COMMONWEALTH OF KENTUCKY

Allison Ball
AUDITOR OF PUBLIC ACCOUNTS

Russell Coleman
ATTORNEY GENERAL

July 15, 2026

Honorable David Osborne
Speaker, House of Representatives
Kentucky General Assembly
State Capitol, Room 309
Frankfort, KY 40601

Honorable Robert Stivers
President, Senate
Kentucky General Assembly
State Capitol, Room 319
Frankfort, KY 40601

Re: Biennial Report to the General Assembly on Kentucky Employers' Mutual Insurance Authority

Dear Speaker Osborne and President Stivers:

The Attorney General (AG) and the Auditor of Public Accounts (APA) are required by KRS 342.843(1) to monitor the operations of the Kentucky Employers' Mutual Insurance Authority (KEMI), and to jointly submit to the General Assembly, each year in which the General Assembly convenes in an even-numbered-year regular session, a report of the results of the monitoring activities. This correspondence serves as the report required by KRS 342.843(5).

During the calendar years of 2024 and 2025, the Office of the Attorney General and the Auditor of Public Accounts monitored the operations of KEMI by attending regular meetings, special meetings, and committee meetings of KEMI's Board of Directors (Board), and by reviewing KEMI records. KEMI's Internal Auditor (IA), who reports directly to the Board in accordance with KRS 342.811(3), performed numerous operational reviews and made monthly reports thereon.

We have reviewed KEMI's quarterly and annual statements filed with the Kentucky Department of Insurance (KDOI) as required by statute. The independent certified public accounting firm, Johnson Lambert LLP, performed KEMI's annual financial audits for FY 2024 and FY 2025. The previous administration reviewed the annual audits and found that the audits reported no material weaknesses.

KEMI's Board retained the services of Conning Asset Management (Conning) as the investment manager to handle KEMI's portfolio. KEMI's Management continued to follow an established investment policy.

KEMI continues to graciously cooperate with our offices. As directed by statute, the Office of the Attorney General and the Auditor of Public Accounts will continue to monitor KEMI's operations. Please let us know if additional information is required.

Sincerely,

Allison Ball
AUDITOR OF PUBLIC ACCOUNTS

Shari L Scott, CPA
Deputy Auditor of Public Accounts
Office of the Auditor of Public Accounts

Russell Coleman
ATTORNEY GENERAL

Stephen B. Humphress
Executive Director
Office of the Attorney General

Enclosure: KEMI Biennial Board Meeting Minutes

cc: Jay Hartz, Director, LRC

MINUTES

KEMI Board of Directors' Meeting
February 13, 2024

MINUTES
Kentucky Employers' Mutual Insurance
Board of Directors' Meeting
8th Floor Conference Room & Via Video Teleconference
250 West Main Street
Lexington, KY 40507

February 13, 2024

Members Present:
Mark Workman
Rodney Casada
Kellie Wilson
Benjamin Hale
William Jones
Joe Koester
Bruce Williams
Joe McDaniel (proxy for Sec. Johnson)
Director Alan Hurst (proxy for Sec. Bailey)
Commissioner Scott Wilhoit (proxy for Sec. Link)

Others Present:
Jon Stewart, KEMI
Tim Feld, KEMI
Jeremy Terry, KEMI
Mark Bunning, KEMI
Mary Colvin, KEMI
Katy Grachek, KEMI
Patrick Simpson, KEMI
Ryan Worthen, KEMI
Allyson Smith, KEMI
Diane May, KEMI
Faye Creech, KEMI
Gretchen Copley, KEMI
Ryne Purcell, KEMI
Sarah Kosin, KEMI
Nicole Madden, KEMI
Steve Humphress, AG
Jocky Denguessi Kwin, APA
Maira Gomez, APA
Jamie Schrader, Schrader Commercial Realty

I. CALL TO ORDER

Chairman Workman called the meeting to order at 2:02 p.m.

II. ROLL CALL

Ms. Madden took roll. A quorum was reported in attendance.

III. PROOF OF NOTICE

Ms. Madden confirmed notice of the meeting was provided.

IV. APPROVAL OF MINUTES

Chairman Workman called for a motion to approve the minutes of the December 21, 2023, Board Meeting. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

V. CEO REPORT

Mr. Stewart's report included discussion of the following topics:

- Business Update –
  - Policyholder Services – Mr. Stewart reported that direct written premium was up over 13% at year-end 2023 and commented the coal and non-coal books experienced growth during 2023. He indicated that 2023 was a record year for audit premium and advised that retention remained high for the year. Mr. Stewart shared loss education statistics for 2023 and explained the types of customer contacts made through free safety services available to policyholders. He stressed the increase in the number of appointments and training sessions held in 2023 in comparison to 2022. Mr. Stewart continued by discussing January 2024 policyholder services results in comparison to January 2023 and commented on the continued volatility in coal premium.
  - Claims Services – Mr. Stewart advised that reported claims, open claims, and paid losses at year-end 2023 were down in comparison to year-end 2022. He discussed statistics for medical bills processed and paid in 2023 and the amount of savings KEMI achieved through fee schedule adjustments, PPO savings, and internal processes. He continued by discussing statistics regarding activities of KEMI's Special Investigation Unit (SIU) and indicated that efforts of the SIU team may be featured at a future board meeting. Mr. Stewart discussed statistics related to efforts of

in-house counsel and pointed out the increase in subrogation recoveries for 2023 commenting on the significant improvement to subrogation recoveries due to HB 2. He also discussed litigation statistics and commented on settlement efforts of in-house counsel. He indicated there were no significant changes in statistics for January 2024 and noted that month-end results were less than the same period in 2023.

- Origami Project – Mr. Stewart advised that while Ms. Paul was unable to attend the meeting, she had asked Ms. Colvin and Mr. Bunning to provide a project update on her behalf. Claims Implementation progress since the last board meeting was shared by Ms. Colvin. She noted there were outstanding items being worked on with go-live expected by mid-April. She indicated that the largest outstanding items related to integrations with third party vendors, final testing, and end-user training. She assured the board that planning for training was intentionally extended over several weeks to avoid overwhelming examiners, ensure accuracy in procedures, and continue normal operations within the Claims Unit. Mr. Bunning discussed project health as well as budget health. He advised the Claim Implementation project was currently over budget and was expected to remain over budget. He explained that the budget was currently within the parameters of the originally approved budget for the total project including both Claims Implementation and Policy Implementation. He advised that that Statement of Work (SOW) for Policy Implementation was still under review, and it was too early to request an increase in the budget, but that such a request was expected. He assured the Board that the Executive Team continued to believe Origami was the right product for KEMI and the project was progressing in the right direction. The Chairman clarified that the Board would vote on an SOW for Policy Implementation once Management completed the review and negotiations. Mr. Bunning confirmed and indicated that the SOW would likely be presented at the April Board Meeting. Mr. Stewart added that Management was also working to add additional accountability in case project challenges arise during Policy Implementation. The Chairman requested that when the SOW was presented to the Board that details of those accountability measures also be provided to the Board. There were no additional questions.
- Cyber Security Review – Mr. Stewart introduced Ryne Purcell, who provided the annual cyber security review. He discussed primary business objectives and risks. Mr. Purcell advised that data security laws under HB 474 were effective January 1, 2023, and that while KEMI was already addressing most of the requirements established in the new law, new procedures were created to ensure compliance with additional requirements. Mr. Purcell continued by discussing SOC 2 Type 2 Certification indicating KEMI had recently been recertified. He explained the purpose and benefit of the certification and discussed audit results for

the 7/1/22 – 6/30/23 review period. Further, Mr. Purcell explained KEMI's BITSIGHT Security Rating, vulnerability management program, and annual external cloud and application security assessment. He explained KEMI's focus on employee education and security awareness and discussed cyber insurance limits. Mr. Bunning advised the Board that KEMI's SOC 2 Type 2 Certification and the work KEMI's Cyber Security Team does resulted in reduced pricing for KEMI's commercial insurance package every year. Mr. Purcell was asked if there had ever been a data breach at KEMI. Mr. Purcell responded there were no incidents in 2023. He conveyed that there had been a few small ransomware incidents on small subsets of data in prior years, but indicated the Cyber Team was able to recover data within 24 hours. Mr. Feld added there had been two external vendors that were impacted by cyber attacks previously. He indicated the impact to KEMI was nominal and, in both instances, KEMI hired outside counsel to handle legal reporting requirements and that individual vendors handled the situations entirely and reimbursed KEMI for costs. Mr. Stewart added that in addition to protecting the data itself, these efforts protect KEMI's brand and he commended Mr. Purcell and his team.

- Employee Incentive Plan (EIP) – Mr. Stewart indicated that he would review 2023 EIP results in closed session later in the meeting.
- Retirement Plan Documents – Mr. Stewart indicated there had been multiple amendments to KEMI's retirement plan documents and the Board would be asked to adopt restatements to plan documents to incorporate all amendments to-date into one plan document. He added that there was one change in the Defined Benefit Plan to update a reference to a related Kentucky Revised Statute.
- Attorney General Complaint – Mr. Stewart indicated Mr. Feld would discuss the Attorney General Complaint, which the Board was previously made aware of, later in the meeting.
- Land – He advised that a closed session would be requested later in the meeting to discuss KEMI's real estate.
- Office Renovation Project Update – Mr. Stewart indicated that Mr. Terry was leading the project for renovations to the 8th and 9th floors in the Financial Center and advised KEMI would vacate the 7th and 10th floors before year-end. He indicated that the project was projected to stay on budget with some repurposing of previously purchased furniture expected.
- DOI Routine 5-Year Financial Examination – Mr. Stewart recognized Ms. May for her work to quarterback the 5-Year Financial Examination being conducted by the Department of Insurance (DOI). He indicated that the examination would be kicked off in a couple of weeks.
- Procedure for Request to Cancel or Reschedule a Regular Board or Committee Meeting – Mr. Stewart advised the Board that since the December meeting an internal procedure had been created to handle possible change or cancelation of a regular meeting date to ensure the Board was aware of all impact before a change was made.

- Internal Audit (IA) Activity Report – Mr. Simpson advised his full report was available in the board portal and to contact him with any questions. He shared that he was very proud of the work his small team had accomplished in 2023 noting only a couple of planned audits for 2023 were deferred. He explained the annual claims activity summary from all routine reviews, discussing reserves, procedures, and settlements. He stressed that the Claims team had done an excellent job in 2023 considering the Origami project was ongoing throughout the year. Mr. Simpson continued by discussing IA's review of the Claims Medical Billing Unit. He shared objectives and scope of the review as well as key performance metrics. He also discussed regulatory reductions and conveyed that only one hospital over payment was found during the review and that it amounted to less than $1,000. He continued by discussing the review of bills paid and denied for bills received after 60 days. Mr. Simpson was asked how decisions to pay or deny in such situations were made. Mr. Stewart and Ms. Colvin responded that each bill was considered individually to determine if the provider attempted to submit the bill timely and did not have enough information to do so. As example, Ms. Colvin shared that sometimes a provider may not realize treatment was for a workers' comp claim initially and the bill was submitted to the health insurer or directly to the claimant before making its way to KEMI. Further it was clarified that providers were not permitted to bill injured workers for denied payment of medical bills received after 60 days. Mr. Simpson continued his discussion detailing duplicate bill savings identified by medical bill review software and staff. He shared opportunities for improvement based on the review. He indicated that Management agreed.

  Review of Actuarial Valuation of Claim Loss Reserves Draft – Mr. Simpson advised that Milliman's 12/31/2023 analysis was expected by the end of the week and indicated minimal difference was expected from the 09/30/2023 analysis. He discussed highlights from 09/30/2023. He indicated that everything except black lung had performed well and favorable development in those areas was expected. He discussed projected ultimate loss ratio was less than 60% for the last 4 years and advised that a clean opinion was expected with a recommendation for a similar amount of reserve redundancy as last year. He advised the final report was forthcoming and a wrap-up would be provided in April. There were no questions.

  Mr. Simpson concluded his report by sharing other activities included in his report document for the period.

- Financial Update –
  - Recognition of Diane May – Mr. Bunning began his report by recognizing Diane May, KEMI's Controller, who will be retiring at the end of March. He commended her as an integral contributor to KEMI's success and

described her outstanding leadership of the Finance Team, her organizational skills, her commitment to establishing internal controls, and her management of the annual audit process. Mr. Bunning further commended Ms. May for providing advanced notice of her retirement so that a successor (Ms. Creech) could be hired and given the opportunity to work with her before assuming full responsibility for the role. On behalf of the Board, the Chairman thanked Ms. May for her efforts and commitment to KEMI. Ms. May expressed her appreciation and pride for having been part of KEMI.

- Financial Report – Mr. Bunning noted financial reports were marked "draft" since the Milliman actuarial report was not yet final. He indicated all other year-end reports were finalized and that enough of the cursory work from Milliman had been received to ensure that financial statements would not change. He advised that numbers presented for the board meeting were slightly different than those presented to the Finance Committee at the end of January due to actuarial reports related to the pension. He discussed the Balance Sheet and reported it was very strong. He discussed Other Invested Assets explaining that line item reflected Elm Tree investments. He detailed expectations for Elm Tree IV and Elm Tree V. Mr. Bunning discussed policyholder equity. He indicated that the pension was now overfunded due to cash buyouts of eligible retirees. He explained that was a positive result for the pension but created increased actuarially cost for the pension.

  Mr. Bunning continued by discussing the Income Statement and focused on underwriting gain for 2023 noting combined ratio was under one hundred due to reduced loss costs. Mr. Bunning explained differences to combined ratio if dividend payout and elimination of an Adverse Development Cover (ADC) had been factored into the calculation.

  Mr. Bunning reviewed the Cash Flow Statement. He indicated returns on investments were improving but advised there was still a negative position on the bond portfolio that may be diminished if interest rates decline.

  Mr. Bunning discussed accounting for loss portfolio transfers (LPTs). He reminded the board that AIK had encountered surprises impacting reserves and he indicated incurred but not reported (IBNR) reserves across all LPTs in total provided a sufficient cushion to cover for the unexpected. Mr. Simpson added that Milliman would be providing an opinion on all LPTs as well.

- Investment Summary – Mr. Bunning discussed the 12/31/2023 investment summary previously provided to the Investment Committee. He referenced the Gain/Loss column under the report and book yield improvement, which reflected better return compared to 12/31/2022. Mr. Bunning pointed out that Conning's information did not included impact of Elm Tree investments. He explained that when factoring in Elm Tree, KEMI had a profit, not a realized loss for the year.

  Mr. Bunning advised that he had discussed with the Finance Committee a potential loss swap recommendation regarding the investment portfolio. Mr. Stewart added he had also discussed the loss swap with the Executive Committee earlier in the day. Mr. Bunning continued by explaining that when the actuarial report was finalized, KEMI was expected to have more than $75M in reserve redundancy. He indicated that in conversations with Conning, interest rates were peaking. He shared a portfolio summary as of 02/06/2024 and discussed the possibility of taking a lump sum of the investment portfolio and selling the low interest rate bonds, taking a loss on those bonds to be able to reinvest for higher returns. He shared swap options provided by Conning showing impact of realizing a $15M loss and a $25M loss respectfully. He discussed expected rates of return going forward. Mr. Bunning explained that some of the reserve redundancy could be released to accommodate the transactions with no negative impact to the Income Statement. He indicated this would be a long-term strategy and that Management was comfortable reducing redundancy. He indicated if the strategy were approved, Conning would sell over time looking for the best returns possible. He indicated that there would be impact to the EIP program but that adjustments could be made accordingly. Mr. Bunning was asked to clarify the difference between the $15M loss swap option and the $25M loss swap option. He responded that $15M option was expected to provide about ½ the value of the $25M option. Further he explained that another difference would be in relation to reserve redundancy and whether it should be at $50M or $60M. He indicated that Management was comfortable with $50M in reserve redundancy. Mr. Stewart added that $3M-$4M extra per year with positive results would mean bigger dividends and lower rates, etc. Further he added reserve redundancy provided the means to pay for the loss with no impact to credit quality and leverage would be lowered. Mr. Bunning and Mr. Stewart concluded discussion by requesting the Board consider the recommendation.

The Chair asked if a motion was needed. Mr. Bunning confirmed. Motion was made and seconded. The Chair called for discussion. A clarification of details was requested. The motion was clarified to authorize Management to direct Conning to proceed with Option 1 of the Loss Swap/Income Enhancement proposal for $25M. The Chair asked if there were additional questions or discussion. There being none, he called for a voice vote. Motion passed without objection.

- Budget Variance – Mr. Bunning discussed the 12/31/2023 budget. He advised that KEMI was $6.3M under budget for 2023 including Origami spend. He expressed appreciation for budgeting practices that allow budgeting for anticipated expenses, but that do not require the spending if an expense is determined to be unnecessary. He indicated a similar variance was likely in 2024 but stressed that Management and staff remain very cost conscious about spending. He continued by discussing accounts that were overbudget for 2023. He stressed that though the Origami project would exceed the originally budgeted amount, KEMI's operating budget would likely be under for 2024 and would absorb the variance resulting in a net positive overall.
- Appointed Actuary – Required Qualification Documentation – Mr. Stewart pointed out required documentation was provided in meeting materials.
- Investment Reports – Mr. Bunning added that the 12/31/2023 Conning Quarterly Investment Report and Clearwater Investment Report were linked to the meeting packet and available in the board portal.

▪ Procurement
  - Contracts – Mr. Feld reported there were eleven contracts presented for approval by the Board. He specifically pointed out UMR and Tripwire commentary on the listing. He asked for any questions. There were none.

  Mr. Feld requested a motion to approve the 02/13/2024 Board Contract Approval Listing as presented. Motion was made and seconded. The Chair called for discussion. There being no discussion, the Chair called for a voice vote. Motion passed without objection.

▪ Annual Retention Schedule Update – Mr. Feld advised that each year a summary of record retention schedule changes was presented to the Board. He reviewed the summary. He advised KEMI maintained conservative retention practices keeping documents as long as statutorily required and longer if deemed appropriate to business.

- Ethics – Statement of Financial Disclosure Reminder – Mr. Feld advised all officers and the seven appointed members of the board were required to file a statement of financial disclosure with the Ethics Commission by April 15 each year. He indicated that he would provide an additional reminder in March. Mr. Feld added that he would request confirmation from the Ethics Commission that the statements had been filed before the deadline.
- Attorney General Complaint – Mr. Feld began the discussion of the complaint by referencing the email he sent to the members of the board and oversight representatives previously regarding the topic. He continued by providing background regarding a complaint filed with the Attorney General's Office and subsequently with the Department of Insurance expressing concern regarding Diversity, Equity, and Inclusion scholarships KEMI sponsored at Eastern Kentucky University (EKU) and Murray State University. Mr. Feld explained the two schools had unique insurance and safety degree programs, which KEMI wanted to support as the largest workers' compensation insurer in the state. He also discussed the intent to encourage diversity in the insurance industry, which research had indicated was primarily Caucasian. He indicated that scholarships were initiated in 2021 and 2022 and provided details of terms and eligibility. Mr. Feld continued by discussing the recent Supreme Court Decision regarding Harvard admissions, which determined race neutral decision making was required for university admissions. He explained that while the Supreme Court Decision did not address scholarships, universities were applying the same line of thought to scholarship decisions. He indicated that KEMI had discussed with outside counsel as well as EKU and Murray State and had responded to the complaints filed. He indicated that KEMI's outside counsel recommended changes which were discussed with general counsel at both institutions and modifications were made to both scholarship programs to ensure race neutrality and compliance with the law. He advised that SB 6 and HB 9 were related pieces of legislation currently moving through the Kentucky legislature and were being monitored by KEMI. He indicated they would likely to go into effect in February 2025. Further Mr. Feld told the Board a state senator had contacted him asking about the scholarships and that Mr. Feld had told him it was KEMI's intent to be compliant with the law. Mr. Feld continued by advising that before the new scholarship agreements were executed between KEMI and the institutions, it was appropriate for the Board to be advised of the three available options to address the situation – terminate the scholarship programs in entirety, change the programs to ensure race neutrality, or fight to maintain the programs as originally structured. Mr. Feld again stressed KEMI's intent to comply with the law and recommended proceeding with changes to the programs and entering into new agreements with both schools. He indicated a vote would only be needed if the Board wanted to terminate the programs entirely. The Chair asked for thoughts, comments, and concerns from the Board. A member

expressed appreciation for Mr. Feld's leadership. Another member expressed agreement with Mr. Feld's recommendation to proceed with changes to the scholarship programs to ensure race neutrality and compliancy with the law. With no additional discussion or comments, Mr. Feld confirmed he would proceed as indicated.

- Closed Session – KEMI Real Property KRS 61.810(1)(b)

  The Chair requested a motion to enter closed session under KRS 61.180(10(b) to discuss sale of KEMI's real property. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

  The Chair indicated that members of the Board, representatives of the AG's Office and the State Auditor's Office, and staff should remain for closed session.

  The Board entered closed session at 3:35 p.m.

  The Board returned to open session at 3:56 p.m.

  The Chair reported no action was taken during closed session.

- Nominating Committee Appointments – Mr. Feld proceeded to discuss the new business item on the agenda. He advised that a Nominating Committee Meeting would need to occur before the April Board Meeting. He explained that historically the Committee was comprised of the Cabinet Secretaries or their proxies and that the group would nominate potential officers. He advised that he and Ms. Madden would coordinate the meeting and provide proper notice. The Chairman requested confirmation from the proxies that they could serve. No one declined.

VI. COMMITTEE REPORTS

- **Executive Committee**

  Chairman Workman reported the Executive Committee did not meet in January but did meet earlier in the day. He indicated discussion at the 02/13 committee meeting included a draft CEO position replacement plan, 2024 CEO Upcoming Out of State Travel, Contract Approvals, Origami, the AG Complaint, and other items discussed during the board meeting. He asked if there were any questions. There were none.

- **Audit/Finance/Investment Committee**

  Dr. Casada advised that the Audit/Finance/Investment Committee had met on January 31, 2024. He indicated that Mr. Bunning had covered most things discussed during the committee meeting. He added that the Committee completed Mr. Simpson's performance review and set his goals for 2024. He advised that the Committee had approved a 6.9% raise for Mr. Simpson during that meeting. He indicated a full board vote was not required regarding the raise, but it was important for the board to know what the Committee had approved.

- **Human Resources Committee**

  Mr. Koester reported that the Human Resources Committee met prior to the board meeting to discuss the EIP, HR Policy Revisions, Restatements of Retirement Plan Documents and Proposed Revisions to the President & CEO's Job Description.

  Mr. Koester made a motion to enter closed session under KRS 342.841 for unfair competitive advantage to discuss 2023 EIP Results and 2024 EIP. Mr. Koester asked the following individuals to remain for closed session: Members of the Board, Ms. Grachek, Mr. Stewart, Mr. Simpson, Mr. Feld, Ms. Madden, and Representatives of the Offices of the Attorney General and Auditor of Public Accounts. The motion was seconded. The Chair called for discussion. There being none, a voice vote was taken. Motion passed without objection.

  The Board entered closed session at 4:01 p.m.

  The Board returned to open session at 4:19 p.m.

  Mr. Koester reported no action was taken during closed session.

  Mr. Koester made a motion to accept 2023 EIP Results including the CEO's EIP Payment. Motion was seconded. Mr. Koester asked for discussion. There being none, a voice vote was requested. Motion passed without objection.

  Mr. Koester made a motion to approve the 2024 EIP. Motion was seconded. Mr. Koester asked for discussion. There being none, a voice vote was requested. Motion passed without objection.

Proposed HR Policy Revisions

Mr. Koester made a motion to approve HR Policy Revisions per the recommendation of the HR Committee. Motion was seconded. Mr. Koester asked for discussion.

Mr. Koester asked Ms. Grachek to summarize the revisions. Ms. Grachek discussed revisions to the telecommuting policy to include return of designated equipment only. With regard to the EIP, she indicated language included in the 2024 EIP plan document was incorporated into the HR policies to specify that it is a discretionary plan. Regarding social medial policy, Ms. Grachek explained the recommended revision related to eliminating the reference to code of conduct since the Employee Conduct and Work Rules language was adopted by the Board last fall. She indicated proposed revisions were cleanup.

There being no additional discussion, a voice vote was requested. Motion passed without objection.

Restatement of Retirement Plan Documents

Mr. Koester made a motion to accept 01/01/2024 Restatements of Retirement Plan Documents for KEMI's DB Plan, 401(a) Plan, and 457(b) Plans as presented. Motion was seconded.

Mr. Koester asked Ms. Grachek to summarize changes. She indicated that the restatements consolidated plan amendments previously approved by the Board into one document. She also advised that one statutory reference included in the DB Plan was changed in 2020 so the restatement for the plan also included that update. She advised that outside counsel assisted with the restatements.

Mr. Koester asked for additional discussion. There being none, a voice vote was requested. Motion passed without objection.

Proposed Revisions to President & CEO Job Description

Mr. Koester made a motion to accept revisions to the President & CEO Job Description as presented and per the recommendations of the HR Committee. Motion was seconded.

Mr. Koester asked Ms. Grachek to explain proposed revisions. She explained that required education included in the job description was being updated to clarify standards and noted a statutory reference regarding five years' experience was also added.

Mr. Koester asked for additional discussion. There being none, a voice vote was requested. Motion passed without objection.

- **Bylaws/Legislative Relations Committee** – Ms. Wilson indicated the Bylaws and Legislative Relations Committee had not met since the last meeting.

VII. UNFINISHED BUSINESS

None

VIII. NEW BUSINESS

Nominating Committee Appointments – Mr. Feld presented this topic earlier in the meeting.

IX. FUTURE MEETINGS

The next regular KEMI Board Meeting will be held on Tuesday, April 9, 2024, at 2:00 p.m. Eastern.

X. ADJOURNMENT

Chairman Workman asked for a motion to adjourn the meeting. Motion was made and seconded. With no further discussion, he called for a voice vote. Motion passed without objection. The Board Meeting adjourned at 4:24 p.m.

Respectfully Submitted:

Nicole Madden

Nicole Madden, Recording Secretary

APPROVED:

Mark Workman, Chair

Kellie Wilson, Secretary

Making workers' comp work

MINUTES

KEMI Board of Directors' Meeting
April 9, 2024

MINUTES
Kentucky Employers' Mutual Insurance
Board of Directors' Meeting
8th Floor Conference Room & Via Video Teleconference
250 West Main Street
Lexington, KY 40507

April 9, 2024

<u>Members Present:</u>
Mark Workman
Rodney Casada
Kellie Wilson
Benjamin Hale
William Jones
Joe Koester
Bruce Williams
Joe McDaniel (proxy for Sec. Johnson)
Director Alan Hurst (proxy for Sec. Bailey)
Commissioner Scott Wilhoit (proxy for Sec. Link)

<u>Others Present:</u>
Jon Stewart, KEMI
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Allyson Smith, KEMI
Faye Creech, KEMI
Sarah Kosin, KEMI
Nicole Madden, KEMI
Steve Humphress, AG
Jocky Denguessi Kwin, APA

I. CALL TO ORDER

Chairman Workman called the meeting to order at 2:00 p.m.

II. ROLL CALL

Ms. Madden took roll. A quorum was reported in attendance.

III. PROOF OF NOTICE

Ms. Madden confirmed notice of the meeting was provided.

IV. APPROVAL OF MINUTES

Chairman Workman called for a motion to approve the minutes of the February 13, 2024 Board Meeting. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

V. CEO REPORT

Mr. Stewart's report included discussion of the following topics:

- Business Update –
  - 2023 Independent Audit Report – Mr. Stewart introduced Todd Rosenbaum and Gabe South from Cherry Bekaert to present the 2023 Independent Audit Report based on the 12/31/2023 financial statements. Mr. Rosenbaum shared details regarding the client services team and Cherry Bekaert's acquisition of MCM, which occurred in October of 2023. Mr. Rosenbaum provided the results of the audit. He indicated a draft of the audit was provided in the meeting materials so that the board had an opportunity to fully review and ask any questions advising the report would be finalized within a couple of days of the presentation. He reported that the firm was issuing an unmodified or "clean" opinion on KEMI's statutory financial statements. He indicated that the opinion was the highest level that could be given based on statutory accounting. Mr. Rosenbaum continued by discussing required communications covering significant audit matters including revenue recognition, management override of controls and additional risks. Regarding control testing and analysis conducted for claims, he stated there were no issues or concerns noted by the actuarial consultant Cherry Bekaert used to review Milliman's presentation or the company's carried reserves; he indicated good, conservative accounting of

loss reserves was taking place. He indicated there were processes and controls in place for journal entries and estimates and reported there were no issues or concerns noted in the audit. He discussed the internal control around key processes and metrics and noted that while no official opinion was issued, internal controls were considered and no significant deficiencies or material weaknesses in internal controls were found during the audit. He indicated no corrected or uncorrected misstatements were noted during the audit. Further, Mr. Rosenbaum discussed qualitative aspects of statutory accounting practices. Regarding unusual transactions, he discussed review of Elm Tree investments indicating accounting was conservative and reasonable. He indicated no undisclosed third party or related party transactions and no issues of noncompliance with laws or regulations were identified through the firm's normal procedures. Further, Mr. Rosenbaum advised the Board that the firm had no difficulty in performing any audit procedures. He stressed KEMI Management was timely in responding to audit requests. Mr. Rosenbaum discussed independence considerations and assured the Board the firm remained independent at all times throughout the engagement. He continued by reporting no difficult or significant matters arose during the audit. He stated it was a very smooth audit and reported there were no disagreements with Management. He advised that the firm was not aware of any request for second opinion or audit shopping taking place during the engagement. He indicated that in accordance with usual processes, Management would be provided with a representation letter confirming assertions contemplated during the audit. He indicated there were no other findings or issues which occurred during the audit. He reported there were no instances of fraud or illegal acts which occurred with or around the company. He concluded by reporting there were no going concerns. He stated KEMI's leverage model was outstanding and indicated there was sufficient capital to grow and there were no liquidity concerns. Mr. Rosenbaum provided contact information and indicated he and Mr. South would be pleased to answer any questions. He congratulated KEMI on a fine year and recognized Mr. Bunning and Ms. Creech for their efforts to make the audit easier. There were no questions from the Board. The Chair thanked the auditors for their presentation. Mr. Rosenbaum and Mr. South disconnected from the meeting.

Motion was made and seconded to accept the 2023 Independent Audit Report as presented. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

The Chair recognized Mr. Bunning and his team for a great job and excellent audit report.

- Policyholder Services – Mr. Stewart pointed out that February numbers were provided in the Board meeting packet since March numbers were not available at the time of posting. He indicated that revenue for March was down due to loss of coal policies. He indicated premium was down year-to-date 12.7%. He reported non-coal premium was down 2% and reminded the Board of the rate decrease that went into effect January 1. He pointed out strong retention numbers and discussed audit results.
- Claims Services – Mr. Stewart reported claims were down 10% year-to-date. He indicated that Management was monitoring one coal account that had recently terminated coverage commenting that claims may result if employees do not find re-employment.
- Origami Project – Mr. Stewart advised that the Claims "go-live" was being postponed. He indicated a new date was not set but was likely to be 45-60 days to allow fixes for issues found during recent end-to-end testing and additional training time. He indicated the delay would add additional cost to the Claims implementation. Mr. Stewart continued to discuss the Policy implementation and indicated that the Statement of Work for the project had been received and was under review. He pointed out the increase in cost in comparison to the original proposal for the Policy project. He advised that a $3.2M increase to budget would be requested during the procurement discussion later in the meeting. Mr. Stewart noted cost specifics were included in the meeting packet. He advised the amount included the overage for Claims as well as the Policy implementation. He advised that contingency funds included would not be expended without first discussing with the Chairman. Ms. Paul added the process for policy implementation was being revamped to make it more effective and efficient based on what has been learned during the Claims project. There were no questions.
- Office Renovation Project Update – Mr. Stewart indicated construction would be finished around mid-June and furniture should be installed by mid-July with relocations begin in late July. He indicated that he was pleased some furniture previously purchased for the seventh floor was being incorporated into renovated areas. Mr. Terry added that the furniture contract was included on the contract approval listing. He indicated next steps would include engaging design services to finish the workspace with art and décor once the project was completed.
- Upcoming Events – Mr. Stewart shared info about the NCCI Annual Issues Symposium in May and advised that the legislative session would end on 4/15. He advised that the Senate had not taken up any confirmations and commented that KEMI board confirmations were still expected to be taken up before session adjourned on the 15th.

- DOI Routine 5-Year Financial Examination – Mr. Stewart advised the examination was continuing. He indicated that KEMI was responding promptly to all data requests received. He shared that regular status updates were being held and there were no issues or concerns expressed to-date.

- Internal Audit (IA) Activity Report – Mr. Simpson began by reviewing purpose, objectives, results, and observations of Internal Audit's annual review of accounts payable related to vendor and employee expense. He indicated no material issues or concerns were identified during the review. Mr. Simpson continued by discussing Internal Audit's annual review of procurement and contracting. He indicated there were no material concerns or recommendations made. He commented that the procurement culture was positive. He directed board members to review his full activity report in the meeting packet and to contact him with any questions.
- Enterprise Risk Management (ERM) – Mr. Simpson provided a review of the Risk Tolerance Dashboard from an annual perspective discussing specific risk categories and related metrics and results. There were no questions from the board.
- Closed Session – KRS 342.841

  The Chair asked for a motion to enter closed session under KRS 342.841 for competitive disadvantage to discuss the Internal Auditor's analysis of the 2024 EIP. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

  The Board entered closed session at 2:44 p.m. All meeting attendees were permitted to remain during closed session.

  The Board returned to open session at 2:51 p.m. The Chair reported no action was taken during closed session.

- Financial Update –
  - Financial Report – Mr. Bunning reported that the company was performing as expected at this point in the year. From the Balance Sheet, he discussed liabilities related to LPTs for KSBIT, KCWPF, AIK, and KCP and indicated that in total, liabilities were $31M including $11M of IBNR reserves. He indicated it was a very strong position. Mr. Bunning discussed net income through February and unrealized capital gains. Regarding the February Income Statement, he pointed out that net premiums were down, due to the 10% rate decrease which went into effect 01/01. He discussed underwriting loss shown on the Income Statement

and explained to the Board that between year-end and end of February, IBNR had increased by $7M. Mr. Bunning continued by discussing interest expense under Investment Income and explained it related to commutation of the Adverse Development Cover (ADC). Mr. Bunning explained the 2015-2019 ADC, reasons to commute it, and expected impact to the financial statements. Mr. Bunning indicated the Cash Flow Statement was provided but stated it was too early in the year to discuss at great length, but he indicated that if investment policy revisions were approved, there would be increased activity. There were no questions.

- Budget Variance – Mr. Bunning shared the report as of February 29, 2024, noting that KEMI was underbudget overall. He indicated much of the variance was probably related to timing of expenditures. There were no questions.
- 2024 Proforma – Mr. Bunning shared a comparison between the originally forecasted Balance Sheet and Income Statement for 2024 which were used for 2024 budgeting and EIP preparation and an updated Balance Sheet and Income Statement showing impact of the $25M bond swap and ADC commutation. He discussed specific impact to loss reserves, funds withheld to retroactive reinsurance, surplus, losses incurred, investment income, realized capital gains, dividends, net income, combined ratio, and leverage. He stressed that combined ratio for the year was expected to drop to 80%. He indicated that changes to financials would happen over several quarters as Conning managed the investments. In response to a question, Mr. Bunning and Mr. Stewart clarified that actions related to the bond swap would be booked as they occur.
- Investment Summary – Mr. Bunning discussed the March 11 portfolio summary that was included in the meeting packet.
- 12/31/2023 Annual (Yellow Book) Financial Statement – Mr. Bunning advised the annual yellow book was provided to the Board electronically and was consistent with the audit report.

▪ Procurement - Mr. Feld began the procurement discussion by recognizing commitment of his staff and all business units for the positive internal audit results Mr. Simpson provided earlier in the meeting.

- Contracts – Mr. Feld reported there were forty-five contracts for consideration by the Board. He specifically pointed out the Origami contract referring to information provided by Mr. Stewart and Mr. Bunning and the $12.2M projected cost to be approved. He noted the amount encompassed all work by Origami throughout the entirety of the project. He also discussed the $4.2M cumulative contract for claims defense counsel explaining it included services split among thirteen different defense firms. He indicated there was an increase in the contract value to ensure it would cover all expenses during the term. He asked if there were any specific questions regarding contracts included on the listing. A question was posed about why Milliman was included on the listing twice for the same cost. Mr. Simpson responded that additional funds were needed for the 2023 contract to cover services for LPT analysis that were provided and the 2024 contract covered the renewal term.

Mr. Feld requested a motion to approve the 04/09/2024 Board Contract Approval Listing as presented. Motion was made and seconded. The Chair called for discussion. There being no discussion, the Chair called for a voice vote. Motion passed without objection.

- Procurement Review – Delay Requests

Mr. Feld advised the Board two procurements had been approved for delay. Information regarding those procurements was included in the meeting packet. He indicated no action was needed by the Board.

VI. COMMITTEE REPORTS

- **Executive Committee**

Chairman Workman reported the Executive Committee met in March and prior to the 04/09 Board Meeting. He indicated that the Committee approved the CEO's Q1 Travel Expense Report, Executive Committee Contract Approval Listing, and procurement delays for HRIS and MDR Services.

- **Audit/Finance/Investment Committee**

Dr. Casada advised that the Audit/Finance/Investment Committee had met on March 27, 2024. He indicated that the Committee reviewed Milliman's reserve analysis for 12/31 last year, reviewed investment revisions, and proformas, and revisions to the committee charter. He indicated a committee report and related documents were included in the meeting packet. He asked Mr. Bunning to summarize details for board action.

Milliman Analysis of KEMI Loss & LAE Reserves as of 12/31/2023 – Mr. Bunning advised that the full actuarial analysis and opinion was available in BoardEffect and linked to meeting materials. He provided a summary of the analysis and discussed it in detail. He indicated that Management was comfortable with the analysis.

Motion was made to accept the 12/31/2023 Milliman Reserve Analysis and Actuarial Opinion as presented. Motion was seconded. A call for discussion was made. There being none, a voice vote was requested. Motion passed without objection.

Investment Policy Revisions – Mr. Bunning continued by discussing investment policy revisions. He explained that proposed revisions would allow for the bond swap providing more latitude to Conning to reposition without exceeding benchmarks and added active management to the collateralized loan obligations (CLOs) program. He explained additional costs and the expected benefit. Mr. Bunning was asked what Conning was paid annually. He shared the budgeted amount and advised that during the last RFP process, the firm had reduced it fees. Mr. Stewart clarified Conning billed approximately $400K per quarter. Mr. Feld added that the contract listing included Conning at $1.8M for the year. Dr. Casada asked if there were any additional questions regarding the revisions.

There being none, he made a motion that the Board approve the investment policy revisions as presented. Motion was seconded. A call for additional discussion was made. There being none, a voice vote was taken. Motion passed without objection.

Audit/Finance/Investment Committee Charter – Dr. Casada asked Mr. Feld to briefly discuss proposed revisions to the committee charter. Mr. Feld explained that the full board had all authority and the ability to delegate responsibilities down to committees with the charter being a roadmap of responsibilities. He discussed the proposed revision delegating review of actuarial reserve analysis and rate analysis down to the committee, which would then make any recommendations to the board.

Motion was made and seconded to approve revisions the Audit/Finance/Investment Committee Charter as presented. A call for discussion was made. There being none, a voice vote was taken. Motion passed without objection.

- **Human Resources Committee -** Mr. Koester indicated the Human Resources Committee had not met since the last meeting.

- **Bylaws/Legislative Relations Committee –** Ms. Wilson indicated the Bylaws and Legislative Relations Committee had not met since the last meeting.

- **Nominating Committee** – Mr. Stewart advised the Board that Director Hurst had been elected by his peers to serve as Chair of the Nominating Committee. Director Hurst reported that the Nominating Committee met earlier in the day and after discussion prepared recommendations for officer positions:

  Director Hurst made a motion to approve the Committee's recommendation that Mr. Mark Workman continue in the role of Chair. Motion was seconded. A call for discussion was made. There being none, a voice vote was taken. Motion passed without objection.

  Director Hurst requested a motion to approve the Committee's re recommendation that Dr. Rodney Casada continue in the role of Vice-Chair. Motion was made and seconded. A call for discussion was made. There being none, a voice vote was taken. Motion passed without objection.

  Director Hurst requested a motion to approve the Committee's recommendation that Ms. Kellie Wilson continue in the role of Secretary. Motion was made and seconded. A call for discussion was made. There being none, a voice vote was taken. Motion passed without objection.

VII. UNFINISHED BUSINESS

None

VIII. NEW BUSINESS

KEMI Retirement Committee – Mr. Feld advised the Board that KEMI's retirement plan documents give Mr. Stewart the authority to appoint a fiduciary committee, and there was annual responsibility to disclose names of committee members to the Board. He shared that Mr. Stewart was the Chair, and Katy Grachek, Mark Bunning, Elizabeth Paul, Jeremy Terry, Mary Colvin, and Tim Feld made up the Committee. He indicated that this information was shared as a matter of compliance and no action was needed.

IX. FUTURE MEETINGS

The next regular KEMI Board Meeting will be held on Tuesday, June 11, 2024, at 2:00 p.m. Eastern.

X. ADJOURNMENT

Prior to adjourning, Mr. Stewart recognized Ms. Paul, Ms. Colvin, Mr. Terry, and their respective teams for the work going into the Origami project. The Chair expressed his thanks as well.

With confirmation pending, Ms. Wilson expressed her appreciation and respect for KEMI after having been part of the organization for the past several years. Others awaiting confirmation agreed.

Chairman Workman asked for a motion to adjourn the meeting. Motion was made and seconded. With no further discussion, he called for a voice vote. Motion passed without objection. The Board Meeting adjourned at 3:34 p.m.

Respectfully Submitted:

Nicole Madden

Nicole Madden, Recording Secretary

APPROVED:

Mark Workman, Chair

Kellie Wilson, Secretary

Making workers' comp work

MINUTES

KEMI Board of Directors' Meeting
June 11, 2024

MINUTES
Kentucky Employers' Mutual Insurance
Board of Directors' Meeting
8th Floor Conference Room & Via Video Teleconference
250 West Main Street
Lexington, KY 40507

June 11, 2024

Members Present:
Mark Workman
Rodney Casada
Kellie Wilson
Benjamin Hale
William Jones
Joe Koester
Bruce Williams (left meeting @ 2:55 p.m.)
Joe McDaniel (proxy for Sec. Johnson)
Director Alan Hurst (proxy for Sec. Bailey)
Commissioner Scott Wilhoit (proxy for Sec. Link)

Others Present:
Jon Stewart, KEMI
Tim Feld, KEMI
Jeremy Terry, KEMI
Elizabeth Paul, KEMI
Mark Bunning, KEMI
Mary Colvin, KEMI
Katy Grachek, KEMI
Patrick Simpson, KEMI
Allyson Smith, KEMI
Faye Creech, KEMI
Amber Hunt, KEMI
Nicole Madden, KEMI
Steve Humphress, AG

I. CALL TO ORDER

Chairman Workman called the meeting to order at 2:00 p.m.

II. ROLL CALL

Ms. Madden took roll. A quorum was reported in attendance.

III. PROOF OF NOTICE

Ms. Madden confirmed notice of the meeting was provided.

IV. APPROVAL OF MINUTES

Chairman Workman called for a motion to approve the minutes of the April 9, 2024, Board Meeting. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

V. CEO REPORT

Mr. Stewart's report included discussion of the following topics:

- Business Update –
  - Policyholder Services – Mr. Stewart reported numbers through May were very good showing increased revenue with the exception of coal. He indicated there was a decrease in direct written premium in comparison to May last year, which was also driven by coal. He indicated non-coal premium had increased even with rate decrease and KEMI was seeing opportunities to write new business. He advised the market was very competitive, and that most businesses were choosing to remain with carriers if there was not significant price variance or service issues. He advised that retention was above target for competitive and target classes. He reported premium retention was down, which was the result of coal.
  - Mark Share Review – Mr. Terry provided a review of the 2023 market share. He reported that direct written premium for the entire market was up approximately 5% for 2023 and KEMI's share of that market was 27.9%. He reminded the Board that KEMI's vision was to be the carrier of choice in the state and that it was important for KEMI to thrive as a competitive option for insurance. He pointed out that KEMI's 2023 market share was consistent with the highest performance in the last five years and shared

how pleased Management was about the impact of non-coal performance. He shared the complete listing of carriers writing coverage in the state, which was over one hundred in count. He indicated that in 2023 KEMI lost at least one account to sixty-three different carriers. He indicated that trying to stay competitive and keep market share was a challenge but that he was pleased with 2023 results. Mr. Terry was asked if KEMI insured Kentucky's largest coal company located in Western Kentucky. He and Mr. Stewart responded that the company was a self-insured surface mining company. Mr. Terry indicated that the coal company insured approximately one-third of miners in the state, KEMI insured one-third of miners in the state, and the other one-third of miners in the state were insured by various other carriers.

- Claims Services – Mr. Stewart reviewed the claims services update for May included in his CEO report. He reviewed the summary of bill payment as of May 31, 2024. He indicated that he was very pleased with results and diligent efforts of medical bill staff to ensure reduction of charges. He was asked if duplication of billing was intentional. Ms. Colvin responded that KEMI typically processed bills within 30 days of receipt but that some providers outsource their billing and bill more frequently. Mr. Stewart explained bills were processed as quickly as possible to encourage a positive relationships with providers and to avoid rebills. Mr. Simpson added that the most recent IA review of medical payments showed on average KEMI paid medical bills within 10 days. Mr. Stewart went on to discuss the addition of $5M in case reserves on a large claim reported last year. He indicated reinsurance would assume the excess expense over retention. He also reported there had been significant savings from a recent settlement which was offsetting financial impact of the increased reserves.
- DOI Routine 5-Year Financial Examination – Mr. Stewart reported that the exit conference regarding the DOI exam had been held. He explained that while the exam was financial it was also risk-based and focused on enterprise risk management (ERM), mitigation, and governance. He reported the draft report had been received and there were no findings or recommendations, so a management letter was not issued. He indicated that in KEMI's history of routine DOI examination this was the first that had not included any recommendations. Mr. Stewart discussed the expected cost for the exam and anticipated that the final report would be provided to the board by the next meeting. The Chairman congratulated Mr. Stewart and the leadership team.
- Strategy Update – Mr. Stewart indicated the mid-year strategy update would be provided in August.

- Origami Project –
    - Claims - Ms. Paul reported that post-production data was supplied to Origami earlier in the day to prepare for data refresh. She indicated Origami would complete validation and verification through June 26 and then KEMI would conduct final end-to-end testing. She advised that procedures were developed and had gone a collective compliance review. She indicated that dashboard development was ongoing. Ms. Paul reported that responsiveness and collaboration between KEMI and Origami continued and that the project was progressing as expected.
    - Policy - Regarding policy implementation, Ms. Paul reported that KEMI had reviewed the statement of work and provide feedback to the Origami policy team. She indicated small group meetings were expected to follow soon. There were no questions.
- Office Renovation Project Update – Mr. Stewart pointed out completed renovations to the 8th floor and indicated additional touchups would occur after the board meeting. He indicated that the 9th floor should be finished by August and all staff would be moved to two floors before the next board meeting.
- Awarded Best-in-Class Employer for 2023 by Gallagher – Mr. Stewart announced that KEMI had been recognized by Gallagher as a top employer for strategic approach to benefits. He advised that a press release was include with meeting materials.
- Upcoming Events – Mr. Stewart indicated the annual policyholder meeting would be held 06/19/2024 and be led by Mr. Terry and Mr. Feld. He discussed Day of Service activities being put together by Mr. Simpson and Ms. Grachek to encourage community involvement and corporate engagement of staff. He discussed the upcoming Annual AASCIF Conference indicating several employees were attending. He also discussed the employee engagement event planned for Main Event.

- Internal Audit (IA) & ERM Updates –
    - Mr. Simpson discussed the safety and loss control unit review completed by IA noting the number of total appointments and discussing the efforts the team put into training policyholders.
    - He continued by discussing the business continuity review completed. He described the review as an assessment of the approach to mitigate business interruptions. He explained that the assessment includes review of the business continuity plan, disaster recovery plan, cyber security plan, as well as evaluation of test results. He shared that there was a cross

functional business continuity committee, which Ms. Paul leads. He discussed critical vendors and work with them. He advised there were no major concerns resulting from the review and minor recommendations were made regarding policies, procedures, and practices.

- Mr. Simpson discussed other review efforts for the period including routine claims reserves, policy renewals, business development and claims relations, business insurance, collaboration on the DOI exam. He shared that specifics and additional items were included in the activity report included with meeting materials and reiterated members of the board may contact him with questions anytime.
- Mr. Simpson continued his report by discussing Enterprise Risk Management (ERM). He shared significant ERM activity including annual ERM charter review by the Audit/Finance/Investment Committee, risk identification scoring for the risk register and annual economic capital modeling. Mr. Simpson discussed the capital model created in collaboration with Guy Carpenter. He discussed how the capital model was used for decision making and provided highlights for the year discussing projections related to Best Capital Adequacy Ratio (BCAR) and noting model projections were outperforming KEMI projections. He discussed primary capital risks and advised that model results were in alignment with Management's expectations. He indicated utilizing capital modeling provided quicker validation and increased knowledge in comparison to waiting for the annual rating discussion with A.M. Best each year.
- Mr. Simpson continued by discussing the risk identification and prioritization process for the risk register annual process. He provided summary results and shared pre and post mitigation heat maps of scoring results advising that the post mitigation map indicated controls were working. He explained that the risk register process was an annual process promoting a healthy risk management culture. He advised that results were not surprising and that no single risk was of great concern. He indicated the risk management process was a continual and on-going process and including regular conversations regarding emerging risks. Mr. Simpson explained the risk register was very broad in nature and risk tolerance metrics were specific to the board approved risk appetite statement and had pre-determined limits of risk acceptance. He expanded the conversation to explain that exceeding limits (breaches) should not be considered a negative but should be considered a call to action. He specifically discussed three breaches that exceeded appetite for the first quarter. He discussed combined ratio for first quarter and expressed there

was no concern because there were specific reasons for the increase. He discussed all factors. He explained the value of the breach was in early recognition and reconsideration of loss expectations extending to how pro formas would be developed in future years. He discussed new policy written premium. He noted no concern regarding first quarter growth and indicated the value of the breach was in monitoring and evaluating the impact of growth. Lastly, Mr. Simpson discussed volatility in the Eastern Kentucky coal industry for first quarter 2024. He discussed met and thermal coal pricing, employment, and production, and decrease in coal premium. He advised there was potential for claims based on employment and production declines and noted that federal black lung filings had increased. He noted metrics were in caution and would continue to be monitored.

- Closed Session – KRS 342.841

  Dividend Recommendation

  The Chair asked for a motion to enter closed session for competitive disadvantage per KRS 342.841 to discuss a dividend recommendation. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

  The Board entered closed session at 2:40 p.m. All meeting attendees were permitted to remain during closed session.

  The Board returned to open session at 3:05 p.m. The Chair reported no action was taken during closed session.

  The Chair asked for a motion to approve a 20% dividend for 2021 eligible policyholder premium per the recommendation made by Management. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

- Financial Update –
  - Financial Report – Mr. Bunning began by advising that financial reports were discussed in detail at the recent Audit/Finance/Investment Committee Meeting. Referencing the April Balance Sheet, he indicated assets continued to grow. He pointed out loss reserves and loss adjustment expenses in comparison to April 2023 and noted the addition of $13M in incurred but not report (IBNR) reserves through April and explained how it related to the previously approved $25M bond swap. He continued by

explaining estimated loss ratio was originally set to 55% and advised it was changed to 52% in April because the projected combined ratio was reached and to address liabilities applied to the Income Statement. He indicated that revenues were approximately equal to the same time last year even with a 10% rate decrease. He pointed out the underwriting gain as of April 30. He noted monitoring of IBNR would continue and he would keep the board informed. He discussed net income as well as investment income in comparison to the same period last year and at year-end 2023. He indicated he was very comfortable with the dividend recommendation provided. Regarding the Cash Flow Statement, Mr. Bunning pointed out maturity of bonds in the first four months of the year. He advised the bond swap began in June. He reminded the board that the swap would produce loss in the Income Statement and the combined ratio would go down due to offset from loss reserves. He indicated he would continue to keep the board informed. In response to a question from the board, Mr. Bunning explained Conning was not in a rush to complete the swap and had indicated the reallocation would take $7M to $8M. He explained the initial approach was to sell investments on the risk list and then reallocation would occur. Mr. Bunning indicated purchase of additional CLOs would follow. He added that he expected the process would continue for the remainder of the year. Mr. Bunning was asked to provide the ratios between stocks and bonds. He responded that corporate paper was approximate 80% and equities were at 7% of the portfolio. In response to a follow-up question, Mr. Bunning explained that KEMI stayed above the targeted index because equities were high dividend with a strategy to acquire dividends and growth. He indicated KEMI had $10M in unrealized gains on equities presently. Mr. Stewart added if KEMI was benchmarking against the pure S&P 500, KEMI would be underperforming, but with addition of dividends, KEMI was performing above the index. Mr. Bunning added that for the year, in both bonds and equities, KEMI was above the indexes tracked.

- Budget Variance – Mr. Bunning reported that overall KEMI was significantly underbudget through April. He explained that much of the variance included funds allocated but unused for the Origami policy project. He indicated those expenses were expected to begin later in the year. There were no questions.
- Investment Summary – Mr. Bunning reviewed and discussed the 06/03/2024 investment summary included in the board meeting packet. Specifically, he discussed fixed income, equities, CLOs, and book yield. He anticipated book yield would be over 4% by end of year. Mr. Bunning

discussed the values in the change line and indicated this information would be beneficial to understanding results of the bond swap over time.

- Reports Added to BoardEffect –
  - Mr. Bunning advised the board that following the approval of the independent audit report presented at the last board meeting, the audit was completed and signed. He indicated the auditor made one change to a letter in the audit and expressed his understanding that the auditor sent the final report to the board directly. Ms. Madden indicated she had also distributed that information to the board. Mr. Bunning indicated there was no change to any of the numbers in the audit but that a reference included in one sentence was updated in the final audit report.
  - Mr. Bunning noted other attachments were linked to the packet including the Conning and Clearwater investment reports and the quarterly statement for March which he advised had been filed in a timely manner.

- Procurement -

Contracts – Mr. Feld reported there were ten contracts on the approval list. He pointed out a sponsorship contract with University of Louisville noting it was a 3-year agreement. He reminded the board that sponsorships with UK and U of L were not ticket based sponsorships but were experience based sponsorships which were deemed more valuable for interaction between policyholders or potential clients and KEMI. There were no questions.

Mr. Feld requested a motion to approve the 06/11/2024 Board Contract Approval Listing as presented. Motion was made and seconded. The Chair called for discussion. There being no discussion, the Chair called for a voice vote. Motion passed without objection.

VI. COMMITTEE REPORTS

- **Executive Committee**

Chairman Workman reported the Executive Committee met on May 24, 2024, and indicated a report was included in the board meeting packet. He advised the committee met again just prior to the current meeting and discussed the CEO Update Report and contracts.

- **Audit/Finance/Investment Committee**

  Dr. Casada advised that the Audit/Finance/Investment Committee had met on May 29, 2024. He indicated a committee report was included in the board meeting packet and reported that during the meeting the committee discussed the finalization of the 2023 independent audit report, the external auditing RFP, the ERM risk register and economic capital modeling as well as receiving updates on financials, investments, and retirement committee activity. He indicated a revision to the ERM Committee Charter was approved and recommended signing authority for Federal Home Bank of Cincinnati (FHLB). He asked Mr. Bunning to explain the FHLB recommendation. Mr. Bunning advised KEMI was a member of the FHLB because it provided a low interest rate source of capital if ever needed. He advised KEMI has never needed it to-date. He indicated that currently the only signer designated on the FHLB account was Mr. Stewart so Management was recommending that signing authority be expanded to the same four signors on KEMI's Chase account. He indicated board approval of the signers was needed since the board approved the signers when the FHLB account was initially put in place.

  Dr. Casada then made the following motion:

  I make a motion to approve Jon Stewart, Mark Bunning, Tim Feld, and Mary Colvin as signers on KEMI's Federal Home Loan Bank of Cincinnati account. Motion was seconded. A call for additional discussion was made. There being none, a voice vote was taken. Motion passed without objection.

- **Human Resources Committee** - Mr. Koester indicated the Human Resources Committee had not met since the last meeting. He advised that the Committee would meet with Jeff Rieder on August 8 and motions would be presented at the next board meeting.

- **Bylaws/Legislative Relations Committee** – Ms. Wilson indicated the Bylaws and Legislative Relations Committee had not met since the last meeting. She advised that a meeting was being arranged before the next board meeting.

VII. UNFINISHED BUSINESS

None

VIII. NEW BUSINESS

None

IX. FUTURE MEETINGS

The next regular KEMI Board Meeting will be held on Tuesday, August 13, 2024, at 2:00 p.m. Eastern. Attendance will be in-person and virtual.

The Executive Committee will meet on Tuesday, 07/09/2024 @ 1:00 p.m. Eastern for a virtual meeting.

The HR Committee will meet on Tuesday, 08/06/2024 @ 10:00 a.m. Eastern. The meeting will be in-person and virtual.

X. ADJOURNMENT

Chairman Workman asked for a motion to adjourn the meeting. Motion was made and seconded. With no further discussion, he called for a voice vote. Motion passed without objection. The Board Meeting adjourned at 3:30 p.m.

Respectfully Submitted:

Nicole Madden

Nicole Madden, Recording Secretary

APPROVED:

Mark Workman, Chair

Kellie Wilson, Secretary

Making workers' comp work

MINUTES

KEMI Board of Directors' Meeting
August 13, 2024

MINUTES
Kentucky Employers' Mutual Insurance
Board of Directors' Meeting
8th Floor Conference Room & Via Video Teleconference
250 West Main Street
Lexington, KY 40507

August 13, 2024

Members Present:
Mark Workman
Rodney Casada
Kellie Wilson
Benjamin Hale
William Jones
Joe Koester
Joe McDaniel (proxy for Sec. Johnson)
Director Alan Hurst (proxy for Sec. Bailey)
Commissioner Scott Wilhoit (proxy for Sec. Link)

Others Present:
Jon Stewart, KEMI
Tim Feld, KEMI
Jeremy Terry, KEMI
Mark Bunning, KEMI
Katy Grachek, KEMI
Patrick Simpson, KEMI
Allyson Smith, KEMI
Faye Creech, KEMI
John Koenig, KEMI
Ryan Worthen, KEMI
Gretchen Copley, KEMI
Amber Hunt, KEMI
Nicole Madden, KEMI
Steve Humphress, AG
Matt Frey, APA

I. CALL TO ORDER

Chairman Workman called the meeting to order at 2:00 p.m.

II. ROLL CALL

Ms. Madden took roll. A quorum was reported in attendance.

III. PROOF OF NOTICE

Ms. Madden confirmed notice of the meeting was provided.

IV. APPROVAL OF MINUTES

Chairman Workman called for a motion to approve the minutes of the June 11, 2024 Board Meeting as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

V. CEO REPORT

Mr. Stewart's report included discussion of the following topics:

- Business Update –
  - Dividend Update – Mr. Stewart reported that all dividend checks were printed with approximately 900 slated for hand-delivery by agents and the others mailed.
  - Policyholder Services – Mr. Terry reported overall premium was down \$4.3M from July 2023 due to decline in coal premium and reported that non-coal premium was up \$5.1M. He indicated new business was 50% higher than it was at the same point last year. He noted that new business for target classes was exceeding the annual amount written for 2023. He discussed that the enhanced commission program for target classes was proving successful at the one-year mark from implementation and indicated the program was expected to continue for another year and be evaluated again. He indicated that non-coal additional premium generated at audit was also continuing to grow. Regarding school board renewals, Mr. Terry advised that KEMI retained all but one school board policy and wrote eight

new ones effective July 1, 2024. He reported that KEMI now covers approximately 84% of Kentucky school boards. He shared that feedback has indicated that dividends make have significant impact for school boards.

- Claims Services – Mr. Stewart advised the Ms. Colvin was heavily involved in Origami end-to-end testing and was not available to attend the board meeting. He provided the July 2024 claims update indicating there was stability in claims statistics as well as in staffing.
- AM Best Annual Rating Review – Mr. Stewart indicated that he and members of the leadership team would be meeting with A.M. Best virtually for the annual rating discussion. He expressed there were no issues or concerns. He stated KEMI was expected to retain the "A-" rating and continue on stable outlook.
- Origami Project – Mr. Stewart advised that Ms. Paul was also involved in project end-to-end testing, and he was reported on claims implementation on her behalf. He indicated data conversion was complete while some validation processes were ongoing. He indicated there were a few bugs being researched and resolved but there were no major concerns. He advised there was still quite a bit of work to complete and end-to-end testing would wind up on August 30. There were no questions.
- Office Renovation Project Update – Mr. Stewart reported office renovations were essentially complete with only a few moves and finishing touches remaining. He indicated everyone seemed very pleased and noted a few board members toured renovated spaces prior to the meeting. He acknowledged Mr. Terry's efforts as the quarterback of the project.
- KEMI Day of Service – Mr. Stewart reported that 130 employees recently spent half day working together on service projects. He indicated it was a great day for teambuilding and engagement in addition to serving others. He noted the list of charities that benefited were included with meeting materials and he asked Mr. Worthen to distribute links to social media videos created. He indicated another ½ day would be held before year-end.
- Annual Orientation Proposal – Mr. Stewart shared that he had proposed the annual board orientation program be held in conjunction with the December board meeting. The orientation will be scheduled from 10:00 a.m.– 12:30 p.m. prior to afternoon meetings. He noted that during the program KEMI's Claims Director, Bob Swisher, would provide a history of workers' compensation and he would provide a history of KEMI.
- Upcoming Events – Mr. Stewart advised that an employee engagement event was coming up the following week.

- CrowdStrike Outage – Mr. Stewart introduced KEMI IT Director, John Koenig and asked him to explain the recent CrowdStrike event. Mr. Koenig explained KEMI was not a CrowdStrike client and was not directly impacted by the outage. He shared that IT's immediate response upon awareness was to begin contacting vendors to gauge indirect impact to KEMI. He discussed five KEMI vendors that were CrowdStrike users and provided information about the impact associated with each vendor, which included minimal impact to KEMI employees, policyholders, and claimants. He indicated as part of usual process, IT evaluated what could be learned from the event. He conveyed that endpoint protection software is an important component in any organization. He stressed that KEMI's update strategies were effective and appropriate and that the event was an opportunity to reinforce employee training and awareness regarding cyber security and phishing.
- KEMI Property – Before concluding the report, Mr. Stewart was asked if there was an update regarding KEMI's property. Mr. Feld responding that he had spoken to the real estate agent a couple of weeks prior and there were no inquiries. In follow-up, he was asked if prior interest in a 1031 exchange was an option. Mr. Feld indicated there was no interest currently.

- Closed Session – KRS 342.841

  - Strategy Plan Update

  The Chair asked for a motion to enter closed session due to competitive disadvantage per KRS 342.841 to discuss the 2024 strategic plan. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

  Members of the board, representatives of the office of the Attorney General, and the Auditor of Public Accounts and staff were invited to remain for the closed session.

  The Board entered closed session at 2:22 p.m.

  The Board returned to open session at 2:30 p.m. The Chair reported no action was taken during closed session.

- Adoption of 12/31/2022 DOI Examination – Mr. Stewart reminded the Board that he shared details of the DOI examination report, which was previously expected to take several months to finalize at the last meeting. He reported that copies of the final examination report were available in BoardEffect and reiterated there were no findings or recommendations. The Chair congratulated the KEMI team on a job well-done.

The Chair requested a motion to adopt the 12/31/2022 DOI Examination Report as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

- Appointment of Retirement Plan Record-Keeper and Trustee/Custodian – Ms. Grachek advised that KEMI was previously authorized by the Board to change the record keeper for KEMI's retirement plans. She acknowledged that she, Mr. Bunning, and Ms. Copley were meeting with representatives of the new record keeper, TransAmerica, regularly to plan the transition. She explained that several resolutions from the Board were needed to appoint the record-keeper and trustee/custodian of the plans and to authorize named individuals to execute documents and complete specified actions.

The Chair requested a motion to appoint State Street Bank and Trust Company of Boston, Massachusetts, as Trustee/Custodian of KEMI's Defined Benefit Plan effective November 1, 2024, and 401(a) and 457(b) Retirement Savings Plans, October 1, 2024. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

The Chair requested a motion to appoint Transamerica Retirement Solutions, LLC as record-keeper of KEMI's Defined Benefit Plan effective November 1, 2024, and 401(a) and 457(b) Retirement Savings Plans and KEMI's 401(h) Health Trust, effective October 1, 2024. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

The Chair requested a motion to appoint the following individuals as authorized to execute any documents necessary to complete withdrawals, loans, transfers, election changes or distribution request from a participant, whichever is applicable:
Jon Stewart, CEO
Mark Bunning, CFO
Katy Grachek, Senior Director of HR
Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

The Chair requested a motion to appoint the following individuals to execute a Trust Agreement and other documents and perform such acts deemed in the best interest of KEMI and the Defined Benefit Plan and 401(a) and 457(b) Retirement Savings Plans to implement the forgoing resolutions, evidenced by the execution of any documents as he or she deems appropriate.

Jon Stewart, CEO
Mark Bunning, CFO
Katy Grachek, Senior Director of HR

Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

Mr. Bunning added that to-date Management was very pleased with efforts of Transamerica to acclimate to KEMI's plans and develop procedures.

- Internal Audit (IA) Report – Mr. Simpson discussed IA activity detailing operations reviews conducted including multiple claims and policyholders services reviews as well as reviews of retirement plans, investment portfolio reconciliation, employee compensation/market analysis, and the DOI after action review. He also advised he participated in numerous other reviews and activities including the financial statements audit kickoff, SOC 2 audit kickoff, credit card purchasing review, IA budgeting, AASCIF Annual Conference serving as ERM Committee advisor, KEMI Volunteer Committee and other leadership and committee meetings.

  Mr. Simpson discussed the claims medical reserve review for claims 10+ years old explaining objectives and scope as well as observations and opinions.

  He continued by discussing the black lung data review and actuarial analysis kick-off. He stressed the importance of quality data in the process. He detailed the objective, scope, observations, and opinions. He also shared that the Milliman black lung 06/30 reserve analysis kick-off meeting was held and provided an excellent opportunity for Milliman and KEMI to learn from each other with discussion focused on overall industry as well as KEMI specifics. He indicated that none of the major drivers were expected to change but stressed black lung claims were long tailed.

Mr. Simpson explained objectives, scope, observations, and opinions for the review he conducted regarding the AIK and KCP LPTs acquired in 2022. He explained a recent change to one TPA instead of two and advised that TPAs were being held accountable for management of claims. He indicated that claims leadership had been conducting audits of case reserves set by the TPA and that reserves appeared to be adequate. He indicated Management was comfortable with Milliman's review of IBNR reserves, which included quite a bit of redundancy at the end of 2023. He advised there could be a change due to a complex issue with one of the reinsurers. He indicated the issue was currently being worked through and assured the board there would be sufficient capital to pay liabilities. Mr. Stewart indicated that Management would be engaging the Department of Insurance to aid in the resolution of the issue, which all parties have been aware of since the LPT was initiated.

Mr. Simpson discussed the high-level assessment he conducts of the retirement plan. He advised the internal retirement committee was doing a good job meeting with the investment manager quarterly and working within the new investment policy statement. He discussed the plans full funding as of 12/31/2023 and advised that Management will not have confirmation of that analysis until the new vendor completes and actuarial cycle. He continued by advising that the retirement committee was preparing a new committee charter, on which he had provided some collaboration along with Ms. Copley. He indicated the new charter would likely be presented to the board at the next meeting. He shared other improvement opportunities he recommended to the retirement committee regarding a governance/compliance role on the committee and an actuarial kickoff meeting to discuss assumptions and methodology at the onset of the actuarial analysis. He indicated all recommendations were accepted by the retirement committee. There were no questions from the board.

- Financial Update –
    - Financial Report – Mr. Bunning reviewed the balance sheet as of 06/30/2024. He indicated assets were increasing and that there was little change. He indicated estimated liabilities included $12M in added IBNR. He discussed the bond swap explaining that of the $25M being withdrawn from reserves for the swap $12M was already replenished. He noted financials would look a bit messy for the remainder of the year due to the bond swap. He reviewed policyholder equity. He also discussed the increase in non-admitted assets and explained that if any portion of

additional audit premium was not received, the entire receivable was considered non-admitted. Mr. Bunning continued by discussing the increase in unrealized capital gains, which he explained was driven by stock portfolio and high-yield bond portfolio. There were no questions regarding the balance sheet.

On the 06/30/2024 income statement Mr. Bunning pointed out that earned premium was flat in comparison to the same period last year while direct written premium was down slightly. From the losses perspective he noted that value of total losses incurred included $2M of bond swap that began in June. He indicated that the swap was beginning to bring losses down and would continue to do so. He indicated that LAE was up a bit due to increased legal expenses on claims. He discussed the underwriting gain and explained that combined ratio of 95.6% which was also due to the bond swap and predicted the ratio would likely drop to 80%. He indicated that lack of activity in claims was the driving factor and was a positive to the bottom line. Mr. Bunning discussed retro-active reinsurance which he explained was related to commutation of the ADC. He explained that pension cost would not be as high in 2024 because there were not as many retirements expected in 2024. Mr. Bunning pointed out that the dividend was not paid as of 06/30 but that the value was expected to be approximately $18M after credit of tax and assessment and would appear on the August statement.

Mr. Bunning discussed the cash flow statement. He indicated the statement would grow in 2024 due to the bond swap. He indicated cash flow was positive and KEMI was operating at a profit.

With regard to the LPTs, Mr. Bunning advised there was $33.7M in claims loss reserves and $12.4M in IBNR. He indicated that reserving was really good on the entire book of four LPTs.

- Budget Variance – Mr. Bunning indicated KEMI was underbudget for the first half of the year. He advised that billing for furniture and fixtures associated with the renovations were received in July and accounted for that variance on the 06/30 report. He discussed that salaries were over-budget for year to date due to EIP payout. He indicated the salary account was expected to be under budget by year-end since there had not been as many new hires as originally budgeted for 2024. With regard to outside services, Mr. Bunning reported the account was underbudget due to over budgeting for Origami. He indicated that for 2025 allocations for Origami would be more judicious based on experience. Mr. Bunning advised the investment expense budget was overbudget due to Elm Tree's billing process; he indicated that the process would be accounted for in the 2025 budget. He reported actuarial services would be over budget before the end of the year and reminded the board they had approved additional funds to cover additional actuarial projects KEMI had requested such as review of the LPTs. He pointed out insurance examination expenses and indicated that the account should be underbudget for the year. There were no questions.

- Investment Summary – Mr. Bunning reviewed the investment portfolio summaries as of July 1 and August 5, respectively. He reported that KEMI was at $8M in bond swap as of 08/05 with book yield of 4%. He indicated average duration was at approximately 5 and run rate was at $42.5M. He noted gain to par value was improved. At 08/12 book yield was 4.07% with $10M in bond swap. He indicated the target was 4.5% book yield once the bond swap was completed. Mr. Bunning indicated redundancy would either increase or more money would move to the bottom line. He was asked about the ratio of stocks and bonds in the portfolio. He responded stocks were at 7% and high yield were at 3%. He also discussed the addition of CLOs to fixed income and the impact of possible interest rate drop. Mr. Bunning also discussed market changes which occurred in the prior week and Conning's theory on the reason concluding that markets were currently stable.

- Procurement -

Contracts – Mr. Feld discussed the five contracts included on the 08/13/2024 Board Contract Approval Listing. He specifically discussed Wellness IQ and explained that due to employee engagement in KEMI's wellness program additional funds were needed. He indicated positive return on investment was expected since KEMI was self-insured. The Chair asked for the percent of engagement. Ms. Grachek responded that employee engagement in the wellness program was at 86%. She stressed that continued engagement could lead to a reduction in chronic disease. Members of the board discussed that the added expense was worth it to see a reduction in health claims in the long run. Ms. Copley was asked to comment on her experience in the program. She indicated she enjoyed the challenging program and found it very engaging.

Mr. Feld requested a motion to approve the 08/13/2024 Board Contract Approval Listing as presented. Motion was made and seconded. The Chair called for discussion. There being no discussion, the Chair called for a voice vote. Motion passed without objection.

The Chair asked Mr. Feld for any comment on contract notifications or terminations. Mr. Feld indicated there were none.

VI. COMMITTEE REPORTS

- **Executive Committee**

  Chairman Workman reported the Executive Committee met on July 9, 2024 and a report was included in the board meeting packet. He advised the committee met again prior to the board meeting and approved Mr. Stewart's upcoming travel and Q2 travel expenses.

- **Audit/Finance/Investment Committee**

  Dr. Casada indicated there was no report.

- **Human Resources Committee**

  Mr. Koester reported the HR Committee met on 08/06/2024. He indicated the HR Committee report included in the packet included details and discussion which occurred at the committee meeting.

  Mr. Koester made a motion to go to closed session under KRS 342.841 for unfair competitive advantage to discuss the KEMI compensation program review. Motion was seconded. A voice vote was taken, and motion passed without objection.

  The following individuals were invited to remain during the closed session: members of the Board, Katy Grachek, Jon Stewart, Patrick Simpson, Nicole Madden, representatives of the Attorney General's Office and the Auditor of Public Accounts Office. All other staff and public attendees were excused.

  The Board entered closed session at 3:16 p.m.

  The Board returned to open session at 3:38 p.m. Mr. Koester reported no action was taken in closed session.

Motion was made to increase all KEMI salary grade ranges by 3% per the recommendation of the HR Committee. Motion was seconded. There being no discussion, a voice vote was taken. Motion passed without objection.

Mr. Koester asked Ms. Grachek to proceed by reviewing proposed revisions to human resource policies. Ms. Grachek explained proposed revisions provided clarification to travel for non-exempt employees and clearly stated liability insurance limits for field staff using personal vehicles for business travel. Ms. Grachek advised the insurance limits were above state minimums and were not a new requirement for KEMI staff. She indicated all field staff currently maintain or exceed the stated limits. Ms. Grachek was asked if there was additional compensation for employees required to maintain these limits. Mr. Stewart responded there was not additional compensation, but that field staff were compensated for travel expenses including mileage. He indicated field staff had greater limits on their policies by personal choice, so these employees were not being asked to take on additional financial burden. Ms. Grachek indicated that policy limits were routinely confirmed by HR and new employees were informed at the onset of employment. There were no additional questions.

Motion was made to approve revisions to HR Policy 1301 Travel and Expenses as presented per the recommendation of the HR Committee. Motion was seconded. There being no discussion, a voice vote was taken. Motion passed without objection.

- **Bylaws/Legislative Relations Committee**

Ms. Wilson reported the Bylaws and Legislative Relations Committee met on July 17. She advised that the committee completed the annual charter review and received a recap of the 2024 legislative activity. Ms. Wilson indicated a report included in meeting materials detailed discussion from the meeting. She reported that besides approval of meeting minutes no action was taken during the committee meeting. She advised the committee would meeting again in the fourth quarter to complete the bylaws review and discuss any new information about legislative activity expected in 2025.

VII. UNFINISHED BUSINESS

None

VIII. NEW BUSINESS

None

IX. FUTURE MEETINGS

The Chair shared the following meeting information:

- Executive Committee Meeting to be held virtually 09/10/2024 at 1:00 p.m. EDT.
- Audit/Finance/Investment Committee to be held virtually 09/25/2024 at 2:30 p.m. EDT.
- Executive Committee Meeting to be held in-person and virtually on 10/08/2024 at 1:00 p.m. EDT.
- KEMI Board Meeting to be held 10/08/2024 at 2:00 p.m. EDT. Attendance will be in-person and virtual.

X. ADJOURNMENT

Chairman Workman asked for a motion to adjourn the meeting. Motion was made and seconded. With no further discussion, he called for a voice vote. Motion passed without objection. The Board Meeting adjourned at 3:35 p.m.

Respectfully Submitted:

Nicole Madden

Nicole Madden, Recording Secretary

APPROVED:

Mark Workman, Chair

Kellie Wilson, Secretary

Making workers' comp work

MINUTES

KEMI Board of Directors' Meeting
October 8, 2024

MINUTES
Kentucky Employers' Mutual Insurance
Board of Directors' Meeting
8th Floor Conference Room & Via Video Teleconference
250 West Main Street
Lexington, KY 40507

October 8, 2024

Members Present:
Mark Workman
Rodney Casada
Kellie Wilson
Benjamin Hale
William Jones
Joe Koester
Bruce Williams
Joe McDaniel (proxy for Sec. Johnson)
Director Alan Hurst (proxy for Sec. Bailey)
Commissioner Scott Wilhoit (proxy for Sec. Link) – left @ 2:30 p.m.

Others Present:
Jon Stewart, KEMI
Elizabeth Paul, KEMI
Mark Bunning, KEMI
Katy Grachek, KEMI
Patrick Simpson, KEMI
Faye Creech, KEMI
Gretchen Copley, KEMI
Michael Huff, KEMI
Sarah Kosin, KEMI
Nicole Madden, KEMI
Steve Humphress, AG
Jocky Denguessi Kwin, APA

I. CALL TO ORDER

Chairman Workman called the meeting to order at 2:00 p.m.

II. ROLL CALL

Ms. Madden took roll. A quorum was reported in attendance.

III. PROOF OF NOTICE

Ms. Madden confirmed notice of the meeting was provided.

IV. APPROVAL OF MINUTES

Chairman Workman called for a motion to approve the minutes of the August 13, 2024 Board Meeting as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

V. CEO REPORT

Mr. Stewart's report included discussion of the following topics:

- Business Update
  - Origami - Mr. Stewart advised that Origami Claims was live effective today. He asked Ms. Paul to provide a brief update. She recapped the journey and efforts that led to the go-live. She discussed the Origami knowledgebase developed by KEMI and the role of the KEMI support room in place to provide real-time assistance to users as they acclimate to the system and processes. She commended the team that worked on the project and their commitment to successful implementation, and she expressed appreciation for board and leadership team support. The Chairman commented that it was very impressive and thanked Ms. Paul for her dedication and attention to detail. Mr. Stewart added that Ms. Paul had certainly been the right person for the job and noted her employees had expressed the same. He indicated that Ms. Colvin was assisting staff in the Origami virtual support room and Ms. Paul would be leaving the board meeting to do the same. He indicated he had spent some time in the support room earlier in the day and that employees were very positive. He advised that the Origami policy project was expected to resume in January after the statement of work was finalized and the project team was given a respite. He indicated that the

policy project would also be long and involved. He also shared that Mr. Terry and Mr. Feld were absent from the meeting to attend the PCI Annual Meeting and meeting with reinsurers.

- Policyholder Services – Mr. Stewart reported KEMI was having another good year. He indicated premium was down approximately $6M through August and explained the decrease was related to the coal industry. He advised that non-coal premium was up despite the 10% rate decrease that became effective in January 2024. He indicated the amount of additional premium from audit was greater than the same time last year. He noted that retention targets were being exceeded and that target class new business was up for the year.
- Claims – Mr. Stewart reported claims had been very stable with reported patterns being similar and consistent with the last few years. He indicated KEMI's loss ratio was around 52%.
- Positive Feedback – Mr. Stewart briefly discussed positive feedback received from Bullitt County Schools and indicated information was included in the meeting packet.
- Carrier Performance Assessment System (CPAS) – Mr. Stewart advised that KEMI was working with the Department of Workers' Claims (DWC) on its carrier performance assessment system and was pleased to be assisting in the implementation of this compliance effort. Commissioner Wilhoit thanked KEMI for participating as a test carrier.
- Culture and Engagement Survey – Mr. Stewart announced that culture and engagement survey results were recently received. He shared overall results in comparison to the last survey, which was conducted in 2022. The Chair congratulated the leadership team on receiving a phenomenal engagement score. He continued by expressing the results were an obvious indicator that the team listened to responses from the prior survey and acted to better enable, engage, and empower employees. He congratulated Ms. Grachek for championing efforts and thanked leadership for their responsiveness. Ms. Grachek responded with appreciation commenting that she looked forward to sharing more information about results in the future.
- AM Best Annual Rating Review – Mr. Stewart indicated that the annual rating meeting was held at the end of August and that 09/30 financials would be reviewed by A.M. Best before a rating was released. He advised that 09/30 financials would be finalized in a few weeks.
- Annual Orientation – He indicated that plans for the December 10 annual orientation were being outlined and developed.
- Upcoming Events – Mr. Stewart shared that he would be attending a WCRI Board Meeting at the end of the month.
- CEO Travel – Mr. Stewart advised that the Executive Committee did not have a quorum for the afternoon meeting. He discussed and reviewed his Q3 travel expenses. He indicated all trips for the quarter were within budget.

The Chair asked for a motion to approve Jon's (Q3) expenses as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

Mr. Stewart continued by reviewing his expected out of state travel for early 2025. He discussed trips noted. During the discussion, he advised that six employees had been selected to participate on AASCIF committees for 2025.

The Chair asked for a motion to approve Jon Stewart's travel as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

- Internal Audit (IA) Report – Mr. Simpson reviewed details from the 06/30/2024 draft actuarial valuation of black lung reserves. He advised there was a significant outstanding reserve increase or incurred development. He noted about $20M was considered unfavorable development. He discussed significant items affecting the reserves and noted anticipated medical costs was the largest of the estimates. He indicated reserve redundancy could be lowered as a result. He noted by year-end there could be favorable development on non-black lung claims that would offset results. He advised a longer summary was provided to leadership, and they would continue to work through the information. Mr. Stewart added that this report would roll into the year-end actuarial work, and he asked the Board to put the information in the context of rates work to be discussed later in the meeting. He emphasized that black lung claims were becoming more expensive. Mr. Simpson stated that information included in the report was not good news; however, he explained that the report showed KEMI's entitlement ratios were much lower overall than for Kentucky and the rest of the country. He credited KEMI's internal and external black lung counsel as well as procedures requiring independent medical evaluation. Mr. Simpson continued by providing his review of the National Council of Compensation Insurance (NCCI) 2025 black lung loss costs. He indicated NCCI reported federal benefits were at approximately 93%, while state benefits were at 7.5% and he confirmed KEMI's data was consistent with that information. He advised that Milliman and NCCI utilized similar, reasonable methodology and assumptions. He discussed NCCI's estimated increases on federal black lung and discussed drivers. He compared that to NCCI's 2024 estimates of loss costs and expressed that federal black lung costs would continue to increase due to escalation factors. Mr. Simpson discussed other review efforts of Internal Audit.

- Enterprise Risk Management (ERM) – Mr. Simpson reviewed ERM committee activity for the second quarter. He indicated the risk appetite statement would be reviewed with the board in the coming months. With regard to Q2 breach responses, he advised KEMI exceeded appetite metrics for variance in combined ratio from pro forma and explained the breach was due to the timing of the bond swap. He indicated there was no concern regarding where the ratio was valued at 06/30. He advised there were five metrics in caution. He reviewed them and specifically discussed the A.M. Best BCAR estimate and explained Best had modified the scoring criteria to set the bar higher for everyone. Mr. Stewart indicated there was no concern regarding the BCAR estimate as KEMI was essentially in the same spot relative to the changes. Mr. Simpson indicated that the change could lead to a modification of thresholds KEMI had established. Further, he discussed the impact of commuting the adverse development cover (ADC) including increased volatility and noted the metric may also be adjusted in the future. There were no questions or comments.

- Financial Update –
    - Financial Report – Mr. Bunning reviewed the August 31, 2024 Balance Sheet. He reiterated it had been a very good year and noted there was not much change in the Balance Sheet since last review. He specifically discussed Premiums in Course of Collection compared to last year and explained that the increase was due to increased premium audits that led to policyholders defaulting on their payments for 90+ days. He indicated the amount was expected to continue to increase as long as premium audits increased. Mr. Stewart added that Bad Debt would be higher as well. With regard to Loss Reserves, Mr. Bunning indicated that the amount was similar to the amount from last year, but explained the total was somewhat artificial because $12M of reserves had been released due to the bond swap by end of August. He indicated if that had not occurred, the amount would be $12M higher. He explained the amount was relative because liabilities were staying lower since reserves were being released for the bond swap. He also discussed value of Unrealized Capital Gains for the year, which he explained was due to improvement in high yield bonds and equities since year-end. There were no questions.

      Mr. Bunning continued by discussing the Income Statement. He reviewed Net Premium Earned, which was consistent with the same time period last year and reminded the Board that this was despite a significant price decrease. Mr. Bunning discussed Total Losses Incurred comparing last year to this year. He indicated the drop was due to the $12M release in reserves for the bond swap. He proceeded to discuss Underwriting

Gain/Loss showing $12M difference from last year, which reflected the bond swap. He pointed out Bad Debt was up, and Retroactive Reinsurance Gain reflected profit from the commutation of the (ADC). He also pointed out that the $12M reserve release appeared as a Realized Capital Loss under Investment Income and he discussed profits at August 31 and impact of dividends paid. He asked for questions. There were none.

Mr. Bunning reviewed the Cash Flow Statement. Specifically, he discussed the Proceeds from Investments Sold and Matured and explained the impact of the bond swap. He indicated that for the year, it was likely ¼ of the investment portfolio would turn over. He advised that once the bond swap was complete, Conning would prepare an overview of impact to the investment portfolio, and he would share it with the Board. There were no questions.

- Investment Summary – Mr. Bunning shared portfolio summaries from 06/10/24 (pre-bond swap) and 09/30/2024. He clarified there was a differential between financials presented during the meeting and investment summaries due to timing of reports. With the June investment summary, he pointed out the book yield was 3.7% and the run rate was approximately $39.6M so KEMI was up about $1.3M before the bond swap began. Reviewing in comparison to September, after the bond swap began, Mr. Bunning reported the book yield was at 4.23% and the run rate was $6.4M higher than last year. He explained the amount of investment income would be more substantial in future years and should continue. He pointed out Realized Loss and indicated there was approximately $7M in reserves remaining for release. Mr. Bunning reported that the bond swap was having the expected impact to Balance Sheet and Income Statement. He expressed that Realized Gain was substantial and KEMI would reap benefits from this action for a long time. He advised that Conning was also close to meeting the current strategic asset allocation.

  Mr. Bunning advised the Board that Conning had requested input regarding potential Middle East investments in Emerging Market Governments and Corporate High Yields sectors. The Chair requested additional information be provided to the Board detailing what Conning was considering. Further, he asked that the information be supplied in advance of the board meeting so members would have adequate time to review, research, and formulate an opinion. The board and management discussed that no adjustments to the current investment policy would be necessary to pursue Middle East investments. Mr. Bunning was asked why the matter was brought to the Board if the policy already permitted Conning to invest in the area without additional authorization to do so. Mr. Bunning responded that Conning was asking all of their clients because of the political nature of the particular situation. He indicated he would request the information and no action would be taken until information was presented to the Board.

- Budget Variance Report – Mr. Bunning reported KEMI was $4M under budget through August 31, 2024. He indicated that there were large expenses that would be paid before year-end, so timing was a factor related to current variances. He indicated payroll was underbudget since there were not as many new hires as expected during budgeting and advised KEMI would likely end the year under-budget overall.

- Procurement

Contract Approvals – In Mr. Feld's absence, Ms. Smith presented the Executive Committee Contract Approval Listing for 10/08/2024. She explained the one contract included on the list. She asked for questions. There were none.

The Chair requested a motion to approve the 10/08/2024 Executive Committee Contract Approval Listing as presented by Ms. Smith. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

Ms. Smith continued by presenting the 10/08/2024 Revised Board Contract Approval Listing. She pointed out the Crowe contract amount had been changed since the meeting materials were distributed and the value of the contract was increased by $10,000. The Chair asked if the contract for Wellness IQ was approved at the last meeting. Ms. Copley clarified that a contract for Wellness IQ was amended at the last board meeting and the item listed on the current approval listing was for the new contract beginning 2025.

The Chair requested a motion to approve the 10/08/2024 Board Contract Approval Listing (Revised) as presented. Motion was made and seconded. The Chair called for discussion. There being no discussion, the Chair called for a voice vote. Motion passed without objection.

- Pension Administration Committee Report – Mr. Stewart discussed that the pension administration committee was responsible for administering KEMI's three retirement plans (Defined Benefit (DB), 401a Money Purchase (DC), Health Trust) and was appointed by the Board and made up of members of the

Leadership Team. He indicated that during quarterly meetings, the committee reviewed minutes and performance. He stated a report from the most recent meeting was included in the board meeting packet and that similar reports would be provided to the board after future committee meetings. He advised that a committee charter outlining duties and responsibilities of the committee needed to be approved by the Board and that a draft was included with materials. He shared that he serves as committee chair and advised Mr. Feld was responsible for ensuring the committee complied with administrative responsibilities to maintain the plans. He reported there was $38M in the Defined Benefit Plan, $5M in the Health Trust, and $48M in the 401a. He indicated that committee worked closely with MCF Advisors. He also shared that once the Defined Benefit Plan was fully funded, Finance put together cash flows and investment strategy that mirror when retirement benefits were expected to pay.

Mr. Bunning reminded the Board they had approved the transition to move plans from OneAmerica to TransAmerica and funds would begin moving with the DC plan in mid-October and the DB plan in early November. He shared concerns that there could be variance in actuarial work between OneAmerica and TransAmerica and indicated it would not be known until TransAmerica conducted an actuarial review after year-end. Mr. Bunning was asked if changes in assumptions were expected. He responded they were not expected, but based on prior experience with the Health Trust, he expressed concerns that OneAmerica's previous actuarial review may not have been accurate.

The Chair called for a motion to approve the proposed pension committee charter. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

VI. COMMITTEE REPORTS

- **Executive Committee**
  Chairman Workman reported the Executive Committee did not meet in September and there was no quorum for the meeting scheduled earlier in the day.

- **Audit/Finance/Investment Committee**
  Dr. Casada reported the committee met on 09/25/2024 and he indicated a report detailing discussions and actions was included in the board meeting packet. He shared that during the committee meeting, Mr. Bunning

presented a detailed review of the proposed operating budget for 2025 and Mr. Stewart provided a preliminary review of the rating analysis and expected recommendations. He noted the proposed budget was included in the meeting packet for the board's review.

Closed Session – KRS 342.841
The Chair asked for a motion to enter closed session under KRS 342.841 to discuss the proposed budget for 2025 and rate analysis and recommendations. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

The Board entered closed session at 3:13 p.m. No meeting attendees were dismissed.

The Board returned to open session at 3:40 p.m. The Chair reported no action was taken during closed session.

A motion was made to approve the 2025 operating budget as presented and recommended by the Audit/Finance/Investment Committee. Motion was seconded. A call for further discussion was made. There being none, a voice vote was taken. Motion passed without objection.

A motion was made and seconded to approve rate recommendations presented by KEMI management and to be effective January 1, 2025, and further authorize KEMI management to make appropriate filings with the Department of Insurance (DOI). A call for further discussion was made. There being none a voice vote was taken. Motion passed without objection.

- **Human Resources Committee**
  Mr. Koester reported the HR Committee had not met since the last board meeting and indicated a meeting was scheduled for November 7 at 1:00 p.m. in KEMI's 8th Floor Conference Room. He advised Mr. Stewart would attend the meeting. Ms. Grachek indicated the agenda for the meeting would include Mr. Stewart's annual performance evaluation and review of culture and engagement survey results.

- **Bylaws/Legislative Relations Committee**
  Ms. Wilson reported that the Bylaws/Legislative Relations Committee had not met since the last board meeting and indicated that a meeting was likely before the next board meeting.

VII. UNFINISHED BUSINESS

None

VIII. NEW BUSINESS

None

IX. FUTURE MEETINGS

The Chair shared the following meeting information:

- HR Committee Meeting – 11/07/2024 @ 1:00 p.m. EST. The Chair encouraged anyone with time to attend that meeting.
- Executive Committee Meeting - 11/12/2024 @ 1:00 p.m. EST.
- Audit/Finance/Investment Committee - 12/03/2024 @ 11:00 a.m. EST.
- Executive Committee Meeting - 12/10/2024 @ 1:00 p.m. EST.
- Annual Board Orientation – 12/10/2024 @ 10:00 a.m. EST
- KEMI Board Meeting – 12/10/2024 @ 2:00 p.m. EST.

Mr. Stewart pointed out that the meeting packet included an article regarding board governance, in which Mr. Feld was interviewed by the National Association of Mutual Insurance Companies (NAMIC).

X. ADJOURNMENT

Chairman Workman asked for a motion to adjourn the meeting. Motion was made and seconded. With no further discussion, he called for a voice vote. Motion passed without objection. The Board Meeting adjourned at 3:43 p.m.

Respectfully Submitted:

Nicole Madden

Nicole Madden, Recording Secretary

APPROVED:

Mark Workman, Chair

Kellie Wilson, Secretary

Making workers' comp work

MINUTES

KEMI Board of Directors' Meeting
December 10, 2024

MINUTES
Kentucky Employers' Mutual Insurance
Board of Directors' Meeting
8th Floor Conference Room & Via Video Teleconference
250 West Main Street
Lexington, KY 40507

December 10, 2024

Members Present:
Mark Workman
Rodney Casada
Kellie Wilson
Benjamin Hale
William Jones
Joe Koester
Joe McDaniel (proxy for Sec. Johnson)
Director Alan Hurst (proxy for Sec. Bailey)
Commissioner Scott Wilhoit (proxy for Sec. Link)

Others Present:
Jon Stewart, KEMI
Elizabeth Paul, KEMI
Jeremy Terry, KEMI
Tim Feld, KEMI
Mark Bunning, KEMI
Katy Grachek, KEMI
Allyson Smith, KEMI
Patrick Simpson, KEMI
Faye Creech, KEMI
Ryan Worthen, KEMI
Sarah Kosin, KEMI
Nicole Madden, KEMI
Jocky Denguessi Kwin, APA

I. CALL TO ORDER

Chairman Workman called the meeting to order at 2:00 p.m.

II. ROLL CALL

Ms. Madden took roll. A quorum was reported in attendance.

III. PROOF OF NOTICE

Ms. Madden confirmed notice of the meeting was provided.

IV. APPROVAL OF MINUTES

Chairman Workman called for a motion to approve the minutes of the October 8, 2024 Board Meeting as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

V. CEO REPORT

Mr. Stewart's report included discussion of the following topics:

- Business Update
  - Orientation – Mr. Stewart began by thanking members for attending activities of the day.
  - Policyholder Services – Mr. Stewart reported direct written premium for October 2024 was down in comparison to October 2023 primarily due to decline in coal premium. He reported that non-coal premium had increased even with the rate decrease approved for 2024. He indicated that additional premium from audit in the non-coal book was at record levels again for 2024. He reported retention targets were being exceeded and new business was up. He commented that Mr. Terry's policyholder services team was doing a very good job.
  - Destiny Awards – Mr. Stewart shared that 2024 winners of KEMI Destiny Awards were recently announced. He recognized Mr. Koester as the Chair of the Northern Kentucky Water District Board and pointed out the entity had been a repeat winner for 13 years. Mr. Stewart indicated the award was a meaningful way recognize entities for investments they make to keep employees safe.
  - Safety Grant Program – Mr. Stewart continued by discussing details of the safety grant program that received budgetary approval from the Board in October. He indicated the program would provide eligible policyholders

with grant funding from KEMI to reimburse safety related expenses such as equipment, training, testing, etc. up to $2,500 annually. He indicated that a process for application and award had been developed internally and reminded the Board that $250,000 had been budgeted for total distributions for the year.

- Claims – Mr. Stewart reported that two months post-Origami implementation, Claims was functioning very well. He explained auto-adjudication of medical-only claims through Origami and reported that 55% -60% of medical only claims were auto-adjudicated in October. He shared that statistics for reported claims and open claims were up slightly.
- A.M. Best Annual Rating Review – He noted the significance of the AM Best rating was discussed during the annual orientation held earlier in the day and referenced the President's Letter, which he distributed to the Board when the rating was released in mid-November.
- SOC 2 Audit Final Report – Mr. Stewart advised that the SOC 2 audit had been finalized and KEMI received a clean opinion. He commended Ryne Purcell and team noting there were no findings documented in the report, which was placed in BoardEffect for review.
- Disaster Recovery Testing – Mr. Stewart reported that testing of systems through AWS was recently conducted and of nineteen tests only one required a little troubleshooting to resolve successfully. He indicated he was very pleased with the results and that a summary was included in the meeting packet.
- AASCIF Honors – Mr. Stewart indicated that as a member KEMI participated in the organization's communications awards and was honored to receive third-place recognition in the Community Impact Category for KEMI's "Work Safe. Serve Others." entry featuring employee participation in community service efforts.
- Gallagher Honors – Mr. Stewart announced KEMI was also recognized recently as a Best-in-Class Employer by Gallagher, who manages KEMI's employee health benefits program. Mr. Stewart commended Ms. Grachek.
- Kentucky Workers' Compensation Hall of Fame – Mr. Stewart shared that Bob Swisher, who presented during the orientation program, would be inducted into the Kentucky Workers' Compensation Hall of Fame in Spring 2025.
- Closed Session – KRS 342.841

The Chair requested a motion to enter closed session under KRS 342.841 for unfair competitive advantage to discuss the following:

- **Reinsurance Program Renewal**
- **2025 Strategic Plan**
- **Proposed Revision to Risk Appetite Statement**

Motion was made and seconded. The Chair called for discussion. There being none, the Chair called for a voice vote. Motion passed without objection.

The following individuals were invited to remain for the closed session: Members of the Board, Staff, and Representatives for the Attorney General and Auditor of Public Accounts Offices. All other attendees were excused.

The Board entered closed session at 2:10 p.m.
The Board returned to open session and the Chair reported no action was taken in closed session.

The Chair called for a motion to authorize KEMI Management to contract with the necessary reinsurers to secure the 2025 reinsurance renewal. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

The Chair asked for a motion to approve the 2025 Strategic Plan as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

The Chair called for a motion to approve the proposed revisions to the Risk Appetite Statement as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

- Internal Audit (IA) Report and ERM Update – Mr. Simpson began by discussing a sample of activities included in his activity report noting the full report was available in the meeting packet. He briefly discussed the IA quality self-assessment and planning, claim reserve reviews, medical billing review, and IA support provided to Johnson Lambert for the financial statement audit. There were no questions. Mr. Simpson encouraged members of the board to contact him with questions.

  With regard to ERM, Mr. Simpson advised that the ERM Committee reviewed several things at its last quarterly meeting, including emerging risks. He discussed breaches on the risk tolerance dashboard for Q3. With regard to coal industry metrics, he pointed out exceeding metrics for met coal pricing and coal production with continued decline spanning the last five quarters. He expanded the discussion to include steady decline in coal employment in EKY and stable pricing for thermal/steam coal pricing though it was unprofitable. He noted underwriting activity had also declined for active premium. He indicated that federal black lung claims filings for 2024 would be above average and probably at an all-time high based on industry decline. Mr. Simpson also discussed open large claim reserve increases over $500K. He indicated there was a slight elevation in Q3 development and noted year-end results were on pace to be above results for both 2022 and 2023. He indicated an update would be provided in early 2025. In response to a question, Mr. Simpson explained uses of met coal vs. thermal coal and he indicated KEMI policies were primarily met coal. He explained that demand for met coal was down and stockpiles were up.

- Financial Update –
  - Financial Report – Mr. Bunning presented October 2024 financials prefacing the discussion that with the Origami implementation occurring in that month, there were a few glitches to work through and noted the October financials reflected a $290,000 differential for unresolved issues at 10/31/2024. He advised those issues were resolved in November and indicated there was no concern having the differential in the financials for one month. Mr. Bunning reviewed the balance sheet discussing impact to unrealized losses and bonds resulting from the bond (loss) swap program. He discussed liabilities and impact to reserves from the loss swap program. He indicated there had been growth in Incurred but not Reported Reserves (IBNR), which he explained meant growth in redundancy that would be calculated in Milliman's year-end actuarial review. He advised preliminary numbers regarding black lung had been received from Milliman and indicated reserve requirements may be increased due to reserve development. He shared the goal was to achieve $50M in reserve redundancy by end of year.

    Mr. Bunning proceeded to discuss the income statement noting loss costs had been increased to 54% instead of 52% to build IBNR and reach the redundancy target. In comparison he noted KEMI was consistent in Net Profit before Dividends with the same time period in 2023. He shared that the market had also done well this year and contributed capital gains in equities and the high yield portfolio and was expected to positively impact surplus at the end of the year. Mr. Stewart explained that with the bond swap and 2024 accident year almost completed, it was important to rebuild reserves for the current accident year. Further, Mr. Bunning explained that funds are added to IBNR regularly under the assumption black lung will increase. He added that the IBNR may need to be raised higher based on Milliman's analysis of those claims and the volatility of coal.

Mr. Bunning briefly discussed the cash flow statement and impact of the bond swap showing higher turn of investment portfolio than usual, which he attributed to the bond swap.

- Investment Summary – Mr. Bunning shared that he had reviewed the 11/25/2024 summary in detail with the Audit/Finance/Investment Committee. He discussed that market value was less than book value indicating significant progress. He indicated the yield curve had growth due to normalization. He continued by explaining that there was essentially three quarters increase in basis points due to the bond swap, meaning the total portfolio was currently earning 4.4% return. He discussed Conning's summary of the bond swap, which was provided in the meeting packet as well. He advised the Board that the swap was completed at the end of November and indicated that the combined ratio breach included in the ERM reports was due to the bond swap taking longer to complete than originally expected. He indicated it would not be included in the fourth quarter ERM report.

- Investment Compliance – Mr. Bunning discussed that the investment policy was approved by the Audit/Finance/Investment Committee and the Board. He explained the policy included requirements and guidelines for investing and indicated there were targets that had to be attained. He indicated that going forward he would regularly give a report to the Board to indicate how well KEMI was complying with the investment policy. He discussed Conning's Compliance Full Results Report included in the meeting packet and pointed out there was only one violation in the category for less than BB bonds and indicated it included nine affected investments. He indicated that each time an investment was in noncompliance daily notifications were received and the investments were monitored. He discussed the affected investments and the reasons why they were considered violations. With the exception of an investment that was purchased in compliance and fell below compliance levels following a bankruptcy and subsequent restructure, he explained most violations were a product of timing of purchase versus receipt of official rating or were situations where Conning did not subscribe to a rating. He shared that Management was currently considering whether KEMI should buy the ratings directly since the value of the assets was nearing a level where neither Conning nor Clearwater could share them with KEMI. Mr. Simpson added that the rating issue made the internal portfolio review more difficult each year and expressed that eventually it would be necessary to purchase. The Chair responded it was important for the Board to know what the ratings were and stated it may be necessary to engage a rating service or agency. Mr. Bunning responded he would obtain pricing. Mr. Simpson clarified that the report reviewed with the Board during the meeting was from Conning and that Clearwater also provided a compliance report and does receive all the ratings to confirm the portfolio is in compliance. He shared that the ratings do not appear on Clearwater's reports. Mr. Simpson explained that Clearwater handled several investment responsibilities including monitoring compliance and handling accounting on the portfolio. Mr. Bunning reiterated he would gather information about engaging a rating service. The Chair asked that the Finance Committee consider and make a recommendation to the Board.

- Budget Variance Report – Mr. Bunning reported KEMI was under budget through October 2024. He indicated that in total KEMI should remain under budget for the year. He indicated that investment expense and bank charges were expected to remain over budget for the year and explained why. With regard to credit card charges KEMI incurred, Mr. Bunning and Mr. Stewart explained a change in practice was currently on-hold until the Origami policy implementation was completed.

  At the conclusion of Mr. Bunning's report, the Chair asked if a motion was needed to approve the annual resolution acknowledging and stating all investments had been made in accordance with policy. Mr. Feld explained the resolution was an annual requirement. He suggested that following discussion regarding compliance it was acceptable to postpone the action until February or April and allow Mr. Bunning to follow-up with requested information if the Board desired. Mr. Simpson spoke up that there was no question that KEMI was compliant. He stressed that discussion was focused on nuances of the report. Mr. Bunning discussed the nine items shown in non-compliance and indicated that those investments that were noncompliant for delay in rating receipt, were purchased in a compliant state and were now noncompliant for other reasons. He clarified that there could always be noncompliant investments appearing on the report. Mr. Stewart added that in those instances, discussion with Conning was required to determine how to handle. Mr. Feld read the resolution to the Management team and asked that they affirm the statement was correct. Mr. Stewart affirmed.

The Chair then requested a motion to approve the annual resolution acknowledging and affirmatively stating that all investment have been made in accordance with the delegation, standards, limitations, and investment objectives prescribed by the Board or a Committee of the Board with the responsibility to direct its investments. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

- Procurement

  Contract Approvals – Mr. Feld discussed contracts included on the 12/10/2024 contract approval listing. He specifically discussed Origami and indicated that Management had reviewed details with the Executive Committee. He indicated that an additional $900,000 was in anticipation of additional cost for the policy implementation project which will begin in January. Mr. Feld also discussed durable medical equipment contracts included on the listing and explained that the value was an allocation of all funds to be used by all approved vendors.

  The Chair requested a motion to approve the 12/10/2024 Board Contract Approval Listing as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

- Pension Administration Committee Report – Mr. Stewart reported that the Pension Administration Committee met quarterly. He indicated the Defined Benefit Plan was 100% funded with 92% of investments in bonds laddered to mirror maturities of expected employee retirements. He indicated that much of the Health Trust was in cash and cash-like investments and that the Committee was working on a solution to remove the retiree health liability. Ms. Grachek indicated she was working with outside counsel and a recommended amendment to allow a possible retiree medical buyout may be presented to the Board in February. The Chair asked how many employees would be impacted by the buyout if pursued. She and Mr. Bunning indicated there were thirty-three vested, termed employees that may have a benefit and thirty-one current retirees who could receive the benefit up front and avoid the yearly open enrollment, waivers, and monthly reimbursements.
  Mr. Stewart indicated the defined contribution assets were approximately $48M. He indicated transition to TransAmerica was successful and had been one of the smoothest experiences and procurements ever.

VI. COMMITTEE REPORTS

- **Executive Committee**
  Chairman Workman reported the Executive Committee did not meet in November but did meet prior to today's board meeting. He reported that during the 12/10 meeting, the Committee approved the 12/10 Executive Committee Contract Approval Listing as presented and the Request to Delay Procurement for Accounting Software. He advised the Committee would meet again on January 14, 2025.

- **Audit/Finance/Investment Committee**
  Dr. Casada reported the Committee met on 12/03/2024 and he indicated a report detailing discussions and actions was included in the board meeting packet. He reported that during the meeting, Ms. Creech presented the Johnson Lambert Independent Audit Plan for the year ending 2024 and noted the audit report should be available in April. He indicated the Committee accepted the plan as presented and a copy was available for review in the BoardEffect Library. He reported that during the committee meeting, Mr. Bunning shared the loss swap and investment summaries discussed earlier in the board meeting. He indicated the majority of the committee meeting was focused on Internal Audit and reported that Mr. Simpson shared results of the internal audit quality self-assessment and actions taken, discussed work conducted by the internal audit unit in 2024, recommended changes in the internal audit charter and presented the 2025 audit plan which were both approved by the committee. He indicated that committee went to closed session, excluding all staff except Mr. Simpson, to provide input on areas for internal audit evaluation. He advised the Committee would meet again on January 29, 2025.

- **Human Resources Committee**
  Mr. Koester reported the HR Committee had an extensive meeting on November 7, 2024. He indicated that the HR Committee Report included in the board meeting materials detailed discussion and actions that occurred during the committee meeting.

  Mr. Koester made a motion to go closed session under KRS 342.841 for unfair competitive advantage to discuss the following items: 2024 Culture and Engagement Survey; President & CEO Performance and Strategic Scorecard; President & CEO Compensation; 2024 EIP, Employment Agreements; and 2025 Strategic Scorecard Overview. Motion was seconded. A call for discussion was made. There being none, a voice vote was taken. Motion passed without objection.

The following individuals were invited to remain for the closed session: members of the board, Ms. Grachek, Mr. Simpson, Mr. Stewart, and representatives of the Attorney General and Auditor of Public Accounts Offices. All staff and any public attendees were excused.

The Board entered closed session at 3:21 p.m.

The Board returned to open session at 3:54 p.m. The Chair reported no action was taken in closed session.

A motion was made and seconded to approve the 2024 President & CEO Strategic Scorecard including 2025 SMART Goals. Mr. Koester asked for any discussion. There being none, a voice vote was taken. Motion passed without objection.

A motion was made and seconded to approve a 3.5% Performance Increase for the President & CEO. Mr. Koester asked for any discussion. There being none, a voice vote was taken. Motion passed without objection.

A motion was made and seconded to approve the Second Amendment to the President & CEO Employment Agreement. Mr. Koester asked for discussion. There being none, a voice vote was taken. Motion passed without objection.

Motion was made and seconded to approve the 2025 Strategic Scorecard Overview. Mr. Koester asked for any discussion. There being none, a voice vote was taken. Motion passed without objection.

Mr. Koester continued the committee report advising that during the committee's meeting on November 7, the committee was also presented with retirement plan amendments and corresponding restatements for consideration. He indicated that proposed revisions were included in the meeting packet.

Mr. Koester made a motion to approve the 9th Amendment to the DB Plan. Motion was seconded. A call for discussion was made. There being none, a voice vote was taken. Motion passed without objection.

Mr. Koester made a motion to approve the DB Plan Restatement. Motion was seconded. A call for discussion was made. There being none, a voice vote was taken. Motion passed without objection.

Mr. Koester made a motion to approve the 401(a) Plan Clarifying Amendment. Motion was seconded. A call for discussion was made. There being none, a voice vote was taken. Motion passed without objection.

Mr. Koester made a motion to approve the proposed 401(a) Plan Restatement. Motion was seconded. A call for discussion was made. There being none, a voice vote was taken. Motion passed without objection.

- **Bylaws/Legislative Relations Committee**
  Ms. Wilson reported that the Bylaws/Legislative Relations Committee met earlier in the day to complete the annual bylaws review and discuss relevant legislative activity expected in 2025. She indicated that besides approval of prior meeting minutes, no action was taken during the committee meeting.

VII. UNFINISHED BUSINESS

None

VIII. NEW BUSINESS

None

IX. FUTURE MEETINGS

The Chair shared the following meeting information:

- Executive Committee Meeting - 01/14/2025 @ 1:00 p.m. EST.
- Audit/Finance/Investment Committee - 01/29/2025 @ 2:30 p.m. EST.
- Executive Committee Meeting - 02/11/2025 @ 1:00 p.m. EST.
- KEMI Board Meeting – 02/11/2025 @ 2:00 p.m. EST.

X. ADJOURNMENT

Chairman Workman asked for a motion to adjourn the meeting. Motion was made and seconded. With no further discussion, he called for a voice vote. Motion passed without objection. The Board Meeting adjourned at 3:57 p.m.

Respectfully Submitted:

Nicole Madden

Nicole Madden, Recording Secretary

APPROVED:

Mark Workman, Chair

Kellie Wilson, Secretary

Making workers' comp work

MINUTES

KEMI Board of Directors' Meeting
February 11, 2025

MINUTES
Kentucky Employers' Mutual Insurance
Board of Directors' Meeting
8th Floor Conference Room & Via Video Teleconference
250 West Main Street
Lexington, KY 40507

February 11, 2025

Members Present:
Mark Workman
Rodney Casada
Kellie Wilson
Benjamin Hale (rejoined meeting @ 2:03 after resolving video issues)
William Jones (left meeting @ 3:00 p.m./returned @ 3:45)
Joe Koester
Joe McDaniel (proxy for Sec. Johnson)
Director Alan Hurst (proxy for Sec. Bailey) (left meeting @ 3:57 p.m.)
Commissioner Scott Wilhoit (proxy for Sec. Link)

Members Absent:
F. Bruce Williams

Others Present:
Jon Stewart, KEMI
Elizabeth Paul, KEMI
Jeremy Terry, KEMI
Tim Feld, KEMI
Mark Bunning, KEMI
Katy Grachek, KEMI
Allyson Smith, KEMI
Gretchen Copley, KEMI
Patrick Simpson, KEMI
Faye Creech, KEMI
Ryan Worthen, KEMI
Nicole Madden, KEMI
Jocky Denguessi Kwin, APA
Steve Humphress, AG

I. CALL TO ORDER

Chairman Workman called the meeting to order at 2:00 p.m.

II. ROLL CALL

Ms. Madden took roll. A quorum was reported in attendance.

III. PROOF OF NOTICE

Ms. Madden confirmed notice of the meeting was provided.

IV. APPROVAL OF MINUTES

Chairman Workman called for a motion to approve the minutes of the December 10, 2024 Board Meeting as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

V. CEO REPORT

Mr. Stewart's report included discussion of the following topics:

- Business Update –
  - Mr. Stewart expressed excitement about 2025 and indicated several members of staff would provide reports during the meeting.
  - He indicated results of 2024 metrics were good and that impact of adverse development in black lung would be discussed by Mr. Simpson and Mr. Bunning later in the meeting.
  - He commented on the high performance of the leadership team in 2024.
  - He indicated that the Origami Policy project was off to a good start. He commented there were still some improvements to be made to the Origami Claims system and progress was continuing on those items.
  - He shared that the employee appreciation lunch was scheduled for mid-March and advised that a date would be set later in the year for the company-wide day of service.
  - Policyholder Services – Mr. Terry reviewed direct written premium discussing the significant drop in coal written premium, which occurred in 2024, and the resulting pressure placed on the non-coal book of business combined with the 10.5% non-coal rate decrease that was effective for 2024. He indicated retention for the year was very strong and additional premium continued to be generated at audit. He reported that non-coal new business experienced more growth in 2024 than in the last five years, which he attributed to the non-coal rate decrease as well as the target class enhanced

commission program. He reported that target classes were outperforming the rest of the book. Mr. Terry continued by explaining straight thru processing (STP) and provided statistics showing growth. He indicated STP created ease of business for agents, reduced workload for Underwriting, and generated opportunities for more business. In addition, Mr. Terry shared KEMI now insured more than $10B in payroll. He explained market share was likely to decline due to loss in coal premium in 2024 and indicated he would review that information when released. Mr. Terry continued by reporting that the safety grant initiative that received budget approval from the Board became active in early January and was well received by policyholders. He provided a general overview of applications received and reported the application process would likely reach budgeted limits and close by end of February. He indicated that once the program was closed, he would provide the Board with a list of all recipients and items approved. There were no questions.

- Claims – Ms. Colvin advised that reported claims were slightly higher in 2024 than in 2023. She explained shifts in totals for med-only and reporting-only claims were related to Origami-related changes and increased school boards accounts. Ms. Colvin also reported that open claims had increased in comparison to 2023 and reviewed case reserves on all types of claims. She advised that Federal Black Lung (BL) claims increased in quantity of open claims and in reserves. She advised that reserves on those claims would be increased in 2025 based on actuarial recommendations. She explained auto-adjudication functionality gained with the implementation of Origami and shared that 750 medical-only claims were in auto adjudication status at year-end. Ms. Colvin also provided detail on claims received by loss portfolio transfer (LPT) and provided statistics regarding those LPT claims managed by in-house examiners and those managed by an external third-party administrator (TPA). Mr. Stewart interjected that TPA costs for 3-4 years were included in LPT arrangements for the AIK and KCP transactions and once fully comfortable with the Origami system, Management would evaluate moving those LPT claims to in-house management. Ms. Colvin reviewed statistics for claims currently in litigation. She continued by discussing paid losses at 12/31/2024 noting the impact of an increase to the Kentucky fee schedule and she discussed increased payouts for full and final settlements processed during the year, which decreased reserves and reduced leverage. Ms. Colvin shared newly implemented Origami dashboards used by examiners and Claims management to manage work and stay abreast of claims information and trends. Ms. Colvin was asked to explain how a claimant proved they had black lung. She, Mr. Simpson, and Commissioner Wilhoit explained the general process, which was described as involved and time intensive. Expense associated with BL claims was also discussed. Ms. Colvin shared two claimants had lung transplants in 2024 and reported one was unsuccessful. Ms. Colvin was also asked about auto-adjudication criteria. She explained the set of criteria as well as established back-end checks that would remove the claim from auto-adjudication status and flag an examiner to investigate. She indicated that the auto-adjudication process would be monitored throughout the year to determine where adjustments and improvements could be made. She surmised that the process freed examiners to focus attention on more complicated claims and would lead to better claimant experience. Ms. Copley clarified that no claims would be denied through the auto-adjudication process.

- Annual Status Report – Cyber/Information Security Program – Mr. Purcell provided an overview of primary business objectives and cyber risks at KEMI. He noted the statutory attestation of compliance for 2024 had been submitted to the Department of Insurance (DOI). He indicated that an incident response tabletop exercise was conducted in 2024 and advised the after-action process was currently in-progress. He discussed the SOC 2 Type 2 Certification and shared that for the first time since 2019, no exceptions were found, and no recommendations were made. In addition, Mr. Purcell reported there were no significant findings during external cloud and application security assessment, and he discussed risk management and tools KEMI's cyber team utilized to identify vulnerabilities. He disclosed KEMI's security was classified as "Advanced" by BITSIGHT as of year-end 2024. He indicated a great deal of time and effort was spent on employee education and security awareness as a first line of defense in protecting data. Mr. Purcell discussed KEMI's cyber insurance coverage. He concluded his presentation by advising that a project was underway to re-evaluate risk scoring related to third party vendors to ensure KEMI data was being appropriately protected. He also advised that use of artificial intelligence (AI) was an area of current focus internally and with regard to vendors and he indicated policies were being developed. Mr. Simpson commented on Internal Audit's evaluation and stated cyber was well managed at KEMI.

- Closed Session – KRS 342.841

The Chair requested a motion to enter closed session under KRS 342.841 for unfair competitive advantage to discuss 2024 Strategic Task Updates. Motion was made and seconded. The Chair called for discussion. There being none, the Chair called for a voice vote. Motion passed without objection.

The following individuals were invited to remain for the closed session: Members of the Board, Staff, and Representatives for the Attorney General and Auditor of Public Accounts Offices. All other attendees were excused.

The Board entered closed session at 2:49 p.m.

The Board returned to open session at 2:55 p.m. The Chair reported no action was taken in closed session.

- Internal Audit (IA) Report – Ms. Simpson discussed internal audit reviews of claims activity for 2024 indicating one recommendation was made regarding improved documentation and would be implemented. He continued by discussing internal audit reviews of underwriting activity for 2024. Mr. Simpson proceeded to discuss draft results of Milliman's BL Actuarial Valuation, which he explained was a year-end valuation using 11/30/2024 data. He shared the total outstanding BL liability (reserves) estimate. He indicated there was a $28M increase in 2024 with $8M being added due to reserve development on open claims after the 06/30 valuation. He shared the average annual increase for the last four years was $18M. Mr. Simpson continued by discussing total development including reserves and paids, which amounted to $122M over the last 4 years ($74M in reserves and $48M in paids). He indicated there was a $40M increase in 2024 with $12M added since the 06/30 valuation and attributed the increase primarily to reserves. He explained the development was on prior accident years. Mr. Simpson continued by explaining the reasons for the $40M increase noting 1) Milliman increased medical and expense assumptions 2) Department of Labor 4.7% benefit increase compared to 2% assumption 3) Claim entitlement growth continued 4) Increased claims filings 5) Two claims had reserve increases after 06/30 related to lung transplants. Mr. Stewart advised KEMI absorbed the majority of the growth in liability allowing only $5M to impact the bottom line, which he described as a testament to how KEMI handled reserve balancing and strengthening, and he stressed the benefit of building redundancy. Mr. Stewart was asked how long the trend may continue. He responded there had not been a year it had gone down. Mr. Simpson added the factors may not be the same next year, but there could be others that would impact. He stressed the value of excellent rapport with Milliman allowed better understanding and decision making. He continued to discuss total estimated costs of federal and state BL claims in comparison to earned BL premium providing historical loss ratio and premium deficiency both excluding coal traumatic loss/premium and explaining premium deficiency was expected to worsen due to continued development in prior accident years. Mr. Simpson reviewed internal audit's BL case reserve review of federally entitled open claims and recommendations for proactive changes to strengthen reserves on open BL claims. He indicated that changes should be made by 06/30/2025 and updates would be provided in upcoming meetings.

- Financial Update –

  - 12/31/2024 Financial Report (Draft) - Mr. Bunning indicated the meeting packet included the actual financial reports for 12/31/2024. He indicated 12/31/2024 financials were draft awaiting signoff from independent auditors and the actuary and provided a summary for the Board. He discussed expected financial results for the year in comparison to the 2024 proforma. He indicated top line revenue was higher than projected due to new business growth and continued payroll levels. He indicated the loss ratio was higher due to late-year BL filings and reminded the Board that an adjustment was made to the loss ratio projection in third quarter to accommodate for reserve growth and indicated it was not enough. He reported investment income was better than projected due to the bond swap, which also reduced leverage, and recapitalization of stocks. He indicated that dividends were higher than projected and commutation of the adverse development coverage (ADC) produced additional income. Mr. Bunning continued by reviewing components of the draft Income Statement and Balance Sheet as of 12/31/2024 comparing what was projected for 2024, what was actual for 2024, and what would have been actual for 2024 without the bond swap. In addition, he provided the same comparisons for capital growth, reserve leverage, combined ratio before dividend, and net income before dividend.

- Investment Portfolio - Mr. Bunning provided an update on the investment portfolio as of 02/03/2025. He reported there was still unrealized loss in the portfolio with the yield curve steeper and the end of the curve higher than anticipated. He indicated the book yield in fixed income was at 4.41 in comparison to 3.8 last year and primarily attributed improvement to the bond swap. He advised that an additional report from Conning detailing the bond swap was available in the meeting packet. He reviewed run rate for the 2025 and shared that stocks and high yield bonds marked to market were up. Mr. Bunning continued by reviewing investment portfolio performance for Conning.

- 12/31/2024 Budget Variance Report - Mr. Bunning reported that operations were under budget for 2024 and explained accounts with significant variance. He also discussed the two accounts that were over budget for the year. He indicated that the complete budget variance report was included in meeting materials.

- Revised 2025 Proforma - Mr. Bunning advised after receiving Milliman's draft actuarial report, Management determined it was appropriate to revise financial projections for 2025. He indicated that projections for revenue were adjusted down and projections for loss ratio were adjusted higher due to declining coal premium and increased BL liabilities. He indicated investment income was expected to increase due to the bond swap and dividends could be higher than originally estimated. Mr. Bunning continued by reviewing the revised Income Statement based on the updated projections for 2025. He included updated projections for capital growth, reserve leverage, combined ratio before dividend, and net income before dividend. He summarized the difference in the Income Statement was a $5M downturn in net income from original projections. He also reviewed the revised Balance Sheet based on the updated projections for 2025 and indicated positive growth was expected. There were no questions.

- Procurement

  Contract Approvals – Mr. Feld discussed contracts included on the 02/11/2025 contract approval listing.

  The Chair requested a motion to approve the 02/11/2025 Board Contract Approval Listing as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

- Annual Retention Schedule Update – Mr. Feld explained that all changes to the annual document retention schedule were summarized for the Board. He discussed the process for making changes included statutory review and evaluation of best practices and reviewed items included on the 2024 change summary.

- Ethics – Statement of Financial Disclosure Reminder – Mr. Feld reminded the Board that annual statement of financial disclosure filings were due to the Ethics Commission by April 15. He reported that 9 of 13 individuals required to complete the filings in relation to service for KEMI, including members of the board, had completed them to-date. He advised he planned to send another reminder before the 15th.

VI. COMMITTEE REPORTS

- **Executive Committee**
  Chairman Workman reported the Executive Committee rescheduled the regular January meeting to January 21 and received the year-end business recap, updates on projects, a summary of Mr. Stewart's 2024 travel, and approved 2025 out of state travel planned by him. The Chairman reported that the Executive Committee met again earlier in the day and Mr. Stewart discussed investment policy compliance and Mr. Feld reviewed the 02/11/2025 Executive Contract Approval Listing, which was subsequently approved by the Committee.

- **Audit/Finance/Investment Committee**
  Dr. Casada reported the Committee met for a regular meeting on 01/29/2025. He indicated a report regarding the committee meeting was included in meeting materials. He indicated during the meeting an overview of statutes and policy guidelines related to the investment policy were discussed along with details of how KEMI was ensuring compliance. Following-up on discussion during the December Board Meeting, he stated Management recommended continuing to allow Conning and Clearwater to evaluate security ratings since it would be necessary for KEMI to

purchase ratings from multiple agencies and both entities currently acquired the ratings and ensured compliance with all policy rules. Dr. Casada indicated there were no concerns from the Committee about continuing in this manner. He indicated that Mr. Simpson also shared results of internal audit's 12/31/2024 review of the investment portfolio reporting no issues and confirming the investment portfolio complied with policy guidelines.

Dr. Casada continued the Committee Report advising that during the 01/29 meeting, the Committee also reviewed and approved revisions to the job description for the Senior Director of Internal Audit and approved Mr. Simpson's 2025 strategic scorecard and a 4.5% performance increase. He indicated that following the Committee Meeting he was advised by Mr. Stewart a mistake was made and the approved increase was above the value established by guidelines for the score assigned. As it was the Committee's intent to approve a performance increase for Mr. Simpson that was consistent with the Mr. Simpson's final scorecard and 2025 performance increase guidelines, Dr. Casada made the following motion:

I make a motion to revise the Committee's approved performance increase for Patrick Simpson to 4.0%, which is consistent with his scorecard and the 2025 KEMI Performance Increase Guidelines. Motion was seconded. A call for discussion was made. There being none, a voice vote was taken. Motion passed without objection.

Before concluding, Dr. Casada shared the Audit/Finance/Investment Committee would meet on March 26, 2025 for a regular meeting.

- **Human Resources Committee**

Mr. Koester reported the HR Committee met earlier in the day to discuss the EIP and HR policy revisions.

He made a motion to go to closed session under KRS 342.841 for unfair competitive advantage to discuss 2024 EIP Results and 2025 EIP. Motion was seconded. A call for discussion was made. There being none, a voice vote was taken. Motion passed without objection.

The following individuals were invited to remain for the closed session: members of the Board, Ms. Grachek, Mr. Simpson, Mr. Stewart, Ms. Madden, Mr. Feld, and representatives of the Attorney General and Auditor of Public Accounts Offices.

All other staff and any public attendees were excused.

The Board entered closed session at 3:52 p.m.

The Board returned to open session at 4:04 p.m. The Chair reported no action was taken in closed session.

Mr. Koester made a motion to approve the 2024 EIP Results including the President & CEO's EIP payment. Motion was seconded. A call for discussion was made. There being none, a voice vote was taken. Motion passed without objection.

Mr. Koester made a motion to approve the 2025 EIP. Motion was seconded. A call for any discussion was made. There being none, a voice vote was taken. Motion passed without objection.

Mr. Koester continued the committee report asking Ms. Grachek to summarize HR policy revisions. She explained proposed revisions to IT Policy (1401); Content Governance Policy (1501); and Legal Hold Policy (1503). There were no questions.

Mr. Koester made a motion to approve HR policy revisions as presented and recommended by the HR Committee. Motion was seconded. A call for discussion was made. There being none, a voice vote was taken. Motion passed without objection.

- **Bylaws/Legislative Relations Committee**
  Ms. Wilson reported that the Bylaws/Legislative Relations Committee had not met since the last board meeting.

VII. UNFINISHED BUSINESS

None

VIII. NEW BUSINESS

- **Nominating Committee Appointments** – Chairman Workman asked the proxies for the cabinet secretaries to serve on the Nominating Committee and prepare officer nominations for 2025-2026. All agreed. The Chairman indicated Ms. Madden would follow-up to arrange a meeting.

IX. FUTURE MEETINGS

The Chair shared the following meeting information:

- Executive Committee Meeting - 03/11/2025 @ 1:00 p.m. EDT. - Virtual
- Audit/Finance/Investment Committee - 03/26/2025 @ 2:30 p.m. EDT. - Virtual

- Executive Committee Meeting - 04/08/2025 @ 1:00 p.m. EDT. – In Person & Virtual
- KEMI Board Meeting – 04/08/2025 @ 2:00 p.m. EDT. – In Person & Virtual

X. ADJOURNMENT

Chairman Workman asked for a motion to adjourn the meeting. Motion was made and seconded. With no further discussion, he called for a voice vote. Motion passed without objection. The Board Meeting adjourned at 4:10 p.m.

Respectfully Submitted:

Nicole Madden

Nicole Madden, Recording Secretary

APPROVED:

Rodney Casada, Presiding Chair

Kellie Wilson, Secretary

Making workers' comp work

MINUTES

KEMI Board of Directors' Meeting
April 8, 2025

MINUTES
Kentucky Employers' Mutual Insurance
Board of Directors' Meeting
8th Floor Conference Room & Via Video Teleconference
250 West Main Street
Lexington, KY 40507

April 8, 2025

Members Present:
Rodney Casada
Kellie Wilson
Benjamin Hale
William Jones (arrived @ 2:47 p.m.)
Joe Koester
Joe McDaniel (proxy for Sec. Johnson)
Deputy Secretary Robert Long (proxy for Sec. Bailey)
Commissioner Scott Wilhoit (proxy for Sec. Link)

Members Absent:
Mark Workman
F. Bruce Williams

Others Present:
Jon Stewart, KEMI
Elizabeth Paul, KEMI
Jeremy Terry, KEMI
Tim Feld, KEMI
Mark Bunning, KEMI
Katy Grachek, KEMI
Mary Colvin, KEMI
Gretchen Copley, KEMI
Patrick Simpson, KEMI
Faye Creech, KEMI
Ryan Worthen, KEMI
Sarah Kosin, KEMI
Nicole Madden, KEMI
Shawnna Crouse, APA
Steve Humphress, AG

I. CALL TO ORDER

Chairman Casada called the meeting to order at 2:00 p.m. He indicated that Mr. Workman was unable to attend the meeting due to a work conflict.

II. ROLL CALL

Ms. Madden took roll. A quorum was reported in attendance.

III. PROOF OF NOTICE

Ms. Madden confirmed notice of the meeting was provided.

IV. APPROVAL OF MINUTES

Chairman Casada called for a motion to approve the minutes of the February 11, 2025 Board Meeting as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

V. CEO REPORT

Mr. Stewart's report included discussion of the following topics:

- CEO Business Update –
  - Mr. Stewart advised no employees suffered catastrophic damage due to recent storms. He indicated that one medical only claim had been received due to storms and that the claimant had already returned to work. He explained increased activity was likely as clean-up and repairs begin. He advised that Mr. Terry's Policyholder Services Team had already implemented plans to extend grace and flexibility on pay plan terms for policyholders whose businesses were destroyed or who were unable to work. He indicated statistical information regarding impact to policyholders would be provided at a future meeting with an update planned for the Executive Committee Meeting in May.
  - Policyholder Services – Mr. Stewart explained that March numbers for policy and claims were not included in the packet due to timing of the meeting. He reported policy premium was essentially flat for the first quarter of 2025. He indicated that coal premium was down and non-coal premium was up at similar values. He reported new business growth at the beginning of the year was helping keep premium flat. He advised that as expected, audit premium was less than prior years. He reported retention levels continued to remain high. He advised that KEMI had exceeded $10B in insured payroll and was up 16% year over year.

- Safety Grant Program – Mr. Stewart indicated that grant funds would be exhausted within the next couple of months. He advised Mr. Terry would provide an update in June.
- Claims – He reported there was an uptick in reported claims and open claims and shared that the number of open claims was skewed by a system bug that impacted closure of auto-adjudicated claims; the bug was being resolved. He explained that overall activity for claims had increased which correlated to the increase in insured payroll. He reported paid losses had increased minimally from a monetary standpoint.
- Origami Update – Mr. Stewart advised the claims system continued to operate well, efficiencies were being gained, and overall staff was pleased. He reported that policy implementation was in the beginning stages and progressing well, but slowly as Management wanted to ensure defined deliverables were accurate.
- Artificial Intelligence (AI) – Mr. Stewart advised Management was being very intentional in considering how to utilize AI, establishing parameters for use, and governing use to remain in compliance with Department of Insurance guidelines. He indicated an internal committee had been appointed and had defined purpose, were working on governance and guidelines, and anticipated presenting that information to the Board at the June meeting.
- Board Task Calendar – Mr. Stewart pointed out the 2025 Board & Committee Task Calendar was included in the meeting packet and was a useful tool for staying abreast of direction and responsibilities to be handled throughout the year.
- Upcoming Events – Mr. Stewart advised financial disclosures were due to the Ethics Commission on 04/15/2025. He indicated one board member needed to complete the process. He shared that KEMI would be directed to withhold pay for anyone who did not submit the disclosure by the required deadline.
- Federal Black Lung Claim Case Reserve Strengthening – Mr. Stewart reminded the Board of discussion which occurred at the prior meeting. He shared that through the first quarter of 2025 approximately half of the planned case reserve increases had been applied to Federal Black Lung Claims.

- Closed Session – KRS 342.841

The Chair requested a motion to enter closed session under KRS 342.841 for unfair competitive advantage to discuss target class commission and the 2025 performance management and EIP analysis. Motion was made and seconded. The Chair called for discussion. There being none, the Chair called for a voice vote. Motion passed without objection.

The following individuals were invited to remain for the closed session: Members of the Board, Staff, and Representatives for the Attorney General and Auditor of Public Accounts Offices. All other attendees were excused.

The Board entered closed session at 2:16 p.m.

The Board returned to open session at 2:30 p.m. The Chair reported no action was taken in closed session.

The Chair called for a motion to approve the target class commission as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

- Internal Audit (IA) Report & ERM Updates
  - IA Activity Report – Mr. Simpson reminded the Board his complete report was available in the meeting packet and members could follow-up with any questions anytime. Proceeding with his presentation, he discussed the annual accounts payable vendor and employee expense review. He reported no systemic or material issues or concerns were identified. He expressed that adequate controls were in place but there were opportunities for improvement and travel expense policies would be reviewed for possible clarifications and additional training would be provided. Mr. Simpson continued by discussing the annual premium audit review for 2024. He provided statistics and advised that non-coal policies of all sizes experienced premium growth in 2024. Mr. Simpson discussed Internal Audit's annual cyber security review. He reported that since Mr. Purcell's presentation in February, the annual penetration, cloud security, and web application assessment had been completed with no items or issues representing significant risk. He indicated there were recommendations to further strengthen controls and processes and in addition, Internal Audit had issued a recommendation to develop an internal communication and reporting plan.
  - ERM – Mr. Simpson discussed the Risk Tolerance Dashboard for 12/31/2024 and he noted that the meeting packet included a summary from an annual perspective for 2024. He advised that full breach responses were also included in the meeting packet and he would be pleased to answer questions anytime. He reviewed the three metrics in breach status and explained the reason for each breach. During the discussion Mr. Simpson also advised the Board that Federal Black Lung claim filings had not slowed in Q1 and indicated updates would be provided throughout the year.

- Procurement

  - Contract Approvals – Mr. Feld indicated there were 45 contracts included on the 04/08/2025 contract approval listing. He explained the volume was high because it included personal services contracts for the 07/01/2025-06/30/2026 term. He advised there were no contracts on the listing that were outside the normal scope of business and there were no issues with procurement process. He pointed out contracts for legal counsel and discussed the contract amount provided was a total for all twelve law firms. He also pointed out the Conning contract included on the list, reminding the board that KEMI was required to hire an investment manager. He added that an RFP was recently conducted for these services indicating Conning was selected and Management was able to negotiate a more favorable rate. He also pointed out contracts for managed care services and cloud services briefly discussing each. Mr. Feld asked for questions. There were none. Commissioner Wilhoit expressed the quality of the law firms engaged was outstanding.

    The Chair requested a motion to approve the 45 contracts included on the contract approval listing as presented by Mr. Feld. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

    Mr. Feld explained the contract notification listing was also provided for Board awareness and that no action was required.

- Pension Administration Committee (PAC) Report – Mr. Stewart provided a summary of Defined Benefit (DB) Plan Performance and advised the plan was 115% funded. He pointed out that per the plan's investment policy, bonds were invested to mature consistently with cash flows. He reminded the Board administration of the plan transitioned to TransAmerica in October 2024. He continued by providing a summary of the Health Trust (HT) Plan Performance. He advised that actuarial review validated full funding of the HT and indicated Management was currently considering offering a buyout of small benefits earned by prior employees and may have a recommendation for Board approval in June. He continued by explaining that since the funding for the HT was confirmed, Management wanted the HT investment strategy to mirror that of the DB Plan. He advised that proposed investment policy statements were included with meeting materials and would be presented for action by the Audit/Finance/Investment Committee. He explained that changes would replace references to One America with references to TransAmerica and would also update investment strategy for the HT policy statement. Mr. Stewart further advised the Board that since the plans transitioned to TransAmerica in October, the HT investment strategy had not been in compliance with its investment policy statement because Management chose not to transition the old strategy to the new administrator, TransAmerica. He reported that investments had performed better than they would have under the old strategy and apologized for not having brought the matter to the Board's attention in the last quarter of 2024. Mr. Stewart shared that he had discussed the proposed changes with Chairman Workman a week ago and made him aware as well.

Mr. Stewart also reviewed assets of the 401(a)/457(b) Defined Contribution Plan.

- Pension Administration Committee (PAC) Membership - Mr. Stewart advised that Board previously appointed members of the leadership team, excluding Mr. Simpson, as the PAC.

  The Chair requested a motion to reappoint the current members to continue on the PAC. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

- Financial Update –

  - Financials – Mr. Bunning advised that January and February financials were provided and reported the first two months of the year went well. He indicated that March financials were in progress.
  - Investment Update - Mr. Bunning reviewed the March 31 investment portfolio summary. He reported at end of quarter the portfolio was in good shape but shared that net change of marked to market assets and realized gains was negative as of 04/07/2025. He commented there was typically quite a bit of fluctuation between board meetings.
  - Investment Performance – Mr. Bunning reviewed investment performance year-to-date reporting the equity portfolio was up compared to the S&P and fixed income was slightly below benchmark for the first quarter.
  - Watch List – Mr. Bunning shared the Watch List Report as of 02/28/2025. He advised that two investments reviewed previously remained on the list. He indicated that Conning expected listings for NAC to sell before the end of the year. He discussed a new item for Viatris and indicated that a description was included in meeting materials.
  - 2024 Independent Audit Report – Ms. Creech introduced Lane Miller and Taylor Crowell, from Johnson Lambert, who would present the 2024 Independent Audit Report. She advised the Board that the transition to Johnson Lambert and the 2024 audit process was very smooth. Mr. Miller reviewed auditor responsibilities in accordance with generally acceptable

auditing standards. He advised Johnson Lambert would issue an unmodified (clean) audit opinion over statutory financial statements for 2024 along with additional written communications. He commented that all were considered draft until board approval was obtained. He discussed internal controls over financial reporting and indicated no material weaknesses were identified. He discussed Management's responsibility for significant accounting policies and application reporting all accounting policies selected and applied were appropriate, there were no significant policy changes, no transactions entered into without authoritative guidance or consensus, and no significant transactions recognized in financial statements in a different period than when the transaction occurred. He reviewed the process for identifying significant risks and shared them with the Board. Mr. Miller continued by discussing sensitive accounting estimates and shared related disclosures. He advised that loss reserves and reinsurance recoverables were evaluated noting opinions, exhibits, and calculations were reviewed and loss data from the independent actuary engaged by KEMI was validated. He indicated there were no concerns with Management's selected loss reserve. There were no questions for Mr. Miller.

Mr. Crowell reviewed specific footnotes including related party relationships and transactions. He advised there were no audit adjustments or any uncorrected misstatements as of 04/08/2025. He reiterated there was a clean unmodified opinion on financials in accordance with statutory accounting principles. He explained there was an adverse opinion for generally accepted accounting principles (GAAP) since financials were prepared in accordance with statutory principles. He reviewed observations about the audit process noting no disagreements with management, significant difficulties, significant issues discussed or known consultations with other accountants by Management. He advised the Board of non-compliance with pension and postretirement plan investment allocations was noted in the audit and was a matter of timing related to transition of plans to a new custodian. He advised there were no significant unusual transactions, financial statement disclosures were neutral, consistent, and clear and Johnson Lambert remained compliant with ethical requirements for independence. Mr. Crowell continued by reviewing financial statement highlights. He provided an overview of detailed testing related to investments, underwriting, claims, pension and postretirement, loss portfolio transfers, reinsurance, and IT related to financial reporting. Mr. Miller concluded the report by reviewing access to Johnson Lambert's technical support and services. He emphasized he was available to answer questions from the Board anytime. There were no questions from the Board.

The Chair requested a motion to accept the 2024 Independent Audit Report as presented. Motion was made and seconded. The Chair called for discussion. There being none he called for a voice vote. Motion passed without objection.

VI. COMMITTEE REPORTS

- **Executive Committee**
  Dr. Casada reported the Executive Committee met prior to the Board Meeting and received an update from Mr. Stewart on travel plans for 2025 as well as his first quarter travel expenses, both of which were approved by the Committee. He advised the 04/08/2025 Executive Committee Contract Approval Listing was reviewed and approved by the Committee. He also reported the annual review of the Committee's charter was conducted and no changes were made. He indicated the Committee would meet again on 05/13/2025 virtually.

- **Audit/Finance/Investment Committee**
  Dr. Casada reported the Committee met for a regular meeting on 03/26/2025 and reviewed Milliman's 12/31/2024 Milliman Loss & LAE Opinion and Analysis. He indicated the Actuarial Opinion Summary and the Statement of Actuarial Opinion were included in the meeting materials.

  Motion was made to accept the 12/31/2024 Milliman Loss & LAE Opinion and Analysis as presented. Motion was seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

  Dr. Casada continued the Committee Report advising that the Committee reviewed a proposed revision to the Audit/Finance/Investment Committee Charter incorporating a statutory reference to investment requirements included in the KEMI statute.

  Motion was made to approve the Audit/Finance/Investment Committee Charter as presented. Motion was seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

  Dr. Casada also advised that Investment Policy Statements for the Defined Benefit and Health Trust Plans were discussed with the Committee and reviewed by Mr. Stewart earlier in the meeting.

Moton was made to approve the Investment Policy Statement for the Defined Benefit (Pension) Plan as presented. Motion was seconded. The Chair called for discussion. There being none, the motion passed without objection.

Motion was made to accept the changes to the Investment Policy Statement for the Health Trust Plan as presented. Motion was seconded. The Chair called for discussion. There being none, the motion passed without objection.

Dr. Casada concluded the committee report by indicating that the Committee would meet again on May 28.

- **Human Resources Committee**

Mr. Koester reported the HR Committee had not met since the last board meeting.

- **Bylaws/Legislative Relations Committee**

Ms. Wilson reported that the Bylaws/Legislative Relations Committee had not met since the last board meeting.

- **Nominating Committee**

Mr. McDaniel reported that the Nominating Committee held a meeting on 03/12/2025 to prepare nominations for officer positions for the 2025-2026 period. He indicated the Committee was comfortable continuing with current leadership.

Motion was made and seconded to re-elect Mark Workman to the position of Board Chair. A call for discussion was made. There being none, a voice vote was taken. The motion passed without objection.

Motion was made and seconded to re-elect Dr. Rodney Casada to the position of Vice Chair. A call for discussion was made. There being none, a voice vote was taken. The motion passed without objection.

Motion was made and seconded to re-elect Kellie Wilson to the position of Secretary. A call for discussion was made. There being none, a voice vote was taken. The motion passed without objection.

VII. UNFINISHED BUSINESS

None

VIII. NEW BUSINESS

None

IX. FUTURE MEETINGS

The Chair shared the following meeting information:

- Board Meeting – 06/10/2025 @ 2:00 p.m. EDT
- Executive Committee Meeting – 06/10/2025 @ 1:00 p.m. EDT.

X. ADJOURNMENT

Chairman Casada asked for a motion to adjourn the meeting. Motion was made and seconded. With no further discussion, he called for a voice vote. Motion passed without objection. The Board Meeting adjourned at 3:38 p.m.

Respectfully Submitted:

Nicole Madden

Nicole Madden, Recording Secretary

APPROVED:

Mark Workman, Chair

Kellie Wilson, Secretary

Making workers' comp work

MINUTES

KEMI Board of Directors' Meeting
June 10, 2025

MINUTES
Kentucky Employers' Mutual Insurance
Board of Directors' Meeting
8th Floor Conference Room & Via Video Teleconference
250 West Main Street
Lexington, KY 40507

June 10, 2025

Members Present:
Mark Workman
Rodney Casada
Kellie Wilson
Benjamin Hale
William Jones
Joe Koester
Director Alan Hurst (proxy for Sec. Bailey)
Commissioner Scott Wilhoit (proxy for Sec. Link)

Members Absent:
F. Bruce Williams
Joe McDaniel (proxy for Sec. Johnson)

Others Present:
Jon Stewart, KEMI
Jeremy Terry, KEMI
Tim Feld, KEMI
Mark Bunning, KEMI
Katy Grachek, KEMI
Mary Colvin, KEMI
Patrick Simpson, KEMI
Faye Creech, KEMI
Allyson Smith, KEMI
Ryan Worthen, KEMI
Sarah Kosin, KEMI
Nicole Madden, KEMI
David Noel, APA
Steve Humphress, AG

I. CALL TO ORDER

Chairman Workman called the meeting to order at 2:00 p.m.

II. ROLL CALL

Ms. Madden took roll. A quorum was reported in attendance.

III. PROOF OF NOTICE

Ms. Madden confirmed notice of the meeting was provided.

IV. APPROVAL OF MINUTES

Chairman Workman called for a motion to approve the minutes of the April 8, 2025 Board Meeting as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

V. CEO REPORT

Mr. Stewart's report included discussion of the following topics:

- CEO Business Update – Mr. Stewart discussed the following items from the CEO update document included with meeting materials.
  - Policyholder Services Summary for May- Mr. Stewart reported revenue was down as expected due to decline in audit premium. He advised there was an uptick in new business and retention numbers were in line with expectations. He reminded the Board that July 1 was KEMI's biggest renewal date and advised there was increased competition in the market since a couple of carriers recently increased commission rates. He indicated an update regarding July 1 business would be provided.
  - Disaster Response - Mr. Stewart discussed disaster response to May tornadoes and indicated that KEMI had an action plan in place prior to the Department of Insurance (DOI) issuing an advisory to insurers about adjusting business practices for those in affected areas. He discussed demographics for KEMI policyholders within the area and shared specific analytics provided by Guy Carpenter, KEMI's reinsurance intermediary, regarding the event. He indicated no claims had been received in relation to the event.
  - Refusal to Quote Policy due to Safety Concerns - Mr. Stewart discussed a recent refusal to quote a policy due to safety concerns. He indicated limited use of the statutory exception since KEMI's inception and noted that the

Commissioners of the DOI and the DWC (Department of Workers' Claims) had been advised of KEMI's position.

- Safety Grant Program – Mr. Stewart indicated that all budgeted funds for the well-received program had been granted with only a few awaiting award.
- Claims Summary for May – Mr. Stewart indicated reported claims were up and increased activity for federal black lung claims continued. He explained changes to reporting provided for medical only and reported only claims were related to tracking with the Origami system. He pointed out the medical savings report for May was included in the meeting packet.
- Subrogation – Mr. Stewart commented on changes to subrogation laws, which went into effect in 2018, and advised that KEMI recoveries were now closer to national benchmarks.
- Origami Update – In Ms. Paul's absence, Mr. Stewart provided status on the Origami policy project. He advised that since the meeting packet was released, the project status had changed from green to yellow due to recent changes in Origami and Deloitte project resources which were requiring time to bring newly assigned team members up-to-speed. Mr. Stewart indicated the project was still on budget and that he and Ms. Paul were cautious but comfortable with the project status and with Origami.
- Artificial Intelligence (AI) Governance – Mr. Stewart advised that an internal committee had been created to address AI governance and advised Mr. Worthen would provide a presentation later in the meeting.
- Board Orientation – Mr. Stewart announced that the annual orientation program was being scheduled for the August board meeting date. He indicated that during the program he, Mr. Simpson, and outside counsel would focus on governance and internal audit.
- Upcoming Events – Mr. Stewart noted that KEMI's annual policyholder meeting was scheduled for the following week and that a community service day was scheduled for July.

- Artificial Intelligence (AI) Governance – Mr. Worthen discussed impact of AI on the insurance industry and potential for cost savings. He indicated establishing solid governance practices was essential to mitigate risks. He discussed the DOI Bulletin issued in 2024 outlining regulatory guidelines and expectations, risk management, internal controls, and best practices. He indicated that the Leadership Team at KEMI was currently reviewing a draft charter for KEMI's AI Governance Committee. Mr. Worthen continued by discussing Management's responsibilities, commitment to consistency, fair outcomes, clarity, and maintenance of compliance standards. Further, Mr. Worthen discussed the employees' responsibility to protect KEMI data, validate accuracy, and communicate use cases. He reviewed next steps including finalization of the charter, development of policy, creation of resources, training, and continued risk assessment. Mr. Worthen was asked about the long-term cost of maintaining AI systems. He responded it was too early to predict and explained pricing models were constantly changing. He indicated there would be budget dollars allocated in relation to AI, but that the governance component was top priority at this point. Mr. Worthen continued by explaining from a return on investment perspective, all AI opportunities needed to tie to the strategic plan. Commissioner Wilhoit shared that recently passed legislation could temper how AI could be used at the DWC, and advised he was currently researching how other jurisdictions were using this tool.

- Internal Audit (IA) Report & ERM Updates
  - IA Activity Report – Mr. Simpson discussed findings from Internal Audit's annual reviews of Safety and Loss Control and Business Development and Claims Relations reporting both units were consistently active and provided value-added services. He reported no issues were found in either unit and shared opportunities for improvement. He continued by providing the Board with an update on the status of the black lung reserve strengthening project, which was completed in April. He commended the Claims unit for their efforts to complete the project promptly. He reported that Management met with Milliman in early June to kick-off the 06/30 actuarial evaluation of black lung reserves. He pointed out additional detail regarding Internal Audit activity was included in the report included with meeting materials. There were no questions.
  - ERM – Mr. Simpson reviewed ERM activity for the first two quarters. He discussed annual economic capital modeling explaining the process was used to make informed capital decisions for dividends, reinsurance, etc., and to conduct stress testing for risk appetite/tolerance, to calibrate projections and AM Best Capital Adequacy Ratio (BCAR) assumptions, and to provide assurance regarding capital position. He discussed the current reserve deficiency factor applied by A.M. Best and expected discussions during the annual rating process. He reviewed highlights from model projections related to BCAR and discussed primary capital risk. He reported model results aligned with expectations overall.

    Mr. Simpson continued by discussing the annual risk identification and assessment process. He discussed the benefits and process as well as the value for making better decisions. He reviewed pre-mitigation and post-mitigation scoring, and analysis of assessment results. He indicated results reflected KEMI was adequately managing enterprise risks and that no single risk identified was of great concern. Mr. Simpson continued by discussing the difference between the Risk Register and the Risk Tolerance Dashboard and the purpose of each. He concluded his report by discussing the Risk Tolerance Dashboard results for Q1 2025 and related breach responses noting all were coal related. He stressed the volume of Federal Black Lung filings received in Q1 was at a record high and shared that traumatic and State Black Lung claims were at a low. He provided coal industry metrics, which were described as positive for 2025. There were no questions.

- Closed Session – KRS 342.841

  The Chair requested a motion to enter closed session under KRS 342.841 for competitive disadvantage to discuss a dividend recommendation. Motion was made and seconded. The Chair called for discussion. There being none, the Chair called for a voice vote. Motion passed without objection.

  The following individuals were invited to remain for the closed session: Members of the Board, Staff, and Representatives for the Attorney General and Auditor of Public Accounts Offices. All other attendees, if any, were excused.

  The Board entered closed session at 2:45 p.m.

  The Board returned to open session at 3:04 p.m. The Chair reported no action was taken in closed session.

  The Chair called for a motion to approve a 20% dividend for 2022 eligible policyholder premium per the recommendation made by Management. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

- Financial Update –
  - Financials – Ms. Creech reviewed the April Financial Report. She reported total assets on the Balance Sheet were similar to year-end and noted other invested assets discussing that the Elm Tree investment was currently at 2/3rds of total commitment. With regard to liabilities, she advised the Board that the reserve strengthening project discussed by Mr. Simpson was offset by release of IBNR (incurred but not reported) reserves and favorable development. As a result, she indicated loss ratio was at 56% at end of April with decrease in reserves for black lung and OD at approximately $3M. She advised that IBNR would be added throughout the remainder of the year and explained liabilities would continue to increase for the remainder of the year. Ms. Creech discussed equities indicating losses at $2.8M at April 30. She continued by discussing the Income Statement pointing out premium was down largely due to reduction in coal premium from the same period last year and lower rates for non-coal. Ms. Creech reported audit premium was down, and loss costs were higher. She explained the 56% loss ratio was

expected to continue for the remainder of the year. She indicated investment income was reflecting full impact of the bond swap. She discussed LPTs (loss portfolio transfers), reporting the Gen Re commutation was completed and indicated $3M was expected to be booked to two of the LPTs by end of June. She noted funds for commutation were expected in third quarter. She reported Cash Flow continued to be favorable and advised that it would be shored up with investment income to pay for the dividend.

Regarding the operating budget, Ms. Creech reported variances were primarily favorable due to timing issues. She discussed specific variances in EDP equipment, furniture, salaries, and payroll taxes, outside services, software, books, publications, and subscriptions explaining reasons for each and providing expectations for the remainder of the year. To conclude, she discussed the variance in total budget reporting that KEMI expected to be under budget for the year.

- Investment Update – Mr. Bunning discussed the June 2 portfolio summary included in the board meeting packet. He indicated that the portfolio had a 4.4 rate of return and book yield had gone up five basis points since the beginning of the year, equating to approximately $1M in growth. He indicated that due to the bond swap which occurred last year, the portfolio was remarkably close to strategic asset allocation. He reported there would be a $3M realized gain and an increase in unrealized gain which would have a net zero effect to the bottom line and was due to recent right sizing of the equity portfolio. There were no questions.
- Investment Performance – Mr. Bunning reported on portfolio performance indicating year-to-date fixed income and equity were slightly below benchmarks. He advised the high dividend portfolio was outperforming the market, which was unusual. He indicated gains had been taken on the equity portfolio and dividends would be lowered in the strategic asset allocation to be discussed later in the meeting.
- Watch List – He reported that NAC Aviation, which was previously on the watch list had been sold for a loss and there were no other changes to the list.
- Insurance Coverages – Mr. Bunning reported KEMI's commercial insurance package renewed. Except for reduced exposure due to downsizing office space effective 01/01, he noted there was no change in amounts or limits on coverage. He reported that cost of cyber insurance decreased and was a testament to efforts of KEMI's cyber team and the results of SOC 2 audits. He advised that commercial insurance was expected to remain under budget for the year.

- Procurement
  - Contract Approvals – Mr. Feld reviewed the June 10, 2025 Board Contract Approval Listing. He discussed the Origami contract listed pointing out the contract value and contract term of eight years. He shared that the Executive Committee had granted permission to exceed the five-year RFP procurement requirement for this product/service and indicated a copy of the documentation explaining the reason for extension was included in the meeting materials. He asked Mr. Bunning to review pricing detail. Mr. Bunning explained original pricing for Origami software licensing and Claims and Policy implementation in comparison to proposed pricing going forward. He advised that the original contact value approved by the Board had not been completely spent to-date noting the amount available to pay for policy implementation. He indicated the new contract would begin effective in September, continue through year-end, and then proceed through eight additional calendar years. He explained by committing for an extended period, discounts were negotiated. He pointed out variance from prior terms including direct written premium true-up, hosting, and client support. He explained contingency funds included for true-up and integration of new functionality if/when available were included in the new contract value. There were no questions.

    The Chair requested a motion to approve the 06/10/2025 Board Contract Approval Listing as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

- Pension Administration Committee (PAC) Report – Mr. Stewart reminded the Board he chairs the internal committee for pension administration. He indicated that the committee met quarterly with the investment manager for the plans. He discussed that the Defined Benefit Plan and Health Trust were fully funded and that investments for both plans were in the fixed income market and were laddered to correspond with expected cash flow. He shared the number of employees eligible for health benefits under the retirement plans and advised that in order to alleviate administrative burden, Management was proposing a health reimbursement account be established. He indicated that the action would alleviate administrative burden, lower liability, and allow individuals to manage their own benefit. Further, he explained that at 27 years an employee in the Defined Benefit (DB) Plan could take their retirement benefit as a lump sum and continue working with no loss of investment income. He explained that only recently had Management become aware the calculation was different for an employee who took early retirement as a lump sum, resulting in much steeper penalty for early retirement in the DB than originally intended. He advised no employees had been impacted to-date, but that Management wanted to proactively correct the calculation before encountering the situation. He indicated a change was needed to definitional language within the plan to correct the calculation and the Human Resources Committee would request approval of related amendments later in the meeting. Mr. Stewart completed the PAC report by indicating that the committee had reviewed its charter and investment policies for all retirement plans. There were no questions from the Board.

VI. COMMITTEE REPORTS

- **Executive Committee**
  Chairman Workman reported the Executive Committee met on May 13 and just prior to the board meeting. He indicated that during the meetings updates consistent with information previously shared were provided. He reported the committee approved contracts and the request to delay policy and claims system procurement, which was discussed in relation to the contract list approved during this meeting.

- **Audit/Finance/Investment Committee**
  Dr. Casada reported the Committee met for a regular meeting on 05/28/2025. He reported that during the meeting the Committee received updates on financials, investment, Origami pricing, and Conning presented recommendations for strategic asset allocations (SAA) for the investment portfolio. He indicated a report detailing discussion and action taken during the meeting was included in the meeting packet and asked Mr. Bunning to summarize SAA recommendations. Mr. Bunning reviewed recommendations from Conning and indicated that changes were so slight a revision to the investment policy may not be necessary.

  Dr. Casada made a motion on behalf of the Audit/Finance/Investment Committee to approve strategic asset allocations as recommended by Conning. Motion was seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

- **Human Resources Committee**
  Mr. Koester reported the HR Committee met earlier in the day to review the HR Committee Charter and discuss the retirement plan amendments and restatements, which Mr. Stewart mentioned in the PAC report. He asked Ms. Grachek to discuss further. She indicated that retirement plan

amendments were included in the meeting packet and reiterated changes would reduce liability and benefit plan administration for KEMI and provide members with control of their full benefit. There were no questions.

Ms. Grachek requested per the recommendation of the HR Committee that the Board move to approve the KEMI 401(a) Money Purchase Plan Sixth Amendment as presented. Motion was made and seconded. There being no additional discussion, a voice vote was requested. Motion passed without objection.

Ms. Grachek requested per the recommendation of the HR Committee that the Board move to approve the January 1, 2025 Restatement of the KEMI 401(a) Money Purchase Plan modified to include the Sixth Amendment as presented. Motion was made and seconded. There being no additional discussion, a voice vote was requested. Motion passed without objection.

Ms. Grachek requested per the recommendation of the HR Committee that Board move to approve the KEMI Defined Benefit Pension Plan Tenth Amendment as presented. Motion was made and seconded. There being no additional discussion, a voice vote was requested. Motion passed without objection.

Ms. Grachek requested per the recommendation of the HR Committee that the Board move to approve the Second Restatement effective January 1, 2025 of the KEMI Defined Benefit Pension Plan modified to include the Tenth Amendment as presented. Motion was made and seconded. There being no additional discussion, a voice vote was requested. Motion passed without objection.

- **Bylaws/Legislative Relations Committee**
  Ms. Wilson reported that the Bylaws/Legislative Relations Committee had not met since the last Board meeting. She indicated a meeting date was pending and asked that members of the committee watch email to finalize arrangements.

VII. UNFINISHED BUSINESS

None

VIII. NEW BUSINESS

None

IX. FUTURE MEETINGS

The Chair shared the following meeting information:

- Executive Committee – 07/08/2025 @ 1:00 p.m. EDT
- HR Committee – 07/30/2025 @ 1:00 p.m. EDT
- Audit/Finance/Investment Committee – 07/30/2025 @ 2:30 p.m. EDT
- Bylaws & Legislative Relations Committee – Date Pending
- Orientation – 08/12/2025 @ 10:30 a.m. – Lunch to be provided
- Executive Committee – 08/12/2025 @ 1:00 p.m. EDT
- Board Meeting – 08/12/2025 @ 2:00 p.m. EDT

X. ADJOURNMENT

Chairman Workman asked for a motion to adjourn the meeting. Motion was made and seconded. With no further discussion, the Chair called for a voice vote. Motion passed without objection. The Board Meeting adjourned at 3:42 p.m.

Respectfully Submitted:

Nicole Madden

Nicole Madden, Recording Secretary

APPROVED:

Mark Workman, Chair

Kellie Wilson, Secretary

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Members Present:
Mark Workman
Rodney Casada
Kellie Wilson
Benjamin Hale
Joe Koester
Joe McDaniel (proxy for Sec. Johnson)
Deputy Secretary Robert Long (proxy for Sec. Bailey)
Commissioner Scott Wilhoit (proxy for Sec. Link)

Members Absent:
F. Bruce Williams
William Jones

Others Present:
Jon Stewart, KEMI
Jeremy Terry, KEMI
Tim Feld, KEMI
Mark Bunning, KEMI
Katy Grachek, KEMI
Patrick Simpson, KEMI
Robert Swisher, KEMI
Faye Creech, KEMI
Allyson Smith, KEMI
Ryan Worthen, KEMI
Sarah Kosin, KEMI
Nicole Madden, KEMI
David Noel, APA
Chris Lewis, AG

I. CALL TO ORDER

Chair Workman called the meeting to order at 2:00 p.m.

II. ROLL CALL

Ms. Madden took roll. A quorum was reported in attendance.

III. PROOF OF NOTICE

Ms. Madden confirmed notice of the meeting was provided.

IV. APPROVAL OF MINUTES

Chair Workman called for a motion to approve the minutes of the June 10, 2025 Board Meeting as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

V. CEO REPORT

Mr. Stewart's report included discussion of the following topics:

- CEO Business Update –
  - Mr. Stewart began by thanking members of the Board for attending the orientation program held earlier in the day. He reported KEMI was doing well at mid-year, and indicated he was pleased to have members of the Leadership Team provide mid-year updates to the Board. He commended staff for their efforts to excel in daily responsibilities while the Origami implementation project continued. He advised that an employee engagement event was planned for Wednesday, August 20 and would provide an opportunity for him to express appreciation to the staff.
  - Market Share Update – Mr. Terry explained that KEMI and other standard insurance companies were required to file annual financial statements with the National Association of Insurance Commissioners (NAIC) who developed and distributed annual market share reports. He pointed out group insurance fund information was excluded from the process. Referencing the report for 2024, Mr. Terry reviewed KEMI's direct written premium since 2019 in comparison to standard carriers. He reported all carriers experienced a decline in direct written premium for 2024 and reported KEMI ended the year with 26.0% of the market, which he indicated

was consistent with KEMI's five-year average. He reviewed a listing of top insurers based on market share, revealing the next largest market share among standard carriers for 2024 was at 6%. He shared that KEMI's largest competitor was from a group self-insurance fund not included in the report. He explained that while Kentucky was a relatively small workers' compensation insurance market in comparison to the rest of the country, for 2024 there were 112 carriers that wrote workers' compensation in the state with eighty of them writing at least one account over $100,000. Further he reported in 2024 KEMI lost at least one account to fifty-five different carriers.

- Mid-Year Policyholder Services Update – Mr. Terry reported KEMI's direct written premium was down $3.7M as of the mid-point of the year and explained the decrease was applicable to both the coal book and the non-coal book with non-coal down consistent with the rate decrease for 2025, which was expected. Mr. Terry reported competitive policy retention remained high. He explained development of yearly strategic targets and advised that retention was slightly below target to-date but was within the five-year average. Mr. Terry was asked if coal was expected to recover due to regulation changes. He indicated based on analytics additional cancelations were possible in the short-term, but it was possible some accounts could return in the next year. He added that coal rates in Kentucky were high, and coal was becoming more difficult to mine, which had led some operators to move to other states. Regarding new business, Mr. Terry reported 2024 was the highest volume of new business written since 2019 and the trend continued in 2025. He discussed decline in audit premium, which was expected. Mr. Terry advised that July was KEMI's largest business date primarily due to school board renewals. He reported that for the second consecutive year, coverage was renewed for 100% of school board policies and eight new school systems were written so KEMI insured 88% of school districts in the state. Regarding other July 1 business, Mr. Terry reported KEMI retained over 100% of expiring premium. Mr. Terry was asked what attributed to retention of 100% of school policies written. He responded KEMI continued to engage with schools and boards year after year, which had never been done. He also attributed the return of KSBIT assessments and dividends to high retention.
- Safety Grant – Mr. Terry discussed the $250,000 in budget funds the board approved for implementation of the safety grant program initiated in 2025. He reported that 136 applications were received and 113 were approved with average grant of $2193 and the final payment expected to be processed soon. He shared examples of items approved and details of an appreciative social media post by a recipient. Mr. Terry advised the Board that funds would be requested again in the 2026 budget proposal and indicated grant value would be reduced in 2026 to encourage more participation.

- Claims Services Update – Mr. Swisher provided a mid-year Claims Services report on behalf of Ms. Colvin, who was unable to attend the meeting. He advised reported claims as of June 30 had increased in comparison to the same period in 2024. He indicated that lost time claims had increased 19.2%, which amounted to 107 claims with forty-one being black lung and sixty-five being state claims. He noted in comparison to the rest of the industry, KEMI was in-line with other carriers in terms of state claims year over year. Regarding reporting only claims, Mr. Swisher advised that there was an increase of 20.8% which was due to increased utilization of KEMI nurse triage services and variances in classification of claims in the Origami system versus KEMI's prior operating system. Mr. Swisher discussed open claims noting a difference of only two claims in counts compared to 2024. He reported 965 open claims were in litigation and 609 of those were federal black lung claims. Mr. Swisher explained how the value of incurred losses was calculated and discussed the significance. He continued by reviewing paid losses as of June 30. He discussed the increase in paid losses to-date due to medical inflation and aggressively settling large claims through annuities. Mr. Swisher was asked if a third party handled the annuity claims. He affirmed and explained administration was handled through an insurance company or Medicare Set Aside, not by KEMI. In response to a follow-up question, Mr. Swisher explained a vendor guided the process to obtain the best rate for each annuity, so a variety of insurance companies supplied the annuities. Mr. Swisher continued by reporting that case reserves for state claims and state black lung were lower than in 2024 and case reserves for federal black lung were higher due to proactive measures to strengthen case reserves based on Milliman's previous actuarial review. Mr. Swisher reviewed statistics for auto adjudication of medical only claims and explained the auto adjudication process. He assured the board monthly audits were conducted to ensure the process was operating as intended. Mr. Swisher provided detail regarding medical payments as of 06/30/2025 and provided total charges, total reduction, and total paid values.
- Carrier Performance Assessment System (CPAS) – Mr. Swisher explained that insurance carriers were required by statute and regulation to report certain claims and policy events to the Department of Workers' Claims (DWC). He explained that effective 10/01/2024 carriers were incentivized to comply with reporting requirements and existing penalties were initiated as of 01/01/2025. Mr. Swisher shared KEMI assisted the DWC as they developed the CPAS system, and he shared KEMI's outstanding compliance record since CPAS became effective. Mr. Swisher recognized the diligence and professionalism of KEMI's Claims, Underwriting, and Data Management teams to make sure reporting requirements were known,

reporting was timely, interfaces with the data reporting partner were improved, and tracking was implemented on the front-end. Commissioner Wilhoit thanked KEMI for partnering with the DWC to improve compliance and applauded KEMI's exceptional reporting rate.

- Origami Update – Ms. Paul reported KEMI was in the second project increment of the four-increment policy implementation schedule. She indicated that 130 service deliverables had been approved to-date and indicated there was more work to accomplish for Origami to craft the service deliverables. She indicated momentum was still high and workshops were ongoing to fully develop requirements for big ticket items, like kemi.com. She reported KEMI was trying to mitigate results of resource reallocations for Deloitte and Origami and as a result the project was currently estimated to be one month behind schedule. She indicated that the timeline was being closely monitored. Regarding the Claims system, she reported post implementation modifications were continuing and another Origami Professional Services Team had been engaged to resolve remaining projects. She indicated that KEMI Management remained involved with the continuing work on the Claims Operating System. There were no questions.
- Closed Session – KRS 342.841

  The Chair called for a motion to enter closed session per KRS 342.841 due to competitive disadvantage to receive a strategy update. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

  The following individuals were invited to remain for the closed session: members of the Board; staff; and representatives of the Attorney General and Auditor of Public Accounts Office.

  The Board entered closed session at 2:43 p.m.

  The Board returned to open session at 3:00 p.m. The Chair reported no action was taken in closed session.

- Internal Audit (IA) Report – Mr. Simpson shared highlights from the premium audit and collections (unpaid audit premium) review. He indicated collection balances had steadily increased and discussed major events since 2019 that were impacting results and collections. Further, he explained projections for bad debt would eventually appear in financials. Mr. Stewart commented that while bad debt had been low in comparison for five to seven years, current projections were consistent with KEMI's history based on policy volume and makeup. Mr. Simpson continued by advising improved premium audit tools and techniques being utilized were reducing risk. He also discussed collection improvements, providing general statistics. He concluded by noting his full report was provided in the board meeting packet.

- Financial Update - Ms. Creech discussed details from the 06/30/2025 balance sheet noting that cash and invested assets was comparable to year-end. She pointed out Non-Admitted Premium in relation to Premiums in Course of Collection and Premiums Deferred indicated that item was below proforma projection. Continuing, Ms. Creech discussed loss reserves. She noted Incurred but Not Reported (IBNR) was used to offset case reserve increases during the reserving project and advised that IBNR would grow for the remainder of the year. She explained this paired with settlements processed throughout the year had decreased liabilities. She indicated policyholder equity had increased since year-end and was expected to decrease due to the dividend payout. Ms. Creech discussed the income statement. She indicated that premiums earned had gone down as well as premiums written and reiterated losses had increased. She shared that total losses were better than projected on the proforma with KEMI at a 56% loss ratio. She advised that operating expenses were under budget and investment income from the positive impact of the bond swap created a realized gain compared to a loss last year. She discussed net income and explained variance from 2024 was related to commutation gain on the Adverse Development Cover (ADC) portfolio that occurred at that time. Ms. Creech reviewed the cash flow statement. She pointed out cash used for annuities and in the claims reserve project produced a good return. She reported that in early July KEMI received commutation funds for the Kentucky Coal Producers (KCP) loss portfolio transfer and an excess of loss reinsurance commutation for a prior claim year. She indicated that the inflow of cash would appear on the July financials.
- Budget Variance – Ms. Creech reported that KEMI was under budget approximately $3M at the end of June. She indicated that approximately half of the budgeted funds should remain unspent for the remainder of the year due to slower progression of the Origami project, which resulted from Origami/Deloitte staffing issues previously shared with the Board. She also explained that there was timing impact on budgeting for equipment and indicated salaries and benefits were under budget due to the EIP being lower than expected and number of open job positions for the first half of the year.
- Investments – Mr. Bunning advised the investment portfolio continued to perform well. He reported the entire portfolio had gone up seventy-five basis points since the bond swap. He indicated equities had been rebalanced by Conning and gains were reflected on the income statement. He indicated

that bonds were maturing and being re-invested in higher yield investments. He explained realized and unrealized gains/losses were up $2M.

- Portfolio Performance – Mr. Bunning indicated that KEMI's bond portfolio was up four basis points on benchmark, which was positive. He also reported that equities were a little behind benchmark as of the 08/04/2025 report shared. He indicated he was pleased with Conning's management of the portfolio.
- Watchlist – Mr. Bunning shared the 06/30/2025 watch list reporting no change since end of March. He explained that Conning recommended continuing to hold the two investments listed.
- Portfolio Compliance – Mr. Bunning explained that both Conning and Clearwater have a compliance mechanism for notifying KEMI when an investment was outside policy guidelines. He indicated Mr. Simpson had recently reviewed Clearwater's process to ensure it was consistent with policy and he advised that his staff was doing the same with Conning. Mr. Bunning pointed out holdings on Conning's compliance report that indicated three investments, purchased according to policy guidelines, were currently below market grade. He indicated that Management discussed the items with Conning and per their recommendation were holding the investments.

- Procurement
  - Contract Approvals –Mr. Feld discussed the two IT contracts included on the Board Contact Approval Listing for 08/12/2025.

  The Chair requested a motion to approve the 08/12/2025 Board Contract Approval Listing as presented. Motion was made and seconded. The Chair asked if there were any abnormalities in the procurement process. Mr. Feld confirmed there were none. The Chair called for additional discussion. There being none, he called for a voice vote. Motion passed without objection.

- Pension Administration Committee (PAC) Report – Mr. Stewart referenced the amendments to the Health Trust, which allowed KEMI to offer an HRA rollover, which were approved by the Board in June. He explained that following the Board's approval, the PAC met to approve and finalize the process.

VI. COMMITTEE REPORTS

- **Executive Committee**
  Chair Workman reported the Executive Committee met on July 8 and August 12. He indicated Origami, Policyholder Services, Claims, Employee Service, and Engagement Event updates were received and advised

information regarding a private placement opportunity was shared. He indicated Mr. Stewart's travel to the WSC introductory meeting, AASCIF Annual Meeting, and WCRI Executive/Board Meeting was approved. He also advised the Committee approved Mr. Stewart's Q2 Travel Expense Report and the 08/12 Executive Committee Contract Approval Listing. He advised the next committee meeting was set for September 9.

- **Audit/Finance/Investment Committee**
  Dr. Casada reported the Audit/Finance/Investment Committee met for a regular meeting on 07/30/2025. He indicated a report detailing discussion and actions taken during the meeting was included in the board meeting packet. Further, he reported Mr. Simpson provided the annual ERM Charter Review during the committee meeting and no changes were made or recommended. He advised the Committee received financial and investment updates and confirmation that Lane Miller would continue as lead partner for the 2025 independent audit being conducted by Johnson Lambert. He also advised that Mr. Stewart presented a private placement opportunity to the Committee and recommended making an investment in Walton Street Capital Open End Funds WSRE-Core Plus (Equity) and WSRED – Core (Debt) at $25M each. He reported that in accordance with authority granted by the Committee's charter, the Committee voted to authorize Management to proceed with the investment. He shared that the Committee's next regular meeting was scheduled for September 24 but may be rescheduled due to conflicts.

- **Human Resources Committee**
  Mr. Koester reported the HR Committee met on July 30. He indicated the report included in the board meeting packet detailed discussions and actions taken during the committee meeting.

Mr. Koester made a motion to go to closed session under KRS 342.841 for unfair competitive advantage to discuss the KEMI Compensation Program Review. Motion was seconded. A call for discussion was made. There being no discussion, a voice vote was taken. Motion passed without objection.

The following individuals were invited to remain for closed session: members of the Board, Ms. Grachek, Mr. Simpson, Mr. Stewart, Ms. Madden and representatives from the Attorney General and Auditor of Public Accounts Offices. Everyone else was excused.

The Board entered closed session at 3:28 p.m.

The Board returned to open session at 3:39 p.m. No action was taken in closed session.

Motion was made to approve an increase to all KEMI salary grade ranges by 3% per the recommendation of the HR Committee. Motion was seconded. A call for discussion was made. There being no discussion, a voice vote was taken. Motion passed without objection.

Continuing his report, Mr. Koester advised that during the July 30 committee meeting, proposed revisions to HR Policy 13 – Travel and Business Expenses and a proposed addition to the Section 14 Information Technology – Policy #1407 Artificial Intelligence Governance were presented and discussed. He advised proposed policy language was included in the meeting packet and asked for any questions.

Mr. Koester made a motion on behalf of the HR Committee to approve HR Policy revisions and additions as presented. Motion was seconded. A call for discussion was made. There being no discussion, a voice vote was taken. Motion passed without objection.

- **Bylaws/Legislative Relations Committee**
  Ms. Wilson reported that the Bylaws and Legislative Relations Committee met on July 29. She reported the Committee completed its annual charter review and received a recap of 2025 legislative activity from KEMI's lobbyist. She indicated the committee report included in the meeting packet detailed discussion. She reported that besides approval of prior minutes, no action was taken during the committee meeting. She shared that the Committee was expected to meet again in the fourth quarter to complete the annual bylaws review and discuss any new information about legislative activity expected in 2026.

VII. UNFINISHED BUSINESS

None

VIII. NEW BUSINESS

None

IX. FUTURE MEETINGS

The Chair indicated that the date for the October Board was currently pending, and Ms. Madden would follow-up.

X. ADJOURNMENT

Chair Workman asked for a motion to adjourn the meeting. Motion was made and seconded. With no further discussion, the Chair called for a voice vote. Motion passed without objection. The Board Meeting adjourned at 3:42 p.m.

Respectfully Submitted:

Nicole Madden

Nicole Madden, Recording Secretary

APPROVED:

Mark Workman, Chair

Kellie Wilson, Secretary

KEMI

Making workers' comp work

MINUTES

KEMI Board of Directors' Meeting
October 14, 2025

MINUTES
Kentucky Employers' Mutual Insurance
Board of Directors' Meeting
8th Floor Conference Room & Via Video Teleconference
250 West Main Street
Lexington, KY 40507

October 14, 2025

Members Present:
Mark Workman
Rodney Casada
Kellie Wilson
Benjamin Hale
William Jones
Joe McDaniel (proxy for Sec. Johnson)
Director Allen Hurst (proxy for Sec. Bailey)
Commissioner Scott Wilhoit (proxy for Sec. Link)

Members Absent:
F. Bruce Williams
Joe Koester

Others Present:
Jon Stewart, KEMI
Jeremy Terry, KEMI
Tim Feld, KEMI
Mark Bunning, KEMI
Patrick Simpson, KEMI
Allyson Smith, KEMI
Ryan Worthen, KEMI
Sarah Kosin, KEMI
Nicole Madden, KEMI
David Noel, APA
Steve Humphress, AG

I. CALL TO ORDER

Chair Workman called the meeting to order at 2:01 p.m.

II. ROLL CALL

Ms. Madden took roll. A quorum was reported in attendance.

III. PROOF OF NOTICE

Ms. Madden confirmed notice of the meeting was provided.

IV. APPROVAL OF MINUTES

Chair Workman called for a motion to approve the minutes of the August 12, 2025 Board Meeting as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

V. CEO REPORT

Mr. Stewart's report included discussion of the following topics:

- CEO Business Update –
  - Mr. Stewart advised he attended the Annual Association of Compensation Insurance Funds Annual Meeting earlier in the week. He indicated Ms. Paul and Ms. Grachek were still attending the meeting and shared that Ms. Grachek did an excellent job leading a CEO succession roundtable during the event.
  - Policyholder Services Update - Mr. Stewart reported KEMI premium was down approximately 6% as of 09/30 and provided comparison information from last year. He indicated much of the decrease was related to coal and he noted that audit premium was down significantly as expected. He advised that more coal premiums had been returned than anticipated through premium audit. He shared that non-coal premium was down slightly as of 09/30 but was consistent with the same time in 2024. Mr. Stewart indicated retention on competitive policies was at 90% for the year.
  - Claims Services Update – Mr. Stewart reported total claim counts were up 9.4% year-over-year with increases in counts for all categories including reporting only, medical only, lost time, and open claims. He indicated that counts were still less than pre-COVID but were increasing. He continued by reviewing claims spend, reporting that paid losses at end of third quarter

were up about 17% in comparison to third quarter 2024. He explained that the increase was primarily due to settlements. He shared information regarding the largest settlements processed recently. He also shared information regarding total billed and paid as of 09/30 and commended the claims team for effective management of medial payments and settlements. Commissioner Wilhoit shared that the current uptick in claims was occurring throughout the workers' compensation industry and was related to economic job growth across the state. Mr. Stewart agreed and reiterated that claims exposure was greater because of the significant increases in insured payroll KEMI had experienced.

- Origami – Mr. Stewart reported that Claims had celebrated the one-year anniversary of live operations in Origami. Ms. Colvin shared feedback from Claims staff indicating overall satisfaction with the operating system and efficiencies gained since implementation. Mr. Stewart continued by reporting policy implementation was approximately two months behind at present. He indicated that resource issues discussed during prior meetings were being addressed. He shared that Ms. Paul and the project team had elevated tracking for the policy implementation project, which was encouraging accountability. Mr. Terry reminded the Board that Origami's policy product was not as mature as the claims product and KEMI was insisting on accurate development of the system components even if additional time was required.
- Upcoming Dates & Events – Mr. Stewart advised KEMI was hosting an agents' meeting on 10/15, meeting with AM Best for the annual rating meeting on 10/20, holding a routine all-employee meeting on 10/22 and presenting at the Big I board meeting on 11/19.
- Health Plan & Retirement – Mr. Stewart discussed the present value benefit HRA offered to vested termed members of KEMI's retirement plans and current retirees. He explained the offers reduced KEMI's liability and allowed each individual to manage eligible funds. He indicated half of the eligible vested termed members accepted offers and approximately 40% of current retirees accepted offers.

  Health Plan - Mr. Stewart also discussed analytics on KEMI's health plan. He indicated that Teladoc services and wellness continued to be encouraged. He advised a modest rate increase would be passed to staff for the 2026 plan year and indicated that plan members would be using a traditional prescription rebate program for added savings.

- Internal Audit (IA) Report & ERM Update – Mr. Simpson reported on Milliman's black lung reserve valuation at 06/30. He indicated there was good news with total reserve development of approximately $13M noting reserve development on total incurred was significantly less than in prior years. He indicated that reserve development for 2025 should be significantly under the four-year average. He shared there was $4M in unfavorable development in total for all accident years, which reflected positive change. He discussed KEMI black lung reserves, which accounted for 54% of total reserves at 06/30, and indicated redundancy would likely be increased. He reviewed entitlement ratios and reported KEMI was managing them well. He indicated KEMI's entitlement percentage was significantly less than Kentucky and across the country. He noted significant observations from the black lung reserve valuation including improvement in black lung reserve position and favorable development in IBNR (incurred but not reported) reserves. Mr. Bunning added that increasing estimated loss costs in the budget for the year to 56% positively impacted reserve development on black lung claims and built redundancy. Mr. Simpson continued by briefly discussing other items included in the internal audit activity report included in the meeting packet.

Enterprise Risk Management (ERM) – Mr. Simpson advised that Guy Carpenter recently completed a program review of KEMI's ERM program and reported the program was more advanced than peers and that processes and documentation were considered thorough. He indicated that funds were included in the budget recommendation for software to make the program sustainable with continuous improvement in the long-term. Mr. Simpson reviewed the risk tolerance dashboard for Q2 2025. He discussed AM Best BCAR scoring and indicated that more information had been obtained regarding the increased reserve deficiency charge AM Best applied to KEMI's BCAR calculation in 2024 and would be discussed with AM Best during the annual rating meeting scheduled for the following week. He explained the increased charge did not change KEMI's rating, but that Management would like scoring to be as accurate as possible. He continued by discussing balance sheet strength noting the deficiency charge was also a factor, but that capital position had not declined. He advised that an update would be provided once Best's rating was released and advised that it could be appropriate to modify the risk tolerance metrics based on AM Best's approach. Mr. Simpson continued by discussing variance in combined ratio from proforma, which was related to less coal premium and timing of written premium recognition, which was in breach for Q2 but resolved by the beginning of Q3. Mr. Simpson discussed Federal Black Lung Filings reporting filings appeared to be slowing. He indicated that claims were still coming from all accident years and reported many were submitted with no impairment and could be closed quickly. He shared coal industry metrics for employment, production, met coal pricing, and thermal coal.

- Financial Update - Mr. Bunning provided highlights from financial reports included in the board meeting packet. He discussed the income statement for August 2025 reporting net earned premium was down primarily due to coal. He indicated there was an underwriting loss of $3.7M which was not comparable to 2024 due to the impact of the bond swap. He reported net investment income was up $5M from the same point last year, which reflected the bond swap. He discussed realized investment income and noted that rebalancing the investment portfolio for the strategic asset allocation resulted in gains, which were not budgeted in the proforma for the year. He discussed other income and expenses including bad debt, which was higher than expected for the year and advised there were no gains to report from reinsurance commutation in 2025. He reported that net income before dividends was consistent with the same point in 2024 due to investment income and gains for the year. He indicated that the target for the year was still achievable. Mr. Bunning progressed to the balance sheet and reported reserves were down approximately $15M in comparison to the same time in 2024. He attributed the decrease to claims settlements and favorable development on larger claims. He indicated policyholder equity after dividends had grown and reported KEMI was operating at 56% loss cost. He continued by discussing loss portfolio transfers (LPTs). He reminded the Board $3M in IBNR was moved to the KCP LPT from the AIK LPT in the third quarter and indicated the total IBNR cushion for all LPTs exceeded $14M with total reserves for all LPTs at $25.6M. He indicated a net positive was anticipated when LPTs close.

Investment Portfolio Summary and Performance – Mr. Bunning reviewed the 10/06/2025 investment portfolio summary. He indicated numbers had changed since the summary was posted in the meeting packet and that he met weekly with the investment manager for updates. He advised overall return was 4.45% and had not changed. He indicated very few bonds were maturing in comparison to last year. He reported unrealized loss on the bond portfolio was down to $27M. He shared that decreases in interest rates were expected over the next year and could mean unrealized losses would improve and possibly become gains. He indicated the run rate was at $48M, approximately $2M higher than year-end. He shared that realized gains increased since August due to strategic asset allocation rebalancing. He explained how marked-to-market investments showed significant growth in the equity portfolio over the course of the year. Mr. Bunning continued by reviewing portfolio performance reporting the fixed income portfolio outperformed the benchmark by sixteen basis points and the equity portfolio was at benchmark as of the date of the report. He noted there had been activity in the markets over the last couple of days. He indicated that performance numbers did not include the BA assets, which currently included Elm Tree investments and would include Walton Street in the future.

- Procurement and Contacts
    - Contract Approvals –Mr. Feld discussed the contracts included on the Board Contact Approval Listing for 10/14/2025. He pointed out six of the contracts were related to durable medical equipment and explained the aggregate total. He advised the Board that there was a procurement issue related to KEMI's long-term recurring sponsorship agreement with JMI/UK, which was a contract to utilize access to some events for business development purposes. He noted procrastination and an increase in contract value resulted in a retroactive request for contract approval for the reference agreement. He asked for any questions. There were none.

      The Chair requested a motion to approve the 10/14/2025 Board Contract Approval Listing as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

    - Procurement Policy Revision – Ms. Smith was asked to present proposed procurement policy revisions to be effective January 1, 2026. She discussed a proposed change to the cycle for supply procurements, changing procurement requirements at 5 years to 10 years. She explained that the five-year rule did not exist in the state's procurement code but was put in place by KEMI in 2019 to make sure markets were being evaluated routinely and ensure best product at best price. She explained KEMI's experience with lengthy supply procurements, which often required equally lengthy implementation time and discussed the inefficiencies of requiring reprocurement at five years when there had not been sufficient time to determine effectiveness and satisfaction. She indicated that services would continue to be procured every five years and clarified that procurements for services and supplies could also be arranged sooner if needed. In response to a question, Ms. Smith indicated that supplies included IT software, durable medical equipment, and financial software. She specified there were no attorney contracts or professional services agreements considered as supplies. She advised that all procurements scheduled over the next five to ten years had been proactively reviewed to determine impact. Ms. Smith was asked if procurements were delayed if vendors would hold their cost to the five year value. She responded that the maximum price lock vendors would typically agree to was three years and indicated it was possible renewal costs could increase within the procurement cycle. She also indicated that conducting an RFP at the five year mark often prompted existing vendors to increase price. She indicated allowing longer contracts could keep prices locked for longer. Members of the

Board agreed a ten-year procurement cycle was appropriate for IT and asked Management to clearly define the term "supplies" within the policy and separate IT from it. Ms. Smith indicated she was happy to work through the issue. She clarified that procurements included on the procurement delay request referenced during the meeting and included with meeting materials may include some procurements Management would like to delay due to the Origami implementation and not in relation to the requested policy change.

The Chair asked the request be recategorized and presented to the Executive Committee in November with intent of follow-up with the Board in December.

The Chair asked for a motion to table the revision of the procurement policy. Motion was made and seconded. The Chair called for discussion. There being no further discussion, the Chair called for a voice vote. Motion passed without objection.

Ms. Smith introduced a second proposed revision to the procurement policy. She explained zero-dollar personal service contracts and indicated they were contracts where KEMI paid nothing directly to the vendor and provided examples. She indicated no changes were being requested regarding how KEMI procured these type services or how they were approved by the Executive Committee and the Board. She explained the requested change was to exclude zero-dollar personal service contracts from filing with the Government Contract Review Committee (GCRC), which would align better with GCRC expectations and practices. She indicated there had been confusion and questions in the past and each time it was necessary to explain filings were made to comply with KEMI's own procurement policy. Mr. McDaniel indicated he agreed the revision was appropriate. Mr. Feld indicated this proposed revision would be tabled as well and all requested revisions would be presented for approval at one time.

- Pension Administration Committee (PAC) Report – Mr. Stewart reported that the Committee met in August to review performance for the Defined Benefit, Health Trust Plan, 401(a)/457(b) Plan. He also indicated the Committee set the contribution rate for medical benefits under the Defined Benefit and Defined Contribution plans at $400 for 2026, which was consistent with 2025. He reported the Committee also met in September to approve the release of Health Trust funds for the fifteen vested terminated members who accepted lump sum waivers related to health benefits under the plans.

VI. COMMITTEE REPORTS

- **Executive Committee**

  Chair Workman reported the Executive Committee met on September 9 and prior to the board meeting. He reported that during the meetings Management reviewed information for the September reinsurance meetings and provided updates on Origami implementation, business operations, and upcoming meetings and activities. He indicated that procurement was discussed, and contracts were approved. He advised that Mr. Stewart's Q3 travel expenses were also discussed and approved. He indicated that updates to committee structure were proposed to the committee as well as revisions to the Board's Standing Rules. The Chair asked Mr. Feld to discuss proposed changes to the Board's Standing Rules.

  Mr. Feld explained the proposal modified existing rules requiring orientation and was intended to make orientation and training more effective and worthwhile for all members. He indicated that per the recommendation, orientation sessions would be conducted for the new members' first year on the KEMI Board and relevant biennial training would be conducted for all members. He advised the conflict-of-interest provisions in the rules were updated to include the annual conflict of interest statement and indicated there were no recommended changes to ethics requirements included in the standing rules.

  The Chair called for a motion to approve the proposed revisions to the Board's Standing Rules per the recommendation of the Executive Committee. Motion was made and seconded. The Chair called for discussion. There being none, motion passed without objection.

  The Chair advised the committee would meet again on 11/11/2025 at 1:00 p.m.

- **Audit/Finance/Investment Committee & Human Resources Committee**

  The Chair asked Dr. Casada to provide a report on behalf of the Audit/Finance/Investment Committee as well as the Human Resources Committee since Mr. Koester was unable to attend the meeting.

  Dr. Casada noted that reports from recent committee meetings were included in meeting materials. He reported the Audit/Finance/Investment Committee met on September 30 receiving an investment update and discussing potential committee restructuring. He advised that Committee went to closed session to review the proposed operating budget for 2026 as well as rate analysis and recommendations.

Dr. Casada reported the Human Resources Committee met on October 7 for closed session discussion regarding the 2026 Employee Incentive plan.

Dr. Casada made a motion to go to closed session under KRS 342.841 for unfair competitive advantage to discuss the following:

- **2026 Proposed Operating Budget**
- **Rate Analysis & Recommendations**
- **2026 Employee Incentive Plan**

The following individuals were invited to remain for closed session: members of the Board and representatives of the Attorney General's and Auditor of Public Accounts Office. Staff were invited to remain for closed session discussion regarding budget and rates and all staff except Mr. Stewart, Mr. Simpson, and Ms. Madden would be excused from closed session during incentive plan discussion.

Motion was seconded. A call for discussion was made. There being no discussion, a voice vote was taken. Motion passed without objection.

The Board entered closed session at 3:02 p.m.

The Board returned to open session at 3:33 p.m. No action was taken in closed session.

Motion was made to approve the proposed operating budget for 2026 as recommended by the Audit/Finance/Investment Committee. Motion was seconded. A call for discussion was made. There being no discussion, a voice vote was taken. Motion passed without objection.

Motion was made to approve proposed rate recommendations as presented by Management to be effective January 1, 2026, and further to authorize KEMI Management to make appropriate filings with the Department of Insurance. Motion was seconded. A call for discussion was made. There being no discussion, a voice vote was taken. Motion passed without objection.

Motion was made to approve the 2026 Employee Incentive Plan as recommended by the Human Resources Committee. Motion was seconded. A call for discussion was made. There being no discussion, a voice vote was taken. Motion passed without objection.

- **Bylaws/Legislative Relations Committee**

  Ms. Wilson reported the Bylaws & Legislative Relations Committee had not met since the last board meeting.

VII. UNFINISHED BUSINESS

None

VIII. NEW BUSINESS

Committee Restructuring and Appointments – The Chair asked Mr. Feld to discuss the committee restructuring. Mr. Feld explained that the workload in the Audit/Finance/Investment Committee had become very heavy and meetings had become lengthy so a restructuring proposal was discussed with the Chairman which would split the responsibilities of the Audit/Finance/Investment Committee into two separate committees: Finance & Investment and Audit & ERM. He explained the restructuring would dissolve the Bylaws & Legislative Relations Committee with those responsibilities being absorbed by the Executive Committee. Further, he explained membership on each committee would increase to five to aid in obtaining quorum and growing member experience.

Mr. Feld indicated that no motion was needed as KEMI's bylaws gave the Chair authority to create and assign committees. He shared that next steps would include division of responsibilities between newly created committees and updates to committee charters. He indicated follow-up was expected in December.

The Chair announced the following committee assignments effective immediately:

Executive Committee
Mark Workman (Chair)
Rodney Casada
Kellie Wilson
Joe Koester
Finance Cabinet Representative

Human Resources Committee
Joe Koester (Chair)
Kellie Wilson
William Jones
Bruce Williams
Personnel Cabinet Representative

Finance & Investment Committee
Rodney Casada (Chair)
Bruce Williams
Ben Hale
Finance Cabinet Representative
Labor Cabinet Representative

Audit & ERM Committee
Ben Hale (Chair)
William Jones
Finance Cabinet Representative
Labor Cabinet Representative
Personnel Cabinet Representative

He advised the Nominating Committee would remain the same as in the past.

IX. FUTURE MEETINGS

The Chair reminded members the next board meeting was scheduled for Tuesday, December 9, 2025 @ 2:00 p.m. EST (In-Person & Virtual). He advised that Ms. Madden would follow up to arrange committee meetings.

X. ADJOURNMENT

Chair Workman asked for a motion to adjourn the meeting. Motion was made and seconded. With no further discussion, the Chair called for a voice vote. Motion passed without objection. The Board Meeting adjourned at 3:40 p.m.

Respectfully Submitted:

Nicole Madden

Nicole Madden, Recording Secretary

APPROVED:

Mark Workman, Chair

Kellie Wilson, Secretary

Making workers' comp work

MINUTES

KEMI Board of Directors' Meeting
December 9, 2025

MINUTES
Kentucky Employers' Mutual Insurance
Board of Directors' Meeting
8th Floor Conference Room & Via Video Teleconference
250 West Main Street
Lexington, KY 40507

December 9, 2025

Members Present:
Mark Workman
Rodney Casada
Kellie Wilson
Benjamin Hale
William Jones
Joe Koester
Joe McDaniel (proxy for Sec. Johnson)
Donna Shelton (proxy for Sec. Bailey)
Commissioner Scott Wilhoit (proxy for Sec. Link)

Members Absent:
F. Bruce Williams

Others Present:
Jon Stewart, KEMI
Jeremy Terry, KEMI
Elizabeth Paul, KEMI
Tim Feld, KEMI
Mark Bunning, KEMI
Patrick Simpson, KEMI
Allyson Smith, KEMI
Ryan Worthen, KEMI
Sarah Kosin, KEMI
Rebecca Prater, KEMI
Kyle Snyder, KEMI
David Noel, APA
Steve Humphress, AG

I. CALL TO ORDER

Chair Workman called the meeting to order at 2:07 p.m.

Before roll call, Mr. Workman welcomed Donna Shelton, who was serving as Proxy for Sec. Bailey with the Personnel Cabinet.

Mr. Workman also welcomed Kyle Snyder, Senior Underwriter with KEMI. Mr. Workman congratulated Mr. Snyder for having maintained 100% retention over the past two years on his school board account policies. He recognized Mr. Snyder for the addition of sixteen new accounts and providing outstanding service on his accounts. Mr. Workman expressed his thanks on behalf of the board to Mr. Snyder, the Policyholder Services team and KEMI for the hard work put forth in the development and maintenance of a successful school board program.

II. ROLL CALL

Ms. Kosin took roll. A quorum was reported in attendance.

III. PROOF OF NOTICE

Ms. Kosin confirmed notice of the meeting was provided.

IV. APPROVAL OF MINUTES

Chair Workman called for a motion to approve the minutes of the October 14, 2025, Board Meeting as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

V. CEO REPORT

Mr. Stewart's report included discussion of the following topics:

- CEO Business Update –
  - Policyholder Services Update – Mr. Stewart reminded the board that Mr. Terry and Ms. Colvin would provide year end updates for Policyholder Services and Claims Services respectively at the February meeting. He reported the 6.4% decline in written premium Year-Over-Year from November 2024 was primarily driven by the coal industry as well as the rate decrease. He pointed out that the increase in revenue over the past two years was attributed to audit premium. He noted KEMI's In-Force Payroll surpassed $11 billion in 2025, which resulted in increased premium. Mr.

Stewart noted that the 2025 financials showed an increase in bad debt as audit premium was more difficult to collect than written premium. Mr. Stewart reported a policy retention of 90% giving credit to Mr. Terry and the Policyholder Services staff.

- Destiny Award – Mr. Stewart reported that KEMI awarded Destiny Awards to twenty-seven (27) policyholders in 2025, including seven (7) first time winners. Recipients included two (2) universities and eight (8) school districts. He specifically noted that the Northern Kentucky Water District, where Mr. Koester serves on the board of directors, had been awarded this distinction for the past fourteen (14) years.
- Claims Services Update – Mr. Stewart stated that reported claims were up 9% and open claims also increased. He continued that medical spend included approximately 78,000 bills with total charges just over $98M. Mr. Stewart discussed that KEMI reduced charges by using software to identify duplicates, applying fee schedule, obtaining savings via PPO network and reported that over $1.5M in reductions were made through the thorough review of KEMI's staff. He stated that the reductions meant KEMI paid 27.6% of the total charges. Mr. Stewart continued by discussing claim reserves and settlements. He reported total paid losses had increased 16.7% compared to last year, partly attributed to the settlement of KEMI's largest claim. The settlement reduced claim reserves, with total case reserves down 5%, and reduced leverage. Mr. Stweart reminded the board that KEMI strengthened the black lung case reserves earlier in 2025 by adding $17M. He pointed out that the total case reserve decrease was net of the black lung case reserve increases. He concluded by stating that claims had performed well for 2025.
- Origami – Mr. Stewart reported that policy implementation was behind schedule and that KEMI leadership was working on Origami accountability. He noted that Mr. Terry had reviewed screens from policy implementation and was satisfied with the work being completed by Origami. He asked Ms. Paul to provide further updates, and she reviewed the visual depictions of how the project was monitored, including project implementation schedule, how project information was communicated to staff, and how Origami was producing proof of functionality.
- Louisville UPS Plane Crash - Mr. Stewart shared an image showing that two KEMI policyholders were in the path of the recent plane crash in Louisville. He advised to date no claims had been reported by those policyholders and shared one ankle injury claim had been received from a first responder. Mr. Stewart explained that the Louisville International Airport was a policyholder and KEMI expected to receive approximately forty (40) claims for employees who sought treatment related to the crash.

- AM Best Rating - Mr. Stewart announced KEMI's A.M. Best Rating of A- Stable Outlook was affirmed on 12/03/2025. He advised that while the A.M. Best Rating had been made public, the final report was still in draft status pending final edits. Mr. Stewart indicated he planned to review the final report during the February board of directors meeting. He explained that for scoring, KEMI had an A+ balance sheet, but leverage and black lung liability reduced the score to an A, and KEMI's status as a one-line, one-state insurer further reduced the score to A-.
- SOC 2 Type II Final Audit Report – Mr. Stewart reported KEMI received a clean opinion with no findings for the second year. He noted that this year's review included the Origami claims system.
- Disaster Recovery Testing – Mr. Stewart reported that disaster recovery testing was completed with satisfactory results.
- Closed Session – KRS 342.841 -

The Chair requested a motion to go to closed session per KRS 342.841 due to unfair competitive advantage to discuss the following:

- **Reinsurance Program Renewal**
- **Strategic Planning**
- **Risk Appetite Statement**

The following individuals were invited to remain for closed session: members of the board, staff, representatives of the Attorney General's Office and Auditor of Public Accounts Office.

Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

The Board entered closed session at 2:25 p.m.

The Board returned to open session at 2:51 p.m. No action was taken in closed session.

The Chair requested a motion to authorize KEMI Management to contract with the necessary reinsurers to secure the 2026 reinsurance renewal. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

The Chair requested a motion to approve the 2026 Strategic Plan as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

The Chair requested a motion to approve the proposed revision of the Risk Appetite Statement as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

- Internal Audit (IA) Report & ERM Update – Mr. Simpson presented a summary of his internal audit activity beginning with the black lung claim reserve review conducted by KEMI and Milliman. He explained this review looked for accurate reserve data for the 580 claims with $154M of reserves. Mr. Simpson reported that the overall book was in good condition. He continued by reporting findings on new claim reviews and noted that these claims were less than two years old and had potential to become significantly reserved claims. He reported that five (5) claims were forwarded to Management and resulted in a total reserve increase of $164,000. Mr. Simpson concluded that this book was also in good condition and congratulated the claims staff. Mr. Simpson reported he worked closely with Johnson Lambert, KEMI's external auditor, providing support for the IT and Financial Controls Assessment and with AM Best to increase the new analyst's understanding of federal black lung. Mr. Simpson was asked how KEMI handled requests for large settlements above the anticipated value of a claim. Ms. Colvin explained the process for negotiation with the claimant's attorney and administrative law judge review. Mr. Bunning provided basic information on annuities and the role they play in claim settlements.

  Enterprise Risk Management (ERM) – Mr. Simpson reported the internal ERM Committee completed all planned tasks, which included the Quarterly Risk Tolerance Dashboard update for Q3 2025, alignment of Risk Appetite Statement to the Strategic Plan, and revision work on the Business Continuity Plan. He reminded the Board that there were twenty-two metrics on the Risk Tolerance Dashboard, and most were in green status. He noted three (3) financial metrics and one (1) new policy written premium metric exceeded appetite. He reported the A.M. Best BCAR methodology was unchanged for Q3, but that new methodology which considered federal black lung claims as a pension liability/annuity rather than a workers' compensation claim, was received the week prior and improved the BCAR score 7.5% over the Q3 estimate. He noted KEMI would utilize Guy Carpenter for further analytical assistance. He discussed that balance sheet strength was not based on the new A.M. Best BCAR methodology and the annual metric was derived from KEMI's capital model, which staff planned to adjust according to the ERM Committee Charter in 2026. Mr. Simpson explained that the variance in combined ratio from pro forma metric was resultant of large expense accruals coupled with a decrease in total earned premium and written premium, which was driven by coal. He concluded his discussion of metrics exceeding appetite with the new policy written premium metric and reported while Q3 2025 was a good quarter, it was not as good as Q32024. He noted the decrease was driven by fewer large policies and smaller premium sizes among other target class policies. He noted that despite the YTD comparison to 2024 being down 5%, KEMI was on pace to have the second largest year since 2000. Finally, Mr. Simpson reported that federal black lung claim filings was moved from breach to caution due to state black lung/traumatic claims remaining low and a general decrease in coal employment/production.

- Financial Update – Ms. Creech provided highlights from financial reports included in the board meeting packet. She reported balance sheet growth was due to growth in the investment portfolio. She explained assets growth while claim reserves declined was primarily driven by claim settlements and favorable development. She noted the loss ratio was 56% and that staff planned to review the Milliman report to compare the 2024 loss ratio with 2025. She reported policyholder equity grew $19M after payment of the dividend and noted that loss portfolio transfers continued to perform well. Ms. Creech explained that $3M of IBNR was transferred from KCP to AIK in Q3 and total IBNR for all LPTs exceeded $14M. Ms. Creech progressed to the income statement and reported net earned premium was 10.6% less than October 2024 with underwriting loss down from $5.1M last year, excluding bond swap, to $4.6M in 2025. She noted loss cost was 56% compared to 53% last year. She reported that investment income was $45M, had gained $6.2M, and pointed out that the number last year, without the bond swap, would have been $35.2M. She reiterated that the bond swap was very beneficial for increasing overall yield. In other income/expense, bad debt expense exceeded proforma at $3M compared to $1.8M in 2024 and there were no gains from reinsurance commutation. Ms. Creech reported that net income before dividends was currently $34.4M, $2.3M less than at the same time in 2024. She summarized items to watch which included loss costs higher than Milliman with potential positive impact, bad debt continued growth, and Origami impacting expense and combined ratios until project completion. Ms. Creech concluded her report on the income statement and mentioned total net income after dividends was higher than October 2024 despite revenue being down, loss ratio and bad debt expenses being higher. Ms. Creech discussed the budget variance report as of October 31, 2025. She reported total budget was $5.3M under budget primarily due to lower-than-expected staff levels until recently and Outside Services, Software, and Equipment being under budget due to Origami implementation.

- Investment Portfolio Summary and Performance – Mr. Bunning reported the portfolio continued to perform well with current book yield of 4.44%. He noted book yield was down from 4.45% due to the variable nature of collateralized loan obligations (CLOs), which declined as interest rates dropped. He continued that the book yield of 4.44% was seventy-five basis points better on the entire portfolio than prior year before the bond swap. Mr. Bunning reported that interest rates played a role and unrealized losses dropped from approximately $60M at the beginning of 2025 to current position of $26M. He reported equities continued to perform well and realized gains for the year exceeded $5.6M. He noted Conning planned to rebalance the equity portfolio before year end which should bring increases. Mr. Bunning reported new investment income grew $1.7M from beginning of the year to current and stated that bonds that matured were invested at a rate above 4.45%. Mr. Stewart explained that adding 75 basis points on $1B provided an additional $7.5M annually to investment income, coupled with the $1.7M increase Mr. Bunning reported, meant approximately $10M added to the portfolio annually as a result of the bond swap and payback had been quicker than expected. Mr. Bunning concluded the investment summary and stated investment income though October was higher than 2024 for the entire year.

  Investment Compliance – Mr. Bunning reminded the board of the requirement to annually acknowledge KEMI complied with its investment policy. He reported that Clearwater, the software used for book of record and accounting of investments, and Conning both monitored policy compliance. He stated both methods confirmed compliance with KEMI's investment policy with no discrepancies. He explained instances that could appear as non-compliance and provided examples. Mr. Bunning reported that as of December 5, 2025, KEMI had zero violations. Mr. Bunning requested that the board move to approve the Annual Resolution regarding Investment Compliance. Mr. Stewart reminded the board that this resolution complied with KRS 304.7-36.

  The Chair requested a motion to approve the Annual Resolution regarding Investment Compliance. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

- Procurement and Contacts
  - Contract Approvals – Mr. Feld presented five (5) contracts for board approval. He highlighted three contracts including: UMR, an HR contract for administration and claim fees for KEMI's self-insured program; Insight, a computer hardware contract for which KEMI utilized state contract pricing; and Cherry Bekaert who was selected to perform KEMI's SOC 2 Type II Certification.

The Chair requested a motion to approve the 12/09/2025 Board Contract Approval Listing as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

Mr. Feld asked that the minutes reflect Mr. Koester was absent during the vote.

- Pension Administration Committee (PAC) Report – Mr. Stewart reminded the board that the PAC Committee was comprised of the KEMI leadership team. He reported the committee met on November 4, 2025, for the Q3 performance review meeting where the Defined Benefit Plan, the Health Trust Plan and the 401(a)/457(b) Plan performance was reviewed. Mr. Stewart reported that the Defined Benefit Plan was 115.3% funded, plan assets totaled over $38M and had returned a YTD yield of over 5% with assets invested in the bond market and maturities laddered to mirror the pension payment pattern. He noted that the Health Trust Plan had a lower yield but was also laddered to mirror payment payout for benefits. He discussed buyouts that were offered to retirees and resulted in a special committee meeting on December 1, 2025, where release of Health Trust funds for retiree medical lump-sum waiver HRA was approved. He reminded the board that 15 of 32 vested termed members previously accepted offers effective 10/01/2025. He reported 13 of 30 retired member offers were accepted effective 01/01/2026. Mr. Stewart explained that the that lump sum waivers reduced liability for the plan.

VI. COMMITTEE REPORTS

- **Executive Committee**
  Chair Workman reported the Executive Committee met prior to the board meeting. He reported that during the meeting, the Committee approved minutes from the 10/14/2025 Executive Committee Meeting and the 07/29/2025 Bylaws & Legislative Relations Committee Meeting. Mr. Stewart's Q4 travel expenses were also reviewed and approved along with his out-of-state travel plans for 2026 to date. The Executive Committee Contract Approval Listing was discussed and approved, and Ms. Smith updated the Committee on the proposed procurement policy revision discussion tabled at the last board meeting. In addition, proposed revisions to the Executive Committee Charter and the KEMI Bylaws were discussed.

- **Audit & ERM Committee**
  Mr. Hale requested Mr. Simpson present the committee report. Mr. Simpson reported that the committee reviewed the Independent Audit Plan from Johnson Lambert. He noted the plan outlined Johnson Lambert's work with KEMI to review high-risk items as well as meet with Mr. Simpson to

discuss all items related to Internal Audit. He discussed the new internal audit requirement to implement a strategy aligned with KEMI's Strategic Plan. Mr. Simpson reported that the Committee approved the Internal Audit Charter as well as the 2026 Audit Plan, which he indicated was available in the board meeting packet.

- **Finance & Investment Committee**
  Dr. Casada reported that the Finance & Investment Committee met on December 8, 2025. During the meeting, the Finance & Investment Committee received updates on financials and investments consistent with Ms. Creech's and Mr. Bunning's reports earlier in the board meeting. In addition, Mr. Bunning discussed and explained a request from Management to establish $30M in borrowing capacity with the Federal Home Loan Bank of Cincinnati. Dr. Casada asked Mr. Bunning to summarize the request for the board.

  Mr. Bunning requested the board approve $30M in borrowing availability though Federal Home Loan Bank (FHLB) of Cincinnati. He stated that loans would be secured by RMB securities, which would be sent to FHLB. He discussed that KEMI would be required to purchase activity stock in FHLB, but the dividend on the stock would pay a higher return than the borrowing rate. He reminded the board that KEMI established membership with FHLB in 2014 and had not borrowed to date. Mr. Bunning stated KEMI would strive to pay off debt within one year from borrowing using investment income or bond maturity. He concluded by stating that this borrowing availability could be repaid and borrowed again as needed for cash flow requirements such as dividend payouts and large claim settlements. He pointed out that FHLB was designed to provide liquidity to banks and insurance carriers and KEMI's utilization would appear as a line item on the financials.

  Mr. Workman requested a motion to establish $30M in borrowing capacity with the Federal Home Loan Back of Cincinnati. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

- **Human Resources Committee**
  Mr. Koester reported the HR Committee met on December 3, 2025. He stated the HR Committee report included in the board packet detailed discussion and action taken during the committee meeting.

  Mr. Koester made a motion to go to closed session under KRS 342.841 for unfair competitive advantage to discuss the following:
    - **President & CEO Performance & Strategic Scorecard**
    - **President & CEO Compensation**
    - **2025 EIP**
    - **2026 Strategic Scorecard**

Motion was seconded. A call for discussion was made. There being no discussion, a voice vote was taken. Motion passed without objection.

The following individuals were invited to remain for closed session: members of the Board, Katy Grachek, Jon Stewart, Patrick Simpson, Rebecca Prater, representatives of the Attorney General's Office and Auditor of Public Accounts Office. All other members of staff were excused.

The Board entered closed session at 3:30 p.m.

The Board returned to open session at 3:33 p.m. No action was taken in closed session.

Mr. Koester requested a motion to approve the 2025 President & CEO Strategic Scorecard including 2026 SMART Goals. Motion was made and seconded. He called for discussion. There being none, he called for a voice vote. Motion passed without objection.

Mr. Koester requested a motion to approve a 3% Performance Increase for the President & CEO per the 2025 pay-for-performance guidelines. Motion was made and seconded. He called for discussion. There being none, he called for a voice vote. Motion passed without objection.

Mr. Koester requested a motion to approve 2026 Strategic Scorecard. Motion was made and seconded. He called for discussion. There being none, he called for a voice vote. Motion passed without objection.

Mr. Koester requested Ms. Grachek present proposed HR Policy Revisions to the board. Ms. Grachek discussed the addition of wording regarding utilization of technology credit to purchase printer ink for an approved personal printer in policy #707-Technology Credit. She discussed an addition to policy #1301-Travel Expenses to add that employees may seek travel expense reimbursement within thirty (30) days of incurred expense or travel. Mr. Simpson noted policy language was being updated to reflect current practice. Ms. Grachek concluded by discussing the proposed change to policy #1403-Mobile Device Policy. She explained the proposed revision would allow employees to use a personal mobile device and removed language requiring VP level approval. The revision also added that IT would review the mobile device to ensure it did not pose a security risk to KEMI.

Mr. Koester requested a motion to approve the HR Policy revisions as presented. Motion was made and seconded. He called for discussion. There being none, he called for a voice vote. Motion passed without objection.

Mr. Workman thanked the committee members for their hard work and encouraged board members who have a committee obligation to be present at their respective committee meetings.

VII. UNFINISHED BUSINESS

- Ms. Smith was asked to present three (3) revisions to KEMI's Procurement Policy:
    - Ms. Smith thanked Mr. McDaniel for working with KEMI on the proposed revisions that were first introduced to the board at the October 2025 meeting. She explained the first proposed change was to the cycle for supply procurements for Information Technology (IT) Systems, changing procurement requirements from five (5) years to ten (10) years. She noted that the five-year rule was put in place by KEMI in 2019 and was not part of the state's 45A procurement code. She conveyed KEMI's rule existed to ensure best products and pricing were being obtained. However, Ms. Smith indicated that lengthy supply procurements for Information Technology (IT) Systems frequently required lengthy and expensive implementations and re-procurement at five years was inefficient when there had not been sufficient time to determine effectiveness and satisfaction.
    - Ms. Smith reviewed the second proposed change, which included adding a definition for "Information Technology (IT) System" borrowed from the Finance Cabinet's language in its internal policies and procedures.
    - The final revision Ms. Smith introduced regarded zero-dollar personal service contracts in which KEMI paid nothing directly to the vendor. She indicated no changes were being requested regarding how KEMI procured these services or how they were approved by the Executive Committee and Board. She explained the requested change was to exclude zero-dollar personal services contracts from filing with the Government Contract Review Committee (GCRC), which better aligned with GCRC expectations and practices. Ms. Smith indicated that in the past, these contracts had been confusing, and questions arose, warranting her to appear before the GCRC to explain these filings were made to comply with KEMI's own procurement policy.

The Chair requested a motion to approve the proposed Procurement Policy Revisions effective 01/01/2026. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

Mr. McDaniel expressed his thanks to Ms. Smith, Mr. Feld, and staff for working with him on these changes.

VIII. NEW BUSINESS

- Committee Charters –Mr. Feld reviewed the new committee structure and noted that new charters required approval by the board. He discussed that the previous Audit, Finance, and Investment Committee was divided into two separate committees, the Audit & ERM Committee, and the Finance & Investment Committee. He reviewed that the former Bylaws and Legislative Relations Committee duties were delegated to the Executive Committee and noted the HR Committee remained unchanged and did not require a charter update. He reported that all three committees have reviewed the updated charters as presented in the board packet materials. Mr. Workman thanked KEMI staff for enacting these changes to the committees and charters.

  The Chair requested a motion to approve the Proposed Revision to the Executive Committee Charter as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

  The Chair requested a motion to approve the Proposed Audit & ERM Committee Charter as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

  The Chair requested a motion to approve the Proposed Finance & Investment Committee Charter as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

- Proposed Bylaws Revision –Ms. Smith presented proposed revisions to the Bylaws related to the restructured committees, including the following:
  - Elimination of reference to regular meeting schedule for the Audit/Finance/Investment Committee since the committee was divided into two new committees.

- She noted an amendment to the Bylaws that established regular meetings for the Audit & ERM Committee and/or the Finance & Investment Committee may be requested in the future once timing of committee responsibilities was effectively mapped and proven. Until then, she advised each meeting would be handled in accordance with special meeting requirements and the Executive Committee would continue to have regular meetings on the 2nd Tuesday of every month at 1:00 p.m. per the current resolution.

  The Chair requested a motion to approve the Proposed Revision to KEMI's Bylaws as presented. Motion was made and seconded. The Chair called for discussion. There being none, he called for a voice vote. Motion passed without objection.

- Standing Rules Requirements –Mr. Feld reviewed the following documents/statements required by KEMI Standing Rules:
  - Conflict of Interest Statement – Mr. Feld reviewed that board members should excuse themselves from decision/votes on matters where they may have personal financial gain. He stated that board members should disclose to Mr. Workman, Mr. Stewart, Mr. Simpson, or himself any conflicts of interest and should always act in KEMI's best interest.
  - Executive Branch Code of Ethics Statement of Understanding – The Guide to Executive Branch Code of Ethics was included in the board meeting packet and Mr. Feld reviewed the definition of gifts contemplated in the Code of Ethics and emphasizing the importance of compliance.
  - Executive Branch Ethics Commission Statement of Financial Disclosure – Mr. Feld reviewed that board members, officers and directors must file a Statement of Financial Disclosure. He discussed that he would provide reminder via emails to the board including applicable links.
  - Mr. Feld requested all board members review the Statements and return signed copies at their earliest convenience.
  - Commissioner Wilhoit thanked Mr. Feld for his timely reminders regarding the Statements.
- Mr. Stewart expressed his thanks to the board for their confidence in him as President and CEO. Chairman Workman thanked Mr. Stewart for his years of service to KEMI.

IX. FUTURE MEETINGS

The Chair reminded members the next board meeting was scheduled for Tuesday, February 10, 2026 @ 2:00 p.m. EST (In-Person & Virtual).

X. ADJOURNMENT

Chair Workman asked for a motion to adjourn the meeting. Motion was made and seconded. With no further discussion, the Chair called for a voice vote. Motion passed without objection. The Board Meeting adjourned at 3:56 p.m.

Respectfully Submitted:

Sarah Kosin, Recording Secretary

APPROVED:

Mark Workman, Chair

Kellie Wilson, Secretary