

**Kentucky Employers' Mutual Insurance Authority  
dba Kentucky Employers' Mutual Insurance**

**Statutory Basis Financial Statements**

**Years Ended December 31, 2019 and 2018**

**Kentucky Employers' Mutual Insurance Authority**  
**dba Kentucky Employers' Mutual Insurance**  
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**Years Ended December 31, 2019 and 2018**

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## **Independent Auditor's Report on Statutory Financial Statements**

Board of Directors  
Kentucky Employers' Mutual Insurance Authority  
dba Kentucky Employers' Mutual Insurance

We have audited the accompanying statutory basis financial statements of Kentucky Employers' Mutual Insurance Authority dba Kentucky Employers' Mutual Insurance ("KEMI"), which comprise the statement of admitted assets, liabilities and policyholder surplus - statutory basis as of December 31, 2019, and the related statements of income - statutory basis, changes in policyholder surplus - statutory basis, and cash flows - statutory basis for the year then ended, and the related notes to the statutory basis financial statements ("statutory financial statements").

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with the accounting practices prescribed or permitted by the Department of Insurance of the Commonwealth of Kentucky. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these statutory 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 financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("auditing standards"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statutory 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 entity'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 statutory financial statements.

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

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## **Independent Auditor's Report on Statutory Financial Statements (Continued)**

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note B of the statutory financial statements, the statutory financial statements are prepared by KEMI on the statutory basis of accounting prescribed or permitted by the Department of Insurance of the Commonwealth of Kentucky, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the statutory financial statements of the variances between these statutory basis accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the statutory financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of KEMI as of December 31, 2019, or the results of its operations or its cash flows for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and policyholder surplus of KEMI as of December 31, 2019, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note B.

### **Uncertainties Regarding the Reserve for Losses and Loss Adjustment Expenses**

As discussed in Note B in the accompanying statutory financial statements, the reserve for unpaid losses and loss adjustment expenses reflected in the accompanying statutory financial statements is based upon an evaluation by an independent actuary. Although management believes that this estimate is reasonable, because of inherent uncertainties in estimating loss reserves, it is reasonably possible that changes in such estimates may occur and can be material in relation to the statutory financial statements as a whole. Our opinion is not modified with respect to this matter.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the basic statutory financial statements as a whole. The accompanying Summary Investment Schedule as of December 31, 2019, Supplemental Investment Risks Interrogatories as of and for the year then ended December 31, 2019, and Reinsurance Interrogatories as of December 31, 2019 ("Supplementary Information") are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory financial statements. The effects on the Supplementary Information of the variances between the statutory basis accounting practices and the accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the Supplementary Information does not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of KEMI as of and for the year then ended December 31, 2019. The Supplementary Information has been subjected to the auditing procedures applied in the audit of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to the prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards. In our opinion, the Supplementary Information is fairly stated in all material respects in relation to the statutory financial statements as a whole.

## **Independent Auditor's Report on Statutory Financial Statements (Continued)**

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2020 on our consideration of KEMI's internal control over statutory financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over statutory financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of KEMI'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 KEMI's internal control over statutory financial reporting and compliance.

### **Other Matters**

The statutory financial statements of KEMI for the year ended December 31, 2018 were audited by other auditors who expressed an unmodified opinion on those statutory financial statements on March 28, 2019.

MCM CPAs & Advisors LLP

Louisville, Kentucky  
May 22, 2020

**Kentucky Employers' Mutual Insurance Authority**  
**dba Kentucky Employers' Mutual Insurance**  
**Statements of Admitted Assets, Liabilities and Policyholder Surplus - Statutory Basis**  
**December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Long-term bonds	\$ 940,731,186	\$ 838,021,650
Common stock	55,190,170	70,699,997
Cash, cash equivalents, and short-term investments	43,735,240	35,224,679
Real estate	4,025,000	5,020,818
Other invested assets	-	13,082,901
Investment income due and accrued	6,484,706	6,309,754
Premiums in course of collection	11,134,089	12,652,243
Premiums booked but deferred and not yet due	38,244,456	46,897,826
Funds on deposit with reinsurers	750,000	-
Reinsurance receivable on losses and loss adjustment expenses	49,567	56,225
Electronic data processing equipment at cost, less accumulated depreciation of \$1,140,773 and \$3,124,780 in 2019 and 2018, respectively	67,481	19,142
Receivables for retroactive reinsurance reserves assumed	4,245,389	15,051,836
	<u>\$ 1,104,657,284</u>	<u>\$ 1,043,037,071</u>
<b>Liabilities and policyholder surplus</b>		
Unpaid losses, net	\$ 612,265,700	\$ 584,639,044
Unpaid loss adjustment expenses, net	53,067,995	48,643,467
Commissions payable	12,081,708	12,699,833
Unearned premiums	67,787,574	74,838,627
Amounts withheld or retained for others	9,496,224	13,381,070
Reinsurance premiums payable	18,408	192,229
Funds withheld under reinsurance treaties	1,116,113	866,624
Remittances and items not allocated	1,063,465	817,173
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
Minimum pension and postretirement benefits	11,542,402	10,852,340
Payable for securities purchased	-	500,000
Other liabilities	4,067,965	5,156,920
	<u>842,932,721</u>	<u>827,234,152</u>
Total liabilities	842,932,721	827,234,152
Policyholder surplus	<u>261,724,563</u>	<u>215,802,919</u>
	<u>\$ 1,104,657,284</u>	<u>\$ 1,043,037,071</u>
Total liabilities and policyholder surplus	<u>\$ 1,104,657,284</u>	<u>\$ 1,043,037,071</u>

See accompanying notes.

**Kentucky Employers' Mutual Insurance Authority**  
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**Statements of Income - Statutory Basis**  
**Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Premiums earned		
Direct	\$ 165,732,548	\$ 159,779,512
Assumed	2,858,653	3,058,135
Ceded	<u>(5,212,676)</u>	<u>(5,085,545)</u>
	163,378,525	157,752,102
Losses and loss adjustment expenses incurred		
Direct	106,796,253	103,488,146
Assumed	1,528,214	642,988
Ceded	(3,163,634)	(2,079,575)
Loss adjustment expenses, net of ceded	<u>26,808,288</u>	<u>28,297,970</u>
	131,969,121	130,349,529
Commissions and brokerage fees	16,738,118	18,791,004
Other underwriting expenses	<u>13,433,022</u>	<u>15,352,948</u>
Total underwriting expenses	<u>162,140,261</u>	<u>164,493,481</u>
Net underwriting income (loss)	1,238,264	(6,741,379)
Investment income, net of investment expenses of \$1,645,760 and \$1,461,328 in 2019 and 2018, respectively	28,196,803	25,058,082
Net realized capital gains	12,096,439	5,806,415
Pension and postretirement benefits expense	(2,650,404)	(2,485,223)
Bad debt and other expenses	<u>(1,881,504)</u>	<u>(830,524)</u>
Net income	<u>\$ 36,999,598</u>	<u>\$ 20,807,371</u>

See accompanying notes.

**Kentucky Employers' Mutual Insurance Authority**  
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**Statements of Changes in Policyholder Surplus - Statutory Basis**  
**Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Policyholder surplus, beginning of year	\$ 215,802,919	\$ 206,746,411
Net income	36,999,598	20,807,371
Changes to net unrealized gains (losses) on investments	11,292,034	(14,693,870)
Change in non-admitted assets	(1,679,926)	255,082
Change in provision for reinsurance	-	3,000
Change in projected pension and postretirement benefits	<u>(690,062)</u>	<u>2,684,925</u>
Policyholder surplus, end of year	<u><u>\$ 261,724,563</u></u>	<u><u>\$ 215,802,919</u></u>

See accompanying notes.



**Kentucky Employers' Mutual Insurance Authority**  
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**Statements of Cash Flows - Statutory Basis**  
**Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Premiums collected, net of reinsurance	\$ 163,313,081	\$ 151,278,876
Investment income, net of investment expenses	32,144,302	26,769,821
Miscellaneous expenses	(4,531,907)	(3,315,747)
Benefit and loss related payments, net	(78,277,520)	(75,716,381)
Commissions, expenses paid and aggregate write-ins	<u>(54,218,796)</u>	<u>(55,788,960)</u>
Net cash provided by operating activities	58,429,160	43,227,609
Cash flows from investing activities		
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 used in investing activities	(52,003,244)	(57,760,233)
Cash flows from miscellaneous activities		
Other cash provided	<u>2,084,645</u>	<u>16,884,356</u>
Net change in cash, cash equivalents, and short-term investments	8,510,561	2,351,732
Cash, cash equivalents, and short-term investments, beginning of year	<u>35,224,679</u>	<u>32,872,947</u>
Cash, cash equivalents, and short-term investments, end of year	<u>\$ 43,735,240</u>	<u>\$ 35,224,679</u>

See accompanying notes.

**Kentucky Employers' Mutual Insurance Authority**  
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**Notes to Statutory Financial Statements**  
**Years Ended December 31, 2019 and 2018**

**Note A - Nature of Organization and Operations**

Kentucky Employers' Mutual Insurance Authority dba Kentucky Employers' Mutual Insurance ("KEMI") is a non-profit, independent, self-supporting de jure municipal corporation and political subdivision of the Commonwealth of Kentucky (the "Commonwealth"). KEMI was established by legislation of the Commonwealth enacted April 4, 1994 to serve as a competitive state fund for the purpose of providing both a market of last resort for employers in the Commonwealth and another competitive source of insurance in the voluntary market through which employers may secure and maintain their workers' compensation coverage as required by state law. KEMI began writing business effective September 1, 1995.

**Note B - Summary of Significant Accounting Policies**

1. Basis of Presentation: The accompanying statutory basis financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Department of Insurance of the Commonwealth of Kentucky (the "Department"), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). Prescribed statutory accounting policies include a variety of publications of the National Association of Insurance Commissioners ("NAIC"), as well as state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting policies other than those prescribed. The NAIC *Accounting Practices and Procedures* Manual (NAIC SAP Version March 2019) has been adopted as a component of prescribed practices by the Commonwealth of Kentucky. KEMI does not employ any practices not prescribed by the NAIC or the Department in the preparation of its statutory financial statements. The more significant differences between statutory accounting practices and GAAP are as follows:

- Investments in bonds with an NAIC rating of 1 or 2 are carried at NAIC determined value or amortized cost, whereas bonds with a NAIC rating of 3 through 6 are assigned specific year-end values by the NAIC and are written down to Securities Valuation Office ("SVO") assigned values (if less than amortized cost) by charging statutory policyholder surplus. Under GAAP, bonds are classified into three categories: held to maturity, available for sale and trading. Bonds held to maturity are stated at amortized cost; bonds available for sale are stated at fair value and the resulting unrealized gains or losses, net of applicable income taxes, are charged or credited to policyholder surplus; and bonds held for trading are reported at fair value and the resulting gains and losses are reported in earnings, net of related taxes.

For loan-backed and structured securities, if the company determines that a security is impaired and management intends to sell the security or no longer has the ability and intent to retain the investment for a period of time sufficient to recover the amortized cost, that security shall be written down to fair value. For statutory purposes, if the company subsequently changes their assertion, and now believe they do not intend to sell the security and have the ability and intent to retain the investment for a period of time sufficient to recover the amortized cost, that security will continue to be carried at the lower of cost or market with any future decreases in fair value charged through operations until the security is disposed. For GAAP purposes, once the company alters their assertion, that security's amortized cost basis will not be decreased for future reductions in fair value unless an other-than-temporary impairment is determined to have occurred.

Also, for GAAP purposes, other-than-temporary impairment losses related to debt securities (related to non-loan-backed and structured securities) are bifurcated between credit and non-credit, whereas for statutory purposes the total other-than-temporary impairment loss is reported in earnings.

- Changes in the unrealized gains (losses) of common stock investments are recorded as a component of policyholder surplus under statutory accounting principles. Under GAAP, common stocks are carried at fair value with unrealized changes in fair value recognized in operations.

**Kentucky Employers' Mutual Insurance Authority**  
**dba Kentucky Employers' Mutual Insurance**  
**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note B - Summary of Significant Accounting Policies (Continued)**

1. Basis of Presentation (Continued):

- Assets having economic value other than those that can be used to fulfill policyholder obligations are categorized as "nonadmitted assets" and are not permitted to be included in the statutory financial statements of admitted assets, liabilities, and policyholder surplus, whereas, for GAAP, these assets are recognized in the balance sheet. Included with nonadmitted assets are furniture, equipment and supplies, prepaid expenses, certain receivables and other items that do not meet statutory criteria for admitted assets.
- Receivables over 90 days outstanding are not admitted in the statutory financial statements and charged to policyholder surplus, whereas, for GAAP, the company assesses the collectability of premiums receivable and any charge is to the income statement.
- The statutory financial statements are presented net of the effects of reinsurance, whereas, for GAAP, the financial statements are presented gross of the effects of reinsurance.
- Commissions allowed by reinsurers on business ceded are reported as income when received rather than being deferred and, to the extent recoverable, amortized with deferred policy acquisition costs, as required under GAAP.
- Comprehensive income is not determined for statutory reporting purposes, whereas, for GAAP, such income is recognized.
- Costs incurred in connection with acquiring new insurance business, including commissions, are charged against statutory earnings as such costs are incurred, while, under GAAP, such costs, to the extent recoverable, would be deferred and amortized over the effective periods covered by the related policies.
- A statutory liability is established and charged to policyholder surplus for amounts due from unauthorized reinsurers in excess of letters of credit, funds held, and premiums payable. Under GAAP, no such liability is provided.
- Cash, cash equivalents and short-term investments in the statements of cash flows represent cash balances and investments with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and short-term investments (also referred to as cash equivalents) would include cash balances and investments with maturities, when purchased, of three months or less. Additionally, negative cash balances are recorded as a negative asset whereas under GAAP, these balances would be reclassified to a liability account.
- The statutory financial statements are prepared in a form using language and groupings substantially the same as the annual statements that KEMI files with the NAIC and the state regulatory authorities, which differ from the presentation and disclosures of financial statements presented under GAAP reporting.

The effect of the differences between statutory accounting practices and accounting principles generally accepted in the United States of America has not been determined but is presumed to be material.

2. Risks and Uncertainties: Certain risks and uncertainties are inherent to KEMI's day-to-day operations and to the process of preparing its statutory financial statements. The more significant of those risks and uncertainties are presented below and throughout the notes to the statutory financial statements.

**Kentucky Employers' Mutual Insurance Authority**  
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**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note B - Summary of Significant Accounting Policies (Continued)**

2. Risks and Uncertainties (Continued):

Use of Estimates

The preparation of the statutory financial statements requires management to make estimates and assumptions that affect the reported amounts of admitted assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the statutory financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of unpaid losses and loss adjustment expenses ("LAE"). In connection with the determination of this liability, management uses the methodology described in Unpaid Losses and Loss Adjustment Expenses Note B5. While management uses the best information available to estimate unpaid losses and loss adjustment expenses, future changes to the liability may be necessary based on claims experience and changing claims frequency and severity conditions, as well as changes in doctrines of legal liability and damage awards in Kentucky. The future changes will be charged or credited to expense when they occur.

Loss Reserves

KEMI estimates losses and LAE based on the accumulation of case estimates and loss reports, as well as estimates of incurred but not reported ("IBNR") losses, net of applicable policy deductibles and deduction of amounts for reinsurance ceded on reported and unreported claims and incidents. KEMI also offers its Kentucky-based policyholders multi-state coverage through the use of assumptive reinsurance agreements, under which unaffiliated Cedents write certain policies for which KEMI assumes 100% of the business. The liability for LAE is provided by estimating future expenses to be incurred in settlement of the claims provided for in the reserve for losses, net of reinsurance ceded. Actual results could differ from these estimates.

Reinsurance

Reinsurance contracts do not relieve KEMI from its obligations to insureds. Failure of reinsurers to honor their obligations could result in losses to KEMI. KEMI evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. Management believes that any liability arising from this contingency would not be material to KEMI's financial position.

Investment Risk

KEMI is exposed to risks that issuers of securities owned by KEMI will default or that interest rates will change and cause a decrease in the value of its investments. With mortgage-backed securities, KEMI is exposed to credit risk and prepayment risk. As interest rates change, the velocity at which these securities pay down the principal will change as well. Management mitigates these risks by conservatively investing in high-grade securities and by matching maturities of its investments with the anticipated payouts of its liabilities. KEMI maintains balances at financial institutions that may exceed federally insured limits; however, it also utilizes repurchase agreements and money market funds to mitigate this risk. KEMI's management regularly evaluates the financial stability of these financial institutions and does not believe they are exposed to unnecessary risk.

Since most of KEMI's investments consist of securities that are traded in the public securities markets, they are subject to risk related to fluctuations in overall market performance and are potentially subject to heightened levels of market risk attributable to issuer, industry, and geographic region concentrations. KEMI's investment portfolio is regularly reviewed, and the extent of its diversification is considered in the context of statutory requirements and other risk management and performance objectives.

**Kentucky Employers' Mutual Insurance Authority**  
**dba Kentucky Employers' Mutual Insurance**  
**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note B - Summary of Significant Accounting Policies (Continued)**

2. Risks and Uncertainties (Continued):

External Factors

KEMI is highly regulated by the state in which it is domiciled. Such regulations, among other things, limit the amount of dividends and impose restrictions on the amount and types of investments. In addition, from time to time, KEMI may be affected by changes in federal regulations such as the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") or the Patient Protection and Affordable Care Act ("PPACA"). Additionally, the PPACA contained an amendment with specific language related to black lung claims (the "Byrd Amendment"). KEMI continues to monitor the impact of such regulations and will assess any potential impact of these changes on the accompanying statutory financial statements.

Risk-based Capital

The NAIC has developed property-casualty risk-based capital ("RBC") standards that relate an insurer's reported statutory basis capital and policyholder surplus to the risks inherent in its overall operations. The RBC formula uses the statutory basis annual statement to calculate the minimum indicated capital level to protect KEMI from the various risks that it faces. The NAIC model law calls for various levels of regulatory action based on the magnitude of an indicated RBC capital deficiency, if any. KEMI continues to monitor its internal capital requirements and the NAIC's RBC requirements. KEMI has determined that its capital levels are in excess of the minimum capital requirements for all RBC action levels. Management believes that KEMI's capital levels are sufficient to support the level of risk inherent in its operations.

3. Investments: Investments, excluding residential mortgage-backed securities not guaranteed by federal or federally sponsored agencies, are stated at values prescribed by the NAIC's SVO, which generally are as follows:

- Non loan-backed bonds rated 1 and 2 by the NAIC are stated at amortized cost using the scientific (constant yield) interest method with bonds containing call provisions being amortized to the call or maturity date, which ever results in a lower asset value. Loan-backed bonds rated 1 and 2 by the NAIC are stated at amortized cost using the scientific (constant yield) interest method including anticipated prepayments. Bonds rated 3 through 6 are carried at fair value with the change included within policyholder surplus.
- Investments in residential mortgage-backed securities not guaranteed by federal or federally sponsored agencies utilize a financial model commissioned by the NAIC to determine credit ratings, and ultimately the NAIC designation/rating. This financial model requires a two-step process. KEMI first determines the initial rating designation based upon each security's amortized cost in relation to security specific prescribed break points. This initial rating designation determines whether the security will be stated at amortized cost or fair value, based on the same criteria noted in the preceding paragraph. (The lower the amortized cost relative to par, the higher the NAIC designation, and the more likely the security will be carried at amortized cost.) If the security is to be carried at fair value, KEMI then determines the final rating designation based upon each security's fair value in relation to the same security specific prescribed break points used in the first step. If the security is to be carried at amortized cost, the final designation remains the same as what was determined in the first step. The final designation is used for RBC purposes as well as for NAIC designation disclosure purposes.

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**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note B - Summary of Significant Accounting Policies (Continued)**

3. Investments (Continued): Investments in preferred stocks with an NAIC rating designation of 1 or 2 are stated at amortized cost; all other preferred stocks are stated at the lesser of amortized cost or fair value.

Investments in common stocks are stated at fair value with unrealized gains and losses being reported as a separate component of unassigned policyholder surplus.

Realized gains or losses are determined on the specific-identification method. Investment income is recognized as earned, net of related investment expenses. Bond premiums and discounts are amortized by the scientific-yield method and are charged or credited to net investment income. For mortgage-backed securities, KEMI anticipates prepayments utilizing published data in applying interest income.

The assessment of other-than-temporary impairments is performed on a case-by-case basis. Factors considered by management in determining whether an other-than-temporary impairment exists (in other than loan-backed or structured securities) include: the financial condition, business prospects and creditworthiness of the issuer, the length of time and extent to which fair value has been less than cost for equity securities or amortized cost for fixed income securities, and KEMI's intent and ability to retain such investments until the fair value recovers. If it is determined that the decline in fair market value is other-than-temporary, the carrying amount of the investment is written down to fair value as its new basis and the amount of the write down is recorded as a realized loss.

For loan-backed or structured securities, factors considered by management in determining whether an other-than-temporary impairment exists include: KEMI's stated intent to not sell, KEMI's ability to hold such investments until the fair value recovers, and the discounted cash flows of the security based on the yield at the date of acquisition. If KEMI intends to sell or if KEMI does not have the ability and intent to hold the security for a period of time sufficient to recover its amortized cost basis, an other-than-temporary impairment exists, and the security is written down to fair value with the amount of the write-down recorded as a realized loss. If KEMI does not intend to sell the security and has the ability and intent to hold the security for a period of time sufficient to recover the amortized cost basis, KEMI calculates the cash flows expected to be collected. In this calculation, KEMI compares the present value of cash flows expected to be collected, discounted at the security's effective interest rate at date of purchase, to the amortized cost basis. If the present value of cash flows is less than the amortized cost basis, a realized loss is recorded for the difference. The present value of cash flows then becomes the new cost basis.

KEMI uses the prospective method to accrete the amortized cost basis to the ultimate expected cash flows.

4. Premiums: Premiums are earned on the daily pro-rata method over the policy period and are stated after deduction for reinsurance. Unearned premiums represent the portion of initial premiums written that are applicable to the unexpired terms of policies in force. Initial premiums are recorded as premiums written on the policy effective date except for certain premiums that are recorded on an installment basis. Any subsequent additional premiums or refunds that occur as a result of policy audits are recorded as written premiums at the time the policy audits are finalized. Earned but unbilled premiums include management's estimate of future audit premiums and are included in premiums booked but deferred and not yet due.

Premiums in course of collection which are customer obligations due under normal terms requiring payment by the policy due date, and premiums booked but deferred and not yet due are valued at their carrying amount, which approximates fair value. Receivables over 90 days outstanding are not admitted in the statutory financial statements.

**Kentucky Employers' Mutual Insurance Authority**  
**dba Kentucky Employers' Mutual Insurance**  
**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note B - Summary of Significant Accounting Policies (Continued)**

5. Unpaid Losses and Loss Adjustment Expenses: The estimated liability for losses is based on the accumulation of case estimates for claims and incidents reported, net of applicable policy deductibles and deduction of amounts for reinsurance ceded on reported claims and incidents. Also included in the liability are estimates of incurred but not reported losses based on historical loss experience adjusted for current trends. The reserves for unpaid losses are net of anticipated subrogation. The liability for LAE is provided by estimating future expenses to be incurred in settlement of the claims provided for in the reserve for losses, net of reinsurance ceded.

To reflect the time value of money, KEMI began discounting the indemnity portion of federal black lung reserves effective December 31, 2017. Both cases reserve and IBNR reserves have been discounted on a tabular basis at a rate of 3.5% using the following tables: Milliman Male Black Lung Mortality table, 2013 U.S. Lives Female table, and Society of Actuaries 2015 Female Smoker Distinct table. See Methodologies and Assumptions Used in Calculating the Liability in Note E.

Management believes that the provisions for losses and LAE are adequate to cover the net cost of claims incurred and incidents reported; however, the provisions are based upon estimates and, therefore, the ultimate liability may be less than or exceed such estimates. As adjustments become necessary in these estimates, such adjustments are reflected in the results of operations in the period in which they are determined.

6. Reinsurance: Reinsurance premiums, losses, and loss adjustments expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums, losses, and loss adjustments expenses are reported net of reinsured amounts. KEMI evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. KEMI holds collateral as security under reinsurance agreements in the form of letters of credit for any reinsurers not subject to the regulations of the Kentucky Commissioner of Insurance. In the opinion of management, all amounts due from reinsurers at December 31, 2019 and 2018 are recoverable.
7. Cash, Cash Equivalents, and Short-term Investments: The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents are short-term investments that are both readily convertible to known amounts of cash and so near their maturity they present an insignificant risk of changes in value because of changes in interest rates. The Company generally maintains balances in excess of federally insured limits. Accordingly, at various times during the years, cash balances on deposit were uninsured and uncollateralized.

The Company considers all instruments purchased with a maturity of one year or less, excluding those investments classified as cash equivalents, to be short-term investments. Short-term investments can include, but are not limited to, bonds, commercial paper, money market instruments, repurchase agreements and collateral and mortgage loans.

**Kentucky Employers' Mutual Insurance Authority**  
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**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note B - Summary of Significant Accounting Policies (Continued)**

8. Concentrations of Geographic and Credit Risk: All of KEMI's total direct gross written premiums of \$158,456,916 for the year ended December 31, 2019 were for insureds in Kentucky.

The credit quality of the long-term bond portfolio at December 31, 2019 is presented as follows:

	<u>Carrying value</u>	<u>Percentage</u>
Class 1 - highest quality	\$ 740,201,087	79%
Class 2 - high quality	170,248,115	18%
Class 3 - medium quality	<u>30,281,984</u>	<u>3%</u>
	<u>\$ 940,731,186</u>	<u>100%</u>

All Bonds with ratings from AAA to BBB as assigned by Standard & Poor's Corporation are generally considered as investment grade securities. Some securities issued by the U.S. government or an agency thereof are not rated but are considered to be investment grade. The NAIC regards U.S. Treasuries and agencies and all A ratings as Class 1 (highest quality), BBB ratings as Class 2 (high quality), BB ratings as Class 3 (medium quality), B ratings as Class 4 (low quality), C ratings as Class 5 (lower quality), and D ratings as Class 6 (in or near default).

9. Property and Equipment: Electronic data processing equipment, including operating software, is stated at cost less accumulated depreciation. Depreciation expense on such property was \$45,938 and \$50,792 in 2019 and 2018, respectively. Furniture, office equipment, and application software are non-admitted assets under statutory accounting practices. Depreciation expense on such property was \$34,669 and \$43,468 in 2019 and 2018, respectively.

Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Gains and losses on the sale of property and equipment are recorded in the year of disposition. Maintenance and repairs are expensed as incurred; replacements and betterments are capitalized.

10. Advertising: KEMI expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2019 and 2018, was \$340,979 and \$204,889, respectively.
11. Subsequent Events: All of the effects of subsequent events that provide additional evidence about conditions that existed at the statement of admitted assets, liabilities and policyholder surplus date, including the estimates inherent in the process of preparing the statutory basis financial statements, are recognized in the statutory basis financial statements. KEMI does not recognize subsequent events that provide evidence about conditions that did not exist at the statement of admitted assets, liabilities and policyholder surplus date but arose after, but before the statutory basis financial statements are available to be issued. In some cases, non-recognized subsequent events are disclosed to keep the statutory basis financial statements from being misleading.

Subsequent events for the Company have been considered through the date of the Independent Auditor's Report which represents the date the statutory basis financial statements were available to be issued.



**Kentucky Employers' Mutual Insurance Authority**  
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**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note B - Summary of Significant Accounting Policies (Continued)**

11. Subsequent Events (Continued): In March 2020, the World Health Organization declared the global novel coronavirus disease 2019 (COVID-19) outbreak a pandemic. Further, the United States Centers for Disease Control and Prevention confirmed the spread of the disease throughout the United States, which is impacting businesses as well as financial markets. On March 13, 2020, KEMI issued a statement affirming wage replacement benefits for first responders and medical personnel employed by any current KEMI policyholder who has been quarantined for COVID-19. In addition, on April 9, 2020, Executive Order 2020-277 was issued by the Commonwealth of Kentucky in order to provide, for a limited period of temporary total disability, benefits for first responders and medical personnel who are removed from work by a physician for a period of self-quarantine as a result of occupational exposure to COVID-19. As of the date the financial statements were available to be issued, the Company's operations and loss expense has not been significantly impacted by the COVID-19 outbreak. The Company's operations and the fair value of its investment portfolio could be adversely affected as a result of COVID-19, but the ultimate impact is not known at this point as the scale and severity of the outbreak, and resulting economic impact, is still largely unknown.

In April 2020, KEMI returned an additional \$4,772,135 to the Kentucky School Boards Insurance Trust Workers' Compensation Fund (KSBIT) following proactive management and improved claims outcomes, which mirrors the refund issued to KSBIT by KEMI in 2019 (Note G).

**Note C - Investments**

Long-term Bonds

The statement value, gross unrealized gains, gross unrealized losses, and the estimated fair value of investments in long-term bonds are summarized as follows:

	Statement value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
<b>As of December 31, 2019</b>				
U.S. government securities	\$ 46,268,702	\$ 1,390,358	\$ (23,490)	\$ 47,635,570
U.S. agency residential mortgage-backed securities	242,446	20,575	-	263,021
U.S. special revenue bonds	196,062,038	3,706,352	(243,232)	199,525,158
Commercial mortgage-backed securities	49,028,568	1,102,437	(52,467)	50,078,538
Commercial asset-backed securities	121,625,668	501,618	(761,623)	121,365,663
Corporate bonds (\$4,133,596 carried at fair value)	518,785,487	21,058,007	(185,359)	539,658,135
All other bonds	8,718,277	487,559	-	9,205,836
	<u>\$ 940,731,186</u>	<u>\$ 28,266,906</u>	<u>\$ (1,266,171)</u>	<u>\$ 967,731,921</u>

**Kentucky Employers' Mutual Insurance Authority**  
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**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note C - Investments (Continued)**

Long-term Bonds (Continued)

	Statement value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
<b>As of December 31, 2018</b>				
U.S. government securities	\$ 46,685,738	\$ 178,541	\$ (422,044)	\$ 46,442,235
U.S. agency residential mortgage-backed securities	345,357	13,060	(1,439)	356,978
U.S. special revenue bonds	154,835,632	978,417	(3,980,708)	151,833,341
Commercial mortgage-backed securities	48,266,283	151,049	(674,408)	47,742,924
Commercial asset-backed securities	99,590,814	96,192	(1,231,505)	98,455,501
Corporate bonds (\$26,762,820 carried at fair value)	478,384,507	1,057,511	(11,966,164)	467,475,854
All other bonds	9,913,319	184,767	(98,173)	9,999,913
	<u>\$838,021,650</u>	<u>\$ 2,659,537</u>	<u>\$ (18,374,441)</u>	<u>\$822,306,746</u>

The carrying value and estimated fair value of long-term bonds at December 31, 2019, by contractual maturity, are as follows. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Statement value	Estimated fair value
Less than one year	\$ 30,267,083	\$ 30,423,733
One year through five years	260,738,354	267,367,302
Six years through ten years	306,356,835	319,758,554
After ten years	343,368,914	350,182,332
	<u>\$ 940,731,186</u>	<u>\$ 967,731,921</u>

Proceeds from sales of bonds during 2019 and 2018 were \$111,611,719 and \$150,635,712, respectively. Gross gains of \$3,206,589 and \$339,362, and gross losses of \$963,818 and \$4,196,851 were realized on those sales in 2019 and 2018, respectively.

During 2019 and 2018, bonds which were previously rated as NAIC level 1 or level 2 investments were downgraded to NAIC level 3 investments. KEMI believed these downgrades to be temporary and as such they have reported these bonds at their estimated fair value and recorded unrealized losses in the amount of \$60,675 and \$639,968 as of December 31, 2019 and 2018, respectively.

**Kentucky Employers' Mutual Insurance Authority**  
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**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note C - Investments (Continued)**

Common Stock

Gross unrealized capital gains and losses on common stock are included in policyholder surplus as follows:

	<u>2019</u>	<u>2018</u>
Cost	\$ 47,378,022	\$ 73,600,590
Gross unrealized capital gains	8,467,449	3,323,159
Gross unrealized capital losses	<u>(655,301)</u>	<u>(6,223,752)</u>
Net unrealized capital gain (loss)	<u>7,812,148</u>	<u>(2,900,593)</u>
Fair value	<u>\$ 55,190,170</u>	<u>\$ 70,699,997</u>

Proceeds from sales of common stocks during 2019 and 2018 were \$57,159,652 and \$67,043,915, respectively. Gross gains of \$8,989,011 and \$12,454,397 and gross losses of \$2,505,357 and \$2,790,493 were realized on those sales in 2019 and 2018, respectively.

Real Estate

In September of 2016, KEMI purchased a parcel of land upon which it planned to construct a home office building. This parcel of land was reported at cost, plus capitalized legal and professional fees, of \$5,020,818. In 2019, KEMI extended their current lease and terminated all plans to develop a home office building. The property was reclassified to held for sale. On January 19, 2020, a third-party certified appraiser valued the land at \$4,025,000, which was lower than carrying value. KEMI recorded an other-than-temporary impairment loss of \$995,818 which is reflected in investment income, net of investment expenses in the statements of income - statutory basis.

Other Invested Assets

During 2016, KEMI purchased a limited partnership interest in Elmtree U.S. Net Lease Fund III, L.P. (the "Fund") for \$8,972,414, with a total commitment of \$20 million. The Fund was formed on August 29, 2016 in order to construct and invest in real estate development. As of December 30, 2019, KEMI had made capital contributions totaling \$13,756,851 leaving a remaining commitment of \$6,243,149. On December 30, 2019, the Fund was sold to an unaffiliated investor, and KEMI received proceeds of \$18,122,683 and recognized realized gain of \$4,365,832. KEMI historically reported the investment at cost. KEMI received an 8% dividend, which was paid quarterly until the Fund was sold.

**Kentucky Employers' Mutual Insurance Authority**  
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**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note C - Investments (Continued)**

Other-than-temporary Impairment

The following table illustrates the gross unrealized losses and fair value of investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment type and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2019:

	December 31, 2019					
	Less than 12 months		12 months or more		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
U.S. government	\$ 990,780	\$ (6,484)	\$ 4,970,700	\$ (17,006)	\$ 5,961,480	\$ (23,490)
U.S. special revenue	27,916,004	(77,806)	15,595,745	(165,426)	43,511,749	(243,232)
Commercial mortgage-backed	3,971,271	(49,662)	2,317,940	(2,805)	6,289,211	(52,467)
Commercial asset-backed	64,872,299	(745,910)	4,035,039	(15,713)	68,907,338	(761,623)
Corporate bonds	21,614,977	(182,485)	1,002,490	(2,874)	22,617,467	(185,359)
Common stock	4,662,393	(298,361)	2,310,626	(356,940)	6,973,019	(655,301)
Total	<u>\$ 124,027,724</u>	<u>\$ (1,360,708)</u>	<u>\$ 30,232,540</u>	<u>\$ (560,764)</u>	<u>\$ 154,260,264</u>	<u>\$ (1,921,472)</u>

The following table illustrates the gross unrealized losses and fair value of investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment type and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2018:

	December 31, 2018					
	Less than 12 months		12 months or more		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
U.S. government	\$ 1,480,500	\$ (8,976)	\$ 22,056,070	\$ (413,068)	\$ 23,536,570	\$ (422,044)
U.S. agency mortgage-backed	-	-	117,201	(1,439)	117,201	(1,439)
U.S. special revenue	32,498,315	(483,766)	92,632,861	(3,496,942)	125,131,176	(3,980,708)
Commercial mortgage-backed	26,565,777	(253,757)	13,309,251	(420,651)	39,875,028	(674,408)
Commercial asset-backed	59,118,311	(970,850)	23,037,630	(260,655)	82,155,941	(1,231,505)
Corporate bonds	235,719,699	(6,741,050)	130,263,277	(5,225,114)	365,982,976	(11,966,164)
All other bonds	2,451,876	(87,039)	1,228,034	(11,134)	3,679,910	(98,173)
Common stock	44,341,613	(6,223,752)	-	-	44,341,613	(6,223,752)
Total	<u>\$ 402,176,091</u>	<u>\$ (14,769,190)</u>	<u>\$ 282,644,324</u>	<u>\$ (9,829,003)</u>	<u>\$ 684,820,415</u>	<u>\$ (24,598,193)</u>

KEMI evaluates impairment at each reporting period for each of the securities whereby the fair value of the investment is less than its amortized cost. It is expected that the securities would not be settled at a price less than the amortized cost of the investment, as KEMI has the ability and intent to hold the investment until there is not an unrealized loss on the investment. For valuing loan-backed and structured securities, KEMI's asset manager uses a proprietary model for loss assumptions and widely accepted models for prepayment assumptions with inputs from major third-party data providers. Model assumptions are specific to asset class and collateral types and are regularly evaluated and adjusted where appropriate.

KEMI evaluated the credit ratings of these holdings, noting neither a significant deterioration since purchase nor other factors which may indicate an other-than-temporary impairment, such as the length of time and extent to which fair value has been less than cost, the financial condition and near-term prospects of the issuer as well as specific events or circumstances that may influence the operations of the issuer, and KEMI's intent and ability to hold the investment for a sufficient time in order to enable recovery of cost. KEMI does not consider these investments to be other-than-temporarily impaired as of December 31, 2019 and 2018.

**Kentucky Employers' Mutual Insurance Authority**  
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**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note C - Investments (Continued)**

Other-than-temporary Impairment (Continued)

KEMI continues to review its investment portfolio under its impairment review policy. Given the fluctuating market conditions and the significant judgment involved, there is a continuing risk that further declines in fair value may occur and additional other-than-temporary impairments may be experienced in future periods.

**Note D - Fair Value Measurements**

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2019 and 2018. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these statutory basis financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

The following methods and assumptions were used to estimate the fair value of each significant class of financial instruments for which it is practical to estimate that value:

- *Cash, Cash Equivalents, and Short-term Investments*: Valued at cost. The carrying amounts reported in the statements of admitted assets, liabilities and policyholder surplus approximate their fair value due to their short-term maturity.
- *Bonds, Loan-backed and Structured Securities, and Common Stock*: Valued at fair value by reference to identical trades in active markets and by a third-party portfolio manager. Fair values are based on values published by the SVO, quoted market prices, or dealer quotes. For bonds not actively traded, fair values are estimated using values obtained from independent pricing services, or in the case of private placements, are estimated by discounting the expected future cash flows using current market rates applicable to the yield, credit, and maturity of the investment.

KEMI's financial assets carried at fair value have been classified, for disclosure purposes, based on a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The hierarchy gives the highest priority to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest priority to fair values determined using unobservable inputs (Level 3). An asset's classification is determined based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3).

The levels of the fair value hierarchy are as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets that KEMI has the ability to access at the measurement date.
- Level 2: Valuations derived from inputs other than quoted market prices included within Level 1 that are observable for the asset, either directly or indirectly, such as:
  - Quoted prices for similar assets in active markets.
  - Quoted prices for identical or similar assets in markets that are not active.
  - Inputs other than quoted prices that are observable for the asset.
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3: Valuations are derived from techniques that require significant unobservable inputs. The unobservable inputs reflect KEMI's own assumptions about the assumptions that market participants would use in pricing the asset.

**Kentucky Employers' Mutual Insurance Authority**  
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**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note D - Fair Value Measurements (Continued)**

KEMI holds common stocks and other securities that are measured at fair value on a recurring basis. In addition, KEMI sometimes holds certain financial assets, primarily certain bonds valued at the lower of cost or fair value in accordance with NAIC reporting guidelines and assets that are impaired during the current reporting period and carried at fair value, that are considered to be measured at fair value on a recurring basis.

For informational purposes, the following table summarizes the fair value of all of KEMI's financial instruments whether or not they are carried at fair value on the statement of admitted assets, liabilities and policyholder surplus - statutory basis. Management has elected not to further disaggregate the investments displayed below as additional risk information is not deemed material to the financial statements.

	December 31, 2019			
	Fair value	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
<b>Investments</b>				
U.S. government securities	\$ 47,635,570	\$ -	\$ 47,635,570	\$ -
U.S. agency residential mortgage-backed securities	263,021	-	263,021	-
U.S. special revenue bonds	199,525,158	-	199,525,158	-
Commercial mortgage-backed securities	50,078,538	-	50,078,538	-
Commercial asset-backed securities	121,365,663	-	121,365,663	-
Corporate bonds (\$4,133,596 carried at fair value)	539,658,135	-	539,658,135	-
All other bonds	9,205,836	-	9,205,836	-
<b>Total assets at fair value</b>	<b>\$ 967,731,921</b>	<b>\$ -</b>	<b>\$ 967,731,921</b>	<b>\$ -</b>
<b>December 31, 2018</b>				
	Fair value	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
<b>Investments</b>				
U.S. government securities	\$ 46,442,235	\$ -	\$ 46,442,235	\$ -
U.S. agency residential mortgage-backed securities	356,978	-	356,978	-
U.S. special revenue bonds	151,833,341	-	151,833,341	-
Commercial mortgage-backed securities	47,742,924	-	47,742,924	-
Commercial asset-backed securities	98,455,501	-	98,455,501	-
Corporate bonds (\$26,762,820 carried at fair value)	467,475,854	-	467,475,854	-
All other bonds	9,999,913	-	9,999,913	-
<b>Total assets at fair value</b>	<b>\$ 822,306,746</b>	<b>\$ -</b>	<b>\$ 822,306,746</b>	<b>\$ -</b>

**Kentucky Employers' Mutual Insurance Authority**  
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**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note E - Losses and Loss Adjustments Expenses**

As of December 31, 2019 and 2018, the following table provides a reconciliation of the beginning and ending reserve balances for losses and loss adjustment expenses (LAE):

	<u>2019</u>	<u>2018</u>
Gross reserves for losses and LAE - beginning of year	\$ 656,255,961	\$ 624,276,751
Less reinsurance recoverables	<u>22,973,450</u>	<u>22,391,336</u>
Net reserves for losses and LAE - beginning of year	633,282,511	601,885,415
Provision for claims, related to		
Current year	131,125,427	127,659,352
Prior years	<u>843,695</u>	<u>2,690,177</u>
Total incurred	131,969,122	130,349,529
Payments for claims, related to		
Current year	(34,265,232)	(36,037,119)
Prior years	<u>(65,652,706)</u>	<u>(62,915,314)</u>
Total paid	<u>(99,917,938)</u>	<u>(98,952,433)</u>
Net reserves for losses and LAE - end of year	665,333,695	633,282,511
Plus reinsurance recoverables	<u>25,279,670</u>	<u>22,973,450</u>
Gross reserves for losses and LAE - end of year	<u><u>\$ 690,613,365</u></u>	<u><u>\$ 656,255,961</u></u>

As a result of changes in estimates of insured events in prior years, the liability for unpaid losses and loss adjustment expenses (net of reinsurance recoverable) increased by \$843,695 and \$2,690,177 in 2019 and 2018, respectively. Estimated subrogation recoverable on unpaid losses was \$3,000,000 as of both December 31, 2019 and 2018.

Methodologies and Assumptions Used in Calculating the Liability

KEMI discounts its federal black lung indemnity claims. Both case reserves and IBNR reserves have been discounted on a tabular basis at a rate of 3.5% using the following tables: Milliman Male Black Lung Mortality table, 2013 U.S. Lives Female table, and Society of Actuaries 2015 Female Smoker Distinct table. 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 federal black lung claim reserves given the long-term nature of the payment pattern. KEMI does not discount indemnity claims other than federal black lung, nor does it discount any medical or loss expense reserves.

Tabular discounts were \$66,873,695 and \$57,291,715 as of December 31, 2019 and 2018, respectively. KEMI recognized discount accretion of approximately \$1,500,000 and \$1,200,000 for 2019 and 2018, respectively, through direct losses incurred on the statement of income.

**Kentucky Employers' Mutual Insurance Authority**  
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**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note F - Reinsurance**

KEMI limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risks with various reinsurers under excess of loss agreements. These agreements cede premium on an earned basis. Ceded reinsurance is treated as the risk and liability of the assuming companies; however, these reinsurance contracts do not relieve KEMI from its original obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to KEMI; consequently, allowances are established for amounts deemed uncollectible, if any. KEMI evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

KEMI maintains Excess of Loss reinsurance coverage (including terrorism) with unaffiliated reinsurers for losses and loss adjustment expenses in excess of \$3 million per occurrence and up to \$125 million per occurrence. The Excess of Loss reinsurance agreements apply to KEMI's net retained liability, covering direct and assumed business in force as of each effective date, as well as business new or renewed from the effective date through the end of the contract term. Unpaid losses and loss adjustment expenses as of December 31, 2019 and 2018 included estimated reinsurance recoverables under the Excess of Loss agreements of \$24,800,590 and \$22,678,758, respectively.

Effective October 1, 2019, KEMI also entered into a facultative reinsurance agreement with an unaffiliated reinsurer for catastrophe coverage (including terrorism) in certain geographical locations where KEMI has heavy concentrations of covered lives. This facultative contract provides 100% coverage of losses and loss adjustment expenses in excess of \$125 million per occurrence up to \$250 million per occurrence.

Effective November 1, 2017, KEMI entered into a quota share reinsurance treaty with Automobile Dealers Management Insurance Company (ADMIC) under which KEMI cedes to ADMIC 50% of the premiums, losses and loss adjustment expenses for a group of approximately forty car dealerships. The agreement is renewable annually, and each contract year may be commuted no sooner than five years after expiration. Ceded premiums earned under the agreement were \$708,416 and \$563,048 in 2019 and 2018, respectively. Unpaid losses and loss adjustment expenses as of December 31, 2019 and 2018 included estimated reinsurance recoverables of \$479,080 and \$294,692, respectively, under the agreement. The ADMIC quota share contracts are secured by funds withheld accounts and collateral deposits totaling \$1,116,113 and \$866,624 as of December 31, 2019 and 2018, respectively.

KEMI offers multi-state coverage to its policyholders through the use of assumptive reinsurance agreements, under which unaffiliated cedents write certain policies for which KEMI assumes 100% of the business. This coverage is only available to Kentucky-based businesses that have similar operations in other states. KEMI's liability for unpaid losses and loss adjustment expenses as of December 31, 2019 and 2018 includes \$2,767,868 and \$2,581,913 respectively, related to these agreements. The cedents require KEMI to maintain standby letters of credit totaling \$12.7 million. The letters of credit are collateralized by U.S. Treasury Bonds.

KEMI had no unsecured net reinsurance recoverables outstanding for losses and loss adjustment expenses, paid and unpaid, including IBNR and unearned premium that individually exceeded 3% of policyholder surplus at December 31, 2019 and 2018.



**Kentucky Employers' Mutual Insurance Authority**  
**dba Kentucky Employers' Mutual Insurance**  
**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note F - Reinsurance (Continued)**

The effects of KEMI's assumed and ceded reinsurance transactions for the years ended December 31, 2019 and 2018 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Written premiums		
Direct	\$ 158,456,916	\$ 162,765,283
Assumed	2,619,193	3,200,292
Ceded	<u>(5,273,843)</u>	<u>(5,224,908)</u>
Net	<u>\$ 155,802,266</u>	<u>\$ 160,740,667</u>
Earned premiums		
Direct	\$ 165,732,548	\$ 159,779,512
Assumed	2,858,653	3,058,135
Ceded	<u>(5,212,676)</u>	<u>(5,085,545)</u>
Net	<u>\$ 163,378,525</u>	<u>\$ 157,752,102</u>
Incurred losses and LAE		
Direct	\$ 132,840,406	\$ 131,574,125
Assumed	1,936,468	1,099,593
Ceded	<u>(2,807,752)</u>	<u>(2,324,189)</u>
Net	<u>\$ 131,969,122</u>	<u>\$ 130,349,529</u>
Unearned premiums		
Direct	\$ 67,016,411	\$ 73,766,837
Assumed	1,377,461	1,616,921
Ceded	<u>(606,298)</u>	<u>(545,131)</u>
Net	67,787,574	74,838,627
Adjustment for earned but unbilled premiums	<u>(3,916,935)</u>	<u>(3,391,729)</u>
Net	<u>\$ 63,870,639</u>	<u>\$ 71,446,898</u>

KEMI has evaluated its assumed and ceded reinsurance arrangements and believe they appropriately transfer risk in accordance with SSAP No. 62R, Property and Casualty Reinsurance, and have therefore accounted for them as prospective reinsurance.

**Kentucky Employers' Mutual Insurance Authority**  
**dba Kentucky Employers' Mutual Insurance**  
**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note G - Loss Portfolio Transfers**

Kentucky School Boards Insurance Trust Loss Portfolio Transfer

Effective October 31, 2014, KEMI entered into a loss portfolio transfer agreement with the Commissioner of Insurance of the Commonwealth of Kentucky, Rehabilitator of the Kentucky School Boards Insurance Trust ("KSBIT") Workers' Compensation Self Insurance Fund. Pursuant to this loss portfolio transfer, approximately \$35 million in workers' compensation claims liabilities for the period July 7, 1978 through June 30, 2013, were transferred to KEMI by KSBIT's Rehabilitator. In exchange for assuming responsibility for these claim liabilities and the handling thereof, KEMI received \$35 million in cash and guaranteed receivables. 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. Inception to date activity is included in the following table as retroactive reinsurance assumed.

The net liability for KSBIT unpaid claims and the receivable for retroactive reinsurance assumed activity for the years ended December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Net liability for KSBIT unpaid claims - beginning of year	\$ 27,863,737	\$ 29,112,034
Losses and LAE paid, net	(992,141)	(1,245,823)
Assessment refunded	(4,772,135)	-
Other direct expenses paid	<u>510</u>	<u>(2,474)</u>
Net liability for KSBIT unpaid claims - end of year	22,099,971	27,863,737
Receivable for retroactive reinsurance reserve assumed - beginning of year	5,681,133	8,736,249
Assessment installments received	<u>(2,950,005)</u>	<u>(3,055,116)</u>
Receivable for retroactive reinsurance reserve assumed - end of year	<u>\$ 2,731,128</u>	<u>\$ 5,681,133</u>

Kentucky Workers' Compensation Funding Commission Loss Portfolio Transfer

Effective July 7, 2017, KEMI entered into a loss portfolio transfer agreement with the Kentucky Workers' Compensation Funding Commission (the Funding Commission). Pursuant to this loss portfolio transfer, approximately \$40 million in workers' compensation claims liabilities for claims incurred on or after December 12, 1996, which were filed on or before June 30, 2017 (known as the "Kentucky Coal Workers' Pneumoconiosis Fund" or "KCWPF"), were transferred from the Funding Commission to KEMI. In exchange for assuming responsibility for these claim liabilities and the handling thereof, KEMI received approximately \$19.3 million in cash. In addition, the Funding Commission continued to impose assessments, due to KEMI within 50 days of each quarter, until both the Funding Commission and KEMI agreed that the liabilities were fully funded. As of December 31, 2019, \$650,000 was accrued for 4th quarter 2019 assessment due to KEMI. Assessments ceased effective January 1, 2020.

**Kentucky Employers' Mutual Insurance Authority**  
**dba Kentucky Employers' Mutual Insurance**  
**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note G - Loss Portfolio Transfers (Continued)**

Kentucky Workers' Compensation Funding Commission Loss Portfolio Transfer (Continued)

The net liability for KCWPF unpaid claims and the receivable for retroactive reinsurance assumed activity for the years ended December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Net liability for KCWPF unpaid claims - beginning of year	\$ 42,870,865	\$ 39,911,414
Adjustments to estimated losses and LAE	3,329,500	9,321,034
Net investment income earned	894,615	534,107
Losses and LAE paid, net	(4,023,203)	(6,816,393)
Other direct expenses paid	<u>(56,442)</u>	<u>(79,297)</u>
Net liability for KCWPF unpaid claims - end of year	43,015,335	42,870,865
Receivable for retroactive reinsurance reserve		
assumed - beginning of year	9,370,703	17,879,380
Assessment imposed	3,273,058	9,241,737
Assessment installments received	<u>(11,129,500)</u>	<u>(17,750,414)</u>
Receivable for retroactive reinsurance reserve		
assumed - end of year	<u>\$ 1,514,261</u>	<u>\$ 9,370,703</u>

**Note H - Adverse Development Coverage**

Effective December 31, 2015, KEMI entered into an agreement for adverse development coverage with an unaffiliated reinsurer, Munich Reinsurance America, Inc. This agreement relates to direct and assumed business, excluding the KSBIT and KCWPF loss portfolios, providing KEMI with reinsurance protection against unfavorable development arising from existing and/or newly reported claims for accident years 1995 through 2014. In exchange for a total premium of \$40 million, KEMI ceded \$32 million of existing loss reserves as well as obtaining \$45.25 million of additional protection against unfavorable development for those accident years. The agreement provides for a loss corridor of \$20 million (for which KEMI is responsible) between the first and second layers of coverage, and it includes a provision wherein KEMI may share in the reinsurer's ultimate profit, if any. Under the terms of the agreement, KEMI maintains a Funds Withheld balance which is secured by a Trust Account equal to no less than 105% of Funds Withheld. As of December 31, 2019 and 2018, retroactive reinsurance reserves ceded were \$25,930,096 and \$14,115,842, respectively.

**Kentucky Employers' Mutual Insurance Authority**  
**dba Kentucky Employers' Mutual Insurance**  
**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note H - Adverse Development Coverage (Continued)**

As of December 31, 2019 and 2018, Funds Withheld on retroactive reinsurance ceded consisted of the follow:

	<u>2019</u>	<u>2018</u>
Funds withheld	\$ 40,809,861	\$ 39,412,223
Profit sharing receivable	<u>(9,569,904)</u>	<u>(21,384,158)</u>
Totals	<u>\$ 31,239,957</u>	<u>\$ 18,028,065</u>

**Note I - Leases**

KEMI leases space for its main office under a noncancelable operating lease (which was renegotiated at year end with an effective date of January 1, 2020). The new lease allows for KEMI to reduce the square footage due to an increase in employee telecommuting. The operating lease expires December 31, 2029; however, KEMI has an option to terminate the lease on December 31, 2024 with six months prior written notice. Rental expense under the original lease was \$1,055,604 and \$1,044,242 for 2019 and 2018, respectively. KEMI also leases space for a satellite office under a noncancelable operating lease which expires May 31, 2022. Rental expense under this lease was \$142,964 and \$132,129 for 2019 and 2018, respectively.

The following is a summary of future minimum rental commitments for these leases:

2020	\$ 1,189,456
2021	955,773
2022	880,785
2023	827,223
2024	<u>827,223</u>
	<u>\$ 4,680,460</u>

**Note J - Retirement Plans**

Defined Benefit Pension and Postretirement Benefit Plans

Prior to July 1, 2016, all full-time KEMI employees were enrolled in a mandatory defined benefit pension plan regulated by Kentucky Retirement Systems (KRS). KEMI voluntarily ceased participation in KRS effective June 30, 2016.

Effective July 1, 2016, KEMI established a contributory 401(a) defined benefit pension plan for which it is the plan sponsor. The plan provides pension benefits and a partial subsidy of retiree health insurance premiums for eligible KEMI employees who have chosen to participate in the plan. Benefit amounts are determined based on retirement age, salary history, participation date and years of service. Participating employees are required to contribute 6% of their salary to the defined benefit pension plan. The employer contribution rate was 20% in 2019 and 2018. KEMI also contributed \$12,000 per pay period to the retiree health insurance plan. In both 2019 and 2018, KEMI contributed an additional \$2 million to the defined benefit pension plan to increase funding levels. These employer contribution rates will be evaluated as deemed necessary to ensure the financial soundness of the plan.

**Kentucky Employers' Mutual Insurance Authority**  
**dba Kentucky Employers' Mutual Insurance**  
**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note J - Retirement Plans (Continued)**

Defined Benefit Pension and Postretirement Benefit Plans (Continued)

As of December 31, 2019 and 2018, KEMI recorded the actuarially determined liabilities, nonadmitted assets and net periodic costs for both the defined benefit pension plan and the retiree health insurance plan. A summary of assets, obligations and assumptions of these plans are as follows:

	<u>Pension benefits</u>		<u>Postretirement benefits</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 31,391,391	\$ 31,019,544	\$ 3,997,181	\$ 4,366,813
Service cost	1,150,654	1,247,943	229,854	289,305
Interest cost	1,273,449	1,071,976	168,974	159,234
Contribution by plan participants	430,651	425,559	-	-
Actuarial (gain) loss	4,307,202	(2,273,477)	728,465	(813,618)
Benefits paid	<u>(489,644)</u>	<u>(100,154)</u>	<u>(12,862)</u>	<u>(4,553)</u>
Benefit obligation at end of year	<u>\$ 38,063,703</u>	<u>\$ 31,391,391</u>	<u>\$ 5,111,612</u>	<u>\$ 3,997,181</u>

**Kentucky Employers' Mutual Insurance Authority**  
**dba Kentucky Employers' Mutual Insurance**  
**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note J - Retirement Plans (Continued)**

Defined Benefit Pension and Postretirement Benefit Plans (Continued)

	Pension benefits		Postretirement benefits	
	2019	2018	2019	2018
Change in plan assets				
Fair value of plan assets at				
beginning of year	\$ 20,737,753	\$ 18,117,845	\$ 3,798,479	\$ 3,731,247
Actual return on plan assets	2,964,390	(1,330,260)	545,441	(240,215)
Reporting entity contribution	3,394,787	3,586,234	312,000	312,000
Plan participants' contributions	382,569	464,088	-	-
Benefits paid	(489,644)	(100,154)	(12,862)	(4,553)
Fair value of plan assets at				
end of year	<u>\$ 26,989,855</u>	<u>\$ 20,737,753</u>	<u>\$ 4,643,058</u>	<u>\$ 3,798,479</u>
Funded status				
Overfunded				
Assets (nonadmitted)				
Prepaid benefits costs	<u>\$ 9,301,487</u>	<u>\$ 9,814,583</u>	<u>\$ 1,876,616</u>	<u>\$ 2,013,924</u>
Underfunded				
Liabilities recognized				
Liability for pension benefits	<u>\$ (11,073,848)</u>	<u>\$ (10,653,638)</u>	<u>\$ (468,554)</u>	<u>\$ (198,702)</u>
Components of net periodic benefit cost				
Service cost	\$ 1,150,654	\$ 1,247,943	\$ 229,854	\$ 289,305
Interest cost	1,273,449	1,071,976	168,974	159,234
Expected return on plan assets	(1,068,923)	(940,690)	(197,127)	(194,150)
Recognized gains and losses	-	-	(126,373)	(95,325)
Prior service cost recognized	2,935,272	2,935,272	373,980	373,980
Total net periodic benefit cost	<u>\$ 4,290,452</u>	<u>\$ 4,314,501</u>	<u>\$ 449,308</u>	<u>\$ 533,044</u>

**Kentucky Employers' Mutual Insurance Authority**  
**dba Kentucky Employers' Mutual Insurance**  
**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note J - Retirement Plans (Continued)**

Defined Benefit Pension and Postretirement Benefit Plans (Continued)

	<u>Pension benefits</u>		<u>Postretirement benefits</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Amounts in unassigned funds (surplus) recognized as components of net periodic benefit cost				
Items not yet recognized as a component of net periodic cost - prior year	\$ 20,468,221	\$ 22,980,461	\$ 2,212,626	\$ 2,870,534
Net prior service cost or credit recognized	(2,935,272)	(2,935,272)	(373,980)	(373,980)
Net gain and loss arising during the year	2,842,386	423,032	380,151	(379,253)
Net gain or loss recognized	<u>-</u>	<u>-</u>	<u>126,373</u>	<u>95,325</u>
Items not yet recognized as a component of net periodic cost - current year	<u>\$ 20,375,335</u>	<u>\$ 20,468,221</u>	<u>\$ 2,345,170</u>	<u>\$ 2,212,626</u>
Amounts in unassigned funds (surplus) expected to be recognized in the next fiscal year as components of net periodic benefit cost				
Net prior service cost or credit	\$ 2,935,272	\$ 2,935,272	\$ 373,980	\$ 373,980
Net recognized gains and losses	157,659	-	(83,684)	(126,373)
Amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit cost				
Net prior service cost or credit	\$ 15,410,174	\$ 18,345,446	\$ 3,792,755	\$ 4,166,735
Net recognized gains and losses	4,965,161	2,122,775	(1,447,585)	(1,954,109)

Weighted-average assumptions used to determine net periodic benefit cost as of December 31, 2019 and 2018:

	<u>Pension benefits</u>		<u>Postretirement benefits</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Weighted average discount rate	3.06%	4.09%	3.22%	4.24%
Expected long-term rate of return on plan assets	5.00%	5.00%	5.00%	5.00%
Rate of compensation increase	3.00%	3.00%	N/A	N/A

The amount of the accumulated benefit obligation for defined benefit pension plan was \$32,930,617 and \$26,529,352 as of December 31, 2019 and 2018, respectively.

**Kentucky Employers' Mutual Insurance Authority**  
**dba Kentucky Employers' Mutual Insurance**  
**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note J - Retirement Plans (Continued)**

Defined Benefit Pension and Postretirement Benefit Plans (Continued)

Measurement of postretirement health care benefits requires the use of certain assumptions about future health care costs. For retirees under the age of 65, a maximum benefit of \$400 per month was assumed for 2019 and thereafter. For Medicare eligible retirees age 65 and older, a 5% annual rate of increase was assumed for 2019; this rate of increase is assumed to gradually decrease to 3% over six years and to remain at that level thereafter.

For the defined benefit pension plan, retirees have the option of selecting either an annuity stream or a lump sum distribution discounted to present value at 6%. The following estimated future payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

	Pension benefits	Postretirement benefits
2020	\$ 260,241	\$ 25,265
2021	258,671	25,202
2022	286,121	25,514
2023	2,638,987	56,329
2024	4,881,436	112,255
2025 through 2029	14,771,984	876,447

KEMI does not have any regulatory contribution requirements for 2020, however, KEMI currently intends to make voluntary contributions of approximately \$1.92 million to the defined benefit pension plan and approximately \$260,000 to the postretirement benefit plan in 2020.

The discount rate utilized in valuing the defined benefit pension obligation is determined by matching the FTSE Pension Discount Curve to the expected benefit payout stream and determining a single equivalent discount rate. A 1.03% decrease in the discount rate from December 31, 2018 to December 31, 2019 increased the projected pension benefit obligation by \$5,046,963.

In 2019, KEMI's retirement plan fiduciary committee evaluated certain investment strategies and assumptions related to the defined benefit pension and postretirement plans. The plans' portfolio guidelines were revised to reduce common stock holdings, thereby lowering exposure to market risk. The plans' neutral target allocation was revised from 50% fixed income securities and 50% common stocks to 75% fixed income securities, 15% common stocks, and 10% diversifying strategies. In conjunction with restructuring these portfolio guidelines, the plans' target rate of return was lowered from 5% to 4%.



**Kentucky Employers' Mutual Insurance Authority**  
**dba Kentucky Employers' Mutual Insurance**  
**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note J - Retirement Plans (Continued)**

Defined Benefit Pension and Postretirement Benefit Plans (Continued)

Fair Value Measurements of Plan Assets as of December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Defined benefit pension plan				
Assets (mutual funds)				
Fixed interest/stable value/cash	\$ 4,002,805	\$ -	\$ -	\$ 4,002,805
Short-term bonds	5,361,185	-	-	5,361,185
Intermediate-term bonds	11,041,861	-	-	11,041,861
Balanced	1,105,291	-	-	1,105,291
Large-cap stocks	2,103,799	-	-	2,103,799
Mid-cap stocks	559,226	-	-	559,226
Small-cap stocks	279,020	-	-	279,020
Foreign stocks	1,456,139	-	-	1,456,139
Specialty	1,080,529	-	-	1,080,529
	<u>\$ 26,989,855</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,989,855</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Postretirement benefit plan				
Assets (mutual funds)				
Fixed interest/stable value/cash	\$ 688,057	\$ -	\$ -	\$ 688,057
Short-term bonds	921,940	-	-	921,940
Intermediate-term bonds	1,896,074	-	-	1,896,074
Balanced	190,413	-	-	190,413
Large-cap stocks	364,559	-	-	364,559
Mid-cap stocks	96,359	-	-	96,359
Small-cap stocks	48,067	-	-	48,067
Foreign stocks	251,829	-	-	251,829
Specialty	185,760	-	-	185,760
	<u>\$ 4,643,058</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,643,058</u>

**Kentucky Employers' Mutual Insurance Authority**  
**dba Kentucky Employers' Mutual Insurance**  
**Notes to Statutory Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**Note J - Retirement Plans (Continued)**

Defined Benefit Pension and Postretirement Benefit Plans (Continued)

Fair Value Measurements of Plan Assets as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Defined benefit pension plan				
Assets (mutual funds)				
Short-term bonds	\$ 2,488,530	\$ -	\$ -	\$ 2,488,530
Intermediate-term bonds	5,391,816	-	-	5,391,816
Large-cap stocks	6,013,948	-	-	6,013,948
Mid-cap stocks	1,659,020	-	-	1,659,020
Small-cap stocks	622,133	-	-	622,133
Foreign stocks	3,525,418	-	-	3,525,418
Global infrastructure funds	1,036,888	-	-	1,036,888
	<u>\$ 20,737,753</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,737,753</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Postretirement benefit plan				
Assets (mutual funds)				
Short-term bonds	\$ 455,818	\$ -	\$ -	\$ 455,818
Intermediate-term bonds	987,605	-	-	987,605
Large-cap stocks	1,101,559	-	-	1,101,559
Mid-cap stocks	303,878	-	-	303,878
Small-cap stocks	113,954	-	-	113,954
Foreign stocks	645,741	-	-	645,741
Global infrastructure funds	189,924	-	-	189,924
	<u>\$ 3,798,479</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,798,479</u>

Defined Contribution Plans

Effective July 1, 2016, KEMI established a 401(a) defined contribution plan for which it is the plan sponsor. Participation in the plan is not mandatory; however, employees who elect to participate are required to contribute 6% of their salary to the plan. Employees who have chosen to participate in the 401(a) defined benefit pension plan are not eligible to participate in the 401(a) defined contribution plan except to the extent of matching employer funds on their 457(b) elective deferrals, as described later in this paragraph. KEMI provides matching funds of 6% for participants hired on or after July 1, 2016; an enhanced match and access to the retiree health insurance plan is provided for participants hired prior to July 1, 2016 who were previously members of KRS. KEMI also established a 457(b)-plan effective July 1, 2016, for which it is the plan sponsor and to which employees may elect to contribute additional elective deferrals. Employees hired prior to July 1, 2016 are eligible to receive matching employer funds of 50% of their elective deferrals, up to a maximum match of 3%. Employees hired on or after July 1, 2016 may contribute elective deferrals to the 457(b) plan but are not eligible to receive matching funds. KEMI eliminated employer matching funds to the 457(b) plan effective January 1, 2020. During 2019 and 2018, KEMI contributed matching funds of \$841,610 and \$1,007,532, respectively to the 401(a) defined contribution plan and \$269,896 and \$319,251, respectively to the 457(b) plan. Participants are fully vested after sixty months of service.

**Kentucky Employers' Mutual Insurance Authority  
dba Kentucky Employers' Mutual Insurance  
Notes to Statutory Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018**

**Note K - Federal Income Taxes**

As described in Note A, KEMI is a political subdivision of the Commonwealth and was created by legislation to serve as the insurer of last resort as well as a competitive force to stabilize the workers' compensation market in Kentucky. The Commonwealth provided KEMI's initial funding and continues to influence KEMI through Governor appointed board members and through the role of oversight. The Internal Revenue Service has determined that KEMI is a tax-exempt entity pursuant to Internal Revenue Code section §501(c)(27) and therefore is not subject to federal income taxes. Accordingly, the statutory basis financial statements do not include a provision for federal income taxes.

**Note L - Contingencies**

KEMI is involved in litigation and may become involved in potential litigation arising in the ordinary course of business. Additionally, KEMI may be impacted by adverse regulatory actions and adverse court decisions where insurance coverages are expanded beyond the scope of originally contemplated policies. In the opinion of management, the effects, if any, of such litigation and published court decisions to date are not expected to be material to the statutory basis financial statements.

**Note M - Statutory Requirements**

Under the insurance regulations of the Commonwealth of Kentucky, the amount of dividends that KEMI may pay to its policyholders is limited to the excess of actuarially determined minimum policyholder surplus requirements. Actuarially determined minimum policyholder surplus takes into consideration the company's present liabilities as well as management's expectation of future business volumes, claims activity and investment performance. The Commonwealth of Kentucky's statutory minimum policyholder surplus requirement is \$1,500,000.

## **Supplementary Information**



**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***

To the Board of Directors  
Kentucky Employers' Mutual Insurance Authority  
dba Kentucky Employers' Mutual Insurance

We have audited, in accordance with the 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 statutory basis financial statements of Kentucky Employers' Mutual Insurance Authority dba Kentucky Employers' Mutual Insurance ("KEMI"), as of and for the year ended December 31, 2019, and the related notes to the statutory basis financial statements, which collectively comprise KEMI's basic statutory financial statements, and have issued our report thereon dated May 26, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the statutory financial statements, we considered KEMI's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the statutory financial statements, but not for the purpose of expressing an opinion on the effectiveness of KEMI's internal control. Accordingly, we do not express an opinion on the effectiveness of KEMI'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 was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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**Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards* (Continued)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether KEMI's statutory basis 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 the statutory basis 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 controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of KEMI's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KEMI's internal control and compliance. This report is intended solely for the information and use of the Board of Directors, management and the Kentucky Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties.

MCM CPAs & Advisors LLP

Louisville, Kentucky  
May 22 2020

## Awareness Letter

Board of Directors  
Kentucky Employers' Mutual Insurance Authority  
dba Kentucky Employers' Mutual Insurance

We were engaged by Kentucky Employers' Mutual Insurance Authority dba Kentucky Employers' Mutual Insurance ("KEMI") to perform an annual audit, 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, of KEMI's 2019 statutory financial statements. In connection therewith, we acknowledge the following:

- We are aware of the provisions relating to the accounting and financial reporting matters in the Insurance Code of the Commonwealth of Kentucky and the related rules and regulations of the Department of Insurance of the Commonwealth of Kentucky that are applicable to audits of statutory financial statements of insurance entities. Also, after completion of our audit, we expect that we will issue our report on the statutory basis financial statements of KEMI as to their conformity with accounting practices prescribed or permitted by the Department of Insurance of the Commonwealth of Kentucky.

This letter is intended solely for the information and use of the Board of Directors and management of KEMI and the Department of Insurance of the Commonwealth of Kentucky and is not intended to be, and should not be, used by anyone other than these specified parties.



Louisville, Kentucky  
May 22, 2020

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## Qualification Letter

May 22 , 2020

To the Board of Directors  
Kentucky Employers' Mutual Insurance Authority  
dba Kentucky Employers' Mutual Insurance

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 Controller of the United States, the statutory basis financial statements of Kentucky Employers' Mutual Insurance Authority dba Kentucky Employers' Mutual Insurance ("KEMI") for the year ended December 31, 2019, and have issued our report thereon dated May 22, 2020. In connection therewith, we advise you as follows:

1. We are independent certified public accountants with respect to KEMI and conform to the standards of the accounting profession as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants, and the Rules of Professional Conduct of the Kentucky Board of Public Accountancy.
2. The engagement partner and manager are all Certified Public Accountants, have experience in public accounting, and are experienced in auditing insurance enterprises. Members of the engagement team were assigned to perform tasks commensurate with their training and experience.
3. We understand that KEMI intends to file its audited statutory financial statements and our report thereon with the Kentucky Department of Insurance and that the Insurance Commissioner of the Commonwealth will be relying on that information in monitoring and regulating the statutory financial condition of KEMI.

While we understand that an objective of issuing a report on the statutory financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, KEMI and the Insurance Commissioner should understand that the objective of an audit of statutory financial statements in accordance with auditing standards generally accepted in the United States of America is to form an opinion and issue a report on whether the statutory basis financial statements present fairly, in all material respects, the admitted assets, liabilities, policyholder surplus, results of operations and cash flows in conformity with accounting practices prescribed or permitted by the Kentucky Department of Insurance. Consequently, under auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, we have the responsibility, within the inherent limitations of the auditing process, to design our audit to obtain reasonable assurance that errors and fraud that have a material effect on the statutory basis financial statements will be detected and to exercise due care in the conduct of the audit.

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## Qualification Letter (Continued)

The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on statutory basis financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting fraud. Because of the characteristics of fraud, particularly those involving forgery and collusion, a properly designed and executed audit may not detect material fraud. In addition, an audit does not address the possibility that material error or fraud may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would have been assessed differently by the Insurance Commissioner.

It is the responsibility of the management of KEMI to adopt sound accounting policies, to maintain an adequate and effective system of accounts, to establish and maintain internal control that will, among other things, provide reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of statutory basis financial statements in conformity with accounting practices prescribed or permitted by the Kentucky Department of Insurance.

The Insurance Commissioner should exercise due diligence to obtain whatever other information that may be necessary for the purpose of monitoring and regulating the financial position of insurers and should not rely solely upon the independent auditor's report.

4. We will retain the workpapers prepared in the conduct of our audit until the Kentucky Department of Insurance has filed a Report of Examination covering 2019, but not longer than seven years, and, on instructions from KEMI, will make them available for review by the Kentucky Department of Insurance or any other departments of insurance.
5. The engagement partner is a licensed Certified Public Accountant and is a member in good standing of the American Institute of Certified Public Accountants.
6. We confirm that we are in compliance with all applicable requirements of Section 806 KAR 3:170 of the Administrative Code.
7. To the best of our knowledge and belief, we are in compliance with the requirements of Section 7 of the NAIC's Model Rule (Regulation) *Requiring Annual Audited Financial Reports* regarding qualifications of independent certified public accountants.

Our practice is subject to peer review under the oversight of the AICPA's National Peer Review Committee. A copy of our most recent unqualified report is available upon request. This letter is furnished solely for filing with the Kentucky Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties.



Louisville, Kentucky  
May 24, 2020

Annual Statement for the year 2019 of the **KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY**  
**SUMMARY INVESTMENT SCHEDULE**

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1 Amount	2 Percentage of Column 1 Line 13	3 Amount	4 Securities Lending Reinvested Collateral Amount	5 Total (Col. 3 + 4) Amount	6 Percentage of Column 5 Line 13
<b>1. Long-Term Bonds (Schedule D, Part 1):</b>						
1.01 U.S. Governments.....	46,612,789	4.5	46,612,789		46,612,789	4.5
1.02 All Other Governments.....	2,504,838	0.2	2,504,838		2,504,838	0.2
1.03 U.S. States, Territories and Possessions, etc., Guaranteed.....	1,164,975	0.1	1,164,975		1,164,975	0.1
1.04 U.S. Political Subdivisions of States, Territories and Possessions, Guaranteed.....	4,946,830	0.5	4,946,830		4,946,830	0.5
1.05 U.S. Special Revenue and Special Assessment Obligations, etc., Non-Guaranteed.....	196,062,037	18.8	196,062,037		196,062,037	18.8
1.06 Industrial and Miscellaneous.....	689,439,717	66.1	689,439,717		689,439,717	66.1
1.07 Hybrid Securities.....		0.0			0	0.0
1.08 Parent, Subsidiaries and Affiliates.....		0.0			0	0.0
1.09 SVO Identified Funds.....		0.0			0	0.0
1.10 Unaffiliated Bank Loans.....		0.0			0	0.0
1.11 Total Long-Term Bonds.....	940,731,186	90.1	940,731,186	0	940,731,186	90.1
<b>2. Preferred Stocks (Schedule D, Part 2, Section 1):</b>						
2.01 Industrial and Misc. (Unaffiliated).....		0.0			0	0.0
2.02 Parent, Subsidiaries and Affiliates.....		0.0			0	0.0
2.03 Total Preferred Stock.....	0	0.0	0	0	0	0.0
<b>3. Common Stocks (Schedule D, Part 2, Section 2):</b>						
3.01 Industrial and Miscellaneous Publicly Traded (Unaffiliated).....	55,190,169	5.3	55,190,169		55,190,169	5.3
3.02 Industrial and Miscellaneous Other (Unaffiliated).....		0.0			0	0.0
3.03 Parent, Subsidiaries and Affiliates Publicly Traded.....		0.0			0	0.0
3.04 Parent, Subsidiaries and Affiliates Other.....		0.0			0	0.0
3.05 Mutual Funds.....		0.0			0	0.0
3.06 Unit Investment Trusts.....		0.0			0	0.0
3.07 Closed-End Funds.....		0.0			0	0.0
3.08 Total Common Stocks.....	55,190,169	5.3	55,190,169	0	55,190,169	5.3
<b>4. Mortgage Loans (Schedule B):</b>						
4.01 Farm Mortgages.....		0.0			0	0.0
4.02 Residential Mortgages.....		0.0			0	0.0
4.03 Commercial Mortgages.....		0.0			0	0.0
4.04 Mezzanine Real Estate Loans.....		0.0			0	0.0
4.05 Total Mortgage Loans.....	0	0.0	0	0	0	0.0
<b>5. Real Estate (Schedule A):</b>						
5.01 Properties Occupied by Company.....		0.0			0	0.0
5.02 Properties Held for Production of Income.....		0.0			0	0.0
5.03 Properties Held for Sale.....	4,025,000	0.4	4,025,000		4,025,000	0.4
5.04 Total Real Estate.....	4,025,000	0.4	4,025,000	0	4,025,000	0.4
<b>6. Cash, Cash Equivalents, and Short-Term Investments:</b>						
6.01 Cash (Schedule E, Part 1).....	32,392,201	3.1	32,392,201		32,392,201	3.1
6.02 Cash Equivalents (Schedule E, Part 2).....	11,343,039	1.1	11,343,039		11,343,039	1.1
6.03 Short-Term Investments (Schedule DA).....		0.0			0	0.0
6.04 Total Cash, Cash Equivalents, and Short-Term Investments.....	43,735,240	4.2	43,735,240	0	43,735,240	4.2
7. Contract Loans.....		0.0			0	0.0
8. Derivatives (Schedule DB).....		0.0			0	0.0
9. Other Invested Assets (Schedule BA).....		0.0			0	0.0
10. Receivables for Securities.....		0.0			0	0.0
11. Securities Lending (Schedule DL, Part 1).....		0.0		XXX	XXX	XXX
12. Other Invested Assets (Page 2, Line 11).....		0.0			0	0.0
<b>13. Total Invested Assets.....</b>	<b>1,043,681,595</b>	<b>100.0</b>	<b>1,043,681,595</b>	<b>0</b>	<b>1,043,681,595</b>	<b>100.0</b>



# SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For the year ended December 31, 2019

(To be filed by April 1)

OF KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY

Address (City, State, Zip Code): Lexington KY 40507-1724

NAIC Group Code.....0

NAIC Company Code.....10320

Employer's ID Number.....61-1275981

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements. Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$...1,104,657,286

2. Ten largest exposures to a single issuer/borrower/investment.

1	2	3	4
Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01 Federal National Mortgage Association.....	MBS, CMO .....	\$...99,381,329	9.0 %
2.02 Freddie Mac.....	MBS, CMO .....	\$...80,731,982	7.3 %
2.03 JPMorgan Chase & Co.....	Bonds, Equity .....	\$...5,961,419	0.5 %
2.04 The Hershey Company.....	Bonds, Equity .....	\$...4,951,741	0.4 %
2.05 CUALCOMM Incorporated.....	Bonds, Equity .....	\$...4,289,129	0.4 %
2.06 The PNC Financial Services Group, Inc.....	Bonds, Equity .....	\$...4,267,650	0.4 %
2.07 Pfizer Inc.....	Bonds, Equity .....	\$...4,242,276	0.4 %
2.08 U.S. Bancorp.....	Bonds, Equity .....	\$...4,214,239	0.4 %
2.09 National Rural Utilities Cooperative Finance Corporation.....	Bonds .....	\$...4,044,288	0.4 %
2.10 Mastercard Incorporated.....	Bonds .....	\$...4,015,698	0.4 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation.

	1	2
<u>Bonds</u>		
3.01 NAIC 1.....	\$...741,201,087	67.1 %
3.02 NAIC 2.....	\$...170,248,115	15.4 %
3.03 NAIC 3.....	\$...29,281,984	2.7 %
3.04 NAIC 4.....	\$.....	0.0 %
3.05 NAIC 5.....	\$.....	0.0 %
3.06 NAIC 6.....	\$.....	0.0 %
<u>Preferred Stocks</u>		
3.07 PIRP-1.....	\$.....	0.0 %
3.08 PIRP-2.....	\$.....	0.0 %
3.09 PIRP-3.....	\$.....	0.0 %
3.10 PIRP-4.....	\$.....	0.0 %
3.11 PIRP-5.....	\$.....	0.0 %
3.12 PIRP-6.....	\$.....	0.0 %

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [ ] No [X]

If response to 4.01 above is yes, responses are not required for interrogatories 5-10.

4.02 Total admitted assets held in foreign investments	\$...98,511,672	8.9 %
4.03 Foreign-currency-denominated investments	\$.....	0.0 %
4.04 Insurance liabilities denominated in that same foreign currency	\$.....	0.0 %

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:

	1	2
5.01 Countries designated NAIC 1.....	\$...93,984,656	8.5 %
5.02 Countries designated NAIC 2.....	\$...2,037,601	0.2 %
5.03 Countries designated NAIC 3 or below.....	\$...2,489,414	0.2 %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:

	1	2
Countries designated NAIC 1:		
6.01 Country 1: Cayman Islands.....	\$...25,233,685	2.3 %
6.02 Country 2: United Kingdom.....	\$...19,323,618	1.7 %
Countries designated NAIC 2:		
6.03 Country 1: Mexico.....	\$...2,037,601	0.2 %
6.04 Country 2: —.....	\$.....	0.0 %
Countries designated NAIC 3 or below:		
6.05 Country 1: Virgin Islands, British.....	\$...1,491,930	0.1 %
6.06 Country 2: Guernsey.....	\$...997,484	0.1 %

7. Aggregate unhedged foreign currency exposure..... \$..... 0.0 %

Supplement for the year 2019 of the **KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY**

8.	Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:	1	2	
8.01	Countries designated NAIC 1.....	\$.....	.....	0.0 %
8.02	Countries designated NAIC 2.....	\$.....	.....	0.0 %
8.03	Countries designated NAIC 3 or below.....	\$.....	.....	0.0 %
9.	Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:			
	Countries designated NAIC 1:	1	2	
9.01	Country 1:.....	\$.....	.....	0.0 %
9.02	Country 2:.....	\$.....	.....	0.0 %
	Countries designated NAIC 2:			
9.03	Country 1:.....	\$.....	.....	0.0 %
9.04	Country 2:.....	\$.....	.....	0.0 %
	Countries designated NAIC 3 or below:			
9.05	Country 1:.....	\$.....	.....	0.0 %
9.06	Country 2:.....	\$.....	.....	0.0 %
10.	Ten largest non-sovereign (i.e. non-governmental) foreign issues:			
	1	2	3	4
	<u>Issuer</u>	<u>NAIC Designation</u>		
10.01	Macquarie Group Limited.....	1FE.....	\$.....3,056,805	.....0.3 %
10.02	Trensbury Finance Company Pty Ltd.....	2FE.....	\$.....2,519,364	.....0.2 %
10.03	Westpac Banking Corporation.....	1FE.....	\$.....2,517,329	.....0.2 %
10.04	Svenska Handelsbanken AB (publ).....	1FE.....	\$.....2,502,878	.....0.2 %
10.05	HSBC Holdings plc.....	1FE.....	\$.....2,502,835	.....0.2 %
10.06	BPCE SA.....	1FE.....	\$.....2,491,662	.....0.2 %
10.07	The Royal Bank of Scotland Group plc.....	2FE.....	\$.....2,479,998	.....0.2 %
10.08	Scorbe Group Trust 1.....	1FE.....	\$.....2,173,961	.....0.2 %
10.09	GlaxoSmithKline Capital plc.....	1FE.....	\$.....2,158,246	.....0.2 %
10.10	Shell International Finance B.V.....	1FE.....	\$.....2,043,524	.....0.2 %
11.	Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:			
11.01	Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?.....			Yes [X] No [ ]
	If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.			
11.02	Total admitted assets held in Canadian investments.....	\$.....	.....	0.0 %
11.03	Canadian currency-denominated investments.....	\$.....	.....	0.0 %
11.04	Canadian-denominated insurance liabilities.....	\$.....	.....	0.0 %
11.05	Unhedged Canadian currency exposure.....	\$.....	.....	0.0 %
12.	Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.			
12.01	Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?.....			Yes [X] No [ ]
	If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.			
	1	2	3	
12.02	Aggregate statement value of investments with contractual sales restrictions.....	\$.....	.....	0.0 %
	Largest three investments with contractual sales restrictions:			
12.03	.....	\$.....	.....	0.0 %
12.04	.....	\$.....	.....	0.0 %
12.05	.....	\$.....	.....	0.0 %
13.	Amounts and percentages of admitted assets held in the ten largest equity interests:			
13.01	Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?.....			Yes [ ] No [X]
	If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.			
	1	2	3	
	<u>Name of Issuer</u>			
13.02	Federal Home Loan Bank of Cincinnati.....	\$.....1,668,900	.....	0.2 %
13.03	V.F. Corporation.....	\$.....1,376,006	.....	0.1 %
13.04	Best Buy Co., Inc.....	\$.....1,333,155	.....	0.1 %
13.05	Texas Instruments Incorporated.....	\$.....1,303,555	.....	0.1 %
13.06	Johnson & Johnson.....	\$.....1,296,201	.....	0.1 %
13.07	Cisco Systems, Inc.....	\$.....1,295,831	.....	0.1 %
13.08	JPMorgan Chase & Co.....	\$.....1,293,214	.....	0.1 %
13.09	QUALCOMM Incorporated.....	\$.....1,292,658	.....	0.1 %
13.10	Merck & Co., Inc.....	\$.....1,274,028	.....	0.1 %
13.11	The PNC Financial Services Group, Inc.....	\$.....1,273,049	.....	0.1 %
14.	Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:			
14.01	Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?.....			Yes [X] No [ ]
	If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.			
	1	2	3	
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities.....	\$.....	.....	0.0 %
	Largest three investments held in nonaffiliated, privately placed equities:			
14.03	.....	\$.....	.....	0.0 %
14.04	.....	\$.....	.....	0.0 %
14.05	.....	\$.....	.....	0.0 %

Supplement for the year 2019 of the **KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY**

Ten Largest Fund Managers

	1	2	3	4
	<u>Fund Manager</u>	<u>Total Invested</u>	<u>Diversified</u>	<u>Non-Diversified</u>
14.06	First American Funds, Inc. - Government Obligations Fund.....	\$ 11,343,039	\$ 11,343,039	\$
14.07	.....	\$	\$	\$
14.08	.....	\$	\$	\$
14.09	.....	\$	\$	\$
14.10	.....	\$	\$	\$
14.11	.....	\$	\$	\$
14.12	.....	\$	\$	\$
14.13	.....	\$	\$	\$
14.14	.....	\$	\$	\$
14.15	.....	\$	\$	\$

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]  
 If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

	1	2	3
15.02	Aggregate statement value of investments held in general partnership interests.....	\$	0.0 %
	Largest three investments in general partnership interests:		
15.03	.....	\$	0.0 %
15.04	.....	\$	0.0 %
15.05	.....	\$	0.0 %

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]  
 If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1	2	3
	<u>Type (Residential, Commercial, Agricultural)</u>		
16.02	.....	\$	0.0 %
16.03	.....	\$	0.0 %
16.04	.....	\$	0.0 %
16.05	.....	\$	0.0 %
16.06	.....	\$	0.0 %
16.07	.....	\$	0.0 %
16.08	.....	\$	0.0 %
16.09	.....	\$	0.0 %
16.10	.....	\$	0.0 %
16.11	.....	\$	0.0 %

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

		<u>Loans</u>
16.12	Construction loans.....	\$ 0.0 %
16.13	Mortgage loans over 90 days past due.....	\$ 0.0 %
16.14	Mortgage loans in the process of foreclosure.....	\$ 0.0 %
16.15	Mortgage loans foreclosed.....	\$ 0.0 %
16.16	Restructured mortgage loans.....	\$ 0.0 %

17. Adequate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

<u>Loan-to-Value</u>	<u>Residential</u>		<u>Commercial</u>		<u>Agricultural</u>	
	1	2	3	4	5	6
17.01 above 95%.....	\$	0.0 %	\$	0.0 %	\$	0.0 %
17.02 91% to 95%.....	\$	0.0 %	\$	0.0 %	\$	0.0 %
17.03 81% to 90%.....	\$	0.0 %	\$	0.0 %	\$	0.0 %
17.04 71% to 80%.....	\$	0.0 %	\$	0.0 %	\$	0.0 %
17.05 below 70%.....	\$	0.0 %	\$	0.0 %	\$	0.0 %

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]  
 If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate:

	2	3
	<u>Description</u>	
18.02	.....	\$ 0.0 %
18.03	.....	\$ 0.0 %
18.04	.....	\$ 0.0 %
18.05	.....	\$ 0.0 %
18.06	.....	\$ 0.0 %



Supplement for the year 2019 of the **KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY**

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans.  
 19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's admitted assets? Yes [X] No [ ]  
 If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

	1	2	3
19.02 Aggregate statement value of investments held in mezzanine real estate loans		\$.....	.....0.0 %
Largest three investments held in mezzanine real estate loans:			
19.03 .....		\$.....	.....0.0 %
19.04 .....		\$.....	.....0.0 %
19.05 .....		\$.....	.....0.0 %

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>
			3	4	5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	\$.....	.....0.0 %	\$.....	\$.....	\$.....
20.02 Repurchase agreements	\$.....	.....0.0 %	\$.....	\$.....	\$.....
20.03 Reverse repurchase agreements	\$.....	.....0.0 %	\$.....	\$.....	\$.....
20.04 Dollar repurchase agreements	\$.....	.....0.0 %	\$.....	\$.....	\$.....
20.05 Dollar reverse repurchase agreements	\$.....	.....0.0 %	\$.....	\$.....	\$.....

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps and floors:

	<u>Owned</u>		<u>Written</u>	
	1	2	3	4
21.01 Hedging	\$.....	.....0.0 %	\$.....	.....0.0 %
21.02 Income generation	\$.....	.....0.0 %	\$.....	.....0.0 %
21.03 Other	\$.....	.....0.0 %	\$.....	.....0.0 %

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>
			3	4	5
22.01 Hedging	\$.....	.....0.0 %	\$.....	\$.....	\$.....
22.02 Income generation	\$.....	.....0.0 %	\$.....	\$.....	\$.....
22.03 Replications	\$.....	.....0.0 %	\$.....	\$.....	\$.....
22.04 Other	\$.....	.....0.0 %	\$.....	\$.....	\$.....

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>
			3	4	5
23.01 Hedging	\$.....	.....0.0 %	\$.....	\$.....	\$.....
23.02 Income generation	\$.....	.....0.0 %	\$.....	\$.....	\$.....
23.03 Replications	\$.....	.....0.0 %	\$.....	\$.....	\$.....
23.04 Other	\$.....	.....0.0 %	\$.....	\$.....	\$.....

## KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY REINSURANCE INTERROGATORIES

- |     |   |   |
|-----|---|---|
| 7.1 | Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)?   | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> |
| 7.2 | If yes, indicate the number of reinsurance contracts containing such provisions.  | 1   |
| 7.3 | If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)?   | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> |
| 8.1 | Has this reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on this risk, or portion thereof, reinsured?   | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |
| 8.2 | If yes, give full information   |   |
| 9.1 | Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:<br><ul style="list-style-type: none"> <li>(a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;</li> <li>(b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;</li> <li>(c) Aggregate stop loss reinsurance coverage;</li> <li>(d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;</li> <li>(e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or</li> <li>(f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity?</li> </ul> | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |
| 9.2 | Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:<br><ul style="list-style-type: none"> <li>(a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or</li> <li>(b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract.</li> </ul>  | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |
| 9.3 | If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:<br><ul style="list-style-type: none"> <li>(a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;</li> <li>(b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and</li> <li>(c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.</li> </ul>  |   |
| 9.4 | Except for transactions meeting the requirements of paragraph 37 of SSAP No. 62R, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:<br><ul style="list-style-type: none"> <li>(a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or</li> <li>(b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?</li> </ul>   | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |
| 9.5 | If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated differently for GAAP and SAP.  |   |
| 9.6 | The reporting entity is exempt from the Reinsurance Attestation Supplement under one or more of the following criteria:<br><ul style="list-style-type: none"> <li>(a) The entity does not utilize reinsurance; or,</li> <li>(b) The entity only engages in a 100% quota share contract with an affiliate and the affiliated or lead company has filed an attestation supplement; or</li> <li>(c) The entity has no external cessions and only participates in an intercompany pool and the affiliated or lead company has filed an attestation supplement.</li> </ul>   | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |