



**KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**WITH SUPPLEMENTARY SCHEDULES**

**2019**

**KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY  
2019 MANAGEMENT'S DISCUSSION AND ANALYSIS**

**OBJECTIVE AND BACKGROUND**

This discussion provides management's assessment of the current financial position, results of operations, cash flows and liquidity of Kentucky Employers' Mutual Insurance Authority (KEMI, or the Company). Information presented in this discussion supplements the schedules and exhibits included in KEMI's statutory basis Annual Statement filed with the Department of Insurance of the Commonwealth of Kentucky.

KEMI is a unique entity in the Kentucky workers' compensation insurance marketplace. KEMI operates as a self-supporting, competitive state fund created for the purpose of providing both a market of last resort for employers in the Commonwealth, as well as furnishing another competitive source of insurance in the voluntary market through which employers may secure and maintain their workers' compensation coverage. KEMI performs its duties under authority granted directly to it by the Kentucky General Assembly. Except for items specifically addressed in its enabling statute, KEMI operates as a domestic mutual insurance company. KEMI began writing business effective September 1, 1995.

KEMI is governed by a ten member board of directors. Seven board members are appointed by the Governor and three board members are specified cabinet secretaries. The board is responsible for hiring a manager, and both the board and the manager are given specific statutory duties.

The Company endeavors to maintain fiscal discipline in the administration of workers' compensation insurance by keeping the cost of coverage affordable to all employers in the Commonwealth through increased competition and by providing superior service to policyholders and claimants. In addition, the Company offers loss education programs and safety training to help policyholders control their own destiny in the marketplace. KEMI has no public funding and sets its standards based on long-term financial stability. KEMI does, in fact, make workers' comp work.

**FINANCIAL POSITION**

The Statement of Admitted Assets, Liabilities and Policyholder Surplus (balance sheet) reflects KEMI's financial position at year end. KEMI's condensed balance sheets as of December 31 were as follows:

	<u>2019</u>	<u>2018</u>
<b>Admitted Assets:</b>		
Long-term bonds	\$ 940,731,186	\$ 838,021,650
Common stocks	55,190,169	70,699,997
Cash and short-term investments	43,735,240	35,224,679
Real estate	4,025,000	5,020,818
Other invested assets	<u>0</u>	<u>13,082,901</u>
Subtotal cash and invested assets	1,043,681,595	962,050,045
Investment income receivable	6,484,708	6,309,754
Premiums receivable or deferred	49,378,545	59,550,069
Receivables for retroactive reinsurance assumed	4,245,389	15,051,836
Other admitted assets	<u>867,049</u>	<u>75,367</u>
 Total admitted assets	 <u>\$ 1,104,657,286</u>	 <u>\$ 1,043,037,071</u>

**KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY**  
**2019 MANAGEMENT'S DISCUSSION AND ANALYSIS**

	<u>2019</u>	<u>2018</u>
<b>Liabilities and Policyholder Surplus:</b>		
Unpaid loss reserves	\$ 612,265,699	\$ 584,639,044
Unpaid loss adjustment expense reserves	53,067,996	48,643,467
Premiums written but not yet earned	67,787,574	74,838,627
Commissions and accounts payable	16,149,673	17,856,753
Amounts withheld or retained for others	9,496,225	13,381,070
Retroactive reinsurance reserves assumed	65,115,306	70,734,602
Retroactive reinsurance reserve ceded	(25,930,096)	(14,115,842)
Funds withheld on retroactive reinsurance ceded	31,239,957	18,028,065
Liability for projected pension and postretirement benefits	11,542,402	10,852,340
Other liabilities	<u>2,197,987</u>	<u>2,376,026</u>
Total liabilities	842,932,723	827,234,152
Policyholder surplus	<u>261,724,563</u>	<u>215,802,919</u>
Total liabilities and policyholder surplus	<u>\$ 1,104,657,286</u>	<u>\$ 1,043,037,071</u>

During 2019 KEMI's policyholder surplus increased by \$45,921,644. Of this increase, \$36,999,599 was the result of KEMI's net income for the year. Also contributing to the increase were net unrealized capital gains of \$11,292,033 on investment holdings. Reductions to surplus included an increase in non-admitted assets of \$1,679,926 and actuarial changes to projected pension benefits and postretirement benefits of \$690,062.

**Assets**

Cash and invested assets made up 94% of KEMI's total admitted assets at the end of 2019. KEMI's long-term bond portfolio had a carrying value of \$940,731,186 and a fair market value of \$967,731,882. Nearly 97% of long-term bonds held at year end were rated either NAIC 1 (highest quality) or NAIC 2 (high quality). Money market funds had a fair market value of \$11,343,039 and operating cash balances totaled \$32,392,201. The fixed income portfolio had an effective maturity of 5.61 years, an average book yield of 3.2% and an average credit rating of A1/A+. Common stocks, which were stated at fair market value as determined by the Securities Valuation Office of the NAIC, totaled \$55,190,169 and reflected net unrealized gains of \$7,812,148 at year end.

During the fourth quarter of 2019, KEMI's management and board of directors worked with its third-party investment manager to restructure the investment portfolio in a manner that would optimize the balance between risk and return. As part of this strategy, KEMI reduced its exposure to market risk by selling \$35 million in common stocks, which resulted in net realized capital gains of \$6.5 million. Also during the fourth quarter of 2019, KEMI sold its non-controlling limited partnership interest in ElmTree US Net Lease Fund III, LP, which resulted in a realized capital gain of \$4.4 million.

Premiums receivable or deferred are policy payments due from KEMI policyholders. As a result of payment plan arrangements offered by KEMI, \$38,244,457 of the \$49,378,545 in premium balances reflected on the 2019 balance sheet represent future installments that were deferred and not yet due. Statutory Accounting Principles also require management to estimate the amount of premium that will be earned but unbilled at the end of each policy in force based upon past policy audit experience. Management's estimate of \$3,916,935 is included in KEMI's deferred premium balances.

**KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY**  
**2019 MANAGEMENT'S DISCUSSION AND ANALYSIS**

Non-admitted assets are those assets which, under Statutory Accounting Principles, must be excluded from the balance sheet by a direct charge to surplus. At the end of 2019 KEMI's non-admitted assets totaled \$19,698,196 for a net increase of \$1,679,926 from the prior year. Included in non-admitted assets is \$8,006,853 of premium balances that are more than 90 days past due or are otherwise determined to be uncollectible. The collectability of these receivables is regularly assessed and balances are written off to bad debt only after all efforts to secure payment have been exhausted. Other non-admitted assets include pension and postretirement assets of \$11,178,103 which will be amortized through the income statement over the next six years, undepreciated balances of furniture, equipment and application software of \$36,899, prepaid expenses of \$53,943 and miscellaneous receivables of \$422,398.

**Liabilities**

Reserves for unpaid losses and loss adjustment expenses are stated at the Company's best estimate of the ultimate cost, net of ceded reinsurance, of settling all incurred but unpaid claims. Unpaid loss and loss adjustment expense reserves are based on industry statistics and Company history, along with management's expectations of loss relative to premiums earned by accident year. The method for making such estimates and for establishing the resulting liability is continually reviewed and any adjustments are reflected in the period determined. During 2019, adjustments to the loss and loss adjustment expense reserves of prior accident years resulted in a net increase of \$843,695 to those reserves.

In recent years, KEMI has experienced an increase in the number of occupation disease (black lung) claims reported. This increase is the result of both a decrease in the coal mining industry's workforce as well as recent amendments to the Federal Coal Mine Health and Safety Act. The Company closely monitors economic and regulatory changes impacting the coal industry, and continually evaluates the need for additional protection from losses which might arise from this industry segment.

Effective December 31, 2017, KEMI elected to discount the indemnity portion of black lung claim reserves on a tabular basis at a rate of 3.5%. Tabular discounting of indemnity reserves is a permitted practice of the NAIC and the Department of Insurance of the Commonwealth of Kentucky, and it is a common industry practice to discount the indemnity portion of black lung claim reserves as these claim payments are predictable, long-term in nature and ideal for discounting.

KEMI maintains Excess of Loss reinsurance coverage with unaffiliated, high quality reinsurers to limit its exposure to individual large losses as well as geographical concentrations of policyholders. KEMI also maintains an adverse development cover with an unaffiliated reinsurer that provides additional reinsurance protection against unfavorable development arising from existing and/or newly reported claims for accident years 1995 through 2014.

At the end of 2019, KEMI had 4,757 open claims from direct business, consisting of 3,378 indemnity claims and 1,379 medical-only claims. KEMI also had 61 open claims from business assumed under the Company's multi-state program, which provides workers' compensation coverage to Kentucky-based policyholders with similar operations in other states.

**KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY**  
**2019 MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management believes that its loss reserving methodologies are conservative and that the Company's reserves are adequate. KEMI's reserves are evaluated at least twice a year by an independent actuary who provides an annual Statement of Actuarial Opinion to KEMI's independent auditors and to regulatory agencies. KEMI received an Unqualified Statement of Actuarial Opinion for 2019, as it has every year since its inception.

Activity with respect to losses and loss adjustment expenses is displayed below:

	<u>2019</u>	<u>2018</u>
Unpaid losses and loss adjustment expenses, January 1	\$ 633,282,511	\$ 601,885,415
Gross losses incurred	108,770,276	104,517,097
Gross loss adjustment expenses incurred	26,452,406	28,546,461
Ceded losses and loss adjustment expenses incurred	(2,807,751)	(2,324,189)
Subrogation recoveries incurred	<u>(445,809)</u>	<u>(389,840)</u>
Net incurred	<u>131,969,122</u>	<u>130,349,529</u>
Gross losses paid	78,468,772	77,862,700
Gross loss adjustment expenses paid	22,396,506	23,221,649
Ceded losses and loss adjustment expenses recovered	(501,531)	(1,742,076)
Subrogation recovered	<u>(445,809)</u>	<u>(389,840)</u>
Net paid	<u>99,917,938</u>	<u>98,952,433</u>
Unpaid losses and loss adjustment expenses, December 31	<u>\$ 665,333,695</u>	<u>\$ 633,282,511</u>

During 2014, KEMI voluntarily executed a loss portfolio transfer with the Kentucky Commissioner of Insurance, Rehabilitator of the Kentucky School Boards Insurance Trust Workers' Compensation Self Insurance Fund (KSBIT). In exchange for \$35 million of guaranteed assessments due from the school boards formerly insured by KSBIT, KEMI assumed responsibility for approximately \$35 million in unpaid claim liabilities incurred for the period July 7, 1978 through June 30, 2013. As a result of efficient claims handling practices, actuarially determined claim liabilities are expected to be less than originally projected; therefore, KEMI was able to return \$4.8 million of transferred reserves to the Rehabilitator in March 2019. KEMI expects to return another \$4.8 million to the Rehabilitator in early 2020. As of December 31, 2019, KSBIT's cash balance was \$19,368,843, assessments receivable were \$2,731,128, and net liabilities (including excess funds to be returned) totaled \$22,099,971. KSBIT reserves for unpaid losses and loss adjustment expenses are not discounted.

During 2017, KEMI voluntarily executed a loss portfolio transfer with the Kentucky Workers' Compensation Funding Commission (the Funding Commission) wherein all authority and responsibility to administer the Kentucky Coal Workers' Pneumoconiosis Fund (KCWPF) was transferred from the Funding Commission to KEMI. The purpose of KCWPF is to pay one-half of the indemnity benefits for coal-related occupational disease claims incurred on or after December 12, 1996 and filed on or before June 30, 2017. Pursuant to this loss portfolio transfer, the Funding Commission transferred all existing assets and liabilities of KCWPF to KEMI. The Funding Commission has continued to impose and collect quarterly assessments in a manner consistent with past practice and has remitted those assessments to KEMI. Assessment collections ceased after the 4<sup>th</sup> quarter of 2019, as both parties agree that all claim liabilities are fully funded. Based on current actuarial reserve studies, KEMI expects to have excess assets that will be distributed in a manner determined by the Kentucky Legislature. As of December

## KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY 2019 MANAGEMENT'S DISCUSSION AND ANALYSIS

31, 2019, KCWPF's cash and investments totaled \$41,501,074, receivables for 4<sup>th</sup> quarter 2019 assessments were \$650,000, transition funds receivable from the Funding Commission were \$864,261, and net liabilities (including excess funds to be distributed) totaled \$43,015,335. KCWPF reserves for unpaid losses and loss adjustment expenses are not discounted.

As of July 1, 2016, KEMI established a contributory 401(a) defined benefit pension plan for which it is the plan sponsor. This defined benefit plan was only made available to active employees at June 30, 2016 who were fully vested in the company's predecessor plan, the Kentucky Retirement Systems' (KRS) defined benefit pension plan. KEMI's defined benefit plans provide pension benefits and a partial subsidy of retiree health insurance premiums for eligible KEMI employees who chose to participate in the plan. Eligible employees who chose not to participate in KEMI's defined benefit pension plan could remain with KRS or could elect to participate in KEMI's 401(a) defined contribution plan, which provides an enhanced match rate and access to the retiree health insurance plan. Employees hired on or after July 1, 2016 may only participate in the defined contribution plan under which they receive 6% in employer matching funds, and they do not have access to the retiree health insurance plan. Participating employees are required to contribute 6% of their salary to the plan in which they are enrolled.

In mid-2019, KEMI's management evaluated certain investment strategies and assumptions related to the defined benefit pension plan and the defined benefit retiree health insurance plan. To shed excess risk related to these plans, KEMI's management and board of directors rebalanced the portfolio guidelines and lowered exposure to market risk by reducing common stock holdings. The plans' neutral target allocation was revised to 75% in fixed income securities, 15% in common stocks, and 10% in diversifying strategies. Pursuant to this investment restructuring, the plans' target rate of return was lowered from 5% to 4%. The actuarial impact of reducing the rate of return assumption was an increase in projected liabilities. For this reason, and also because KEMI produced outstanding underwriting results in 2019, KEMI's board of directors approved an additional \$2 million contribution to the defined benefit pension plan to increase funding levels.

During 2019, KEMI contributed \$3.4 million to the defined benefit pension plan (which includes the \$2 million contribution discussed in the previous paragraph), \$0.3 million to the retiree health insurance plan, and \$1.1 million to the defined contribution plan. In 2020, KEMI expects to contribute \$1.9 million to the defined benefit pension plan, \$0.3 million to the retiree health insurance plan, and approximately \$1 million to the defined contribution plan. Employer contributions to the defined benefit plans are evaluated as deemed necessary to ensure the financial soundness of the plans; employer contributions to the defined contribution plan are based upon pre-determined match rates as described in the previous paragraph.

### **Policyholder Surplus**

The Company's overall financial position remained strong in 2019. KEMI's mission is to make workers' compensation coverage affordable to employers by adhering to financially responsible underwriting practices, promoting safety in the workplace, protecting itself against unfavorable loss development and controlling overhead costs. Management regularly evaluates premium and claim levels, operating expenditures and investment performance to maintain the Company's sound financial footing. Looking forward, increases to surplus are expected from net investment income, modest rate adjustments and a continued focus on controlling operating expenses.

**KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY  
2019 MANAGEMENT'S DISCUSSION AND ANALYSIS**

**RESULTS OF OPERATIONS**

The Statement of Income measures the results of operations during the reporting period. KEMI's condensed Statements of Income for the years ended December 31 were as follows:

	<u>2019</u>	<u>2018</u>
Net premiums earned	\$ 163,378,525	\$ 157,752,102
Losses incurred	105,160,834	102,051,559
Loss adjustment expenses incurred	26,808,288	28,297,970
Underwriting expenses incurred	<u>30,171,139</u>	<u>34,143,952</u>
Net underwriting gain (loss)	1,238,264	(6,741,379)
Net investment income	28,196,803	25,058,082
Net realized capital gains	12,096,439	5,806,415
Other income (expenses)	(1,881,503)	(830,524)
Net periodic pension and postretirement benefit costs	<u>(2,650,404)</u>	<u>(2,485,223)</u>
 Net income	 <u>\$ 36,999,599</u>	 <u>\$ 20,807,371</u>

**CASH FLOW AND LIQUIDITY**

**Cash Flow**

The Statement of Cash Flows reports cash provided by or used for operations, investments and other sources. KEMI's condensed Statements of Cash Flows for the years ended December 31 were as follows:

	<u>2019</u>	<u>2018</u>
<b>Cash Flows from Operations:</b>		
Net cash from underwriting and claims	\$ 30,816,765	\$ 19,773,535
Investment income received	32,144,302	26,769,821
Miscellaneous income/(expense)	<u>(4,531,907)</u>	<u>(3,315,747)</u>
Net cash provided by (used for) operations	<u>58,429,160</u>	<u>43,227,609</u>
 <b>Cash Flows from Investments:</b>		
Proceeds from investments sold or matured	271,560,415	295,145,304
Cost of investments acquired	<u>(323,563,659)</u>	<u>(352,905,537)</u>
Net cash provided by (used for) investments	<u>(52,003,244)</u>	<u>(57,760,233)</u>
 <b>Cash Flows from Other Sources:</b>		
Net cash from retroactive reinsurance transactions	4,292,148	13,274,947
Other cash provided (applied)	<u>(2,207,503)</u>	<u>3,609,409</u>
Net cash provided by (used for) other sources	<u>2,084,645</u>	<u>16,884,356</u>
 Net change in cash and short-term investments	 8,510,561	 2,351,732
Cash and short-term investments, beginning of year	<u>35,224,679</u>	<u>32,872,947</u>
 Cash and short-term investments, end of year	 <u>\$ 43,735,240</u>	 <u>\$ 35,224,679</u>

**KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY**  
**2019 MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Liquidity**

KEMI's portfolio of cash and invested assets exceeds the estimated amounts eventually required to satisfy KEMI's liabilities. As additional funds become available, they are primarily invested in high quality long-term bonds. Maturity dates for KEMI's fixed income securities closely match the actuarial expected payout of losses and loss adjustment expenses. KEMI's equity positions are highly rated with a focus on steady dividends and are actively traded on major exchanges. KEMI maintains sufficient cash balances on hand to meet its obligations as they come due.

***NOTE:** To the extent that the above comments constitute forward-looking statements, these statements are not guarantees of future performance. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties and assumptions about the Company, economic and market factors, judicial rulings and the insurance industry, among other things. Actual events and results may differ materially from those expressed in forward-looking statements.*



**KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY**  
**Quarterly Statement of Assets, Liabilities, Policyholders' Surplus and Net Income**  
**Statutory Basis of Accounting**

<b>BALANCE SHEET</b>	<b>Quarter ended 3/31/2019</b>		<b>Quarter ended 6/30/2019</b>		<b>Quarter ended 9/30/2019</b>		<b>Quarter ended 12/31/2019</b>		<b>Year ended 12/31/2019</b>						
<b>ASSETS</b>															
Long-term bonds	\$	840,687,044	\$	838,108,741	\$	893,882,994	\$	940,731,186	\$	940,731,186					
Common stocks		78,985,690		83,599,651		85,505,483		55,190,169		55,190,169					
Cash and short-term investments		47,451,798		62,305,945		29,163,393		43,735,240		43,735,240					
Real estate		5,020,818		5,020,818		5,020,818		4,025,000		4,025,000					
Other invested assets		13,082,901		13,082,901		13,116,386		0		0					
Receivable for securities		1,156,706		0		109,400		0		0					
Investment income due and accrued		6,259,787		6,472,732		6,773,904		6,484,708		6,484,708					
Premiums in course of collection		13,444,733		19,253,164		14,818,984		11,134,088		11,134,088					
Premiums deferred and not yet due		49,321,326		24,337,817		34,451,148		38,244,457		38,244,457					
Reinsurance receivable		87,226		48,630		79,178		49,567		49,567					
Funds on deposit with reinsurers		0		0		750,000		750,000		750,000					
Electronic data processing equipment		15,513		17,949		89,551		67,482		67,482					
Receivables for retroactive reinsurance reserves assumed		9,017,539		11,433,588		5,076,862		4,245,389		4,245,389					
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>1,064,531,081</b>	<b>\$</b>	<b>1,063,681,936</b>	<b>\$</b>	<b>1,088,838,101</b>	<b>\$</b>	<b>1,104,657,286</b>	<b>\$</b>	<b>1,104,657,286</b>					
<b>LIABILITIES &amp; SURPLUS</b>															
Loss reserves	\$	591,432,837	\$	600,585,676	\$	609,724,670	\$	612,265,699	\$	612,265,699					
Loss adjustment expense reserves		50,628,537		50,544,435		52,520,484		53,067,996		53,067,996					
Commissions payable		13,665,379		12,271,159		11,567,890		12,081,707		12,081,707					
Other expenses payable		3,825,879		3,944,829		4,368,583		4,067,966		4,067,966					
Unearned premiums		76,148,317		63,069,650		70,851,925		67,787,574		67,787,574					
Ceded reinsurance premiums payable		(900,210)		(694,167)		(496,008)		18,408		18,408					
Funds withheld under reinsurance treaties		807,930		717,052		650,659		1,116,113		1,116,113					
Amounts withheld or retained for others		11,652,964		9,172,631		9,835,927		9,496,225		9,496,225					
Remittances and items not allocated		776,867		876,697		781,235		1,063,466		1,063,466					
Payable for securities		8,188,589		1,300,699		750,000		0		0					
Retroactive reinsurance reserves assumed		64,264,896		65,622,600		65,289,488		65,115,306		65,115,306					
Retroactive reinsurance reserve ceded		(15,706,439)		(15,561,219)		(30,135,394)		(25,930,096)		(25,930,096)					
Funds withheld on retroactive reinsurance reserve ceded		19,963,519		20,166,173		35,091,266		31,239,957		31,239,957					
Liability for projected pension and postretirement benefits		10,025,027		9,197,714		8,452,184		11,542,402		11,542,402					
<b>TOTAL LIABILITIES</b>	<b>\$</b>	<b>834,774,092</b>	<b>\$</b>	<b>821,213,929</b>	<b>\$</b>	<b>839,252,909</b>	<b>\$</b>	<b>842,932,723</b>	<b>\$</b>	<b>842,932,723</b>					
<b>POLICYHOLDER SURPLUS (BEGINNING)</b>	<b>\$</b>	<b>215,802,919</b>	<b>\$</b>	<b>229,756,989</b>	<b>\$</b>	<b>242,468,007</b>	<b>\$</b>	<b>249,585,192</b>	<b>\$</b>	<b>215,802,919</b>					
Net income/(loss) after policyholder dividends		5,697,817		7,490,066		4,911,568		18,900,148		36,999,599					
Change in net unrealized capital gains/(losses)		7,243,390		3,660,727		306,859		81,057		11,292,033					
Change in non-admitted assets		185,550		732,912		1,153,228		(3,751,616)		(1,679,926)					
Change in projected pension and postretirement benefits		827,313		827,313		745,530		(3,090,218)		(690,062)					
<b>POLICYHOLDER SURPLUS (ENDING)</b>		<b>229,756,989</b>		<b>242,468,007</b>		<b>249,585,192</b>		<b>261,724,563</b>		<b>261,724,563</b>					
<b>TOTAL LIABILITIES &amp; POLICYHOLDER SURPLUS</b>	<b>\$</b>	<b>1,064,531,081</b>	<b>\$</b>	<b>1,063,681,936</b>	<b>\$</b>	<b>1,088,838,101</b>	<b>\$</b>	<b>1,104,657,286</b>	<b>\$</b>	<b>1,104,657,286</b>					
<b>INCOME STATEMENT</b>															
Net premiums earned	\$	40,421,966	100.00%	\$	41,703,608	100.0%	\$	41,430,955	100.00%	\$	39,821,996	100.00%	\$	163,378,525	100.00%
Deductions:															
Net losses incurred		28,078,709	69.5%	27,834,504	66.7%	26,530,865	64.0%	22,716,756	57.0%	105,160,834	64.4%				
Net loss adjustment expenses incurred		7,120,201	17.6%	5,902,440	14.2%	7,510,300	18.1%	6,275,347	15.8%	26,808,288	16.4%				
Other underwriting expenses		6,934,270	17.2%	6,275,214	15.0%	9,708,934	23.4%	7,252,721	18.2%	30,171,139	18.5%				
<b>Total deductions</b>		<b>42,133,180</b>	<b>104.2%</b>	<b>40,012,158</b>	<b>95.9%</b>	<b>43,750,099</b>	<b>105.6%</b>	<b>36,244,824</b>	<b>91.0%</b>	<b>162,140,261</b>	<b>99.2%</b>				
Net underwriting gain/(loss)		(1,711,214)	-4.2%	1,691,450	4.1%	(2,319,144)	-5.6%	3,577,172	9.0%	1,238,264	0.8%				
Net investment income earned		6,972,029	17.2%	6,704,289	16.1%	6,934,366	16.7%	7,586,119	19.1%	28,196,803	17.3%				
Net realized gains/(losses)		1,330,842	3.3%	379,515	0.9%	1,757,356	4.2%	8,628,726	21.7%	12,096,439	7.4%				
Other income/(expenses)		(182,223)	-0.5%	(632,233)	-1.5%	(731,139)	-1.8%	(335,908)	-0.8%	(1,881,503)	-1.2%				
Net periodic pension and postretirement benefit expense		(711,617)	-1.8%	(652,955)	-1.6%	(729,871)	-1.8%	(555,961)	-1.4%	(2,650,404)	-1.6%				
<b>NET INCOME/(LOSS)</b>	<b>\$</b>	<b>5,697,817</b>	<b>14.1%</b>	<b>\$</b>	<b>7,490,066</b>	<b>18.0%</b>	<b>\$</b>	<b>4,911,568</b>	<b>11.9%</b>	<b>\$</b>	<b>18,900,148</b>	<b>47.5%</b>	<b>\$</b>	<b>36,999,599</b>	<b>22.6%</b>

**KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY**  
2019 at a Glance

	Quarter ended <u>3/31/2019</u>	Quarter ended <u>6/30/2019</u>	Quarter ended <u>9/30/2019</u>	Quarter ended <u>12/31/2019</u>	Year ended <u>12/31/2019</u>
<b><u>Cash and Invested Assets:</u></b>					
Long-term bonds:					
U.S. government securities	\$ 47,008,616	\$ 46,548,837	\$ 46,630,306	\$ 46,612,789	\$ 46,612,789
U.S. special revenue bonds	152,167,846	147,076,706	170,047,708	196,062,037	196,062,037
Corporate issuer obligation bonds	490,695,780	488,687,959	507,307,527	518,785,483	518,785,483
Corporate issuer mortgage-backed securities	45,572,039	46,714,675	53,745,891	63,426,658	63,426,658
Other loan-backed and structured securities	95,343,220	99,195,055	107,520,327	107,227,576	107,227,576
All other bonds	9,899,543	9,885,509	8,631,235	8,616,643	8,616,643
Total long-term bonds	<u>840,687,044</u>	<u>838,108,741</u>	<u>893,882,994</u>	<u>940,731,186</u>	<u>940,731,186</u>
Common stocks	78,985,690	83,599,651	85,505,483	55,190,169	55,190,169
Short-term investments	38,354,971	46,113,792	17,474,202	11,343,039	11,343,039
Operating cash balances	9,096,827	16,192,153	11,689,191	32,392,201	32,392,201
Real estate	5,020,818	5,020,818	5,020,818	4,025,000	4,025,000
Other invested assets	13,082,901	13,082,901	13,116,386	0	0
Receivables for securities	1,156,706	0	109,400	0	0
Total cash and invested assets	<u>\$ 986,384,957</u>	<u>\$ 1,002,118,056</u>	<u>\$ 1,026,798,474</u>	<u>\$ 1,043,681,595</u>	<u>\$ 1,043,681,595</u>
<b><u>Gross Interest and Dividends Earned:</u></b>					
Net interest and dividends earned	\$ 6,972,029	\$ 6,704,289	\$ 6,934,366	\$ 7,586,119	\$ 28,196,803
Add back interest expense on reinsurance funds withheld	350,666	352,696	354,981	360,959	1,419,302
Add back investment income attributable to KCWPF	179,755	201,753	258,744	254,751	895,003
Add back investment expenses	398,086	401,281	434,383	412,010	1,645,760
Gross interest and dividends earned	<u>\$ 7,900,536</u>	<u>\$ 7,660,019</u>	<u>\$ 7,982,474</u>	<u>\$ 8,613,839</u>	<u>\$ 32,156,868</u>
<b><u>Net Realized Investment Gains (Losses):</u></b>					
Net realized gains (losses) on long-term bonds	\$ 190,830	\$ 647,878	\$ 996,753	\$ 407,310	\$ 2,242,771
Net realized gains (losses) on common stocks	1,140,012	(268,363)	760,603	4,851,402	6,483,654
Net realized gains (losses) on real estate	0	0	0	(995,818)	(995,818)
Net realized gains (losses) on other invested assets	0	0	0	4,365,832	4,365,832
Total net realized investment gains (losses)	<u>\$ 1,330,842</u>	<u>\$ 379,515</u>	<u>\$ 1,757,356</u>	<u>\$ 8,628,726</u>	<u>\$ 12,096,439</u>
<b><u>Direct Policy Activity:</u></b>					
Direct premiums written	\$ 42,304,062	\$ 29,246,829	\$ 49,871,769	\$ 37,034,256	\$ 158,456,916
Direct premiums earned	\$ 41,059,064	\$ 42,302,439	\$ 42,341,413	\$ 40,029,632	\$ 165,732,548
Direct commissions paid, excluding contingent	\$ 4,061,331	\$ 2,423,349	\$ 4,971,729	\$ 3,377,338	\$ 14,833,747
Direct commissions paid as a % of direct premiums written	9.60%	8.29%	9.97%	9.12%	9.36%
<b>Direct Active Policy Count</b>	<b>22,666</b>	<b>22,557</b>	<b>22,461</b>	<b>22,145</b>	<b>22,145</b>
<b><u>Direct Claim Activity:</u></b>					
Direct losses paid, net of subrogation received	\$ 21,168,650	\$ 18,570,681	\$ 17,192,855	\$ 19,676,534	\$ 76,608,720
Direct loss adjustment expenses paid, net of subrogation received	\$ 5,084,153	\$ 5,904,457	\$ 5,453,987	\$ 5,617,640	\$ 22,060,237
Direct reserve for unpaid losses, including IBNR	\$ 612,238,632	\$ 620,494,677	\$ 629,546,614	\$ 634,505,747	\$ 634,505,747
Direct reserve for unpaid loss adjustment expenses, including IBNR	\$ 50,955,739	\$ 50,815,593	\$ 52,744,050	\$ 53,339,749	\$ 53,339,749
<b>Direct Open Claim Count</b>	<b>5,071</b>	<b>4,651</b>	<b>4,984</b>	<b>4,757</b>	<b>4,757</b>