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

For The Fiscal Year Ended
June 30, 2020

MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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CONTENTS

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Gerina Whethers, Secretary
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Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Kentucky Public Employee Health Insurance Program (Plan), an enterprise fund of the Commonwealth of Kentucky, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Plan's financial statements as listed in the table of contents.

Management Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kentucky Public Employee Health Insurance Program, as of June 30, 2020, and the respective changes in its financial position and its cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Reporting Entity

As discussed in Note 2, the financial statements present only the Kentucky Public Employee Health Insurance Program, and are not intended to present fairly the financial position of the Commonwealth of Kentucky, or the results of its operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As discussed in Note 19, the Kentucky Public Employee Health Insurance Program did not implement Governmental Accounting Standards Board Statement (GASB) No. 84 *Accounting and Financial Reporting for Fiduciary Activities,* during fiscal year 2020 due to the announcement of Governmental Accounting Standards Board Statement (GASB) No. 95, which allows for the postponement of GASB 84. Our opinion is not modified with respect to this matter.

Other Matter

Management's Discussion and Analysis

The Plan's management has omitted management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the ten-year claims development information (page 49), schedule of proportionate share of the net pension liability (page 50), schedule of pension contributions (page 51), schedule of proportionate share of the net OPEB liability (page 52), and schedule of OPEB contributions (page 53) be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the

Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2020 on our consideration of the Plan's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the Plan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

November 16, 2020

FINANCIAL STATEMENTS

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
STATEMENT OF NET POSITION
JUNE 30, 2020

	Administrative Fund	Trust Fund	Total
Current assets:			
Cash and cash equivalents	$ 258,515	$ 354,558,009	$ 354,816,524
Premiums receivable, net		103,079,059	103,079,059
Pharmacy rebate receivable		83,163,984	83,163,984
Claims recovery and other receivables		404,471	404,471
Prepaid expenses	134,717	1,160,663	1,295,380
Total current assets	393,232	542,366,186	542,759,418
Noncurrent assets:			
Investments	971,155		971,155
Total assets	1,364,387	542,366,186	543,730,573
Deferred outflows of resources			
Deferred outflows - pension	3,175,772		3,175,772
Deferred outflows - OPEB	951,490		951,490
Total deferred outflows of resources	4,127,262		4,127,262
Total assets and deferrals	5,491,649	542,366,186	547,857,835
Current liabilities:			
Accounts payable	126,279	11,720,538	11,846,817
Accrued expenses	370,857	309,264	680,121
Incurred but unpaid claims		91,271,096	91,271,096
Premium deficiency reserve		132,700,000	132,700,000
Compensated absences	318,093		318,093
Total current liabilities	815,229	236,000,898	236,816,127
Noncurrent liabilities:			
Compensated absences	23,315		23,315
Net Other postemployment benefits	3,522,157		3,522,157
Net pension	22,377,756		22,377,756
Total noncurrent liabilities	25,923,228		25,923,228
Total liabilities	26,738,457	236,000,898	262,739,355
Deferred inflow of resources			
Deferred inflows - pension	348,507		348,507
Deferred inflows - OPEB	741,367		741,367
Total deferred inflows of resources	1,089,874		1,089,874
Total liabilities and deferrals	27,828,331	236,000,898	263,829,229
Net position:			
Unrestricted (deficit)	(22,336,682)	306,365,288	284,028,606
Total net position (deficit)	$ (22,336,682)	$ 306,365,288	$ 284,028,606

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

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020

	Administrative Fund	Trust Fund	Total
Operating revenues:			
Premium revenues	$	$ 1,641,278,455	$ 1,641,278,455
Contributions to Waiver Health Reimbursement Accounts		47,991,623	47,991,623
Pharmacy rebates		161,913,023	161,913,023
Total operating revenues		1,851,183,101	1,851,183,101
Operating expenses:			
Claims expense		1,675,901,350	1,675,901,350
Claims incurred in Waiver Health Reimbursement Accounts		36,270,697	36,270,697
Change in premium deficiency reserve		37,600,000	37,600,000
Administrative and claims processing fees		78,104,717	78,104,717
Personnel expenses	8,810,720	809,059	9,619,779
Commodities and supplies	31,317	924,293	955,610
Utilities, rentals, and other	1,018,082	21,646	1,039,728
Travel	7,643		7,643
Total operating expenses	9,867,762	1,829,631,762	1,839,499,524
Operating income (loss)	(9,867,762)	21,551,339	11,683,577
Nonoperating revenues:			
Other	263	7,071	7,334
Investment income		6,967,805	6,967,805
Total nonoperating revenues	263	6,974,876	6,975,139
Income (loss) before transfers	(9,867,499)	28,526,215	18,658,716
Net operating transfers	9,123,751	(184,408,948)	(175,285,197)
Changes in net position (deficit)	(743,748)	(155,882,733)	(156,626,481)
Net position (deficit), beginning of year	(21,592,934)	462,248,021	440,655,087
Net position (deficit), end of year	$ (22,336,682)	$ 306,365,288	$ 284,028,606

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020

	Administrative Fund	Trust Fund	Total
Operating activities:			
Premiums collected - public	$	$ 173,781,437	$ 173,781,437
Premiums collected - state		1,477,566,426	1,477,566,426
Waiver Health Reimbursement Account contributions collected - public		318,725	318,725
Waiver Health Reimbursement Account contributions collected - state		47,529,694	47,529,694
Pharmacy rebates collected		146,950,965	146,950,965
Benefits paid		(1,705,788,427)	(1,705,788,427)
Claims processing fees paid		(79,815,817)	(79,815,817)
Payments to employees for services	(4,460,060)		(4,460,060)
Payments to suppliers of goods and services	(3,934,181)	(1,555,117)	(5,489,298)
Net cash flows from operating activities	(8,394,241)	58,987,886	50,593,645
Noncapital financing activities:			
Non operating receipts		7,071	7,071
Operating transfers	9,123,751	(184,408,948)	(175,285,197)
Net cash flows from noncapital financing activities	9,123,751	(184,401,877)	(175,278,126)
Investing activities:			
Investment income		6,934,585	6,934,585
Net investment activity	(528,107)		(528,107)
Net cash flows from investing activities	(528,107)	6,934,585	6,406,478
Net change in cash and cash equivalents	201,403	(118,479,406)	(118,278,003)
Cash and cash equivalents, beginning of year	57,112	473,037,415	473,094,527
Cash and cash equivalents, end of year	$ 258,515	$ 354,558,009	$ 354,816,524

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2020
(Continued)

	Administrative Fund	Trust Fund	Total
Reconciliation of operating income (loss) to net cash flows from operating activities:			
Operating income (loss)	$ (9,867,762)	$ 21,551,339	$ 11,683,577
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:			
(Increase) decrease in:			
Premiums receivable, net		9,926,204	9,926,204
Pharmacy rebate receivable		(14,962,058)	(14,962,058)
Claims recovery and other receivables		(217,838)	(217,838)
Deferred inflows	(305,075)		(305,075)
Prepaid expense	(109,319)	(819,404)	(928,723)
Increase (decrease) in:			
Accounts payable	25,192	(505,946)	(480,754)
Accrued expenses	(34,644)	309,264	274,620
Deferred outflows	(6,687)		(6,687)
Net pension liability	1,920,182		1,920,182
Incurred but unpaid claims		6,106,325	6,106,325
OPEB liability	(40,185)		(40,185)
Premium deficiency		37,600,000	37,600,000
Compensated absences	24,057		24,057
Net cash flows from operating activities	$ (8,394,241)	$ 58,987,886	$ 50,593,645
Supplemental schedule of noncash investing activities:			
Change in fair value of investments	$ 263	$	$ 263

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

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2020

	Flexible Spending Accounts
Assets:	
Receivables	$ 3,126,009
Liabilities:	
Due to other governmental funds	3,002,645
Accounts payable	123,364
Total liabilities	$ 3,126,009

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NOTES TO THE FINANCIAL STATEMENTS

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 - Description of the Plan

The following brief description of the Kentucky Public Employee Health Insurance Program (the Plan) of the Commonwealth of Kentucky is provided for general information purposes only. Members should refer to the Plan document for more complete information.

A) Organization

Pursuant to Kentucky Revised Statues (KRS) 18A.225, 18A.2254, 18A.2259, 18A.226, and 18A.227, the Commonwealth of Kentucky (the Commonwealth) is required to administer and facilitate an employee health insurance program as part of a flexible benefits plan, thus the creation of the Trust Fund. The Department of Employee Insurance (the Department) is responsible for overseeing the Kentucky Public Employee Health Insurance Program, commonly referred to as the Kentucky Employees' Health Plan (KEHP), as well as, the Flexible Spending and Health Reimbursement Account Programs for state employees, boards of education, quasi-governmental agencies, and early retirees. The Department is to:

1. Provide exemplary customer service to members, which include employees in state government, boards of education, health departments, retirees, persons covered under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), certain other local government employees, and their eligible dependents.
2. Support all eligible members with health insurance and/or flexible spending accounts and/or health reimbursement accounts, as applicable.
3. Receive, analyze, and maintain health insurance data to assist the Commonwealth in making decisions regarding the state health insurance plan.
4. Support the Advisory Committee of State Health Insurance Subscribers and the Kentucky Group Health Insurance Board in their function to develop recommendations on the future direction of the Plan.

B) Premiums and Members

The health benefits for eligible members are funded by monthly premiums paid by individuals and state and local governmental units. A member may extend coverage to dependents for an additional monthly premium based on the coverage requested. Premiums for Plan members and their dependents are collected by the Department and held in a trust fund until needed for the payment of benefits and plan administration costs.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
(Continued)

Note 1 - Description of the Plan (Continued)

B) Premiums and Members (Continued)

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

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

At June 30, 2020, the Plan provided health coverage to 142 state agencies with approximately 28,700 primary members (not including dependents), 180 school districts with approximately 77,000 primary members, 256 local government entities and health departments with approximately 8,300 primary members, and five retiree divisions with approximately 36,100 primary members. Total lives covered by the Plan, including dependents, were approximately 274,000.

C) Benefits

The Plan offers four health insurance plan options that are administered by multiple vendors: Anthem for medical; CVS for pharmacy; WageWorks for Health Reimbursement Arrangements, Flexible Spending Accounts, and COBRA; StayWell for wellness; and SmartShopper for transparency. The four plans are: LivingWell CDHP, LivingWell PPO, LivingWell Basic CDHP, and the LivingWell Limited High Deductible Plan.

All four plans require completion of the LivingWell Promise, a KEHP wellness initiative. The Promise requires the member to complete a Health Assessment or a biometric screening. If an employee or retiree fails to fulfill the LivingWell Promise in the current plan year, he/she will not be eligible for the $40 monthly premium incentive in the following plan year.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
(Continued)

Note 1 - Description of the Plan (Continued)

C) Benefits (Continued)

Plans are summarized below.

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

- Members receive an employer-funded Health Reimbursement Arrangement (HRA) to use toward their deductible and maximum out-of-pocket expenses in the amount of $500 for single coverage or $1,000 for couple, parent-plus or family coverage.
- This plan has a low annual out-of-pocket maximum and co-insurance percentage.
- Members are responsible for meeting deductibles then paying a co-insurance percentage for medical services and prescription drugs.
- All covered expenses apply to the deductible and out-of-pocket maximum.
- The pharmacy benefit preferred drug list is the CVS Caremark Advanced Control Formulary.
- Any remaining funds in a participant's HRA at year-end will be carried forward to the subsequent plan year(s) and will be available for future claims, provided the participant is eligible and continues enrollment in a CDHP.
- Unclaimed HRA funds are forfeited and returned to the Plan at any point when the participant terminates employment, or enrolls in a non-CDHP KEHP insurance plan.

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

- This plan includes a flat co-pay amount for most services and then deductible and co-insurance for a few other services.
- This plan includes a flat co-pay amount for prescription coverage.
- The out-of-pocket amount for this plan is the same as with the LivingWell CDHP; however, with the PPO plan there is no HRA provided.
- The pharmacy benefit preferred drug list is the CVS Caremark Advanced Control Formulary.
- The out-of-pocket maximum accumulates separately for medical and prescription expenses.

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

- Members receive an employer-funded HRA to use toward their deductible and maximum out-of-pocket expenses in the amount of $250 for single coverage or $500 for couple, parent-plus or family coverage.
- This plan offers lower premiums in exchange for higher deductibles.
- All covered expenses apply to the deductible and out-of-pocket maximum.
- The pharmacy benefit preferred drug list is the CVS Caremark Value Formulary; this formulary provides more generic drug options and less brand-name options.

Note 1 - Description of the Plan (Continued)

C) Benefits (Continued)

- Any remaining funds in a participant's HRA at year-end will be carried forward to the subsequent plan year(s) and will be available for future claims, provided the participant is eligible and continues enrollment in a CDHP.
- Unclaimed HRA funds are forfeited and returned to the Plan at any point when the participant terminates employment, or enrolls in a non-CDHP KEHP insurance plan.

The LivingWell Limited High Deductible Plan provides catastrophic-type coverage:

- Members do not receive an employer-funded HRA.
- This plan offers the lowest premiums in exchange for the highest deductibles and co-insurance.
- All covered expenses apply to the deductible and out-of-pocket maximum.
- The pharmacy benefit preferred drug list is the CVS Caremark Value Formulary; this formulary provides more generic drug options and less brand-name options.
- This plan was the default plan for members who did not elect a health plan for Plan Year 2020.

The Commonwealth of Kentucky established the Commonwealth of Kentucky HRA for those waiving all coverage. Pursuant to KRS 18A.2254, the Commonwealth of Kentucky will provide $175 per employee as a monthly employer contribution to the HRA account, not to exceed $2,100 per plan year, to each employee waiving health coverage if eligible.

There are two types of Waiver HRAs:

1) The Waiver General Purpose HRA: It reimburses participants for certain medical expenses that are not covered by the health Plan. Only the employer can contribute to the HRA. Medical expenses are defined as expenses incurred by the participant and dependents for health care as defined in Section 213 of the Internal Revenue Code. To elect the Waiver General Purpose HRA, members must attest that they have other group health insurance plan coverage that provides minimum value. A "group health plan" does not include individual policies purchased through the Marketplace or governmental plans such as TRICARE, Medicare, or Medicaid.

2) The Waiver Dental/Vision ONLY HRA: It reimburses participants for certain dental and vision fees. Members who are not eligible for the Waiver General Purpose HRA may elect the Waiver Dental/Vision ONLY HRA.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
(Continued)

Note 1 - Description of the Plan (Continued)

C) Benefits (Continued)

At the end of the plan year (i.e., calendar year), the third party administrator determines whether there are unclaimed reimbursement account balances remaining after the HRA claims run-out period of March 31st of each year. Funds remaining in a participant's HRA at year-end, up to a maximum of $6,000, will be carried forward to the subsequent plan year(s) and will be available for future claims, provided the participant is eligible and continues enrollment in the same Waiver HRA program. Funds are not transferrable between the Waiver General Purpose HRA and the Waiver Dental/Vision ONLY HRA. Unclaimed HRA funds are forfeited and returned to the Plan at any point when the participant terminates employment, or enrolls in a Commonwealth of Kentucky insurance program other than the Waiver General Purpose or Waiver Dental/Vision ONLY HRA.

The Commonwealth of Kentucky has also established the Commonwealth of Kentucky Flexible Spending Accounts (FSAs). The FSAs allow members to use pre-tax contributions to pay for qualified expenses. The Plan offers two types of FSAs:

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

2) The Dependent Care Flexible Spending Account (DCFSA): The DCFSA allows members to elect a specified amount of pre-tax contributions to be used for reimbursement of eligible employment-related dependent care expenses. The DCFSA is intended to qualify as a Code Section 129 dependent care assistance plan.

Flexible Spending Accounts and related amounts are determined annually by member election. Reimbursement of expenses will be provided for eligible health or dependent care expenses that were incurred during the current Plan Year and submitted by the member for reimbursement within the Plan Year, or within the current Plan Year's run-out period. Members are allowed to carry over a minimum of $50 up to $500 from one Plan Year to the next in the Healthcare FSA. Any unclaimed Flexible Spending Account funds exceeding $500 for the Healthcare FSA will be forfeited by the member and restored to the Commonwealth of Kentucky if the member has not applied for reimbursement of expenses incurred during the current Plan Year, and submitted their claim for reimbursement within the run-out period.

Dependent Care FSA funds do not roll over, so any unclaimed Dependent Care FSA funds will be forfeited by the member and restored to the Commonwealth of Kentucky if the member has not applied for reimbursement of expenses incurred during the current Plan Year, and submitted the claim for reimbursement within the run-out period. In order for participants to avoid forfeiting FSA funds, participants must submit a claim for reimbursement of eligible expenses incurred during the Plan Year before the run-out period expires on March 31 of each year.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
(Continued)

Note 2 - Summary of Significant Accounting Policies

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

A) Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

B) Use of Estimates

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

Material estimates that are particularly susceptible to significant changes in the near-term relate to the determination of incurred but unpaid claims and the premium deficiency. In connection with the determination of incurred but unpaid claims and the premium deficiency, management uses the methodology detailed in the incurred but unpaid claims and premium deficiency notes, and as discussed in the following paragraph, to estimate the liabilities. See Note 5 and Note 6 for more information.

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

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

C) Description of Net Position Classifications

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

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

D) Cash and Cash Equivalents

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

E) Investments

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

F) Interfund Activity

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

G) Incurred But Unpaid Claims

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

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

H) Premium Deficiency Reserve

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

I) Operating Revenues and Expenses

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

J) Premiums

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

K) Allowance for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years. At June 30, 2020, management did not think a reserve was necessary.

L) Fiduciary Funds

Fiduciary funds are defined as funds used to report amounts held in a trustee or agency capacity for others and which, therefore, cannot be used to support the government’s own programs. This fund is custodial in nature and does not involve measurement of results of operations. Accordingly, it presents only a statement of fiduciary net position and does not present a statement of changes in fiduciary net position. Fiduciary funds consist of unspent member contributions to Flexible Spending Accounts held in an agency capacity. Agency funds held in the Flexible Spending Accounts consist of pre-tax monies received from members to be used on a reimbursement basis for expenses paid by members for either health and/or dependent care expenditures.

Note 2 - Summary of Significant Accounting Policies (Continued)

M) Pensions

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

N) Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Kentucky Retirement System (KRS) and additions to/deductions from KRS's fiduciary net position have been determined on the same basis as they are reported by KRS. The KERS Non-hazardous Insurance Funds are reported as OPEB trust funds and are accounted for on the accrual basis of accounting.

Note 3 - Cash Deposits

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

A) Administrative and Trust Funds

Cash includes amounts on deposit with the Commonwealth's cash and investment pool. See the Commonwealth's Comprehensive Annual Financial Report for the year ended June 30, 2020, for disclosure of the credit risk classifications of the cash and investment pool. The carrying amount of the Plan's cash and cash equivalents invested in the Commonwealth's cash and investment pool balance was $354,816,524 at June 30, 2020.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
(Continued)

Note 4 - Investments

All Plan investments are held directly in the Commonwealth's investment pool, reported at fair value, which has statutory responsibility and authority to safeguard the funds. The Plan's share of investments in the Commonwealth's investment pool totaled $971,155 at June 30, 2020. Legally authorized investments generally include obligations of or guaranteed by the United States; obligations of any corporation of the United States Government; asset backed securities; U.S. dollar denominated corporate securities; collateralized certificates of deposit; bankers' acceptances; commercial paper and repurchase agreements. The Commonwealth is also eligible to invest in reverse repurchase agreements. See the Commonwealth's Comprehensive Annual Financial Report for the years ended June 30, 2020, for disclosure of the credit risk classifications of the cash and investment pool.

Note 5 - Incurred But Unpaid Claims

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

Changes in the aggregate liability for claims during 2020 and 2019 are as follows:

	2020	2019
Balance, beginning of year	$ 85,164,771	$ 90,856,438
Claims incurred	1,800,495,198	1,725,230,322
Changes in prior year estimate	(10,218,434)	(14,414,903)
Claims paid	(1,784,170,439)	(1,716,507,086)
Balance, end of year	$ 91,271,096	$ 85,164,771

The incurred but unpaid claims liability of $91,271,096 at June 30, 2020, does not include a liability for claims adjustment expenses as service providers have waived claims runout processing fees.

As a result of changes in estimates of insured events in the prior year and higher than expected claims run out, the provision for claims increased by approximately $6,100,000 in 2020.

As of June 30, 2020, the liability total includes the incurred but unpaid claims estimates for all CDHP Health Reimbursement Accounts and Stand-Alone Health Reimbursement Accounts (i.e., waived health coverage) of $1,183,288 and $1,090,832, respectively.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
(Continued)

Note 6 - Premium Deficiency Reserve

A premium deficiency reserve is recorded at the end of the fiscal year when the anticipated costs of settling claims, plus claims processing fees for the remainder of the contracted premium period, are in excess of the anticipated premium receipts for the remainder of the contracted premium period. Anticipated premium receipts are projected based on the current premium rates adopted by the Plan. Anticipated investment income is not considered in determining whether a premium deficiency exists. Incurred claims for the remainder of the year are projected based on current year incurred claims, increased for anticipated inflation rates. The Plan determined that a reserve for premium deficiency was necessary as of June 30, 2020 in the amount of $132,700,000.

Note 7 - Reinsurance

As of June 30, 2020, the Plan has not transferred any risk of loss through reinsurance contracts.

Note 8 - Compensated Absences

The policy of the Commonwealth is to record the cost of annual and compensatory leave. Annual leave is accumulated at amounts ranging from 1 day to 2 days per month, determined by length of service, with a maximum carry forward ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. The estimated liability for accrued annual leave for the Plan was $261,657 at June 30, 2020. Compensatory leave is granted to authorized employees. The estimated liability for compensatory leave for the Plan was $79,751 at June 30, 2020.

Changes in compensated absences for the year ended June 30, 2020 are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Compensated Absenses	$ 317,351	$ 384,653	$ (360,596)	$ 341,408	$ 318,093

It is the policy of the Plan to record the cost of sick leave when paid. Generally, sick leave (earned one day per month with unlimited accumulation) is paid when an employee is absent due to illness, injury, or related family death. Sick leave accumulated is added to an employee's years of service at the time of retirement. There was no liability recorded for sick leave at June 30, 2020. The estimated accumulated amount of unused sick leave at June 30, 2020 for the Plan was $431,570.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
(Continued)

Note 9 - Pharmacy Rebates

The Plan is guaranteed a minimum rebate from the Plan's pharmacy third party administrator for each prescription filled as detailed in the agreement with the third party. The Plan recorded $161,913,023 in pharmacy rebates for the years ended June 30, 2020. The Plan had $83,163,984 in pharmacy rebate receivables at June 30, 2020.

Note 10 - Net Position

Included in total net position are unused Health Reimbursement Account (HRA) balances of approximately $187,810,263 as of June 30, 2020. HRA dollars remaining at the end of each plan year roll over to the next plan year if the member re-enrolls in the HRA. Should the member elect to change his or her benefit option from the previously elected HRA or upon termination of employment or other loss of eligibility, any and all balance remaining in the member's HRA shall be forfeited, and become part of the Kentucky Public Employee Health Insurance Program Trust Fund.

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

Pursuant to House Bill 200 of the 2018 regular session and notwithstanding KRS 18A.2254, plan years 2010, 2011, 2012, 2013, 2014, and 2015 were considered closed as of June 30, 2018, and all balances from those plan years were transferred to plan year 2016. All other income and expenses attributable to the closed plan years shall be deposited in or charged to the plan year 2016. At June 30, 2020, management has determined the designated cash balances, in the Trust Fund unrestricted cash and investments, to be $22,057,335 for the plan year 2019, $151,019,628 for the plan year 2018, $119,652,097 for the plan year 2017, and $19,219 for the plan year 2016.

Note 11 - Retirement Plan

All Cabinet employees who work more than one hundred hours per month participate in a defined benefit plan administered by the Kentucky Employees Retirement System (KERS), a cost-sharing multi-employer public employee retirement system.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
(Continued)

Note 11 - Retirement Plan (Continued)

	Tier 1 Participation Prior to 9/1/2008	**Tier 2** Participation 9/1/2008 through 12/31/2013	**Tier 3** Participation on or after 1/1/2014
Covered Employees:	Substantially all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in KERS.		
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
Final Compensation:	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement).	Five (5) complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
Benefit Factor:	1.97% - If you do not have 13 months credit for 1/1/1998 - 1/1/1999. 2.00% - If you have 13 months credit for 1/1/1998 - 1/1/1999	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the board based on member's accumulated account balance.

Note 11 - Retirement Plan (Continued)

	Tier 1 Participation Prior to 9/1/2008	**Tier 2** Participation 9/1/2008 through 12/31/2013	**Tier 3** Participation on or after 1/1/2014
Cost of Living Adjustment (COLA):	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit:	Any age with 27 years of service. Age 65 with 48 months of service. Money Purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No Money Purchase calculations.	
Reduced Retirement Benefit:	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit.

Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565 contribution requirements of the active employees and the participating organizations are established and may be amended by the KRS Board. For the fiscal year ended June 30, 2019 and 2018, Plan employees were required to contribute 5 percent of their annual covered salary for retirement benefits. Employees with a participation date after 9/1/2008 were required to contribute an additional 1 percent of their salary for retiree healthcare benefits. The Plan was contractually required to contribute 71.03 percent of covered payroll to the nonhazardous KERS pension plan during the year ended June 30, 2020. Actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Plan's total required contributions to KERS nonhazardous pension plans for the year ended June 30, 2020 $1,587,038.

At June 30, 2020, the Plan reported a liability of $22,377,756, for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2018, rolled forward to 2019 using generally accepted actuarial principles. The Plan's proportion of the net pension liability was based on a projection of the Plan's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities. At June 30, 2020, the Plan's proportion was 0.158449 percent.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
(Continued)

Note 11 - Retirement Plan (Continued)

Actuarial Assumptions:	
Actuarial Valuation Date	June 30, 2019
Actuarial Cost Method	Entry age normal
Amortization Method	Level percent of pay
Remaining amortization period	24 years, closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Investment rate of return	5.25%
Inflation Rate	2.30%
Projected salary increases	3.30% to 15.30%, varies by service
Mortality tables:	
Active members	Pub-2010 General mortality table projected with the ultimate rates from the MP-2014 mortality improvement scale using a base of 2010.
Retired members	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
Disabled members	PUB-2010 Disable Mortality Table, with a 4-year set forward both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
Date of experience study	The period July 1, 2014 - June 30, 2018
Update procedures applied	The actuarial valuation date of June 30, 2018, was rolled forward from the valuation date to the Plan's fiscal year end of June 30, 2019 using standard roll forward procedures.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
(Continued)

Note 11 - Retirement Plan (Continued)

For the year ended June 30, 2020, the Plan recognized pension expenses of $3,176,709 and deferred outflows and deferred inflows related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 132,353	$
Net difference between projected and actual earnings on investments	57,989	103,587
Change of assumptions	681,354	
Changes in proportion and differences between employer contributions and proportionate share of contributions	717,038	244,920
Contributions subsequent to the measurement date	1,587,038	
Total	$ 3,175,772	$ 348,507

The $1,587,038 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ended June 30, 2021. Other amounts reported as deferred inflows and deferred outflows of resources related to pensions will be recognized in pension expense as follows:

2021	$	755,619
2022	$	500,520
2023	$	(14,623)
2024	$	(1,289)

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
(Continued)

Note 11 - Retirement Plan (Continued)

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis performed was for the period covering fiscal years 2014 through 2018, and is outlined in a report dated April 12, 2019. Several factors are considered in evaluating the long-term rate of return. Assumptions including long-term historical data, estimates inherent in current market data, and a log – normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The 2020 target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

2020
Kentucky Retirement Systems

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Growth:		
US Equity	15.75%	4.30%
Non-US Equity	15.75%	4.80%
Private Equity	7.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity:		
Core Bonds	20.50%	1.35%
Cash	3.00%	0.20%
Diversifying Strategies:		
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
(Continued)

Note 11 - Retirement Plan (Continued)

The projection of cash flows used to determine the discount rate of 5.25% assumes that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

June 30, 2019 is the actuarial valuation date upon which the total pension liability is based. The discount rate is defined as the single rate of return that when applied to all projected payments results in an actuarial value of projected benefits payments. A municipal bond rate was not used.

The following presents the net pension liability of the Plan at June 30, 2020, calculated using the discount rate of 5.25%, as well as what the Plan's net position liability would be if it were calculated using a discount rate that is one percentage point lower (4.25%) or one percentage point higher (6.25%):

	Decrease 4.25%	Discount 5.25%	Increase 6.25%
The Plan's proportionate share	$ 25,653,127	$ 22,377,756	$ 19,670,958

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

In addition to the above plans, the Department's employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth of Kentucky. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. Both plans permit employees to defer a portion of their salary until future years. Contributions to these plans totaled $285,690 for the year ended June 30, 2020. Both plans permit employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, the year age 59 ½ is attained, death, or financial hardship. Minimum distributions are required at age 70 ½. Loans are also permitted in accordance with plan provisions. The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the deferred compensation plans.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
(Continued)

Note 12 - Post-Employment Health Care Benefits

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

Covered Employees: Contribution rates for employers and employees are established by Kentucky Statue KRS 21.427. The Traditional plan members do not contribute to the OPEB plan directly. Instead assets have been allocated between pension and retiree medical liabilities on the basis of accrued liability as of July 1, 2017. This amount has been bought forward from that date based on actual cash flows and prorated allocation of investment returns. The Hybrid plan member contribute 1% of their official salary. Employer contribution are dertermine by the budget bill.

<table>
<tr><td rowspan="2">Benefit Factor:</td><td colspan="2">Participation prior to July 2003</td><td colspan="2">Participation between July 2003 and August 2008</td><td colspan="2">Participation on or after September 2008</td></tr>
<tr><td>Months of Service</td><td>Percent of premium paid</td><td>Months of Service</td><td>Percent of premium paid</td><td>Months of Service</td><td>Percent of premium paid</td></tr>
<tr><td></td><td><48
48 to 119 inclusive
120 to 179 inclusive
180 to 239 inclusive
240 or more</td><td>0%
25%
50%
75%
100%</td><td>Greater than or equal to 120</td><td>$10 per month for each year of service window without regard to a maximum dollar amount adjusted by 1.5% annually</td><td>Greater than or equal to 180</td><td>$10 per month for each year of service window without regard to a maximum dollar amount adjusted 1.5% annually</td></tr>
</table>

Cost of Living Adjusment (COLA): Members particpating after 2008 receive 1.5% increase annually

Benefits and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565 contribution requirements of the active employees and the participating organizations are established and may be amended by the KRS Board. Employees with a participation date after 9/1/2008 were required to contribute an additional 1 percent of their salary for retiree healthcare benefits. The Plan was contractually required to contribute 12.40 percent of covered payroll to the nonhazardous KERS insurance plans during the year ended June 30, 2020. Actuarially determined as an amount that, when combined with employees during the year, with an additional amount to finance any unfunded accrued liability. The Plan's total required contributions to KERS nonhazardous insurance plan for the year ended June 30, 2020 was $278,623.

At June 30, 2020, the Plan reported a liability of $3,522,157, or its proportionate share of collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net collective OPEB liability was determined by an actuarial valuation as of June 30, 2018, rolled forward to 2019 using generally accepted actuarial principles. The Plan's proportion of the collective net OPEB liability was based on projection of the Plan's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2020, the Plan's proportion was 0.158449 percent.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
(Continued)

Note 12 - Post-Employment Health Care Benefits (Continued)

For the year ended June 30, 2020, the Plan recognized OPEB expenses of $299,645 and deferred outflows and deferred inflows related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$	$ 561,807
Net difference between projected and actual earnings on investments	14,917	38,017
Change of assumptions	461,907	10,594
Changes in proportion and differences between employer contributions and proportionate share of contributions	153,585	130,949
Contributions subsequent to the measurement date	321,081	
Total	$ 951,490	$ 741,367

Of the total amount reported as deferred outflows of resources related to OPEB, $278,623 resulting from the Plan's statutorily required contributions and $42,458 resulting from the implicit subsidy subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the Plan's OPEB expense as follows:

2021	$	(2,279)
2022	$	(2,279)
2023	$	(104,387)
2024	$	(2,013)

Actuarial assumptions: The total OPEB liability, net OPEB liability, and sensitivity information shown in this report are based on an actuarial valuation performed as of as of June 30, 2018, using the following actuarial assumptions shown in the table below. The total OPEB liability used to calculate the net collective OPEB liability was rolled forward from the valuation date to the plan's fiscal year end, June 30, 2019, using generally accepted actuarial principles.

Note 12 - Post-Employment Health Care Benefits (Continued)

Actuarial Valuation Date	June 30, 2018
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry age normal, Level percentage of pay
Remaining amortization period	24 year, closed
Asset valuation method	5 years smoothing
Actuarial assumptions:	
Inflation rate	2.30%
Payroll Growth Rate	0.00%
Salary Growth	3.3% to 15.3%, varies by service.
Mortality Tables:	PUB-2010 General Mortality table projected with the ultimate rates form the MP-2014 mortality improvement scale using a base year of 2010.
Healthcare Trend Rates Pre-65	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Healthcare Trend Rates Post-65	Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.
Updated procedures applied	The actuarial valuation date of June 30, 2018 was rolled-forward from the valuation date to the plan’s fiscal year ending June 30, 2019 using standard roll forward procedures.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
(Continued)

Note 12 - Post-Employment Health Care Benefits (Continued)

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Growth:		
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity:		
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies:		
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	

The projection of cash flows used to determine the discount rate of 5.73% for KERS Non-hazardous, assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.13% as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 30, 2019. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the Plan's fiduciary net position of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the System's actuarially determined contributions, and it's our understanding that any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The projection of cash flows used to determine the single discount rate assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statue. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the Commonwealth of Kentucky's CAFR.

Note 12 - Post-Employment Health Care Benefits (Continued)

The following presents the Plan's proportionate share of the collective net OPEB liability, as well as what the Plan's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate at June 30, 2020:

	2020		
	Decrease 4.73%	Discount 5.73%	Increase 6.73%
The Plan's proportionate share	$ 4,193,865	$ 3,522,157	$ 2,969,200

Sensitivity of the Plan's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rate. The following presents the Plan's proportionate share of the collective net OPEB liability, as well as what the Plan's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or higher than the current healthcare cost trend rates (Pre-65 – Initial trend starting at 7.25 percent at January 1, 2019, and gradually decreasing to 4.05 percent over a period of 13 years and Post-65 – Initial trend starting at 5.10 percent at January 1, 2019, and gradually decreasing to 4.05 percent over a period of 11 years):

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The Plan's proportionate share	$ 2,992,309	$ 3,522,157	$ 4,163,092

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

Note 13 - Plan Administration and Operating Transfers

The Administrative Fund is used to fund administrative costs for the administration of the Plan. When the Commonwealth moved from a fully insured health insurance program to a self-insured program, the Department of Employee Insurance took on significant financial responsibilities including actuarial work and therefore requested transfers of $9,044,548 from the premiums to help fund the administrative costs of the Plan for the year ending June 30, 2020. In addition, there were $79,203 in transfers for services from other governmental funds to the Administrative Fund during the year ended June 30, 2020. Pursuant to House Bill 200 of the 2018 regular session and notwithstanding KRS 18A.2254, for the fiscal year ended June 30, 2020, a one-time transfer of $175,364,400 was transferred from the Trust fund to the Commonwealth of Kentucky's General Fund.

Note 14 - Related Party Transactions

The Plan received the benefit of accounting and administrative services from the Personnel Cabinet for 2020 for which no fee was assessed. The Plan received the benefit of legal services from the Personnel Cabinet for 2020 for which no fee was assessed.

The Plan received the benefit of utilities, motor pool, postage, and office space from the Finance and Administration Cabinet (FAC). During 2020, the Plan reimbursed the FAC $260,665, for these costs.

The Plan received services from the Commonwealth Office for Technology (COT) which provides technical support for State government agencies in the application of information technology including major information resource functions such as data center operations, data and voice communications, data administration, hardware selection and installation, printing, and related end-user and customer support services. During 2020, the Plan paid $491,411, respectively to the COT for services provided.

Note 15 – Interfund Receivable/Payables

At June 30, 2020, the Fiduciary Fund had a liability to other governmental funds of $3,002,645. These liabilities represent loans provided to the Flexible Spending Accounts maintained within the Fiduciary Fund to assist with cash flow deficits.

Additionally, of the premiums receivable, net held within the Trust Fund at June 30, 2020, approximately $71,111,000, were due from other governmental funds.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
(Continued)

Note 16 - Fair Value of Financial Instruments

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

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Fund has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

The following table sets forth by level, within the hierarchy, the Plan's assets and liabilities measured at fair value on a recurring basis as of June 30, 2020 are as follows:

	Assets at Fair Value as of June 30, 2020			
	Level 1	Level 2	Level 3	Total
Commonwealth's investment pool	$	$ 971,155	$	$ 971,155

The Plan's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no transfers between levels during the year ended June 30, 2020.

Realized and unrealized gains/(losses) of $2,516,483 for the years ended June 30, 2020, respectively, are reported in the statement of revenues, expenses, and changes in net position as a component of non-operating revenue.

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

Note 17 - Risk Management

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

Note 18 - Commitments

The Plan entered into long term contracts with certain vendors for processing medical and pharmacy claims in support of the Plan's operations. The medical and pharmacy claims processing contracts expire and are subject to renewal on December 31, 2020. The total amount to be paid for processing medical claims is based on a monthly per member cost with no limit. The total amount to be paid for processing pharmacy claims is per prescription filled. Contract provisions also include a provision to waive claims runout processing fee.

The fees incurred by the Plan for services performed by the above third party administrators totaled approximately $59,702,000 for the year ended June 30, 2020.

The Plan entered into a contract with a vendor to provide wellness benefits. This contract expires on December 31, 2022. The fees incurred by the Plan for services performed under this contract totaled approximately $16,507,000 for the year ended June 30, 2020.

The Plan entered into a contract with a vendor to provide health insurance consulting and actuarial services including premium rate setting. This contract was effective January 1, 2011 and has been renewed through June 30, 2022. The fees incurred by the Plan for services performed under this contract totaled approximately $432,000 for the year ended June 30, 2020.

The Plan entered into a contract with a vendor to provide health insurance data management and decision support. This contract was effective August 24, 2005 and has been renewed through June 30, 2021. The fees incurred by the Plan for services performed under this contract total approximately $1,025,000 for the year ended June 30, 2020.

The Plan entered into contracts with vendors to provide on-site health services to state employees at four Frankfort locations. This contract was entered into on July 1, 2016 and expired June 30, 2022. The fees incurred by the Plan for services performed under the contract total approximately $1,336,000 for the year ended June 30, 2020.

The Plan entered into a contract with a vendor to provide transparency administration services. This contract was effective January 1, 2015 and is effective through December 31, 2020. The fees incurred by the Plan for services performed under this contract total approximately $1,594,000 and for the year ended June 30, 2020.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020
(Continued)

Note 18 - Commitments (Continued)

The Plan entered into a contract with a vendor to provide dependent eligibility verification auditing services. This contract was effective January 1, 2018 and has been renewed through June 30, 2022. The fees incurred by the Plan for services performed under this contract total approximately $65,000 for the year ended June 30, 2020.

The Plan entered into a contract with a vendor to provide medication therapy management services to the Plan's early retiree population. This contract was effective July 1, 2017 and is effective through June 30, 2022. The fees incurred by the Plan for services performed under this contract total approximately $450,000 for the year ended June 30, 2020.

Note 19 Recent GASB Pronouncements

Management has not currently determined what, if any, effects of the implementation of the following statements could have on the financial statements:

GASB Statement No. 84, *Fiduciary Activities*, will be effective for periods beginning after June 15, 2020 in accordance with GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance.* This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

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REQUIRED SUPPLEMENTARY INFORMATION

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1 Earned premium revenue	$ 1,571,311,742	$ 1,600,787,301	$ 1,597,599,297	$ 1,606,978,197	$ 1,612,539,798	$ 1,624,815,499	$ 1,627,656,265	$ 1,640,341,966	$ 1,639,532,690	$ 1,641,278,455
2 Administrative fees	81,047,606	82,087,968	81,459,009	87,107,670	83,048,766	73,177,331	75,515,090	77,296,439	76,670,634	78,104,717
3 Incurred claims as originally estimated	1,475,301,386	1,531,837,744	1,530,198,658	1,460,929,606	1,347,112,404	1,348,429,170	1,402,631,988	1,479,372,629	1,593,887,664	1,624,279,763
4 Claims paid (cumulative) as of:										
End of fiscal year	1,391,374,820	1,445,034,561	1,434,661,145	1,367,500,127	1,275,353,882	1,230,809,586	1,326,155,196	1,390,162,355	1,509,462,214	1,534,109,875
One year later	1,477,128,563	1,533,569,193	1,539,861,704	1,477,144,251	1,349,674,497	1,339,032,485	1,397,381,146	1,470,797,436	1,592,882,951	
Two years later	1,466,785,311	1,532,731,690	1,537,203,974	1,476,210,218	1,353,582,804	1,327,946,378	1,396,642,406	1,460,934,416		
Three years later	1,466,628,596	1,532,536,824	1,537,203,974	1,476,210,218	1,353,582,804	1,327,946,378	1,396,642,406			
Four years later	1,466,628,596	1,532,536,824	1,537,203,974	1,476,210,218	1,353,582,804	1,327,946,378				
Five years later	1,466,628,596	1,532,536,824	1,537,203,974	1,476,210,218	1,353,582,804					
Six years later	1,466,628,596	1,532,536,824	1,537,203,974	1,476,210,218						
Seven years later	1,466,628,596	1,532,536,824	1,537,203,974							
Eight years later	1,466,628,596	1,532,536,824								
Nine years later	1,466,628,596									
5 Re-estimation of incurred claims:										
End of fiscal year	1,475,301,386	1,531,837,744	1,530,198,658	1,460,929,606	1,347,112,404	1,348,429,170	1,402,631,988	1,479,372,629	1,593,887,664	1,624,279,763
One year later	1,474,723,264	1,532,351,648	1,537,906,575	1,474,432,788	1,351,081,978	1,339,032,485	1,396,808,015	1,469,261,025	1,591,761,293	
Two years later	1,466,628,596	1,532,536,824	1,536,506,505	1,476,210,218	1,353,582,804	1,338,945,276	1,392,504,716	1,461,168,962		
Three years later	1,466,628,596	1,532,536,824	1,536,506,505	1,476,210,218	1,353,582,804	1,338,945,276	1,392,504,716			
Four years later	1,466,628,596	1,532,536,824	1,536,506,505	1,476,210,218	1,353,582,804	1,338,945,276				
Five years later	1,466,628,596	1,532,536,824	1,536,506,505	1,476,210,218	1,353,582,804					
Six years later	1,466,628,596	1,532,536,824	1,536,506,505	1,476,210,218						
Seven years later	1,466,628,596	1,532,536,824	1,536,506,505							
Eight years later	1,466,628,596	1,532,536,824								
Nine years later	1,466,628,596									
6 Change in estimated incurred claims from the original estimate using re-estimation as of the end of the most recent fiscal year	$ (8,672,790)	$ 699,080	$ 6,307,847	$ 15,280,612	$ 6,470,400	$ (9,483,894)	$ (10,127,272)	$ (18,203,667)	$ (2,126,371)	$ -0-

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

1) This line shows the total fiscal year's earned premium revenues.
2) This line shows the fiscal year's administrative fees.
3) This line shows the incurred claims (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
4) This line shows the cumulative amount paid as of the end of the successive year for each policy year, net of recoveries.
5) This line shows how the policy year's incurred claims increased or decreased as of the end of the year. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known.
6) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

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

	2020	2019	2018	2017	2016	2015
Proportion of the net pension liability (asset)	0.158449%	0.150384%	0.158439%	0.140373%	0.152453%	0.134989%
Proportionate share of the net pension liability	$ 22,377,756	$ 20,457,574	$ 21,212,020	$ 16,001,487	$ 15,293,546	$ 12,110,673
Covered- employee payroll	$ 2,404,644	$ 2,296,756	$ 2,418,442	$ 2,354,111	$ 2,478,791	$ 2,389,746
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	930.61%	890.72%	877.09%	679.73%	616.98%	506.78%
Pension plan fiduciary net position as a percentage of the total pension liability	13.66%	12.84%	13.32%	14.80%	18.83%	22.32%

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

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

Schedule of Contributions

	2020	2019	2018	2017	2016	2015	2014
Statutorily required contribution	$ 1,587,038	$ 1,708,018	$ 943,047	$ 973,181	$ 726,008	$ 764,459	$ 413,193
Contribution in relation to the statutorily contribution	1,587,038	1,708,018	943,047	973,181	726,008	764,459	413,193
Contribution deficiency (excess)	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
Covered employee payroll	$ 2,234,321	$ 2,404,644	$ 2,296,756	$ 2,418,442	$ 2,354,111	$ 2,478,791	$ 2,389,746
Contribution as a percentage of covered-employee payroll	71.03%	71.03%	41.06%	40.24%	30.84%	30.84%	17.29%
Notes to Schedule							
Valuation date	June 30, 2017	June 30, 2016	June 30, 2016	June 30, 2015	June 30, 2015	June 30, 2014	Not available
Methods and assumptions used to determine contributions:							
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Not available
Experience study	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	Not available
Amortization method	Level of percentage of pay	Level of percentage of pay	Level of percentage of pay	Level of percentage of pay	Level of percentage of pay	Level of percentage of	Not available
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	Five-year smoothed market	Five-year smoothed market	Not available
Investment return	5.25%	6.75%	6.75%	6.75%	7.50%	7.75%	Not available
Inflation	2.30%	3.25%	3.25%	3.25%	3.25%	3.50%	Not available
Projected salary increase	3.55% to 15.55%, varies by service.	4.0% average, including inflation	4.0% average, including inflation	4.0% average, including inflation	4.0% - 8.20%	4.0% - 8.20%	Not available

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

	2020	2019	2018	2017
Proportion of the net OPEB liability (asset)	0.158449%	0.150252%	0.158439%	0.140373%
Proportionate share of the net OPEB liability	$ 3,522,157	$ 4,201,588	$ 4,017,953	$ 3,400,600
Covered- employee payroll	$ 2,404,644	$ 2,296,756	$ 2,418,442	$ 2,354,111
Proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	146.47%	182.94%	166.14%	144.45%
Plan fiduciary net position as a percentage of the total OPEB liability	30.92%	27.32%	24.37%	24.48%

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

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

	2020	2019	2018	2017	2016
Statutorily required contribution	$ 277,056	$ 298,176	$ 193,157	$ 201,940	$ 186,681
Contribution in relation to the statutorily contribution	277,056	298,176	193,157	201,940	186,681
Contribution deficiency (excess)	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
Covered employee payroll	$ 2,234,321	$ 2,404,644	$ 2,296,756	$ 2,418,442	$ 2,354,111
Contribution as a percentage of covered-employee payroll	12.40%	12.40%	8.41%	8.35%	7.93%
Notes to Schedule					
Valuation date	June 30, 2017	June 30, 2016	June 30, 2016	June 30, 2015	Not available
Experience study	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013	Not available
Methods and assumptions used to determine contributions:					
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Not available
Amortization method	Level of percentage of pay closed	Level of percentage of pay closed	Level of percentage of pay closed	Level of percentage of pay closed	Not available
Asset valuation method	20% of the difference between the market value of assets and the expected acturarial value of assets is recognized	20% of the difference between the market value of assets and the expected acturarial value of assets is recognized	20% of the difference between the market value of assets and the expected acturarial value of assets is recognized	20% of the difference between the market value of assets and the expected acturarial value of assets is recognized	Not available
Amortization period	26 Years, Closed	27 Years, Closed	27 Years, Closed	28 Years, Closed	Not available
Investment return	6.25%	7.50%	7.50%	7.50%	Not available
Inflation	2.30%	3.25%	3.25%	3.25%	Not available
Projected salary increase	3.55% to 15.55%, varies by service	4.00% average	4.00% average	4.00% average	Not available
Healthcare Trend Rates (Pre-65)	7.25% at 1/1/19 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 5 years.	7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	Not available
Healthcare Trend Rates (Post-65)	5.10% at 1/1/19 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.	5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	Not available

Mortality
RP-2000 Combined Mortaility Table, projected to 2013 with Scale BB (set back 1 year for females)

Note: This is a 10 year schedule. Years will be added to this schedule in future fiscal years until 10 years of information is available.

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

MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

Gerina Whethers, Secretary
Kentucky Personnel Cabinet
501 High Street
Frankfort, KY 40601

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Kentucky Public Employee Health Insurance Program (Plan) of the Kentucky Personnel Cabinet as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated November 16, 2020.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

November 16, 2020