

# Statement of Actuarial Opinion Annual Statement of Kentucky Employers' Mutual Insurance

For the Year Ended December 31, 2024



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## Identification

I, Craig R. Brophy, am associated with the firm of Milliman, Inc. I am a consulting actuary to Kentucky Employers' Mutual Insurance ("the Company") and was appointed by the Board of Directors of the Company on April 11, 2023 to render this opinion. I am a Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries. I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. I meet the definition of a Qualified Actuary per the *NAIC Annual Statement Instructions – Property/Casualty, Actuarial Opinion* ("the NAIC Instructions").

The intended purpose of this opinion is to satisfy the requirement for such an opinion under the NAIC Instructions. The loss and loss adjustment expense reserves as specified in the *Scope* section herein are the responsibility of the Company. My responsibility is to express an opinion relating to those reserves.

## Scope

I have examined the reserves listed in Exhibit A, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials, as of December 31, 2024 ("the Accounting Date"). The items upon which I am expressing an opinion, as shown in Exhibit A, reflect certain Disclosure items (8 through 13.2) as shown in Exhibit B. The carried reserves are stated in accordance with Statutory Accounting Principles.

Company management represented that the carried loss and loss adjustment expense reserves:

- Reflect tabular discounting of the indemnity portion of the coal Occupational Disease ("OD") claims. These reserves are discounted using an effective interest rate of 3.5%.
- Do not include an explicit risk margin.
- Are net of anticipated salvage and subrogation recoverable.
- Are gross of deductibles recoverable, which are immaterial to the Company's reserves.
- On a net basis, reflect ceded reinsurance recoverable.
- Include provisions for all loss adjustment expenses for which the Company is responsible. This includes defense and cost containment expenses, such as defense costs, medical cost containment, and investigation costs, as well as adjusting and other expenses, such as claims administration fees and attorney fees incurred in the determination of coverage. The reserve for loss adjustment expenses was established based on the estimated amount to adjust all unpaid claims, regardless of pre-payments made to third-party claims administrators.

I prepared my reserve evaluation consistent with the basis of the carried amounts as outlined above. Further information on tabular discounting, reinsurance recoverable, and the collectability of recoverables is included in the *Relevant Comments* section.

In forming my opinion on the loss and loss adjustment expense reserves as shown in Exhibit A, I relied on data prepared under the direction of, and representations made by, Mark D. Bunning, Chief Financial Officer of the Company. This data included transactions through December 31, 2024 ("the Valuation Date") and other information provided to me by the Company through February 27, 2025 ("the Review Date"). I reviewed the relevant data for reasonableness and consistency. My review of the data did not reveal any data points materially affecting my analysis that fell outside of the range of reasonable possibilities. In performing this review, I have assumed that the Company (a) used its best efforts to supply accurate and

complete data and (b) did not knowingly provide any inaccurate data. I also reconciled the earned premium amounts, paid loss and loss adjustment expense amounts, and case reserve amounts as of December 31, 2024 used in my evaluation to Schedule P - Part 1 of the Company's Annual Statement. In other respects, the analysis underlying my opinion included the use of such actuarial assumptions and methods and such tests of calculations as I considered necessary.

My evaluation was limited to the items included in Exhibit A and did not include an analysis of any income statement items or other balance sheet items. My opinion on the reserves assumes the existence of valid assets underlying the reserves and that these assets are appropriate to meet the cash flow needs of the Company.

## Opinion

In my opinion, the sum of the amounts carried on account of items 1 and 2, the sum of the amounts carried on account of items 3 and 4, and the amount carried on account of item 5, all as shown in Exhibit A:

- A. Meet the requirements of the insurance laws of the Commonwealth of Kentucky.
- B. Are consistent with reserves computed in accordance with actuarial standards of practice promulgated by the Actuarial Standards Board.
- C. Make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements.

## Relevant Comments

### COMPANY SPECIFIC RISK FACTORS

The Company is exposed to risks and uncertainties in its normal course of business that will result in the actual future net loss and loss adjustment expense payments deviating from the provision in the Company's net carried reserves. I have identified the major risk factors relevant to the carried loss and loss adjustment expense reserves as:

#### Limited Diversification of Risk.

The Company's business is concentrated in one line of business (workers compensation) and primarily in one state (Kentucky). The potential effect of a precedent-setting adverse judicial decision (i.e., the Parker vs. Webster case discussed in Kentucky House Bill 296), new legislation, or any isolated single state event could significantly impact the level of the Company's future claim payments.

#### Exposure to Coal OD Claims.

The final values of coal OD claims are driven by economic and legislative factors that may cause large swings in valuation. There is significant uncertainty as to the viability of the coal mining industry, which increases the uncertainty of the final settlement values. Actual future loss payments may differ materially from the carried net reserves, as the number of accepted claims and the ultimate settlement amounts may be affected by future changes in the statutory mechanisms, modifications by court decisions, and changes in filing patterns driven by perceptions of success (or lack thereof) on the part of claimants and their advisors.

#### Exposure to Large, Fortuitous Losses.

The variability associated with the estimates of net reserves for unpaid losses and loss adjustment expenses is magnified by the Company's exposure to large, fortuitous losses within its net retained limits. The emergence of individual large losses (or changes in incurred values on existing claims) could materially change the future net loss and loss adjustment expense payments.

#### Nature of Workers Compensation Coverage.

Historically, workers compensation coverage has been subject to higher levels of variability due to the long-tailed nature of the coverage. The payment of losses will likely be made over a long period of time and is subject to uncertainties such as inflation, the legal environment, and improvements in medical research and technology many years in the future.

**Inflation.**

The global economy has experienced higher inflation rates from 2021 to the present (relative to the preceding decade). Some economic indicators have pointed to a slowing of inflation, but future inflation rates are unknown. Loss trend rates tend to be positively correlated with inflation and the ultimate cost of claims will be affected by the cost levels from the time claims occur through the time claim payments are made, which may be years in the future.

The absence of other risk factors from this listing does not imply that additional risk factors will not be identified in the future as being a significant influence on the Company. In addition, there is the risk of extraordinary future emergence of new classes or types of losses not sufficiently represented in the Company's historical database or that are not yet fully quantifiable.

**RISK OF MATERIAL ADVERSE DEVIATION**

I evaluated the risk of material adverse deviation using a materiality standard of 10% of the Company's statutory surplus, or \$38,950,873, as shown in item 5 of Exhibit B. I selected the materiality standard based on the fact that I prepared this opinion for the regulatory review of the Company. Other measures of materiality might be used for reserves that are being evaluated in a different context.

Having considered the risk factors above and the inherent variability associated with a reserve for future loss and loss adjustment expense obligations, I believe that significant risks and uncertainties exist that could reasonably result in material adverse deviation from the carried net reserve amounts. This statement is based on the materiality standard above and my belief that the probability of adverse development of this magnitude is greater than remote.

**OTHER DISCLOSURES IN EXHIBIT B****Discounting**

The Company applies tabular discounting to the indemnity portion of coal OD claims, as detailed in the *Scope* section above. As shown in item 9 on Exhibit B, the amount of tabular discount as of December 31, 2024 is \$135,411,310 on a net of reinsurance basis (or 20.6% of the net carried reserves).

**Voluntary and Involuntary Underwriting Pools and Associations**

The Company does not participate in voluntary or involuntary pools or associations.

**Asbestos and Environmental Exposure**

I have reviewed the Company's exposure to asbestos and environmental claims. In my opinion, there is a remote chance of material liability, since there are no reported asbestos and environmental claims as of December 31, 2024.

**Extended Loss and Loss Adjustment Expense Reserves**

The Company does not provide pre-funded extended reporting loss and loss adjustment expense coverage within professional liability claims-made contracts, and therefore, carries no extended reporting loss and loss adjustment expense reserves.

**Accident and Health Long Duration Contracts**

The Company does not write and therefore does not carry reserves for accident and health long duration contracts, defined as contracts in which the contract term is greater than or equal to thirteen months and contract reserves are required.

**Deductibles**

My opinion on the loss and loss adjustment expense reserves net of policyholder deductibles assumes that all deductibles recoverable are valid and collectable. The Company knows of no uncollectable deductibles recoverable. I am not aware of any other deductibles recoverable that the Company treated as collectable but should have treated as uncollectable. This does not imply an opinion on the financial condition of the Company's policyholders. I have not anticipated any contingent liabilities that could arise if the policyholders do not meet their obligations to the Company as reflected in the data and other information provided to me.

**REINSURANCE**

The actuarial report prepared in support of this opinion includes a summary of the Company's ceded reinsurance that is or could be material to the Company's ceded loss and loss adjustment expense reserves as of December 31, 2024. The Company has represented that the summary is materially accurate and complete, and that the Company has determined that

these contracts should be accounted for as reinsurance. The assessment of whether a reinsurance contract meets the requirements for reinsurance accounting is a management and accounting decision. I express no opinion as to whether the Company's ceded reinsurance contracts meet the requirements for reinsurance accounting.

Based on representations made by the Company and the Company's description of its ceded and assumed reinsurance, the Company has four loss portfolio transfers (assumed) that are accounted for as retroactive reinsurance. The data provided for my analysis is gross of the adverse development cover. As a result, my evaluation of the net reserves was performed on a gross basis with respect to the adverse development cover. I am not aware of any other reinsurance transaction that either has been or should have been accounted for as retroactive reinsurance or as financial reinsurance (defined as contractual arrangements that do not include transfer of both timing and underwriting risk).

I reviewed the Company's ceded reinsurance balances as shown in Schedule F of the Company's Annual Statement. There are no material reinsurance recoverables on paid losses that are classified as over 90 days past due. The Company informed me of a dispute with one of its reinsurers related to one of the loss portfolio transfers. The Company is negotiating a settlement with the reinsurer and represented that any shortfall would not have a material impact on the balance sheet of the loss portfolio transfer. The Company has also represented that it knows of no uncollectable reinsurance cessions and no other disputed reinsurance balances. As the Company has more extensive knowledge of and a closer relationship with its reinsurers, I have relied on the Company's assessment of the potential for uncollectable reinsurance. I also reviewed the ratings of the Company's reinsurers as listed in Schedule F, Part 3, using the AM Best Insurance Reports published as of January 17, 2025. There are no material reinsurance recoverables with assuming companies that were rated vulnerable (B or lower) by AM Best or that were reported to be in liquidation, conservation, or receivership. Approximately 4.1% of reinsurance recoverable is from reinsurers for which no AM Best rating was available. I am not aware of any reinsurance recoverable as of December 31, 2024 that the Company treated as collectable but should have treated as uncollectable.

Based on the information cited above, my opinion on the loss and loss adjustment expense reserves net of ceded reinsurance assumes that all ceded reinsurance is valid and collectable. I have performed no additional review of the collectability of the Company's reinsurance and am expressing no opinion on the financial condition of its reinsurers. I am not able to further assess the potential for uncollectable reinsurance without performing a substantial amount of additional work beyond the scope of my review. I have not anticipated any contingent liabilities that could arise if the reinsurers do not meet their obligations to the Company as reflected in the data and other information provided to me.

## **IRIS RATIOS**

The carried reserves do not create exceptional values in the IRIS tests One-Year Reserve Development to Policyholders' Surplus, Two-Year Reserve Development to Policyholders' Surplus, or Estimated Current Reserve Deficiency to Policyholders' Surplus.

## Supporting Documents and Usage

An actuarial report, including underlying actuarial work papers supporting the findings expressed in this Statement of Actuarial Opinion, will be provided to the Company to be retained for a period of seven years in its administrative offices and made available for regulatory examination.

This Statement of Actuarial Opinion is intended solely for the use of, and is only to be relied upon by, the Company and the various state insurance departments with which the Company files its Annual Statement.



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**Craig R. Brophy, FCAS, MAAA**

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February 27, 2025

## Exhibit A: Scope

<b>LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES:</b>	<b>AMOUNT</b>
1. Unpaid Losses (Liabilities, Surplus and Other Funds page, Col. 1, Line 1)	\$606,167,533
2. Unpaid Loss Adjustment Expenses (Liabilities, Surplus and Other Funds page, Col. 1, Line 3)	\$52,374,084
3. Unpaid Losses – Direct and Assumed (should equal Schedule P, Part 1, Totals from Cols. 13 and 15, Line 12 x 1000)	\$639,141,000
4. Unpaid Loss Adjustment Expenses – Direct and Assumed (should equal Schedule P, Part 1, Totals from Cols. 17, 19, and 21, Line 12 x 1000)	\$52,814,000
5. The Page 3 write-in item reserve, “Retroactive Reinsurance Reserve Assumed”	\$29,362,444
6. Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion	\$0
<b>PREMIUM RESERVES:</b>	
7. Reserve for Direct and Assumed Unearned Premiums for P&C Long Duration Contracts	\$0
8. Reserve for Net Unearned Premiums for P&C Long Duration Contracts	\$0
9. Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion	\$0

## Exhibit B: Disclosures

1.	Name of the Appointed Actuary	Brophy	Craig	R.
2.	The Appointed Actuary's Relationship to the Company Enter E or C based upon the following: E if an Employee of the Company or Group C if a Consultant		C	
3.	The Appointed Actuary's Accepted Actuarial Designation (indicated by the letter code): F if a Fellow of the Casualty Actuarial Society (FCAS) A if an Associate of the Casualty Actuarial Society (ACAS) S if a Fellow of the Society of Actuaries (FSA) through the General Insurance track M if the actuary does not have an Accepted Actuarial Designation, but is approved by the Academy's Casualty Practice Council O for Other		F	
4.	Type of Opinion, as identified in the OPINION paragraph Enter R, I, E, Q, or N based upon the following: R if Reasonable I if Inadequate or Deficient Provision E if Excessive or Redundant Provision Q if Qualified (use Q when part of the Opinion is Qualified) N if No Opinion		R	
5.	Materiality Standard expressed in US dollars (used to answer Question #6)		\$38,950,873	
6.	Are there significant risks that could result in Material Adverse Deviation?	Yes [ X ]	No [ ]	N/A [ ]
7.	Statutory Surplus (Liabilities, Surplus and Other Funds page, Col. 1, Line 37)		\$389,508,728	
8.	Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P (Part 1 Summary, Col. 23, Line 12 x 1000)		\$600,000	
9.	Discount included as a reduction to loss reserves and loss adjustment expense reserves as reported in Schedule P			
9.1	Nontabular Discount [Notes, Line 32B23, (amounts 1, 2, 3 & 4)], Electronic Filing Cols. 1,2,3 & 4		\$0	
9.2	Tabular Discount [Notes, Line 32A23, (amounts 1 & 2)], Electronic Filing Cols. 1 & 2		\$135,411,310	
10.	The net reserves for losses and loss adjustment expenses for the Company's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and loss adjustment expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines		\$0	
11.	The net reserves for losses and loss adjustment expenses that the Company carries for the following liabilities included on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines			
11.1	Asbestos, as disclosed in the Notes to Financial Statements (Notes, Line 33A03D, ending asbestos reserve for current year) Electronic Filing Col. 5		\$0	
11.2	Environmental, as disclosed in the Notes to Financial Statements (Notes, Line 33D03D, ending net environmental reserve for current year) Electronic Filing Col. 5		\$0	

## Exhibit B: Disclosures (continued)

12. The total claims-made extended loss and loss adjustment expense, and unearned premium reserves (Greater than or equal to Schedule P Interrogatories)	
12.1 Amount reported as loss and loss adjustment expense reserves	\$0
12.2 Amount reported as unearned premium reserves	\$0
13. The net reserves for the A&H Long Duration Contracts that the Company carries on the following lines on the Liabilities, Surplus and Other Funds page:	
13.1 Losses	\$0
13.2 Loss Adjustment Expenses	\$0
13.3 Unearned Premium	\$0
13.4 Write-In	\$0
14. Other items on which the Appointed Actuary is providing Relevant Comment	\$0