REPORT OF THE AUDIT OF THE KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM

For The Fiscal Year Ended
June 30, 2025

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ALLISON BALL
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Independent Auditor's Report

Mary Elizabeth Bailey, Secretary
Personnel Cabinet
501 High Street
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Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Kentucky Public Employee Health Insurance Program (the Plan), an enterprise fund of the Commonwealth of Kentucky, as of and for the year ended June 30, 2025, and the related notes to the financial statements which collectively comprise the Plan's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Plan, as of June 30, 2025, and the respective changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Mary Elizabeth Bailey, Secretary
Personnel Cabinet
November 14, 2025

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Mary Elizabeth Bailey, Secretary
Personnel Cabinet
November 14, 2025

Emphasis-of-Matter (Reporting Entity)

As discussed in Note 2, the financial statements present only the Plan, and do not purport to, and do not present fairly the financial position of the Commonwealth of Kentucky, as of June 30, 2025, or the results of its operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (page 7), ten-year claims development information (page 55), schedule of proportionate share of the net pension liability (page 56), schedule of pension contributions (page 57), schedule of proportionate share of the net OPEB liability (page 58), and schedule of OPEB contributions (page 59) be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2025, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

Respectfully Submitted,

Allison Ball

Allison Ball
Auditor of Public Accounts
Frankfort, Ky

November 14, 2025

MANAGEMENT'S DISCUSSION AND ANALYSIS

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2025

The management of the Kentucky Public Employee Health Insurance Program (the Plan) offers the readers of the Plan's financial statements this narrative overview and analysis of the financial performance of the Plan for the fiscal years ended June 30, 2025 and 2024. We encourage readers to read it in conjunction with the Plan's financial statements and the accompanying notes.

FINANCIAL HIGHLIGHTS

- Net position decreased to $137,982,451 as of June 30, 2025, from $349,592,998 as of June 30, 2024.
- Premium revenue increased by $158,522,897, bringing the total to $2,140,824,862 for the year ended June 30, 2025, from $1,982,301,965 for the year ended June 30, 2024.
- Claims expense increased $386,793,127 to $2,549,287,455 during the year ended June 30, 2025, from $2,162,494,328 during the year ended June 30, 2024.
- The premium deficiency reserve increased by $133,500,000 from June 30, 2024, to a total of $198,700,000 as of June 30, 2025.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of four parts: Management's Discussion and Analysis (this section), the basic financial statements, the accompanying notes to the financial statements, and the required supplementary information. The Plan follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities and operations of the Plan. These statements are presented in a manner similar to those of a private business.

The statements of net position presents information on all of the Plan's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Plan is improving or deteriorating.

The statements of revenues, expenses and changes in net position present information showing how the Plan's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statements of cash flows provides relevant information about the cash receipts and cash payments of the Plan during the fiscal year. The statement should help users assess the Plan's ability to generate future net cash flows; assess the Plan's ability to meet future obligations as they become due; identify the reasons for differences in operating and related cash receipts and cash payments; and identify the effects on financial position of cash and non-cash investing, capital, non-capital and financing activities.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2025
(Continued)

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 23 through 51.

GASB STATEMENT NO. 101

The Plan implemented Governmental Accounting Standards Board (GASB) Statement No. 101, Compensated Absences, during the fiscal year ended June 30, 2025. Additional information regarding the implementation and financial impact of GASB Statement No. 101 for the year ended June 30, 2025, can be found in Note 3 to the financial statements. The amounts and information for the year ended June 30, 2024, presented in this Management's Discussion and Analysis are shown as originally reported in the financial statements for the fiscal year ended June 30, 2024, and do not reflect the impact of GASB Statement No. 101 implementation.

FINANCIAL ANALYSIS OF THE PLAN

Condensed Financial Information
Statements of Net Position
As of June 30

	2025	2024
Assets:		
Current	$ 706,063,434	$ 470,466,175
Noncurrent	125,885,927	163,811,237
Total assets	831,949,361	634,277,412
Deferred outflows of resources	1,855,814	2,230,797
Total assets and deferrals	$ 833,805,175	$ 636,508,209
Liabilities:		
Current	$ 672,227,439	$ 259,265,673
Noncurrent	20,902,261	23,840,269
Total liabilities	693,129,700	283,105,942
Deferred inflows of resources	2,693,024	3,809,269
Total liabilities and deferrals	$ 695,822,724	$ 286,915,211
Net position:		
Unrestricted net position	137,982,451	349,592,998
Total net position	$ 137,982,451	$ 349,592,998

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2025
(Continued)

Current assets consist primarily of cash, premium receivables, and pharmacy rebate receivables. Non-current assets consist primarily of investments.

Current liabilities consist primarily of incurred but unpaid claims and the premium deficiency reserve. Non-current liabilities consist primarily of pension and other post-employment benefit liabilities.

As of the close of the fiscal year, net position represents the difference between assets, liabilities, and deferrals mentioned above. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by approximately $138 million. Total assets and deferrals increased over prior year by approximately $197 million, primarily due to increases in cash and cash equivalents and pharmacy rebates receivable.

Condensed Financial Information
Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30

	2025	2024
Operating revenues	$ 2,596,147,460	$ 2,335,723,196
Operating expenses	(2,827,699,439)	(2,257,698,241)
Net operating income (loss)	(231,551,979)	78,024,955
Nonoperating revenues (expenses):		
Interest expense	(110,250)	(122,135)
Coronavirus Relief Funding		3,000
Other		2,181
Investment gain/(loss)	20,135,128	19,241,180
Total nonoperating revenues	20,024,878	19,124,226
Income (loss) before other financing sources (uses)	(211,527,101)	97,149,181
Other financing sources (uses):		
Net operating transfers	151,869	138,861
Changes in net position	(211,375,232)	97,288,042
Net position, beginning of year	349,357,683	252,304,956
Net position, end of year	$ 137,982,451	$ 349,592,998

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2025
(Continued)

Premium revenues increased $159 million during the year ended June 30, 2025. Regular premium increases and plan adjustments are necessary to keep up with the rising cost of health care. The Plan did not increase employer nor employee contributions to medical premiums during the 2025 plan year. Some of the implemented plan adjustments include prescription drug formulary changes; however, there were no changes to the plan design during the 2025 plan year. The Plan is projected to end the 2025 plan year (period ended December 31, 2025) with a deficit of $187.3 million. During the year ended June 30, 2025, claims expenses rose $387 million as compared to the year ended June 30, 2024.

Additionally, no transfers from the Plan to the Commonwealth of Kentucky General Fund were required during the fiscal year ended June 30, 2025. Since the year ended June 30, 2017, the Plan has transferred a total of $810,504,900 pursuant to House Bill 303 of the 2016 regular session and House Bill 200 of the 2018 regular session.

Per House Bill 6 from the 2024 regular session, excess funds from any prior plan year are authorized to be used to satisfy claims or expenses in Plan Years 2021 through 2026.

ECONOMIC CONDITIONS AND OUTLOOK

The financial position of the Plan is dependent, in part, on state appropriations, as well as premium contributions from participating employers and employee members. Allocation of funds is a governmental process outside of management's control, though management for the Plan works with leadership inside the Commonwealth's Personnel Cabinet and the Governor's office when making budgetary requests. Additionally, management does not have discretionary control of the allocation of the benefit assessment fee it collects from participating employers.

The cost of medical care and prescription drugs continues to increase, with medical costs expected to exceed 8.5% and pharmacy costs expected to exceed the projected 18% for 2025, and an additional 8.5% increase in medical costs and 12% in pharmacy costs have been projected for 2026. These increases are attributable to both increases in unit cost and higher utilization. Management expects cost increases will continue as prices and demand increase for traditional and specialty drugs, including glucagon-like peptide-1 agonists (GLP-1s) which primarily are used for obesity and diabetes disease management, and overall healthcare costs continue to remain high in response to economic pressures. However, other conditions, such as sleep apnea and liver conditions, have been added to the GLP-1 drug labels, and additional conditions will be added in the near future. Due to SB 188 (RS 24) starting in 2025, pharmacy claims have been subject to new pricing and dispensing fee terms, which will be established by regulation starting in 2027. The net impact of these requirements for the Plan to date has resulted in higher prescription costs on average, with the Plan's actuaries confirming a negative financial impact from these changes.

Additionally, membership demographics continue to apply financial pressure to the Plan. The membership of the Plan is older, on average, than employer plans in the private sector and approximately tracks public sector benchmarks, which management expects will continue to produce a higher claims rate and more expensive claims than the average. However, the economic impacts of stagnant membership and rising costs have been offset, to varying degrees, by increases to contributions.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2025
(Continued)

Management has implemented new programs in recent years to further the goal of bringing affordable, equitable, best in class benefits to the Plan's members while limiting cost increases:

- Carrum Health Centers of Excellence provide high-quality cancer care and a range of surgical procedures.
- Castlight hosts a number of well-being programs and incentives along with their existing "benefits hub" service.
- LivingWell Onsite Clinics offer primary care, vaccinations, and other services without any cost to the employee, either by appointment or walk-in.
- A Weight Management Program providing dietary planning and lifestyle coaching for members on anti-obesity medication.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain information set forth in this report contains forward-looking information. Except for statements of historical fact, the information contained herein constitutes forward-looking statements and includes, but is not limited to, the (i) projected financial position of the Plan; (ii) presentation of current financial information as a basis for the reader to assess possible future net cash flows; and (iii) statements regarding significant health events impacting the Plan's financials, such as a pandemic.

Forward-looking statements are provided to allow readers the opportunity to understand management's beliefs and opinions regarding the future. These statements are not guarantees of a future financial position, and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause financial results in future periods to differ materially from any projections or results expressed or implied by such forward-looking statements. The Plan's management undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change, except as required under applicable law. The reader is cautioned not to place undue reliance on forward-looking statements.

CONTACTING THE PLAN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, legislators, citizens, taxpayers, and federal government officials, as well as, investors and creditors with a general overview of the Plan's finances and to demonstrate the Plan's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Kentucky Public Employee Health Insurance Program, ATTN: Hannah Stanfield, Assistant Director; 501 High Street, 4th floor, Frankfort, Kentucky, 40601.

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FINANCIAL STATEMENTS

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
STATEMENT OF NET POSITION
JUNE 30, 2025

	Administrative Fund	Trust Fund	Total
Current assets:			
Cash and cash equivalents	$ 174,349	$ 465,336,415	$ 465,510,764
Premiums receivable, net		15,647,821	15,647,821
Pharmacy rebate receivable		222,761,058	222,761,058
Claims recovery and other receivables		1,921,773	1,921,773
Prepaid expenses	62,494	159,524	222,018
Total current assets	236,843	705,826,591	706,063,434
Noncurrent assets:			
Investments	881,549	122,955,261	123,836,810
Subscription assets, net	2,049,117		2,049,117
Total noncurrent assets	2,930,666	122,955,261	125,885,927
Total assets	3,167,509	828,781,852	831,949,361
Deferred outflow of resources			
Deferred outflows - pension	1,629,699		1,629,699
Deferred outflows - OPEB	226,115		226,115
Total deferred outflows of resources	1,855,814		1,855,814
Total assets and deferrals	5,023,323	828,781,852	833,805,175
Current liabilities:			
Accounts payable	155,228	328,884,417	329,039,645
Accrued expenses	200,182	420,267	620,449
Incurred but unpaid claims		143,286,024	143,286,024
Current portion of subscription liabilities	269,062		269,062
Premium deficiency reserve		198,700,000	198,700,000
Compensated absences	312,259		312,259
Total current liabilities	936,731	671,290,708	672,227,439
Noncurrent liabilities:			
Compensated absences	371,799		371,799
Other postemployment benefits	1,036,686		1,036,686
Subscription liabilities	1,911,987		1,911,987
Net pension	17,581,789		17,581,789
Total noncurrent liabilities	20,902,261		20,902,261
Total liabilities	21,838,992	671,290,708	693,129,700
Deferred inflow of resources			
Deferred inflows - pension	1,336,080		1,336,080
Deferred inflows - OPEB	1,356,944		1,356,944
Total deferred inflows of resources	2,693,024		2,693,024
Total liabilities and deferrals	24,532,016	671,290,708	695,822,724
Net position:			
Unrestricted (deficit)	(19,508,693)	157,491,144	137,982,451
Total net position (deficit)	$ (19,508,693)	$ 157,491,144	$ 137,982,451

The accompanying notes are an integral part of the financial statements.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2025

	Administrative Fund	Trust Fund	Total
Operating revenues:			
Premium revenues	$	$ 2,140,824,862	$ 2,140,824,862
Contributions to Waiver Health Reimbursement Accounts		52,067,621	52,067,621
Pharmacy rebates		403,254,977	403,254,977
Total operating revenues		2,596,147,460	2,596,147,460
Operating expenses:			
Claims expense		2,549,287,455	2,549,287,455
Claims incurred in Waiver Health Reimbursement Accounts		36,344,233	36,344,233
Change in premium deficiency reserve		133,500,000	133,500,000
Administrative and claims processing fees		100,469,607	100,469,607
Personnel expenses	3,411,501	2,062,113	5,473,614
Commodities and supplies	26,776	842,567	869,343
Utilities, rentals, and other	1,736,156	18,138	1,754,294
Travel	893		893
Total operating expenses	5,175,326	2,822,524,113	2,827,699,439
Operating income (loss)	(5,175,326)	(226,376,653)	(231,551,979)
Nonoperating revenues (expenses):			
Interest expense	(110,250)		(110,250)
Investment gain		20,135,128	20,135,128
Total nonoperating revenues (expenses)	(110,250)	20,135,128	20,024,878
Income (loss) before other financing sources (uses)	(5,285,576)	(206,241,525)	(211,527,101)
Other financing sources (uses):			
Net operating transfers	8,348,069	(8,196,200)	151,869
Changes in net position (deficit)	3,062,493	(214,437,725)	(211,375,232)
Net position (deficit), beginning of year, restated	(22,571,186)	371,928,869	349,357,683
Net position (deficit), end of year	$ (19,508,693)	$ 157,491,144	$ 137,982,451

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2025

	Administrative Fund	Trust Fund	Total
Operating activities:			
Premiums collected - public	$	$ 307,728,901	$ 307,728,901
Premiums collected - state		1,844,937,749	1,844,937,749
Waiver Health Reimbursement Account contributions collected - public		1,755,548	1,755,548
Waiver Health Reimbursement Account contributions collected - state		46,808,455	46,808,455
Pharmacy rebates collected		338,964,754	338,964,754
Benefits paid		(2,315,075,100)	(2,315,075,100)
Claims processing fees paid		(91,368,668)	(91,368,668)
Payments to employees for services	(4,688,125)		(4,688,125)
Payments to suppliers of goods and services	(3,786,683)	(2,970,680)	(6,757,363)
Net cash flows from operating activities	(8,474,808)	130,780,959	122,306,151
Noncapital financing activities:			
Operating transfers	8,348,069	(8,196,200)	151,869
Net cash flows from noncapital financing activities	8,348,069	(8,196,200)	151,869
Investing activities:			
Principal paid on subscription liabilities	(256,604)		(256,604)
Interest paid on subscription liabilities	(110,250)		(110,250)
Investment gain		19,883,065	19,883,065
Net investment activity	487,686	37,144,893	37,632,579
Net cash flows from investing activities	120,832	57,027,958	57,148,790
Net change in cash and cash equivalents	(5,907)	179,612,717	179,606,810
Cash and cash equivalents, beginning of year	180,256	285,723,698	285,903,954
Cash and cash equivalents, end of year	$ 174,349	$ 465,336,415	$ 465,510,764

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2025
(Continued)

	Administrative Fund	Trust Fund	Total
Reconciliation of operating income (loss) to net cash flows from operating activities:			
Operating income (loss)	$ (5,175,326)	$ (226,376,653)	$ (231,551,979)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:			
Amortization expense	292,731		292,731
(Increase) decrease in:			
Premiums receivable, net		8,338,169	8,338,169
Pharmacy rebate receivable		(64,290,223)	(64,290,223)
Claims recovery and other receivables		(35,918)	(35,918)
Deferred inflows	(1,116,245)		(1,116,245)
Prepaid expense	55,473	194,113	249,586
Increase (decrease) in:			
Accounts payable	(1,465)	280,043,269	280,041,804
Accrued expenses	(5,151)	35,692	30,541
Deferred outflows	374,983		374,983
Net pension liability	(2,783,530)		(2,783,530)
Incurred but unpaid claims		(627,490)	(627,490)
OPEB liability	(205,244)		(205,244)
Premium deficiency		133,500,000	133,500,000
Compensated absences	88,966		88,966
Net cash flows from operating activities	$ (8,474,808)	$ 130,780,959	$ 122,306,151

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2025

	Private Purpose Trust Fund
Assets:	
Receivables	$ 4,666,458
Liabilities:	
Due to other governmental funds	4,312,420
Accounts payable	354,038
Total liabilities	$ 4,666,458

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
JUNE 30, 2025

	Private Purpose Trust Fund
Participant flexible spending account contributions	$ 40,828,536
Participant flexible spending account distributions	(40,828,536)
Change in fiduciary net position	
Fiduciary net position, beginning of year	
Fiduciary net position, end of year	$

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NOTES TO THE FINANCIAL STATEMENTS

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

Note 1 - Description of the Plan

The following description of the Kentucky Public Employees' Health Insurance Program (the Plan) of the Commonwealth of Kentucky (the Commonwealth) is provided for informational purposes only. Members should refer to the plan document for more details about the Plan.

Organization

Pursuant to Kentucky Revised Statutes (KRS) §§ 18A.225 et seq., the Commonwealth is required to administer an employee health insurance program as part of a flexible benefits plan. The Department of Employee Insurance (the Department) is responsible for overseeing the Plan, as well as the Flexible Spending Account (FSA) and Health Reimbursement Arrangement (HRA) Programs for state employees, local governments, boards of education, quasi-governmental agencies, and pre-age 65 retirees.

The Department:

1. Provides exemplary customer service to members, which includes employees of state government, boards of education, health departments, quasi-governmental agencies, retirees under the age of 65, persons covered under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), and their eligible dependents.

2. Supports all eligible members with health insurance, an FSA, and an HRA, as applicable, as well as helps administer and oversee other health-related benefit programs, chronic disease management and prevention programs, and a wellness program.

3. Receives, analyzes, and maintains health insurance data to assist the Commonwealth in making decisions regarding the Plan.

4. Supports the Department's oversight board members in their function to develop recommendations on the future direction of the Plan.

Premiums and Members

The health benefits for eligible members of the Plan are funded by monthly premiums paid by the employees and their employers. A member may cover his/her dependents for an additional monthly premium based on the coverage requested. Premiums for Plan members and their dependents are collected by the Department and held in a trust fund until needed for the payment of benefits and plan administration costs.

The Plan develops premium equivalent rates each year by utilizing historical trend information, current claims experience, and national trends. An outside actuarial consultant advises the plan administrator regarding premium rates. If premium rates are changed, they become effective at the beginning of the next calendar year.

Note 1 - Description of the Plan (Continued)

Premiums and Members (Continued)

Plan members are not subject to supplemental assessment in the event of a premium deficiency. At the time of premium payment, the risk of loss due to incurred benefit costs is transferred from the member to the Plan. If the assets of the Plan were to be exhausted, members would not be responsible for the Plan's liabilities.

As of June 30, 2025, the Plan provided health coverage to 133 state agencies with 36,224 primary members (not including dependents), 179 school districts with 95,962 primary members, 282 local government entities and health departments with 13,103 primary members, and 5 retiree divisions with 41,260 primary members. Total lives covered by the Plan, including dependents, were approximately 339,000.

Benefits

The Plan offered three health insurance plan options for Plan Year 2024, and four health insurance plan options for Plan Year 2025. Benefits are administered by multiple vendors, including: Anthem for medical; CVS for pharmacy; HealthEquity for FSAs, HRAs, and COBRA; Castlight and WebMD for wellness; SmartShopper for transparency; Rethink Care for parental support for children with additional needs or behavioral challenges; Carrum Health for surgical centers of excellence. The three plans offered for Plan Year 2024 were the LivingWell Consumer Driven Health Plan (CDHP), LivingWell Preferred Provider Organization (PPO), and LivingWell Basic CDHP. The four plans offered for Plan Year 2025 were the LivingWell Consumer Driven Health Plan (CDHP), LivingWell Preferred Provider Organization (PPO), LivingWell Basic CDHP and LivingWell High Deductible Health Plan (HDHP).

All plans require completion of the LivingWell Promise, a Plan wellness initiative. The Promise requires the Planholder to complete a Health Assessment by July 1. If a Planholder fails to fulfill the LivingWell Promise in the current plan year, they will not receive the $40 monthly premium incentive in the following plan year.

Plans are summarized below.

The LivingWell CDHP is a Consumer Driven Health Plan, in which the member is in more control of managing health expenses:

- Members receive an employer-funded Health Reimbursement Arrangement (HRA) to use toward their deductible and maximum out-of-pocket expenses in the amount of $500 for single coverage or $1,000 for couple, parent-plus, or family coverage.
- Of the available plans, the LivingWell CDHP has the lowest annual out-of-pocket maximum and co-insurance percentage.

Note 1 - Description of the Plan (Continued)

Benefits (Continued)

- Members are responsible for meeting a deductible. Once the deductible is met, members pay a co-insurance percentage for medical services and prescription drugs.
- All covered expenses apply to the deductible and out-of-pocket maximum.
- The pharmacy benefit preferred drug list is the CVS Caremark Value Formulary; this formulary provides more generic drug options and fewer brand-name options.
- Any remaining funds, up to $7,500, in a participant’s HRA at year-end will be carried forward to the subsequent plan year(s) and will be available for future claims, provided the participant is eligible and continues enrollment in a CDHP.
- Unclaimed HRA funds are forfeited and returned to the Plan at any point when the participant terminates employment or enrolls in a non-CDHP insurance plan.

The LivingWell PPO Plan is a traditional Preferred Provider Organization (PPO) health plan:

- This plan includes a flat co-pay amount for certain services. For other services, the deductible and co-insurance applies.
- This plan includes a flat co-pay amount for prescription drugs.
- The out-of-pocket maximum for this plan is the same as the LivingWell CDHP; however, the PPO plan does not include an employer-funded HRA.
- The pharmacy benefit preferred drug list is the CVS Caremark Value Formulary; this formulary provides more generic drug options and fewer brand-name options.
- The out-of-pocket maximum accumulates separately for medical and prescription expenses.

The LivingWell Basic CDHP is a Consumer Driven Health Plan that puts the member in more control of his/her health expenses:

- Members receive an employer-funded HRA to use toward their deductible and maximum out-of-pocket expenses in the amount of $250 for single coverage or $500 for couple, parent-plus, or family coverage.
- This plan offers lower premiums in exchange for higher deductibles.
- All covered expenses apply to the deductible and out-of-pocket maximum.
- The pharmacy benefit preferred drug list is the CVS Caremark Value Formulary; this formulary provides more generic drug options and fewer brand-name options.
- Any remaining funds, up to $7,500, in a participant’s HRA at year-end will be carried forward to the subsequent plan year(s) and will be available for future claims, provided the participant is eligible and continues enrollment in a CDHP.
- Unclaimed HRA funds are forfeited and returned to the Plan at any point when the participant terminates employment or enrolls in a non-CDHP insurance plan.
- A non-HRA version of this plan became the default plan for members who did not elect a health plan for Plan Years 2023 and 2024.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(Continued)

Note 1 - Description of the Plan (Continued)

Benefits (Continued)

The LivingWell High Deductible Health Plan HDHP is a catastrophic-type health plan:
- This plan offers lower premiums in exchange for higher deductibles.
- All covered expenses apply to the deductible and out-of-pocket maximum.
- The pharmacy benefit preferred drug list is the CVS Caremark Value Formulary; this formulary provides more generic drug options and fewer brand-name options.

Pursuant to KRS 18A.2254, the Commonwealth will provide $175 per employee as a monthly employer contribution to an HRA account, not to exceed $2,100 per plan year, to each employee waiving health coverage.

There are two types of Waiver HRAs:

1) The Waiver General Purpose HRA: This HRA reimburses participants for certain medical expenses that are not covered by the Plan. Only the employer can contribute to the HRA. Medical expenses are defined as expenses incurred by the participant and their dependents for health care as defined in Section 213 of the Internal Revenue Code. To elect the Waiver General Purpose HRA, members must attest that they have other group health insurance coverage that provides minimum value. A group health plan that provides “minimum value” means a plan that pays at least 60% of the total allowed cost of covered benefits/services and members in the plan are required to pay no more than 40% of the total allowed cost of covered benefits/services. A “group health plan” does not include individual policies purchased through the Marketplace or governmental plans such as TRICARE, Medicare, or Medicaid.

2) The Waiver Limited Purpose HRA: This HRA reimburses participants for certain dental and vision expenses. Members who are not eligible for the Waiver General Purpose HRA may elect the Waiver Limited Purpose HRA. Only the employer may contribute to the HRA.

   The third-party administrator determines whether there are unclaimed reimbursement account balances remaining after the HRA claims run-out period of March 31st of each year. Funds remaining in a participant’s Waiver General Purpose HRA after the run-out period, up to a maximum of $2,100, will be carried forward to the subsequent plan year and will be available for future claims, provided the participant is eligible and continues enrollment in the same Waiver HRA program. Funds are not transferrable between the Waiver General Purpose HRA and the Waiver Limited Purpose HRA. Unclaimed HRA funds are forfeited and returned to the Plan at any point when the participant terminates employment or enrolls in a plan other than the Waiver General Purpose or Waiver Limited Purpose HRA.

The Commonwealth has also established Flexible Spending Accounts. The FSAs allow members to use pre-tax contributions to pay for qualified expenses.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(Continued)

Note 1 - Description of the Plan (Continued)

Benefits (Continued)

The Plan offers two types of FSAs:

1) The Healthcare Flexible Spending Account (HCFSA): The HCFSA allows members to elect a specified amount of pre-tax contributions to be used for reimbursement of eligible medical expenses. The HCFSA is intended to qualify as a self-insured medical reimbursement plan under Sections 105 and 106 of the Internal Revenue Code (the Code). Medical expenses are defined as expenses incurred by the member and their dependents for health care as defined in Section 213 of the Code.

2) The Child and Adult Daycare Flexible Spending Account: This type of FSA allows members to elect a specified amount of pre-tax contributions to be used for reimbursement of eligible employment-related child and adult daycare expenses. The Child and Adult Daycare FSA is intended to qualify as a dependent care assistance plan under Section 129 of the Code.

Flexible Spending Accounts and related amounts are determined annually by member election. Reimbursement of expenses are provided for eligible health or child and adult daycare expenses that are incurred during the plan year and submitted by the member for reimbursement before the end of the run-out period.

Members are allowed to carry over a minimum of $50 up to a maximum of $640 from one plan year to the next in the HCFSA. Any unclaimed Flexible Spending Account funds exceeding $640 for the HCFSA are forfeited by the member and retained by the Plan if they have not been submitted for reimbursement by the end of the run-out period.

Child and Adult Daycare FSA funds do not roll over, so any unclaimed funds in this account are forfeited by the member and retained by the Plan if the member has not applied for reimbursement of incurred expenses before the end of the run-out period.

The run-out period for both FSA types expires on March 31 of each year.

Note 2 - Summary of Significant Accounting Policies

This summary of significant accounting policies of the Plan is presented to assist in understanding the Plan's financial statements. The financial statements and notes are representations of the Plan's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Plan's financial statements are included in the Commonwealth's Annual Comprehensive Financial Report (ACFR) as an enterprise fund within the Kentucky Public Employees Health Insurance Fund. The intent of an enterprise fund is to finance or recover, primarily through user charges, the costs of providing goods and services. An enterprise fund prepares operating statements using the flow of economic resources as its measurement focus. Such operating statements are designed to report events and transactions that increase or decrease an entity's economic resources (i.e., all assets and liabilities). Enterprise fund transactions are accounted for using the accrual basis, under which revenues are recorded when earned, and expenses are recorded when the liabilities are incurred.

The Administrative Fund is used to fund administrative costs for the administration of the Plan. The Trust Fund is used to provide funds to pay medical claims and other costs associated with the administration of the Plan.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of incurred but unpaid claims and the premium deficiency. In connection with the determination of incurred but unpaid claims and the premium deficiency, management uses the methodology detailed in the incurred but unpaid claims and premium deficiency notes, and as discussed in the following paragraph, to estimate the liabilities. See Note 6 and Note 7.

Management believes the liability for incurred but unpaid claims and the premium deficiency is adequate. While management uses available information to estimate incurred but unpaid claims and the premium deficiency, future changes to the liabilities may be necessary based on claims experience, changing claims frequency and severity conditions, as well as changes in doctrines of legal liability and damage awards in the Commonwealth. The future changes will be charged or credited to expenses when they occur. See Note 6 and Note 7.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

Description of Net Position Classes

Restricted - This component of net position consists of constraints placed on net position used through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of the net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Cash and Cash Equivalents

The Plan considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of net position.

Interfund Activity

Interfund activity is reported as either loans or reimbursements. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement.

Subscription-Based Information Technology Arrangements (SBITAs)

Subscription Assets

Subscription assets are initially recorded at the initial measurement of the subscription liability, plus subscription payments made at or before the commencement of the SBITA’s term, plus capitalizable initial implementation costs. Subscription assets are amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying information technology asset.

Subscription Liabilities

Subscription liabilities are initially recorded at the present value of SBITA payments expected to be made during the term of the arrangement. Subsequently, liabilities are reduced by the principal portion of payments made.

Note 2 - Summary of Significant Accounting Policies (Continued)

Subscription Liabilities (Continued)

Key estimates and judgments include determining (1) the discount rate it uses to discount the expected SBITA payments to present value, (2) the term of the arrangement, and (3) SBITA payments. The discount rate used in calculating the liability is either the interest rate charged under the arrangement or the Plan’s estimated incremental borrowing rate. The term includes the noncancellable period of the arrangement, plus any periods covered by the Plan’s option to extend if it is reasonably certain, based on all relevant factors, that the Plan will exercise the option.

The Plan monitors changes in circumstances that would require a remeasurement of its SBITAs and will remeasure the asset and liability if certain changes occur that are expected to significantly affect the amount of the liability.

Incurred but Unpaid Claims

The Plan establishes liabilities for incurred but unpaid claims based on its estimate of the ultimate cost of settling claims that have been reported but not yet settled, and claims that have been incurred but not yet reported. Although such estimates are the Plan's best estimates of the incurred claims to be paid, due to the complex nature of the factors involved in the calculation, the actual results may be more or less than the estimate. The claim liabilities are recomputed on a periodic basis using actuarial and statistical techniques which consider the effects of the general economic conditions, such as inflation, and other factors of past experience, such as changes in member accounts. Adjustments to claim liabilities are recorded in the periods in which they are made. A provider has 15 months from the time the service is performed until the claim has to be filed or additional information provided.

Premium Deficiency Reserve

Premium deficiency reserves are required to be recorded when the anticipated claim costs and claim adjustment expenses for the remainder of the contract term are in excess of anticipated premium receipts for the remainder of the contract term. Anticipated investment income is not considered in determining whether a premium deficiency exists.

Operating Revenues and Expenses

Balances classified as operating revenues and expenses are those which comprise the Plan's principal ongoing operations. Since the Plan's operations are similar to those of any other insurance company, most revenues and expenses are considered operating. The Plan does not record deferred acquisition costs since administrative expenses are primarily maintenance expenses and not acquisition expenses.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

Premiums

Premiums are recognized in the period when the insurance coverage is provided. Premiums are due monthly from the employers and members according to the rates adopted by the Plan.

Allowance for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years. At June 30, 2025, management did not feel a reserve was necessary.

Fiduciary Funds – Private-Purpose Trust Fund

Fiduciary funds, specifically private-purpose trust funds are defined as funds that are administered through a trust agreement in which the government itself is not a beneficiary, dedicated to providing benefits to recipients in accordance with the benefit terms, and legally protected from the creditors of the government. This fund consists of unspent member contributions to Flexible Spending Accounts (FSA) held in accordance with the definition of a private-purpose trust fund. These funds consist of pre-tax monies received from members to be used on a reimbursement basis for expenses paid by members for either health and/or dependent care expenditures.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kentucky Employees Retirement System (KERS) and addition to/deductions from KERS's fiduciary net position have been determined on the same basis as they are reported by the Plan.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Kentucky Employees Retirement System (KERS) and additions to/deductions from KERS's fiduciary net position have been determined on the same basis as they are reported by KERS. For this purpose, KERS recognizes benefit payments (including refunds of employee contributions) when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. The KERS Non-hazardous Insurance Funds are reported as OPEB trust funds and are accounted for on the accrual basis of accounting.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

Compensated Absences

A liability for compensated absences is recognized when the leave is earned by the employee and unused as of the reporting date (vacation leave, sick leave, compensatory time and holidays). For certain types of leave, such as parental leave, a liability is recognized only when the leave commences. Leave likely to be settled through conversion to defined benefit postemployment benefits has been excluded from the liability for compensated absences. The liability for compensated absences is measured using the employee’s pay rate as of the date of the financial statements. Historical usage patterns and employment policies were considered in estimating the liability. The liability and expense incurred for employee vacation leave, sick leave, compensatory time, holidays, and parental leave are recorded as accrued compensated absences in the statement of net position and as a component of personnel expenses in the statement of revenues, expenses and changes in net position.

Note 3 – Change in Accounting Principle

On July 1, 2024, the Plan implemented Governmental Accounting Standards Board Statement No. 101, Compensated Absences (GASB 101), which requires that liabilities for compensated absences be recognized for leave earned that has not been used and leave that has been used but not yet paid in cash or settled through noncash means. Compensated absences include vacation leave, sick leave, compensatory time, holidays, and parental leave. Previously, sick leave was not recognized as a liability in the statement of net position. As a result of adopting GASB 101, the System recorded a cumulative-effect adjustment of $235,315 to the beginning net position as of July 1, 2024.

The following table summarizes the cumulative-effect adjustment for the change in accounting principle:

	As previously stated July 1, 2024	Cumulative-effect adjustment for GASB 101	Restated July 1, 2024
Statement of net position - administrative fund			
Unrestricted deficit	(22,335,871)	(235,315)	(22,571,186)
Total net deficit	$ (22,335,871)	$ (235,315)	$ (22,571,186)

Note 4 - Cash Deposits

Plan receipts are deposited in the Commonwealth's general depository or depositories designated by the State Treasurer, which has statutory responsibility and authority to safeguard the funds.

Note 4 - Cash Deposits (Continued)

Administrative and Trust Funds

Cash includes amounts on deposit with the Commonwealth's cash and investment pool. See the Commonwealth's ACFR for the year ended June 30, 2025, for disclosure of the credit risk classifications of the cash and investment pool. The carrying amount of the Plan's cash and cash equivalents invested in the Commonwealth's cash and investment pool balance was $465,510,764 at June 30, 2025.

Note 5 - Investments

All Plan investments are held directly in the Commonwealth's investment pool, reported at fair value, which has statutory responsibility and authority to safeguard the funds. The Plan's share of investments in the Commonwealth's investment pool totaled $123,836,810 at June 30, 2025. Legally authorized investments generally include obligations of or guaranteed by the United States; obligations of any corporation of the United States Government; asset backed securities; U.S. dollar denominated corporate securities; collateralized certificates of deposit; bankers' acceptances; commercial paper and repurchase agreements. The Commonwealth is also eligible to invest in reverse repurchase agreements. See the Commonwealth's ACFR for the years ended June 30, 2025, for disclosure of the credit risk classifications of the cash and investment pool.

Note 6 - Incurred But Unpaid Claims

As discussed in Note 2, the Plan establishes liabilities for incurred but unpaid claims based on its estimate of the ultimate cost of settling claims that have been reported but not yet settled, and of claims that have been incurred but not yet reported.

Changes in the aggregate liability for claims during 2025 are as follows:

	2025	2024
Balance, beginning of year	$ 143,913,514	$ 127,035,671
Claims incurred	2,571,160,283	2,188,394,603
Changes in prior year estimates	14,471,405	10,786,304
Claims paid	(2,586,259,178)	(2,182,303,064)
Balance, end of year	$ 143,286,024	$ 143,913,514

The incurred but unpaid claims liability of $143,286,024 at June 30, 2025, does not include a liability for claims adjustment expenses as service providers have waived claims runout processing fees.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(Continued)

Note 6 - Incurred But Unpaid Claims (Continued)

As a result of changes in estimates of insured events from the prior year and timing of claims paid, the provision for claims decreased by $627,490 in 2025.

As of June 30, 2025, the liability total includes the incurred but unpaid claims estimates for all CDHP Health Reimbursement Arrangements and Stand-Alone Health Reimbursement Arrangements (i.e., waived health coverage) of $1,158,986 and $767,720, respectively.

Note 7 - Premium Deficiency

A premium deficiency reserve is recorded at the end of the fiscal year when the anticipated costs of settling claims, plus claims processing fees for the remainder of the contracted premium period July 1 through December 31, are in excess of the anticipated premium receipts for the remainder of the contracted premium period July 1 through December 31. Anticipated premium receipts are projected based on the current premium rates adopted by the Plan. Anticipated investment income is not considered in determining whether a premium deficiency exists. Incurred claims for the remainder of the year are projected based on current year incurred claims, increased for anticipated inflation rates. The Department determined that a reserve for premium deficiency was necessary as of June 30, 2025, in the amount of $198,700,000.

Note 8 Subscription Based Information Technology Arrangement

The Plan has entered into a subscription-based information technology arrangement (SBITA) involving data warehousing and management services. The total costs of the Plan's subscription asset is $2,927,310, less accumulated amortization of $878,193 as of June 30, 2025.

Subscription asset and liability activity for the year ended June 30, 2025 is as follows:

	June 30, 2024	Additions	Reductions	June 30, 2025	Current Portion	Long-Term Portion
Subscription assets	$ 2,341,848	$	$ (292,731)	$ 2,049,117		
Subscription liabilities	$ 2,437,653	$	$ (256,604)	$ 2,181,049	$ 269,062	$ 1,911,987

Note 8 Subscription Based Information Technology Arrangement (Continued)

The future subscription payments under the SBITA agreement are as follows:

Year ending June 30:	Payment	Interest	Principal
2026	$ 366,854	$ 97,792	$ 269,062
2027	366,854	84,730	282,124
2028	366,854	71,033	295,821
2029	366,854	56,672	310,182
2030	366,854	41,613	325,241
2031 and thereafter	733,708	35,089	698,619
Total	$ 2,567,978	$ 386,929	$ 2,181,049
Less: current obligations			(269,062)
Long-term subscription obligations			$ 1,911,987

The SBITA had a remaining term of 7 years including all options to renew and a discount rate of 4.75% as of June 30, 2025.

Note 9 – Compensated Absences

Compensated absences activity for the year ended June 30, 2025 is as follows:

	July 1, 2024	Net change	June 30, 2025	Current Portion	Long-Term Portion
Compensated absences	$ 595,092	$ 88,966	$ 684,058	$ 312,259	$ 371,799

Note 10 - Reinsurance

As of June 30, 2025, the Plan has not transferred any risk of loss through reinsurance contracts.

Note 11 - Pharmacy Rebates

The Plan is guaranteed a minimum rebate from the Plan's pharmacy third party administrator for each prescription filled, as detailed in the agreement with the third party. The Plan recorded $403,254,977 in pharmacy rebates for the year ended June 30, 2025. The Plan had $222,761,058 in pharmacy rebate receivables at June 30, 2025.

Note 12 - Net Position

Included in total net position are unused Health Reimbursement Arrangement (HRA) balances of $269,405,362 as of June 30, 2025. HRA dollars remaining at the end of each plan year roll over to the next plan year if the member re-enrolls in the HRA. Should the member elect to change his or her benefit option from the previously elected HRA or upon termination of employment or other loss of eligibility, any and all balance remaining in the member's HRA shall be forfeited and become part of the Kentucky Public Employee Health Insurance Program Trust Fund.

KRS 18A.2254 specifies trust fund receipts from prior plan years shall not be used to pay claims and expenses for current or subsequent plan years. In the event of a projected deficit in the trust fund balance of a prior plan year, the Secretary of the Finance and Administration Cabinet may declare an emergency and transfer up to twenty-five percent (25%) of another prior plan year's balance to that plan year, provided the Governor and Legislative Research Commission are notified at least thirty (30) days prior to the transfer.

Pursuant to House Bill 6 of the 2024 regular session and notwithstanding KRS 18A.2254, plan years through 2020 were considered closed as of June 30, 2024, and all balances from those plan years were transferred to Plan Year 2021. All other income and expenses attributable to the closed plan years shall be deposited in or charged to the Plan Year 2021. At June 30, 2025, management has determined the designated cash balances (deficits), in the Trust Fund unrestricted cash and investments, to be the following for each plan year:

2021	$	355,745,945
2022		(23,543,012)
2023		(34,507,762)
2024		44,584,690
2025		246,011,815
Total	$	588,291,676

House Bill 1 authorizes the Plan to use excess funds from any prior plan year to satisfy expenses for Plan Years 2021, 2022, 2023, 2024, 2025, and 2026.

Note 13 - Retirement Plan

The Plan is a participant employer of the Kentucky Employees' Retirement System (KERS) for Non-Hazardous Pension Plans. The Board of Trustees of Kentucky Public Pension Authority administers the retirement plan under the provisions of Kentucky Revised Statute 61.645.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(Continued)

Note 13 - Retirement Plan (Continued)

Plan Description

The Kentucky Employees Retirement System (KERS) is a cost-sharing, multiple-employer defined benefit pension plan. It includes nearly all regular full-time employees working in positions at participating state agencies, as well as eligible local agencies that choose to join the system. The plan offers retirement, disability, and death benefits to its members, with the possibility of extending retirement benefits to beneficiaries under certain conditions.

Cost of Living Adjustment (COLA)

No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.

Benefit Formula (Tiers 1 and 2): Final Compensation * Benefit Factor * Year of Service

Tier 1

Participation:	Prior to September 1, 2008
Final compensation:	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump sum compensation payments (before and at retirement).
Benefit factor:	1.97% for 13 months of credit for 1/1/1998 to 1/1/1999. 2.00% for 13 months or more of credit for 1/1/1998 to 1/1/1999.
Unreduced retirement benefit:	Any age with 27 years of service. Age 65 with 48 months of service. Money Purchase for age 65 with less than 48 months based on contributions and interest.
Reduced retirement benefit:	Any age with 25 years of service. Age 55 with 5 years of service.

Tier 2

Participation:	September 1, 2008, through December 31, 2013
Final compensation:	5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump sum compensation payments (before and at retirement) are not to be included in creditable compensation.

Note 13 - Retirement Plan (Continued)

Benefit factor:	1.10% = 10 years or less 1.30% = Greater than 10 years, but no more than 20 years. 1.50% = Greater than 20 years, but no more than 26 years 1.75% = Greater than 26 years, but no more than 30 years 2.00% = Greater than 30 years (2.00% benefit factor only applies to service earned in excess of 30 years).
Unreduced retirement benefit:	Any age with 27 years of service. Age 65 with 48 months of service. Money Purchase for age 65 with less than 48 months based on contributions and interest. Rule of 87: Member must be at least age 57. Age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No Money Purchase calculations
Reduced retirement benefit:	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).

Tier 3

Participation:	Participation on or after January 1, 2014
Final compensation:	No final compensation
Benefit factor:	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the board based on member's accumulated account balance.
Unreduced retirement Benefit:	Rule of 87: Member must be at least age 57. Age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No Money Purchase calculations
Reduced retirement Benefit:	No reduced retirement

Contributions

Benefits and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the Kentucky Retirement System's Board. For the fiscal years ended June 30, 2025 and 2024, employees were required to contribute 5 percent of their annual covered salary for retirement benefits. Employees participating in Tiers 2 and 3 were required to contribute an additional 1 percent for the insurance fund.

Note 13 - Retirement Plan (Continued)

Retirement plan members who began participating on or after January 1, 2014, were required to contribute to Tier 3. Tier 3 is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the retirement plan contribute a set percentage of their salary each month to their own account. Members contribute 5 percent of wages to their own account and 1 percent to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

The Plan was contractually required to contribute a normal cost percentage of covered payroll and an actuarially accrued liability contribution amount effective July 1, 2022.

Normal Contributions

> Normal cost contributions are based on a normal cost percentage of employers' reported payroll. The normal contribution percentage for the years ended June 30, 2025 and 2024, was 8.44% of covered payroll, of which 6.99% allocated to the pension fund and 1.45% to the insurance fund.

Actuarially Accrued Liability Contribution

> The actuarially accrued liability contribution is a monthly amount determined by the KERS actuary for its own portion of the total unfunded liability over a set period, regardless of covered payroll to the nonhazardous KERS pension plan. The contribution rate is actuarially determined as an amount that, when combined with employee contributions during the year, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded liability. The Plan's portion of the actuarially accrued liability contribution is based on the Executive Branch's proportionate share of the actuarially accrued liability contribution of 40.31%, of which 40.21% is allocated to the pension fund and 0.10% to the insurance fund for the years ended June 30, 2025 and 2024.

The Plan's total contributions to the KERS nonhazardous pension plan were $1,296,309, with $191,975 representing the normal cost contribution and $1,104,334 representing the actuarially accrued liability contribution for the pension fund, which is 100% of the required pension contribution for the year ended June 30, 2025.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(Continued)

Note 13 - Retirement Plan (Continued)

At June 30, 2025, the Plan reported a liability of $17,581,789 for its proportionate share of the net pension liability. The net pension liability at June 30, 2025 was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2023, rolled forward to 2024 using generally accepted actuarial principles. The Plan's proportion of the net pension liability was based on a projection of the Plan's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities. At June 30, 2024, the Plan's proportion was 0.145911%.

For the year ended June 30, 2025, the Plan recognized a pension benefit of $1,621,985. For the year ended June 30, 2025 deferred outflows and deferred inflows related to the pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 333,390	$
Net difference between projected and actual earnings on investments		148,344
Change of assumptions		
Changes in proportion and differences between employer contributions and proportionate share of contributions		1,187,736
Contributions subsequent to the measurement date	1,296,309	
Total	$ 1,629,699	$ 1,336,080

The $1,296,309 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ended June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized over a period of either five years for investment-related deferrals or the estimated remaining service life for active participants in the pension plan for other deferred items. As of June 30, 2024, the estimated remaining service life was 1.95 years. Other amounts reported as deferred outflows and deferred inflows of resources related to the pension will be recognized as follows:

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(Continued)

Note 13 - Retirement Plan (Continued)

	Deferred amounts to be recognized in fiscal years following the reporting date	
2026	$	(932,958)
2027	$	35,183
2028	$	(59,682)
2029	$	(45,233)
Total	$	(1,002,690)

Actuarial Assumptions

The total pension liability in the June 30, 2024 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	June 30, 2023
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percent of pay
Asset Valuation Method:	5-Year Smoothed Market.
Remaining Amortization Period:	30 years, closed period at June 30, 2019. After 2019, gains/losses will be amortized over separate closed 20-year amortization bases.
Date of Experience Study:	July 1, 2017, to June 30, 2022
Investment Rate of Return:	5.25%
Inflation Rate:	2.50%
Payroll Growth Rate:	0%
Salary Growth Rate:	3.30% to 15.30%, varies by service.

Mortality Tables for active members was a PUB-2010 General Mortality table projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010. Healthy Retired Members was a system-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. Disabled Members was a PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each asset class. The ranges are combined by weighting the expected future real rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rate of return for each major asset class is summarized in the table below. The current long-term inflation assumption is 2.50% per annum for both the non-hazardous and hazardous plan.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(Continued)

Note 13 - Retirement Plan (Continued)

The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

Kentucky Retirement Systems

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Equity:		
Public Equity	30.00%	4.15%
Private Equity	6.00%	9.10%
Fixed Income:		
Core Fixed Income	27.00%	2.85%
Specialty Credit	20.00%	3.82%
Cash	2.00%	1.70%
Inflation Protected:		
Real Estate	5.00%	4.90%
Real Return	10.00%	5.35%
Total	100.00%	4.14%
Long term inflation assumption		2.50%
Expected nominal return for portfolio		6.64%

Discount Rate

The projection of cash flows used to determine the discount rate of 5.25% assumes that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 30-year amortization period of the unfunded actuarial accrued liability. Future contributions are projected assuming contributions of the actuarially determined contribution are fully met each future year, calculated in accordance with the current funding policy. The discount rate does not use a municipal bond rate.

Sensitivity of the Plan's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan, calculated using the discount rate of 5.25%, as well as what the Plan's net position liability would be if it were calculated using a discount rate that is one percentage point lower (4.25%) or one percentage point higher (6.25%):

		Decrease 4.25%	Discount 5.25%	Increase 6.25%
The Plan's proportionate share	$	20,352,122	17,581,789	15,286,676

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(Continued)

Note 13 - Retirement Plan (Continued)

Detailed information about the KERS's fiduciary net position is available in the separately issued Kentucky Employees' Retirement System's Annual Financial Report (a matter of public record). The Commonwealth's Annual Comprehensive Financial Report should be referred to for additional disclosures related to KERS. The Kentucky Retirement System also issues a publicly available financial report that includes financial statements and required supplementary information for the KERS, which may be obtained online at www.kyret.ky.gov.

In addition to the above plans, the Plan's employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth of Kentucky. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. Both plans permit employees to defer a portion of their salary until future years. Contributions to these plans totaled $130,595 for the year ended June 30, 2025. Both plans permit employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, the year age 59 ½ is attained, death, or financial hardship. Minimum distributions are required at age 70 ½. Loans are also permitted in accordance with plan provisions. The Commonwealth of Kentucky's ACFR should be referred to for additional disclosures related to the deferred compensation plans.

Note 14 - Post-Employment Health Care Benefits

All regular full-time employees who work in non-hazardous duty positions of any state department, board, agency, county, city, school board, and any eligible local agencies participate in an Other Post-employment Benefit (OPEB) plan administered by the Kentucky Employees Retirement System (KERS), a cost-sharing multi-employer public employee retirement system. The OPEB plan provides health insurance benefits to plan members and to certain beneficiaries of plan members under prescribed circumstances.

Covered Employees

Contribution rates for employers and employees are established by Kentucky Statute KRS 21.427. The traditional plan members do not contribute to the OPEB directly. Instead, assets have been allocated between the pension and the retiree medical liabilities on the basis of the accrued liability as of July 1, 2021. This amount has been brought forward from that date based on actual cash flows and prorated allocation of investment returns. The hybrid plan member contributes 1% of his or her salary. Employer contributions are determined by the budget bill.

Benefits

Benefits and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565, contribution requirements of active employees and participating organizations are established and may be amended by the Kentucky Retirement System's board. Employees with a participation date after 9/1/2008 were required to contribute an additional 1 percent of their salary for retiree healthcare benefits.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(Continued)

Note 14 - Post-Employment Health Care Benefits (Continued)

Benefit Factor

Participation prior to July 2003:

Months of Service	Percent of Premium
Less than 48	0%
48 – 119 inclusive	25%
120 – 179 inclusive	50%
180 - 239 inclusive	75%
240 or more	100%

Participation between 2003 and August 2008:

Greater than or equal to 120	$10 per month for each year of service without regards to a max dollar adjusted to 1.5% annually

Participation on or after September 2008:

Greater than or equal to 180	$10 per month for each year of service without regards to a max dollar adjusted to 1.5% annually

Cost of Living Members participating after 2008 receive a 1.5% increase annually.

Contributions
The Plan was contractually required to contribute 1.55 percent of covered payroll to the nonhazardous KERS insurance plan for the year ended June 30, 2025. The Plan's total statutorily required contributions to the KERS nonhazardous insurance plan for the year ended June 30, 2025 was $42,569. The Plan contributed $42,569, with $39,823 representing the normal cost contribution and $2,746 representing the actuarially accrued liability contribution, for the year ended June 30, 2025, which is 100% of the statutorily required contribution. Note 13 provides a detailed breakdown of the Plan's contractually required contributions to the normal cost percentage of covered payroll and an actuarially accrued liability contribution amount for fiscal year 2025.

At June 30, 2025, the Plan reported a liability of $1,036,686 or its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2024, and the total OPEB liability used to calculate the net collective OPEB liability was determined by an actuarial valuation performed as of June 30, 2023, rolled forward to 2024 using generally accepted actuarial principles. The Plan's proportion of the net OPEB liability was based on a projection of the Plan's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities. At June 30, 2024, the Plan's proportion was 0.143377%.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(Continued)

Note 14 - Post-Employment Health Care Benefits (Continued)

For the year ended June 30, 2025, the Plan recognized an OPEB benefit of $730,346. Deferred outflows and deferred inflows related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 81,428	$ 857,092
Net difference between projected and actual earnings on investments		76,973
Change of assumptions	63,291	37,945
Changes in proportion and differences between employer contributions and proportionate share of contributions		384,934
Contributions subsequent to the measurement date	81,396	
Total	$ 226,115	$ 1,356,944

Of the total amount reported as deferred outflows of resources related to OPEB, $42,569 resulting from the Plan's statutorily required contributions and $38,827 resulting from the implicit subsidy subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability during the year ended June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized over a period of either five years for investment-related deferrals or the estimated remaining service life for active participants in the pension plan for other deferred items. As of June 30, 2024, the estimated remaining service life was 3.40 years. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as follows:

	Deferred amounts to be recognized in fiscal years following the reporting date
2026	$ (838,658)
2027	$ (303,460)
2028	$ (49,596)
2029	$ (20,511)
Total	$ (1,212,225)

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(Continued)

Note 14 - Post-Employment Health Care Benefits (Continued)

Actuarial Assumptions:

The total OPEB liability in the June 30, 2024, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	June 30, 2023
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percent of pay
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of the assets is recognized.
Remaining Amortization Period:	30 years, closed period at June 30, 2019. After 2019, gains/losses will be amortized over separate closed 20-year amortization bases.
Date of Experience Study:	July 1, 2017, to June 30, 2022
Investment Rate of Return:	6.50%
Inflation Rate:	2.5%
Payroll Growth Rate:	0%
Salary Growth Rate:	3.30% to 15.30%, varies by service
Healthcare Trend Rates:	

Pre-65: Initial trend starting at 7.10% on 1/1/2026 and gradually decreasing to a trend rate of 4.25% over a period of 14 years.
Post-65: Initial trend starting at 8.00% in 2026 and gradually decreasing to a trend rate of 4.25% over a period of 10 years.

Mortality Tables for active members was a PUB-2010 General Mortality table projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010. Healthy Retired Members was a system-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. Disabled Members was a PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each asset class. The ranges are combined by weighting the expected future real rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rate of return for each major asset class is summarized in the table below. The current long-term inflation assumption is 2.50% per annum for both the non-hazardous and hazardous plan.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(Continued)

Note 14 - Post-Employment Health Care Benefits (Continued)

Kentucky Retirement Systems

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Equity:		
Public Equity	40.00%	4.15%
Private Equity	8.00%	9.10%
Fixed Income:		
Core Fixed Income	10.00%	2.85%
Specialty Credit	25.00%	3.82%
Cash	2.00%	1.70%
Inflation Protected:		
Real Estate	7.00%	4.90%
Real Return	8.00%	5.35%
Total	100.00%	4.43%
Long term inflation assumption		2.50%
Expected nominal return for portfolio		6.93%

Discount Rate

The discount rate used to calculate total OPEB liability is 6.00%. The discount rate determination used an expected rate of return of 6.50% and a municipal bond rate of 3.86%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2024. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, each plan's fiduciary net position and future contributions were projected separately and were sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the KERS's actuarially determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the KERS's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The projection of cash used to determine the single discount rate assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in statute. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the Commonwealth's ACFR.

Note 14 - Post-Employment Health Care Benefits (Continued)

Sensitivity of the Plan's proportionate share of the collective net OPEB liability to changes in the discount rate

The following presents the Plan's proportionate share of the collective net OPEB liability, as well as what the Plan's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.00 percent) or 1-percentage-point higher (6.00 percent) than the current discount rate:

	Decrease 5.00%	Discount 6.00%	Increase 7.00%
The Plan's proportionate share	$ 1,432,387	$ 1,036,686	$ 702,183

Sensitivity of the Plan's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates

The following presents the Plan's proportionate share of the collective net OPEB liability, as well as what the Plan's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The Plan's proportionate share	$ 768,951	$ 1,036,686	$ 1,346,763

Detailed information about the KERS's fiduciary net position is available in the separately issued Kentucky Employees' Retirement System's Annual Financial Report (which is a matter of public record). The Commonwealth's Annual Comprehensive Financial Report should be referred to for additional disclosures related to KERS. See the end of Note 13 for additional information and resources available regarding KERS.

Note 15 - Plan Administration and Operating Transfers

The Administrative Fund is used to fund administrative costs for the administration of the Plan. When the Commonwealth moved from a fully insured health insurance program to a self-insured program, the Department of Employee Insurance took on significant financial responsibilities including actuarial work and therefore requested transfers of $8,196,200 from the premiums to help fund the administrative costs of the Plan for the year ended June 30, 2025. In addition, there were $151,869 in transfers for services from other governmental funds to the Administrative Fund during the year ended June 30, 2025. The deficit remaining in the Administrative Fund of $19,508,693 represents pension, other postemployment benefits, and net subscription liability activity.

Note 16 - Related Party Transactions

The Plan received the benefit of accounting and administrative services from the Personnel Cabinet for fiscal year 2025, for which no fee was assessed. The Plan received the benefit of legal services from the Personnel Cabinet for fiscal year 2025, for which no fee was assessed.

The Plan received the benefit of utilities, janitorial services, postage, and office space from the Finance and Administration Cabinet (FAC). During fiscal year 2025, the Plan reimbursed the FAC $290,913 for these costs.

The Plan received services from the Commonwealth Office for Technology (COT) which provides technical support for State government agencies in the application of information technology, including major information resource functions such as data center operations, data and voice communications, data administration, hardware selection and installation, printing, and related end-user and customer support services. During fiscal year 2025, the Plan paid $607,559 to the COT for services provided.

Note 17 – Interfund Receivable/Payables

At June 30, 2025, the Fiduciary Fund had a liability to other governmental funds of $4,312,420. These liabilities represent loans provided to the Flexible Spending Accounts maintained within the Fiduciary Fund to assist with cash flow deficits.

Additionally, of the premiums receivable, net held within the Trust Fund at June 30, 2025, approximately $15,648,000 were due from other governmental funds.

Note 18 - Fair Value of Financial Instruments

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(Continued)

Note 18 - Fair Value of Financial Instruments (Continued)

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the hierarchy, the Plan's assets and liabilities measured at fair value on a recurring basis as of June 30, 2025, are as follows:

	Level 1	Level 2	Total
The Plan's share of the Commonwealth's investment pool	$ 122,955,261	$ 881,549	$ 123,836,810

The Plan's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no transfers between levels during the year ended June 30, 2025.

Realized and unrealized gains of $20,135,128 for the year ended June 30, 2025 are reported in the statement of revenues, expenses, and changes in net position as a component of non-operating revenue.

The Plan holds investments which are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.

Note 19 - Risk Management

The Plan is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. The Plan utilizes the Commonwealth of Kentucky's Risk Management Fund to cover exposure to these potential losses. The Commonwealth of Kentucky's ACFR should be referred to for additional disclosures related to the Risk Management Fund.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(Continued)

Note 20 - Commitments

The Plan entered into long term contracts with certain vendors for processing medical (including wellness benefits) and pharmacy claims in support of the Plan's operations. The medical claims processing contract is set to expire in December 31, 2027. The pharmacy claims processing contract is set to expire in December 31, 2025. The total amount to be paid for processing medical claims is based on a monthly per member cost with no limit. The total amount to be paid for processing pharmacy claims is per prescription filled. Contract provisions also include a provision to waive claims runout processing fee. The fees incurred by the Plan for services performed by the above third-party administrators totaled approximately $92,008,000 for the year ended June 30, 2025.

The Plan entered into a contract with a vendor to provide FSA, HRA, HIPAA, and COBRA administration services. This contract was effective January 1, 2015, and is effective through December 31, 2025. The fees incurred by the Plan for services performed under this contract total approximately $6,174,000 for the year ended June 30, 2025.

The Plan entered into a contract with a vendor to provide wellness benefits. This contract expires on December 31, 2026. The fees incurred by the Plan for services performed under this contract totaled approximately $894,000 for the year ended June 30, 2025.

The Plan entered into a contract with a vendor to provide health insurance consulting and actuarial services including premium rate setting. This contract was effective January 1, 2011, and has been renewed through June 30, 2026. The fees incurred by the Plan for services performed under this contract totaled approximately $710,000 for the year ended June 30, 2025.

The Plan entered into contracts with vendors to provide on-site health services to state employees at four Frankfort locations and one Louisville location. This contract was entered into on July 1, 2016, and expires June 30, 2026. The fees incurred by the Plan for services performed under the contract total approximately $1,993,000 for the year ended June 30, 2025.

The Plan entered into a contract with a vendor to provide transparency administration services. This contract was effective January 1, 2015, and is effective through December 31, 2025. The fees incurred by the Plan for services performed under this contract total approximately $1,883,000 for the year ended June 30, 2025.

The Plan entered into a contract with a vendor to provide medication therapy management services to the Plan’s early retiree population. This contract was effective July 1, 2017, and is effective through June 30, 2026. The fees incurred by the Plan for services performed under this contract total approximately $450,000 for the year ended June 30, 2025.

The Plan entered into a contract with a vendor to provide web-based behavioral health support services. This contract was effective December 1, 2018, and is effective through June 30, 2026. The fees incurred by the Plan for services performed under this contract total approximately $938,000 for the year ended June 30, 2025.

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REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
1 Earned premium revenue	$ 1,624,815,499	$ 1,627,656,265	$ 1,640,341,966	$ 1,639,532,690	$ 1,641,278,455	$ 1,651,452,552	$ 1,678,482,301	$ 1,760,246,168	$ 1,982,301,965	$ 2,140,824,862
2 Administrative fees	73,177,331	75,515,090	77,296,439	76,670,634	78,104,717	73,453,904	75,015,372	85,089,263	88,732,291	100,469,607
3 Incurred claims as originally estimated	1,348,429,170	1,402,631,988	1,479,372,629	1,593,887,664	1,624,279,763	1,726,479,962	1,843,954,227	1,945,535,650	2,166,043,481	2,494,810,881
4 Claims paid (cumulative) as of:										
End of fiscal year	1,230,809,586	1,326,155,196	1,390,162,355	1,509,462,214	1,534,109,875	1,616,850,493	1,668,255,787	1,823,386,769	2,028,386,495	2,357,904,961
One year later	1,339,032,485	1,397,381,146	1,470,797,436	1,592,882,951	1,631,553,527	1,755,702,426	1,845,631,608	1,950,156,537	2,175,931,163	
Two years later	1,327,946,378	1,396,642,406	1,460,934,416	1,592,570,480	1,635,082,419	1,758,073,635	1,851,946,500	1,954,654,302		
Three years later	1,327,946,378	1,396,642,406	1,461,578,691	1,592,574,424	1,635,082,583	1,758,072,569	1,851,945,834			
Four years later	1,327,946,378	1,396,642,406	1,461,578,691	1,592,574,424	1,635,082,583	1,758,072,569				
Five years later	1,327,946,378	1,396,642,406	1,461,578,691	1,592,574,424	1,635,082,583					
Six years later	1,327,946,378	1,396,642,406	1,461,578,691	1,592,574,424						
Seven years later	1,327,946,378	1,396,642,406	1,461,578,691							
Eight years later	1,327,946,378	1,396,642,406								
Nine years later	1,327,946,378									
5 Re-estimation of incurred claims:										
End of fiscal year	1,348,429,170	1,402,631,988	1,479,372,629	1,593,887,664	1,624,279,763	1,726,479,962	1,843,954,227	1,945,535,650	2,166,043,481	2,494,810,881
One year later	1,339,032,485	1,396,808,015	1,469,261,025	1,591,761,293	1,631,081,108	1,757,483,070	1,848,955,136	1,953,266,187	2,179,402,243	
Two years later	1,338,945,276	1,392,504,716	1,461,168,962	1,592,570,480	1,635,264,469	1,758,451,258	1,852,494,019	1,954,757,119		
Three years later	1,338,945,276	1,392,504,716	1,461,578,691	1,592,574,424	1,635,164,633	1,758,450,192	1,852,493,353			
Four years later	1,338,945,276	1,392,504,716	1,461,578,691	1,592,574,424	1,635,082,583	1,758,072,569				
Five years later	1,338,945,276	1,392,504,716	1,461,578,691	1,592,574,424	1,635,082,583					
Six years later	1,338,945,276	1,392,504,716	1,461,578,691	1,592,574,424						
Seven years later	1,338,945,276	1,392,504,716	1,461,578,691							
Eight years later	1,338,945,276	1,392,504,716								
Nine years later	1,338,945,276									
6 Change in estimated incurred claims from the original estimate using re-estimation as of the end of the most recent fiscal year	$ (9,483,894)	$ (10,127,272)	$ (17,793,938)	$ (1,313,240)	$ 10,802,820	$ 31,592,607	$ 8,539,126	$ 9,221,469	$ 13,358,762 $	$ -

The table above illustrates how the Plan's earned revenues compare to related costs of loss and other expenses assumed by the Plan as of the end of the year. The rows of the table are identified as follows:

1) This line shows the total fiscal year's earned premium revenues.

2) This line shows the fiscal year's administrative fees.

3) This line shows the incurred claims (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).

4) This line shows the cumulative amount paid as of the end of the successive year for each policy year, net of recoveries.

5) This line shows how the policy year's incurred claims increased or decreased as of the end of the year. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known.

6) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Proportion of the net pension liability (asset)	0.145911%	0.165320%	0.182113%	0.180067%	0.157596%	0.158449%	0.150384%	0.158439%	0.140373%	0.152453%
Proportionate share of the net pension liability	$ 17,581,789	$ 20,365,319	$ 24,161,555	$ 23,979,518	$ 22,322,926	$ 22,377,756	$ 20,457,574	$ 21,212,020	$ 16,001,487	$ 15,293,546
Covered- employee payroll	$ 2,611,067	$ 2,486,866	$ 2,409,791	$ 2,424,520	$ 2,234,321	$ 2,404,644	$ 2,296,756	$ 2,418,442	$ 2,354,111	$ 2,478,791
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	673.36%	818.92%	1002.64%	989.04%	999.09%	930.61%	890.72%	877.09%	679.73%	616.98%
Pension plan fiduciary net position as a percentage of the total pension liability	25.96%	22.32%	18.51%	18.48%	14.01%	13.66%	12.84%	13.32%	14.80%	18.83%

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Statutorily required contribution	$ 1,296,309	$ 1,541,052	$ 1,735,886	$ 1,794,758	$ 1,776,689	$ 1,587,038	$ 1,708,018	$ 943,047	$ 973,181	$ 726,008
Contribution in relation to the statutorily contribution	1,296,309	1,541,052	1,735,886	1,794,758	1,776,689	1,587,038	1,708,018	943,047	973,181	726,008
Contribution deficiency (excess)	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
Covered employee payroll	$ 2,746,417	$ 2,611,067	$ 2,486,866	$ 2,409,791	$ 2,424,520	$ 2,234,321	$ 2,404,644	$ 2,296,756	$ 2,418,442	$ 2,354,111
Contribution as a percentage of covered-employee payroll	47.20%	59.02%	69.80%	74.48%	73.28%	71.03%	71.03%	41.06%	40.24%	30.84%
Notes to Schedule										
Valuation date	June 30, 2024	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2017	June 30, 2017	June 30, 2016	June 30, 2016	June 30, 2015	June 30, 2015
Methods and assumptions used to determine contributions:										
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Experience study	July 1, 2017 - June 30, 2022	July 1, 2013 - June 30, 2018	July 1, 2013 - June 30, 2018	July 1, 2013 - June 30, 2018	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013
Amortization method	Level of percentage of pay	Level of percentage of pay	Level of percentage of pay	Level of percentage of pay	Level of percentage of pay	Level of percentage of pay	Level of percentage of pay	Level of percentage of pay	Level of percentage of pay	Level of percentage of pay
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	Five-year smoothed market
Investment return	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	6.75%	6.75%	6.75%	7.50%
Inflation	2.50%	2.30%	2.30%	2.30%	2.30%	2.30%	3.25%	3.25%	3.25%	3.25%
Projected salary increase	3.30% to 15.30%, varies by service.	3.30% to 15.30%, varies by service.	3.30% to 15.30%, varies by service.	3.30% to 15.30%, varies by service.	3.30% to 15.55%, varies by service.	3.55% to 15.55%, varies by service.	4.0% average, including inflation	4.0% average, including inflation	4.0% average, including inflation	4.0% - 8.20%

Mortality

The mortality table used for active members is the RP-2010 General Mortality Table projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2023. For healthy retired members and beneficiaries, the mortality table used is a system-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2023. For disabled members, the PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

	2025	2024	2023	2022	2021	2020	2019	2018	2017
Proportion of the net OPEB liability (asset)	0.143377%	0.158290%	0.176041%	0.179083%	0.157596%	0.158449%	0.150252%	0.158439%	0.140373%
Proportionate share of the net OPEB liability	$ 1,036,686	$ 1,241,930	$ 3,894,221	$ 4,081,887	$ 4,001,218	$ 3,522,157	$ 4,201,588	$ 4,017,953	$ 3,400,600
Covered- employee payroll	$ 2,611,067	$ 2,486,866	$ 2,409,791	$ 2,424,520	$ 2,234,321	$ 2,404,644	$ 2,296,756	$ 2,418,442	$ 2,354,111
Proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	39.70%	49.94%	161.60%	168.36%	179.08%	146.47%	182.94%	166.14%	144.45%
Plan fiduciary net position as a percentage of the total OPEB liability	70.95%	66.14%	38.38%	38.38%	29.47%	30.92%	27.32%	24.37%	24.48%

*Note: This schedule is intended to present 10 years of the proportionate share of the net OPEB liability. Currently, only those years with information available are presented. The amounts presented above were determined as of the fiscal year ended above. The amounts presented above for the fiscal year were determined as of June 30 for the year prior (the measurement date).

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Statutorily required contribution	$ 42,569	$ 186,691	$ 270,291	$ 231,383	$ 270,291	$ 277,056	$ 298,176	$ 193,157	$ 201,940	$ 186,681
Contribution in relation to the statutorily contribution	42,569	186,691	270,291	231,383	270,291	277,056	298,176	193,157	201,940	186,681
Contribution deficiency (excess)	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
Covered employee payroll	$ 2,746,417	$ 2,611,067	$ 2,486,866	$ 2,409,791	$ 2,424,520	$ 2,234,321	$ 2,404,644	$ 2,296,756	$ 2,418,442	$ 2,354,111
Contribution as a percentage of covered-employee payroll	1.55%	7.15%	10.87%	9.60%	11.15%	12.40%	12.40%	8.41%	8.35%	7.93%
Notes to Schedule										
Valuation date	June 30, 2024	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2017	June 30, 2017	June 30, 2016	June 30, 2016	June 30, 2015	Not available
Experience study	July 1, 2017 - June 30, 2022	July 1, 2013 - June 30, 2018	July 1, 2013 - June 30, 2018	July 1, 2013 - June 30, 2018	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	Not available
Methods and assumptions used to determine contributions:										
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Not available
Amortization method	Level of percentage of pay closed	Level of percentage of pay closed	Level of percentage of pay closed	Level of percentage of pay closed	Level of percentage of pay closed	Level of percentage of pay closed	Level of percentage of pay closed	Level of percentage of pay closed	Level of percentage of pay closed	Not available
Asset valuation method	20% of the difference between the market value of assets and the expected acturarial value of assets is recognized	20% of the difference between the market value of assets and the expected acturarial value of assets is recognized	20% of the difference between the market value of assets and the expected acturarial value of assets is recognized	20% of the difference between the market value of assets and the expected acturarial value of assets is recognized	20% of the difference between the market value of assets and the expected acturarial value of assets is recognized	20% of the difference between the market value of assets and the expected acturarial value of assets is recognized	20% of the difference between the market value of assets and the expected acturarial value of assets is recognized	20% of the difference between the market value of assets and the expected acturarial value of assets is recognized	20% of the difference between the market value of assets and the expected acturarial value of assets is recognized	Not available
Amortization period	30 Years, Closed	30 Years, Closed	30 Years, Closed	30 Years, Closed	26 Years, Closed	26 Years, Closed	27 Years, Closed	27 Years, Closed	28 Years, Closed	Not available
Investment return	5.25%	6.25%	6.25%	6.25%	6.25%	6.25%	7.50%	7.50%	7.50%	Not available
Inflation	2.50%	2.30%	2.30%	2.30%	2.30%	2.30%	3.25%	3.25%	3.25%	Not available
Projected salary increase	3.30% to 15.30%, varies by service	3.30% to 15.30%, varies by service	3.55% to 15.55%, varies by service	3.30% to 15.30%, varies by service	3.55% to 15.55%, varies by service	3.55% to 15.55%, varies by service	4.00% average	4.00% average	4.00% average	Not available
Healthcare Trend Rates (Pre-65)	Initial trend starting at 4.80% at 1/1/25 and gradually decreasing to an ultimate trend rate of 4.25% over a period of 6 years.	Initial trend starting at 6.30% at 1/1/23 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.	Initial trend starting at 6.40% at 1/1/22 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.	Initial trend starting at 6.25% at 1/1/21 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.	Initial trend starting at 7.25% at 1/1/19 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.	Initial trend starting at 7.25% at 1/1/19 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	Not available
Healthcare Trend Rates (Post-65)	Initial trend starting at 4.80% at 1/1/25 and gradually decreasing to an ultimate trend rate of 4.25% over a period of 6 years.	Initial trend starting at 6.30% at 1/1/23 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.	Initial trend starting at 6.30% at 1/1/22 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.	Initial trend starting at 6.25% at 1/1/21 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.	Initial trend starting at 5.10% at 1/1/19 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.	Initial trend starting at 5.10% at 1/1/19 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	Not available

Mortality

System-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

Mary Elizabeth Bailey, Secretary
Kentucky Personnel Cabinet
501 High Street
Frankfort, KY 40601

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Kentucky Public Employee Health Insurance Program (Plan) of the Kentucky Personnel Cabinet as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated November 14, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With *Government Auditing Standards*
(Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

Allison Ball

Allison Ball
Auditor of Public Accounts
Frankfort, Ky

November 14, 2025