



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Sunset Life Insurance Company of America for the period ended
December 31, 2014

ORDER

After full consideration and review of the report of the financial examination of Sunset Life Insurance Company of America for the period ended December 31, 2014, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, management and control, territory and plan of operation, reinsurance, financial statements, financial statement changes resulting from the examination, comments on financial statement items, and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Sunset Life Insurance Company of America as of December 31, 2014 be and is hereby ADOPTED as filed and for Sunset Life Insurance Company of America to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 2nd day of June 2016.



A handwritten signature in blue ink, appearing to read "John M. Huff", is written over a horizontal line.

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

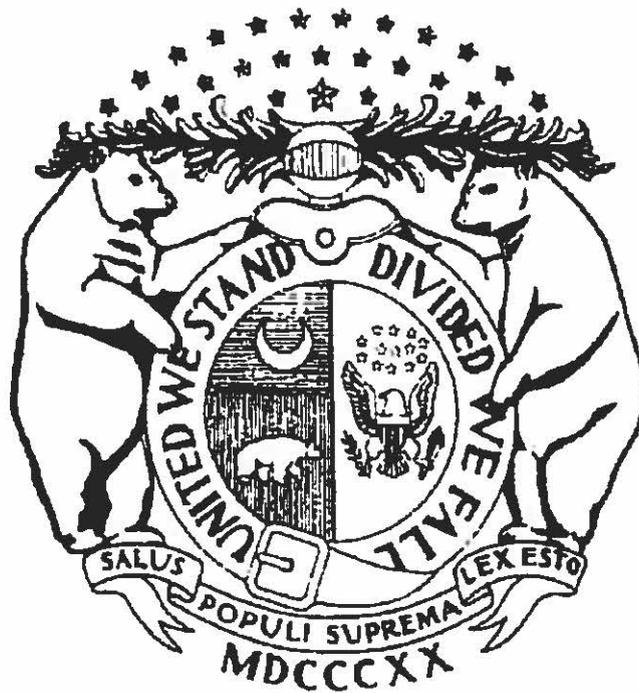
**REPORT OF THE
FINANCIAL EXAMINATION OF
SUNSET LIFE INSURANCE
COMPANY OF AMERICA**

**AS OF
DECEMBER 31, 2014**

FILED

JUN 13 2016

**DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRAR**



**STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI**

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Kansas City, Missouri
March 24, 2016

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial Institutions
and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Huff:

In accordance with your financial examination warrant, an examination has been made of the records, affairs and financial condition of

Sunset Life Insurance Company of America

hereinafter referred to as such, as Sunset Life, or as the Company. Its administrative office is located at 3520 Broadway, Kansas City, Missouri 64111, telephone number (816) 753-7000. This examination began on June 24, 2015 and was completed on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) performed our multi-state examination of Sunset Life. The last examination covered the period of January 1, 2006 through December 31, 2009. This examination covers the period of January 1, 2010 through December 31, 2014.

This examination was performed concurrently with the examination of the Company's parent, Kansas City Life Insurance Company (Kansas City Life) and an affiliate, Old American Insurance Company (Old American), collectively referred to as the Kansas City Life Insurance Companies or the Companies.

Procedures

This examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook), except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An

examination also includes identifying and evaluating significant risks that could cause the Company's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of this examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes findings of facts and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

Reliance Upon Others

The examination relied upon information provided by the Company and its management. Where deemed appropriate, this information has been tested or verified with external sources. The examination also relied upon information supplied by the Company's independent auditor, KPMG, LLP of Kansas City, Missouri for its audit covering the period from January 1, 2014 through December 31, 2014.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

SUBSEQUENT EVENTS

On December 15, 2015, shareholders of Kansas City Life Insurance Company voted to approve a reverse/forward stock split transaction. The transaction did not result in a change in control but reduced the number of holders of record for the Company's stock, and permitted the Company to terminate its registration under the Securities Exchange Act of 1934 and suspend its periodic reporting requirements with the Securities and Exchange Commission. The reverse stock split was effective at 6:00 p.m. Central Time on December 16, 2015, and the forward stock split was effective at 6:01 p.m. Central Time on December 16, 2015. Kansas City Life is no longer traded on the NASDAQ exchange and now trades on OTCQX U.S. Premier, which is operated by OTC Markets Group, a centralized electronic quotation service for over-the-counter securities.

COMPANY HISTORY

General

Sunset Life Insurance Company of America was incorporated as a stock life insurance company under the laws of the State of Washington on May 12, 1937. The Company was a wholly owned subsidiary of American Underwriters Corporation (AUC), until AUC was voluntarily dissolved in October 1960. Upon dissolution, Sunset Life's shares of stock were distributed to the owners of AUC.

In early 1974, Kansas City Life made a tender offer for all of the outstanding common stock of Sunset Life. As of December 31, 1975, 96.8% of the stock had been purchased. A capital restructuring was completed in December 1990, which resulted in Kansas City Life owning 100% of the outstanding common stock of the Company.

Dividends

Cash dividends declared and paid to the sole shareholder, Kansas City Life, during the period under examination were as follows: 2010 - \$6,850,000, 2011 - \$6,455,000, 2012 - \$6,715,000, 2013 - \$6,535,000 and 2014 - \$4,835,000.

Capital Contribution

The Company did not receive any capital contributions during the period under examination.

Mergers and Acquisitions

The Company was not the subject of an acquisition or merger during the period under examination.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a Board of Directors that is elected by the sole shareholder, Kansas City Life Insurance Company. The Company's Bylaws specify that the Board of Directors should consist of at least nine (9) and no more than twenty one (21) members. The Directors elected and serving as of December 31, 2014 were as follows:

<u>Name</u>	<u>Address</u>	<u>Principal Occupation and Business Affiliation</u>
R. Phillip Bixby	Kansas City, Missouri	Chairman of the Board, President & CEO Kansas City Life
Walter E. Bixby	Kansas City, Missouri	Executive Vice President and Vice Chairman, Kansas City Life
James P. Bixby	Kansas City, Missouri	Assistant Vice President, Sunset Life
Aaron L. Bush	Blue Springs, Missouri	Vice President, Kansas City Life
Nancy Bixby Hudson	Lander, Wyoming	Director, Kansas City Life

Tracy W. Knapp	Overland Park, Kansas	Senior Vice President, Finance, Kansas City Life
Mark A. Milton	Kansas City, Missouri	Senior Vice President and Actuary, Kansas City Life
Donald E. Krebs	Overland Park, Kansas	Senior Vice President, Marketing and Sales, Kansas City Life
Richard D. Ropp	Kansas City, Missouri	Vice President, Kansas City Life
Matthew R. O'Connor ¹	Kansas City, Missouri	Secretary, Sunset Life

Committees

The Company's Bylaws authorize an Executive Committee and any other committees that may be needed. The Investment Committee and the Audit Committee of Kansas City Life performs the investment and audit committee functions for Sunset Life. The established Sunset Life committees and the members elected and serving as of December 31, 2014 were as follows:

Executive Committee

R. Philip Bixby, Chairman
 Walter E. Bixby
 Mark A. Milton
 Matthew R. O'Connor¹

Nominating Committee

R. Philip Bixby, Chairman
 Walter E. Bixby

Wealth Building Opportunity Planning Committee

David A. Laird
 James R. Wilcox
 Keith L. Kelley

Officers

The officers elected and serving as of December 31, 2014 were as follows:

R. Philip Bixby	President & Chairman of the Board
Walter E. Bixby	Vice Chairman of the Board
Matthew R. O'Connor ¹	Secretary
David A. Laird	Vice President and Controller
Donald E. Krebs	Vice President, Sales and Marketing
Mark A. Milton	Vice President and Actuary
Richard D. Ropp	Vice President, Policy Administration

¹ November 4, 2015, Matthew O'Connor resigned his positions as Secretary and Director of Sunset Life. On December 10, 2015, Mr. Scott Harvison was appointed by the Board to serve the remainder of Mr. O'Connor's term as a Sunset Life Director and Secretary.

Corporate Records

The Company's Articles of Incorporation and Bylaws were reviewed for the period under examination. The Articles of Incorporation and Bylaws were not amended during the examination period.

The minutes of the Board of Directors' meetings, committee meetings, and stockholder's meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

Holding Company, Subsidiaries and Affiliates

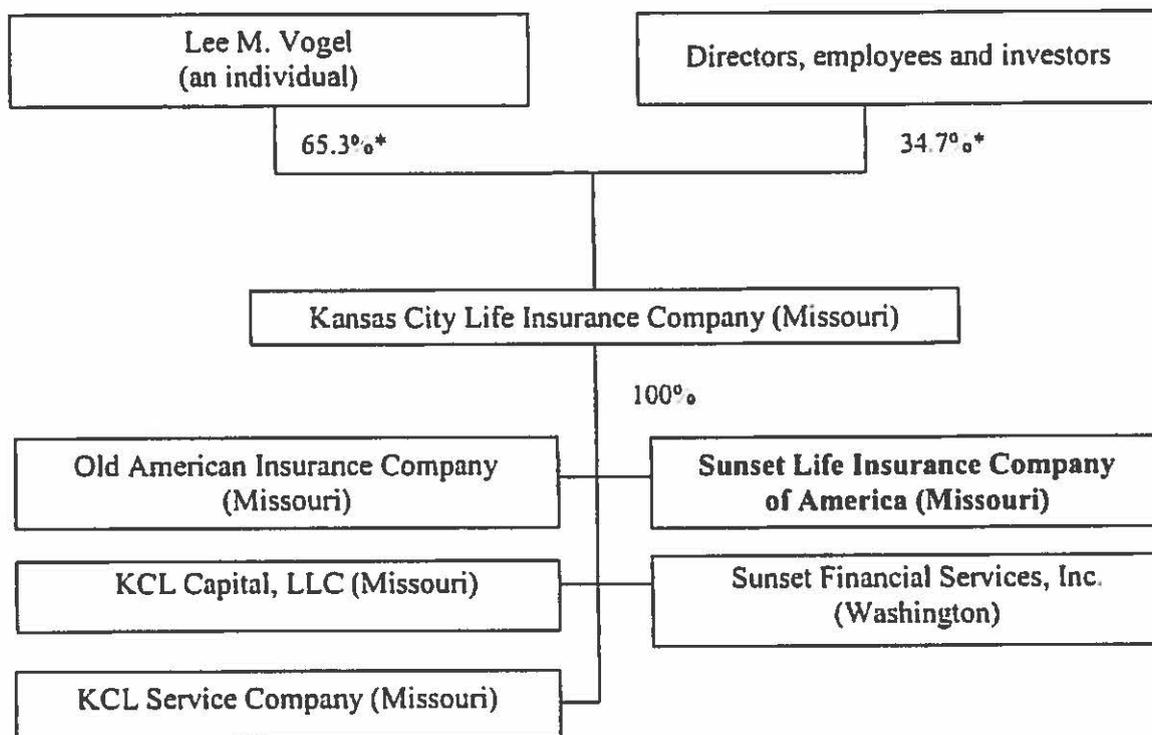
Sunset Life is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by the parent, Kansas City Life, for each year of the examination period on behalf of itself and its subsidiaries, including Sunset Life. The Company is a wholly owned subsidiary of Kansas City Life. Lee M. Vogel, an individual, is the ultimate controlling person within the holding company system of Kansas City Life.

As of December 31, 2014, shares in Kansas City Life were publicly traded on the NASDAQ stock exchange. On December 16, 2015, Kansas City Life amended its Articles of Incorporation creating stock split transactions allowing for a delisting of its shares from the NASDAQ exchange as of January 4, 2016. The Company's shares are now publicly traded on OTCQX, an "Over the Counter" exchange. The transactions leading to the stock delisting are further detailed in the Subsequent Events section of this Report.

The parent, Kansas City Life, is a life and health insurer organized as a Missouri corporation. The holding company system includes another life and health insurer, Old American Insurance Company, and as of December 31, 2014, three other affiliates that are related in part or entirely to the insurance operations. Sunset Financial Services, Inc., a Washington corporation, markets all of Kansas City Life's variable products and performs investment services for policyholders. The other subsidiaries are currently inactive or do not have any significant operations.

Organizational Chart

The following organizational chart depicts Sunset Life’s ownership and holding company structure as of December 31, 2014:



*Due to the Company’s reverse and forward stock splits on December 16, 2015, the ownership percentages have subsequently changed to 73.1% for Mr. Vogel and 26.9% for Directors, employees and investors.

Intercompany Agreements

The Company is a party to the intercompany agreements outlined below.

1. **Type:** Tax Allocation Agreement
- Parties:** Kansas City Life, Old American, Sunset Life and the wholly owned non-life insurance companies.
- Effective:** December 31, 2008
- Terms:** A consolidated federal income tax return is filed each year. The portion of the consolidated tax liability that is allocated to each company is based upon the subsidiary’s tax liability on a stand-alone basis.

- 2. Type:** Intercompany Affiliate Service Agreement
Parties: Kansas City Life and Sunset Life
Effective: August 1, 2009
Terms: The agreement is effective for five years unless otherwise terminated upon 30 days' notice by either party prior to the expiration. Services to be performed include, but are not limited to: accounting, tax, auditing, underwriting, claims, investments, and functional support services. Each party agrees to reimburse the other for services and facilities provided under this agreement.
- 3. Type:** Loan Guaranty
Parties: Kansas City Life and Sunset Life
Effective: August 4, 1999
Terms: Kansas City Life has guaranteed the indebtedness of Sunset Life on borrowings under a UMB Bank \$20,000,000 Line of Credit.
- 4. Type:** Guaranty
Parties: Kansas City Life and Sunset Life
Effective: Various dates
Terms: Kansas City Life has guaranteed to several states that the capital and surplus of Sunset Life will not fall below the stated minimum.
- 5. Type:** Inter-Company Retained Asset Program for Benefit Payments
Parties: Kansas City Life and Sunset Life
Effective: January 1, 2006
Terms: Certain benefit payments for all parties will be paid through a Kansas City Life corporate account maintained with State Street Bank and BISYS (State Street). Through Kansas City Life's contract with State Street, retained asset checking accounts are established for beneficiaries of death claims and cash surrenders in excess of \$10,000 for each of the parties to this agreement. Accounts are identified for each company based on branch codes built into the beneficiary's checking account number. When beneficiaries submit checks for payment they are paid from the State Street account. The amounts paid out to the beneficiaries are tracked through the account numbers and shown on each individual company's account as each company funds the account for their respective disbursement liabilities. In addition, bank service fees will be paid by each party based on their proportional share of the fees. Fees identified by the respective branch code of the account as being incurred by one party will be paid by that party.

TERRITORY AND PLAN OF OPERATION

Sunset Life Insurance Company of America is licensed by the Missouri Department of Insurance, Financial Institution and Professional Registration under Chapter 376 RSMo (Life, Health and Accident Insurance) to provide the following kinds of insurance: life, accident and health (A&H), and variable contracts. As of December 31, 2014, the Company was licensed to transact business in 43 states and the District of Columbia.

Sunset Life maintains its current block of business, but does not produce new sales. Sunset Life is included in the Individual Insurance segment of Kansas City Life and its individual insurance products include traditional and interest sensitive products.

REINSURANCE

General

The Company's premium activity, in thousands, on a direct, assumed and ceded basis for the period under examination is detailed below:

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Direct Business	\$26,432	\$26,171	\$21,105	\$25,056	\$24,714
Reinsurance Assumed:					
Affiliates	0	0	0	0	0
Non-affiliates	0	0	0	0	0
Reinsurance Ceded:					
Affiliates	(424)	(405)	(382)	(386)	(395)
Non-affiliates	<u>(10,045)</u>	<u>(10,434)</u>	<u>(10,743)</u>	<u>(12,311)</u>	<u>(12,528)</u>
Net Premiums	<u>\$15,963</u>	<u>\$15,332</u>	<u>\$ 9,980</u>	<u>\$12,359</u>	<u>\$11,790</u>

Assumed

The Company did not assume any business during the period under examination.

Ceded

Sunset Life is contingently liable for all reinsurance losses ceded or retroceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

Sunset Life cedes business under various reinsurance arrangements with affiliated and unaffiliated insurers. Reinsurance is primarily used to reinsure mortality risks in excess of the Company's retention and also to help manage statutory capital. Reinsurance is also ceded on a facultative basis to utilize the underwriting expertise of the reinsurer and to assist with additional capacity. The maximum retention on an individual life is \$350,000.

Historically, mortality risks exceeding the Company's retention have been ceded to a reinsurance pool. In 2001, new universal life plans were reinsured on a quota share yearly renewable term basis ("YRT") whereby the Company ceded up to 80% of the mortality risk. Effective January 1, 2002, Sunset Life reinsured 80% of the retained mortality risk on the in-force block under a YRT reinsurance agreement to a pool of four reinsurers.

In 1994, the Company introduced a series of level term products. The plans were coinsured on a quota share basis whereby the Company ceded 80% of the business. The primary purpose was to reduce the capital impact of the associated reserves. Beginning in 2000, the level term plans were ceded on a 90% quota share basis.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the DIFP and present the financial condition of Sunset Life Insurance Company of America for the period ending December 31, 2014. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered integral part of the financial statements.

Assets

	<u>Assets</u>	<u>Non- Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 270,390,986	\$ 0	\$270,390,986
Preferred Stocks	2,207,305	0	2,207,305
Common Stocks	429,500	0	429,500
Mortgage Loans on Real Estate	58,517,398	0	58,517,398
Cash, Cash Equivalents and Short-term Investments	6,588,746	0	6,588,746
Contract Loans	8,816,278	216	8,816,062
Other Invested Assets	154,492	100,417	54,075
Receivable for Securities	179,626	0	179,626
Investment Income Due and Accrued	3,415,804	2,901	3,412,903
Premiums and Considerations:			
Uncollected Premiums and Agents' Balances in Course of Collection	190	0	190
Deferred Premiums and Agents' Balances	481,960	0	481,960
Reinsurance:			
Amounts Recoverable from Reinsurers	1,290,054	150	1,289,904
Other Amounts Receivable Under Reinsurance	11,334		11,334
Net Deferred Tax Assets	2,910,288	1,291,852	1,618,436
Guaranty Funds Receivable or on Deposit	101,890	0	101,890
Aggregate Write-ins for Other Assets:			
Other Assets	48,232	25	48,207
TOTAL ASSETS	<u>\$355,544,083</u>	<u>\$1,395,561</u>	<u>\$354,148,522</u>

Liabilities, Surplus and Other Funds

Aggregate Reserve for Life Contracts	\$ 295,616,762
Aggregate Reserve for Accident and Health Contracts	5,050
Liability for Deposit-type Contract	4,304,168
Contract Claims: Life	1,352,913
Contract Claims: Accident and Health	5,565
Policyholders' Dividends and Coupons Due and Unpaid	27
Provision for Policyholders' Dividends and Coupons Apportioned for Payment	46,800
Provision for Policyholders' Dividends and Coupons and Similar Benefits	2,500
Advance Premium	23,295
Interest Maintenance Reserve	2,603,698
Commissions to Agents Due or Accrued	31,708
General Expenses Due or Accrued	24,000
Taxes, Licenses and Fees	200,000
Current Federal Income Taxes	165,493
Unearned Investment Income	33,812
Amounts Withheld or Retained by Company	12,923,722
Remittances and Items not Allocated	1,264,772
Liability for Benefits for Employees and Agents	1,000,423
Asset Valuation Reserve	2,275,000
Payable to Parent, Subsidiaries and Affiliates	101,685
Aggregate Write-ins for Liabilities	131,238
TOTAL LIABILITIES	\$ 322,112,631
Common Capital Stock	5,320,000
Gross paid in and Contributed Surplus	12,717,600
Unassigned Funds (Surplus)	13,998,294
TOTAL SURPLUS	26,715,894
TOTAL CAPITAL AND SURPLUS	32,035,894
TOTAL LIABILITIES AND SURPLUS	\$ 354,148,525

Statement of Income

Premiums and Annuity Considerations	\$ 15,963,299
Considerations for Supplementary Contracts	1,852,940
Net Investment Income	16,409,779
Amortization of Interest Maintenance Reserve	383,701
Commissions and Expense Allowance on Reinsurance Ceded	244,589
Aggregate Write-ins for Miscellaneous Income	657
TOTAL	<u>\$ 34,854,965</u>
Death Benefits	4,620,720
Matured Endowments	80,312
Annuity Benefits	14,088,625
Disability Benefits and Benefits Under Accident and Health Contracts	124,729
Coupons, Guaranteed Annual Pure Endowments and Similar Benefits	2,510
Surrender Benefits and Withdrawals for Life Contracts	8,132,420
Interest and Adjustments on Contracts for Deposit-type Funds	261,248
Payments on Supplementary Contracts with Life Contingencies	1,016,568
Increase in Aggregate Reserves for Life and Accident and Health	(4,501,673)
Commissions on Premiums, Annuity Considerations and Deposit Funds	320,485
General Insurance Expenses	3,055,303
Insurance Taxes, Licenses and Fees	382,612
Increase in Loading on Deferred and Uncollected Premiums	1,171
Aggregate Write-ins for Deductions	56,449
TOTAL	<u>\$ 27,641,479</u>
Net Gain Before Dividends to Policyholders and Federal Income Taxes	7,213,486
Dividends to Policyholders	50,193
Federal and Foreign Income Taxes Incurred	1,810,472
Net Realized Capital Loss	(979,493)
Net Income	<u>\$ 4,373,328</u>

Capital and Surplus Account

Capital and Surplus, December 31, 2013	\$ 31,198,207
Net Income	4,373,328
Change in Net Unrealized Capital Gains and (Losses)	19,023
Change in Net Deferred Income Tax	(352,822)
Change in Nonadmitted Assets	830,261
Change in Reserve on Account of Charge in Valuation Basis	(22,108)
Change in Asset Valuation Reserve	825,000
Dividends to Stockholders	(4,835,000)
Net Change in Capital and Surplus	<u>\$ 837,682</u>
Capital and Surplus at December 31, 2014	<u>\$ 32,035,889</u>

FINANCIAL STATEMENT CHANGES RESULTING FROM THE EXAMINATION

None

COMMENTS ON FINANCIAL STATEMENT ITEMS

None

SUMMARY OF RECOMMENDATIONS

None

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Sunset Life Insurance Company of America during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Vicki L. Denton, CFE, Karen Baldree, CPA, CFE, Laura L. Church, CPA, CFE, Emily Pennington, AFE, and Stephen Shahlari, CPA, examiners for the Missouri DIFP also participated in this examination. Kimberly Dobbs, CFE, AES, Information System Examiner for the DIFP, performed a review of the information system environment. The actuarial firm of Miller & Newberg, Consulting Actuaries, of Overland Park, Kansas also participated as consulting actuaries.

VERIFICATION

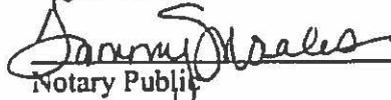
State of Missouri)
)
County of)

I, Levi N. Nwasoria, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Sunset Life Insurance Company of America its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Levi N. Nwasoria, CPA, CFE
Examiner-In-Charge
Missouri DIFP

Sworn to and subscribed before me this 30th day of March 2016.

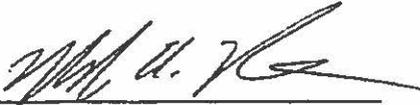
My commission expires: 01/07/2018 
Notary Public



TAMMY MORALES
My Commission Expires
January 7, 2018
Clay County
Commission #14451086

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Mark A. Nance, CPA, CFE
Audit Manager
Missouri DIFP