 2003.

Note 3 - Business Segments

Company operations have been classified and summarized into four reportable segments. The segments, generally classified along company lines, are based upon distribution method, product portfolio and target market. The Parent Company is divided into two segments. The Kansas City Life - Individual segment consists of sales of variable life and annuities, interest sensitive products and traditional life insurance products by an agency sales force to individuals and its recently purchased subsidiary GuideOne (which was merged into Kansas City Life as of October 1, 2003). The Kansas City Life Group segment consists of sales of group life, disability and dental products, by the Company s agency sales force and appointed group agents. This segment also includes Kansas City Life Benefit Solutions, formerly Administrative Services Only (ASO). The Sunset Life segment consists of sales of interest sensitive and traditional products by an agency sales force. The Old American segment markets whole life final expense products primarily to seniors through an agency sales force.

Separate investment portfolios are maintained for each of the companies. However, investments are allocated to the group segment based upon its cash flows. Investment income is allocated to the group business segment based upon contribution to cash flow. 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.

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

			Kansas City Life		Sunset	Old
			Individual	Group	Life	America
Net insurance revenues:						
	Nine months:	2003	$103,057	36,363	12,259	52,04
		2002	74,010	42,021	12,320	53,09
	Third quarter:	2003	37,390	13,276	4,552	17,34
		2002	25,686	14,111	3,664	17,67
Investment income, net:						
	Nine months:	2003	$111,739	220	22,171	10,50
		2002	109,125	307	24,263	12,22
	Third quarter:	2003	40,788	66	7,078	3,34
		2002	35,540	90	7,808	3,94
Net income (loss):						
	Nine months:	2003	$ (636)	(2,644)	3,550	1,53
		2002	7,906	(1,521)	6,623	4,04
	Third quarter:	2003	4,456	(993)	2,426	1,83
		2002	(703)	(707)	783	1,42

Intersegment revenues are not material and with the exception of the addition of GuideOne there has been no significant change in segment assets from last year-end. The Company operates solely in the United States and no individual customer accounts for 10 percent or more of the Company s revenue.

Note 4 - Commitments and Contingencies

Under state insurance guaranty fund laws, insurance companies may be assessed up to prescribed limits for policyholder losses that result from insolvent or rehabilitated companies. Mandatory assessments may be partially recovered through a reduction of future premium taxes in some states. The Company does not believe that such assessments will be materially different from amounts already provided for in the financial statements.

A contingent liability exists with respect to reinsurance, which may become a liability of the Company in the unlikely event that the reinsurers should be unable to meet obligations assumed under existing reinsurance contracts. Reinsurers solvency is reviewed periodically.

In recent years, the life insurance industry, including the Company and its subsidiaries, has been subject to an increase in litigation pursued on behalf of purported classes of insurance purchasers questioning the conduct of insurers in the marketing of their products. In addition, 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 and financial position.

The Company had open purchase commitments for the funding of $20.4 million in mortgage loans, $8.9 million in bonds and $5.9 million in affordable housing as of September 30, 2003. Also, the Company had several real estate commitments under contract for sale, with a book value of approximately $6.9 million. Several factors effect the eventual outcome of these sales, including financing contingencies. As such, the final gain or loss cannot be determined at this time.

Note 5 - Insurance Company Acquisition

On June 30, 2003, the Company acquired all of the issued and outstanding stock of GuideOne Insurance Company from GuideOne Financial Group, Inc. and GuideOne Mutual Company. The initial amount paid at closing was $61.2 million. Subsequently, there were true-up adjustments under the terms of the contract which have reduced the final purchase price to $59.4 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. For segment reporting purposes, GuideOne is included in the Kansas City Life - Individual segment.

The assets have been allocated at fair value as identified in the Condensed Balance Sheet as of June 30, 2003 below, in thousands. At the date of purchase, identifiable intangible assets, or value of business acquired, were as reflected below. No goodwill resulted from this transaction.

GuideOne
Condensed Balance Sheet
As of 6/30/03

Assets			**Liabilities and Stockholder's Equity**		
Total investments	$	338,180	Future policy benefits	$	39,450
Value of business acquired		35,638	Accumulated contract values		277,338
Other assets		19,271	Other liabilities		16,905
			Total liabilities		333,693
			Stockholder's equity		59,396
Total assets	$	393,089	Total liabilities and equity	$	393,089

Note 6 - Guarantees and Indemnifications

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Cautionary Forward-Looking Statements

This filing contains forward-looking statements and information that are based on management s current expectations as of the date of this document within the meaning of the Securities Litigation Reform Act of 1995. The words anticipate , believe , estimate and expect , and similar expressions, are intended to identify forward-looking statements which are subject to risks, uncertainties, assumptions and other factors that may cause the actual results of the Company to be materially different from those reflected in such forward-looking statements. Factors that could cause the Company s future results to differ materially from expectations include:

(1) General economic and business conditions;

(2) Changes in interest rates;

(3) The performance of the stock market;

(4) Increased competition in the sale of insurance and annuities;

(5) Customer response to new products, distribution channels and marketing initiatives;

(6) Changes in the Federal income tax laws and regulations which may affect the relative tax advantages of some of the Company's products;

(7) Insurance regulatory changes or actions; and

(8) Ratings assigned to the Company and its subsidiaries by independent rating organizations.

There can be no assurance that other factors not currently anticipated by management will not also materially and adversely affect the Company. The Company does not intend to update these forward-looking statements prior to its next required filing with the Securities and Exchange Commission.

Results of Operations

Basic and diluted net income per share of Kansas City Life equaled $0.65 in the third quarter, up from $0.07 last year. During the first nine months of 2003, net income per share totaled $0.15, down from $1.42 a year ago. The decline in earnings for the nine months can largely be attributed to a substantial increase in realized investment losses. Net realized investment losses narrowed in the third quarter to $5.1 million, which was $3.8 million lower than last year. Net realized investment losses totaled $36.1 million for the nine months, an increase of $17.0 million over last year. The majority of these losses occurred in the first quarter and were the result of write-downs taken on certain investments that the Company believed were impaired. The largest sector affected was the airline industry. While the market outlook has improved, certain industries and companies remain troubled.

Throughout this analysis, the operations and financial position of GuideOne are included in the financial results in accordance with purchase GAAP accounting principles. A table is presented in the Segments Results section, which identifies GuideOne s results separate from Kansas City Life s Individual segment results.

Net insurance revenues rose 19 percent in the third quarter and 12 percent in the nine months. These increases are largely attributable to two factors. First, the Company continues to experience strong immediate annuity sales, reflecting consumer preference for fixed return products. Immediate annuity premiums accounted for 26 percent of the total gross premiums for the nine months versus 7 percent last year and were five times larger than a year ago. The second factor was the acquisition of GuideOne, which added $5.6 million in net insurance revenues in the third quarter.

Gross life and annuity premiums increased 32 percent in the third quarter and 28 percent in the nine months. GuideOne contributed 2 percent of total life and annuity premiums. Accident and health premiums rose 12 percent in the third quarter but declined 7 percent in the nine months. The year-to-date decline was largely due to a decline in group dental premiums, the result of the loss of a large group provider. GuideOne contributed $2.8 million in individual accident and health premiums. Contract charges, revenues that result from fees charged on interest-sensitive and variable products, rose 14 percent for the quarter and 3 percent for the nine months, largely due to the addition of GuideOne. Partially offsetting these increases, reinsurance ceded grew 39 percent and 11 percent for the quarter and year-to-date, respectively.

Net investment income rose 8 percent in the third quarter but declined 1 percent in the nine months. Improvement in the third quarter resulted from the addition of GuideOne.

Following is a table that details, in thousands, gross realized investment gains and losses for the third quarter and first nine months of 2003 and 2002.

	Quarter ended September 30 2003	Quarter ended September 30 2002	Nine month Septemb 2003
Gross gains resulting from:			
Sales of securities	$ 504	508	5,214
Securities called or matured	870	1,491	1,813
Sales of real estate and joint ventures	81	2,563	1,210
Total gross gains	1,455	4,562	8,237
Gross losses resulting from:			
Sales of securities	(6,851)	(10,227)	(16,021)
Adjustment in book value of securities	(330)	(3,101)	(28,572)
Securities called or matured	(59)	(372)	(509)
Sale of real estate and joint ventures	-	(9)	-
Total gross losses	(7,240)	(13,709)	(45,102)
Related deferred policy acquisition costs	656	228	733
Net realized investment losses	$ (5,129)	(8,919)	(36,132)

The Company regularly evaluates the quality of its investment portfolio. Occasionally, in a diversified portfolio, certain investments suffer market price deterioration due to a wide variety of factors. The Company performs an extensive evaluation process at least quarterly. Distressed securities are placed onto watch lists that are then further analyzed to identify any specific securities that the Company believes 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. The Company s analysis identified $0.3 million in other than temporary declines in value in the third quarter and $28.6 million in the nine months.

Policyholder benefits increased 22 percent in the third quarter and 13 percent in the nine months. This increase is largely attributable to the increased sales of immediate annuities with life contingencies, as policyholder benefits (reserve increases) on these products can rise nearly as much as the premiums. In addition, policyholder benefits include the operating results of GuideOne, which added 3 percent to policyholder benefits for the nine months.

Insurance operating expenses rose 3 percent in both the third quarter and nine months. These increases can largely be attributed to an increase in pension expenses, resulting from a combination of lower discount rate on plan liabilities and reduced future earnings assumptions on plan assets, and to the inclusion of operating expenses of GuideOne.

The effective income tax rate was a benefit of 120.4 percent for the first nine months of 2003 versus an expense of 20.7 percent last year. For the third quarter, the effective income tax rates were benefits of 85.5 percent and 334.9 percent for 2003 and 2002, respectively. These fluctuations in effective tax rates were primarily due to changes in pretax income, a reversal of taxes accrued in prior years, and credits received from affordable housing investments.

Segment Results

The following schedules address key supplemental financial information for each of the Company s four reportable operating segments for the first nine months and third quarters of 2003 and 2002 and are reconciled to the financial statements contained herein (in thousands):

	Kansas City Life Individual	Kansas City Life Group	Sunset Life	Old Americ
2003 (nine months):				
Premiums:				
Life and annuity	$ 52,725	8,015	5,254	54,39
Accident and health	2,911	32,892	14	2,76

Contract charges	63,687	-	17,256	
Reinsurance ceded	(16,266)	(4,544)	(10,265)	(5,11
Net insurance revenues	$103,057	36,363	12,259	52,04
Policy benefits:				
Death benefits	$ 39,338	4,213	2,295	30,83
Surrenders of life insurance	6,600	-	578	3,18
Other benefits	28,548	22,011	1,481	61
Benefit and contract reserve increase	70,252	276	13,420	2,23
Net policyholder benefits	$144,738	26,500	17,774	36,85
2002 (nine months):				
Premiums:				
Life and annuity	$ 26,562	7,503	4,548	55,74
Accident and health	34	38,324	15	3,13
Contract charges	60,217	-	17,998	
Reinsurance ceded	(12,803)	(3,806)	(10,241)	(5,78
Net insurance revenues	$ 74,010	42,021	12,320	53,09
Policy benefits:				
Death benefits	$ 37,946	4,425	1,998	31,33
Surrenders of life insurance	7,861	-	626	2,92
Other benefits	23,174	26,536	1,625	76
Benefit and contract reserve increase	41,950	64	14,663	3,94
Net policyholder benefits	$110,931	31,025	18,912	38,97

	Kansas City Life Individual	Kansas City Life Group	Sunset Life	Old America
2003 (third quarter):				
Premiums:				
Life and annuity	$ 18,576	3,386	2,046	18,1
Accident and health	2,879	11,893	4	8
Contract charges	23,746	-	5,832	
Reinsurance ceded	(7,810)	(2,003)	(3,331)	(1,6
Net insurance revenues	$ 37,391	13,276	4,551	17,3
Policy benefits:				
Death benefits	$ 15,477	1,630	792	9,4
Surrenders of life insurance	2,272	-	168	1,0
Other benefits	11,587	8,217	454	2
Benefit and contract reserve increase	25,336	61	4,684	5
Net policyholder benefits	$ 54,672	9,908	6,098	11,3
2002 (third quarter):				
Premiums:				
Life and annuity	$ 9,579	2,491	1,217	18,5
Accident and health	7	12,994	5	9
Contract charges	20,124	-	5,821	
Reinsurance ceded	(4,024)	(1,374)	(3,379)	(1,8
Net insurance revenues	$ 25,686	14,111	3,664	17,6
Policy benefits:				
Death benefits	$ 12,912	1,887	621	9,3
Surrenders of life insurance	3,694	-	192	9
Other benefits	7,782	8,802	527	2
Benefit and contract reserve increase	14,415	25	4,030	1,4
Net policyholder benefits	$ 38,803	10,714	5,370	12,0

The following tables break GuideOne out of the Kansas City Life - Individual segment in the above tables.

		Kansas City Life Excluding Group & GuideOne Life	GuideOne Life	To Kansas C In
2003 (nine months*):				
Premiums:				
Life and annuity	$	50,409	2,316	5
Accident and health		95	2,816	
Contract charges		60,192	3,495	6
Reinsurance ceded		(13,270)	(2,996)	(1
Net insurance revenues	$	97,426	5,631	10
Policy benefits:				
Death benefits	$	37,611	1,727	3
Surrenders of life insurance		6,474	126	
Other benefits		26,309	2,239	2
Benefit and contract reserve increase		67,748	2,504	7
Net policyholder benefits	$	138,142	6,596	14

* Includes GuideOne Life results for the three months ended September 30, 2003.

		Kansas City Life Excluding Group & GuideOne Life	GuideOne Life	To Kansas C In
2003 (third quarter):				
Premiums:				
Life and annuity	$	16,260	2,316	1
Accident and health		63	2,816	
Contract charges		20,251	3,495	2
Reinsurance ceded		(4,814)	(2,996)	(
Net insurance revenues	$	31,760	5,631	3
Policy benefits:				
Death benefits	$	13,750	1,727	1
Surrenders of life insurance		2,146	126	
Other benefits		9,348	2,239	1
Benefit and contract reserve increase		22,832	2,504	2
Net policyholder benefits	$	48,076	6,596	5

Kansas City Life - Individual

Net insurance revenues for this segment rose 46 percent in the third quarter and 39 percent in the nine months. Life premiums rose 94 percent in the third quarter and 98 percent in the nine months. Excluding GuideOne, net insurance revenues rose 32 percent for the nine months. This increase was largely due to increased immediate annuity sales. Immediate annuity premiums accounted for 58 percent of total gross life and annuity premiums year-to-date versus 23 percent last year. This segment provided 50 percent of consolidated net insurance revenues, up from 41 percent last year, reflecting the growth in immediate annuity sales and the addition of GuideOne.

Policyholder benefits increased 41 percent in the third quarter and 30 percent in the nine months. These increases can primarily be attributed to greater benefit and contract reserves, which rose 76 percent and 67 percent in the third quarter and nine months, respectively. These increases were largely the result of the increase in immediate annuity sales. Death benefits rose 20 percent in the third quarter and 4 percent year-to-date.

Partially offsetting these increases, surrenders declined 38 percent in the third quarter and 16 percent in the nine months.

Net income for this segment rose from a $0.7 million loss in the third quarter of 2002 to $4.5 million of income in the third quarter of 2003. This segment incurred a net loss of $0.6 million in the nine months versus $7.9 million in net income last year, primarily the result of the realized investment losses.

Kansas City Life - Group

Net insurance revenues for the Group segment declined 6 percent in the third quarter and 14 percent in the nine months. These declines were largely in the lines of dental and Kansas City Life Benefit Solutions, formerly Administrative Services Only. A major factor contributing to the decline in dental revenues was the loss of a block of dental business in late 2002. The Group segment provided 18 percent of consolidated net insurance revenues for the nine months, down from 23 percent a year ago.

Policyholder benefits declined 8 percent in the third quarter and 15 percent in the nine months. These declines are also primarily attributable to the dental line, resulting from the loss of the dental block mentioned above. Overall, the claims ratio for this segment improved slightly versus last year.

This segment incurred net losses of $1.0 million in the third quarter and $2.6 million in the nine months compared to losses of $0.7 million and $1.5 million in the same periods last year, respectively.

Sunset Life

Net insurance revenues for this segment rose 24 percent in the third quarter and were flat for the nine months. Life and annuity premiums increased 68 percent in the third quarter and 16 percent in the nine months, largely on the strength of immediate annuity sales. This segment contributed 6 percent of consolidated net insurance revenues versus 7 percent last year.

Total policyholder benefits rose 14 percent in the third quarter but declined 6 percent in the nine months. The primary factor in the increase in the third quarter was the growth in reserves due to increased annuity sales.

Net income for this segment was $2.4 million in the third quarter and $3.6 million in the nine months compared to $0.8 million and $6.6 million last year, respectively. Net realized investment losses for the nine months totaled $6.1 million, compared to $2.7 million a year ago. However, net realized investment losses narrowed in the third quarter to $1.2 million from $1.8 million the prior year.

Old American

Net insurance revenues declined 2 percent in both the third quarter and nine months. Policyholder benefits decreased 6 percent in the quarter and 5 percent versus last year, reflecting favorable mortality experience.

Net income for this segment rose 29 percent in the third quarter to $1.8 million. However, net income for the nine months declined 62 percent versus last year. Net realized investment losses for the third quarter declined from $1.0 million last year to $0.6 million this year. However, net realized investment losses for the nine months rose from $2.2 million last year to $3.9 million this year. This segment provided 26 percent of net consolidated insurance revenues versus 29 percent last year.

Liquidity and Capital Resources

Statements made in the Company s 2002 Annual Report to Stockholders remain pertinent, as the Company s liquidity position is materially unchanged from year-end.

Net cash provided from operating activities rose $22.2 million from last year due in part to the increase in the sales of immediate annuities this year, the payment in 2002 of a legal settlement and an increase in 2002 in ceded reinsurance premiums. Net cash used for investing activities increased $110.8 million. Maturities and principal paydowns of fixed maturities increased $279.2 million, due to mortgage prepayments resulting from the lower interest rate environment. Generally, the Company invested these proceeds to purchase fixed maturities available for sale, which rose by $301.7 million versus last year. On June 30, 2003, the Company paid $59.4 million to purchase GuideOne. Partially offsetting this, the Company received $6.9 million in bank balances with this purchase. Net cash provided from financing activities rose $76.2 million, primarily due to a net increase in policyholder contract deposits.

The Company s consolidated assets grew 16 percent from year-end and totaled $4.5 billion. The single largest factor was the acquisition of GuideOne, which added $339.3 million of assets on a purchase GAAP basis. Also adding to the asset growth were the increased value of fixed income investments, due to lower interest rates, and the sales growth in annuities and universal life insurance.

The Company invests in a variety of assets including bonds, preferred stocks, mortgage-backed securities, commercial mortgage loans and real estate. Additionally, the Company borrows short-term funds as a spread and liquidity strategy through its membership with the FHLB. The Company borrows from the FHLB and reinvests those funds at higher rates, thereby earning an interest spread on those funds. These activities also contribute significantly to the Company s liquidity position by providing established lines of credit for borrowing and by adding high quality liquid securities that can be sold if liquidity is needed. At September 30, 2003, the Company had short-term borrowings with the FHLB totaling $105.0 million and total borrowings from all sources of $114.9 million.

The Company believes that the current level of cash, securities available for sale, and short-term investments, in combination with net cash from operations, will be adequate to cover its near-term cash obligations.

Asset and liability maturities and yields are monitored as an important consideration for each type of insurance product. The Company, as an ongoing matter, monitors benefit and expense projections of future cash requirements. As part of this process, the Company performs cash flow testing under a variety of scenarios to ensure funds will be available as needed to meet current and future policyholder obligations. The Company s investment strategy is consistent with these needs and requirements. Additionally, the Company takes these matters into account as it develops and designs new products and as it enhances its existing product portfolio. There can be no assurances, however, that future experiences will be similar to historical experience due to factors such as the interest rate environment.

Funds available for investment generated from variable products are segregated into separate accounts and do not generate investment income for the Company. At September 30, 2003, separate account assets totaled $275.7 million, a 13 percent increase from year-end 2002.

Extraordinary dividends totaling $75.0 million were paid to Kansas City Life from two of its affiliates in June 2003, including $55.0 million from Sunset Life and $20.0 million from Old American. The appropriate state insurance department approvals were received prior to each of these transactions.

Stockholders equity increased $40.2 million from year-end. Accumulated other comprehensive income rose $50.9 million from year-end, due to an increase in net unrealized investment gains on securities. The Company s securities are largely fixed income securities whose values increase as interest rates decline. Consolidated book value per share equaled $53.47 at September 30, 2003, a 7 percent increase from year-end 2002.

Consolidated insurance in force totaled $32.3 billion, a 29 percent increase on an annualized basis. This increase can primarily be attributed to the GuideOne acquisition, which added $6.1 billion in insurance in force.

During the third quarter, 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 2003.

On October 27, 2003, the Board of Directors declared a quarterly dividend of $0.27 per share, unchanged from last year, that will be paid November 24, 2003 to stockholders of record as of November 10, 2003.

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 2002 Annual Report to Stockholders regarding the market and interest rate risk analysis remain pertinent.

Kansas City Life 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 ability to earn a competitive return and the return affects their fair value. Thus, the primary market risks affecting the Company are interest rate and credit risks.

Interest rate risk arises from the price sensitivity of fixed income securities to changes in interest rates. Coupon and dividend income represents the greatest portion of an investment s total return for most fixed income instruments. 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. The changes in fair market price of such investments are inversely related to changes in market interest rates.

The majority of the Company s investments are exposed to varying degrees of credit risk, which is the risk that the value of the investment may decline due to deterioration in the financial strength of the issuer such that the timely payment of principal or interest might not occur.

In recent years, credit defaults in the marketplace have increased significantly. The increase in the default rate may be 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.

Such loss can be mitigated by timely sales of affected securities or by active involvement in a restructuring process, which preserves the value of the underlying entity. 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 this risk by diversifying the investment portfolio across a broad range of issuers, investment sectors and security types and by investing substantial amounts of the portfolio in instruments carrying a security lien against tangible asset collateral. Pledged collateral that retains its value increases bondholder recovery amounts in the case of bankruptcy or restructuring.

As market interest rates fluctuate, so will the Company s investment portfolio and its stockholders equity. At September 30, 2003, the Company had a net unrealized investment gain of $52.3 million, net of related taxes and deferred policy acquisition costs, compared to $1.4 million at year-end 2002. 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

Based on their evaluation, as of a date within 90 days of the filing of this Form 10-Q, the Company s Chief Executive Officer and Chief Financial Officer have concluded the Company s disclosure controls and procedures (as defined in Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934) are effective. There have been no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Part II: Other Information
Item 1: Legal Proceedings

In recent years, the life insurance industry, including the Company and its subsidiaries, have been subject to an increase in litigation pursued on behalf of purported classes of insurance purchasers, questioning the conduct of insurers in the marketing of their products. The Company believes that the actions described below are part of this trend.

In the case of Charles R. Sullivan, et al. previously reported in the Company s Form 10-K Report for the year ended December 31, 2002, the Plaintiff s motion to certify the class has been denied. Management is administering and has responsibility for 326 of the policies involved in the dispute.

In addition to the above, the Company and its subsidiaries are defendants in, or subject to other claims or legal actions. Some of these claims and legal actions are in jurisdictions where juries are given substantial latitude in assessing damages, including punitive damages. Although no assurances can be given and no determinations can be made at this time, management believes that the ultimate liability, if any with respect to these other claims and legal actions, would have no material effect on the Company s business, results of operations or financial position.

Item 5: Other Events

On November 13, 2003 the Company filed an 8-K in accordance with Regulation S-X 210.3.05. That filing contained the following information.

After further analysis of the financial position of GuideOne Life Insurance Company, Kansas City Life Insurance Company has determined that under Regulation S-X, Section 210.3.05 Kansas City Life Insurance Company is not required to file financial statements of GuideOne Life Insurance Company as none of the conditions exceed the 20 percent significance threshold.

Exhibit List

(31)a	Rule 13a-15(e)/15d-15(e) Certifications.
(31)b	Rule 13a-15(e)/15d-15(e) Certifications.
(99)	Item 99 - Section 906 Certification.

SIGNATURES

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

KANSAS CITY LIFE INSURANCE COMPANY

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

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

Date: November 13, 2003

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

KANSAS CITY LIFE INSURANCE COMPANY
SECTION 302 CERTIFICATION
Third Quarter 2003

I, R. Philip Bixby, President, Chief Executive Officer and Vice Chairman of the Board of Kansas City Life Insurance Company, certify that:

1. I have reviewed this report on Form 10-Q of Kansas City Life Insurance Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2003

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

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

KANSAS CITY LIFE INSURANCE COMPANY
SECTION 302 CERTIFICATION
Third Quarter 2003

I, Tracy W. Knapp, Senior Vice President, Finance of Kansas City Life Insurance Company, certify that:

1. I have reviewed this report on Form 10-Q of Kansas City Life Insurance Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2003

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