



KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

WITH SUPPLEMENTARY SCHEDULES

2020

**KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
2020 MANAGEMENT'S DISCUSSION AND ANALYSIS**

OBJECTIVE AND BACKGROUND

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

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

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

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

FINANCIAL POSITION

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

	<u>2020</u>	<u>2019</u>
Admitted Assets:		
Long-term bonds	\$ 957,463,822	\$ 940,731,186
Common stocks	58,480,389	55,190,169
Cash and short-term investments	19,537,278	43,735,240
Real estate	4,025,000	4,025,000
Other invested assets	<u>3,154,809</u>	<u>0</u>
Subtotal cash and invested assets	1,042,661,298	1,043,681,595
Investment income receivable	6,317,386	6,484,708
Premiums receivable or deferred	40,587,637	49,378,545
Reinsurance receivable on paid losses and loss expenses	637,970	49,567
Receivables for retroactive reinsurance assumed	2,024,016	4,245,389
Other admitted assets	<u>905,694</u>	<u>817,482</u>
 Total admitted assets	 <u>\$ 1,093,134,001</u>	 <u>\$ 1,104,657,286</u>

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	<u>2020</u>	<u>2019</u>
Liabilities and Policyholder Surplus:		
Unpaid loss reserves	\$ 600,610,041	\$ 612,265,699
Unpaid loss adjustment expense reserves	52,396,302	53,067,996
Premiums written but not yet earned	56,596,040	67,787,574
Commissions and accounts payable	16,044,661	16,149,673
Amounts withheld or retained for others	7,680,342	9,496,225
Retroactive reinsurance reserves assumed	29,275,852	65,115,306
Retroactive reinsurance assumed - excess funds to be returned	21,763,270	0
Retroactive reinsurance reserves ceded	(15,223,789)	(25,930,096)
Funds withheld on retroactive reinsurance ceded	22,268,180	31,239,957
Liability for projected pension and postretirement benefits	15,440,131	11,542,402
Other liabilities	<u>2,878,802</u>	<u>2,197,987</u>
Total liabilities	809,729,832	842,932,723
Policyholder surplus	<u>283,404,169</u>	<u>261,724,563</u>
Total liabilities and policyholder surplus	<u>\$ 1,093,134,001</u>	<u>\$ 1,104,657,286</u>

Assets

Cash and invested assets made up 95% of KEMI's total admitted assets at the end of 2020. KEMI's long-term bond portfolio had a carrying value of \$957,463,822 and a fair market value of \$1,021,951,834. Over 96% of long-term bonds held at year end were rated either NAIC 1 (highest quality) or NAIC 2 (high quality). Money market funds had a fair market value of \$7,391,088 and operating cash balances totaled \$12,146,190. The fixed income portfolio had an effective maturity of 5.80 years, an average book yield of 2.9% and an average credit rating of A1/A+. Common stocks, which were stated at fair market value as determined by the Securities Valuation Office of the NAIC, totaled \$58,480,389 and reflected net unrealized gains of \$8,601,980 at year end.

In March 2020, the World Health Organization declared the worldwide outbreak of novel coronavirus disease 2019 (COVID-19) a global pandemic. Although the spread of COVID-19 throughout the United States negatively impacted the US economy and financial markets during the first half of 2020, substantial recoveries occurred throughout the remainder of the year. By December 31, 2020, KEMI saw the fair market value of its investment portfolio rebound to pre-COVID-19 levels.

KEMI owns 21.68 acres of commercially zoned land, appraised at \$4,025,000. This parcel was originally purchased for the purpose of constructing a home office campus; however, KEMI's Board of Directors subsequently decided to continue leasing instead of building a home office. This parcel is now classified as property held for sale.

During 2020, KEMI purchased a minority interest in ElmTree US Net Lease Fund IV, LP for a total commitment of \$20 million, of which \$3,154,809 has been paid to date. This private equity limited partnership invests in newly constructed and build-to-suit commercial net lease real estate with tenant lease terms of 10 to 15 years. After a 30 month investment period, the fund's ultimate objective is to sell this portfolio of properties to a core buyer at a gain. ElmTree US Net Lease Fund IV, LP currently yields an annual return of 7%, paid quarterly.

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Premiums receivable or deferred are policy payments due from KEMI policyholders. As a result of payment plan arrangements offered by KEMI, \$31,779,855 of the \$40,587,637 in premium balances reflected on the 2020 balance sheet represent future installments that were deferred and not yet due. Statutory Accounting Principles also require management to estimate the amount of premium that will be earned but unbilled at the end of each policy in force based upon past policy audit experience. Management's estimate of \$2,965,266 is included in KEMI's deferred premium balances.

Non-admitted assets are those assets which, under Statutory Accounting Principles, must be excluded from the balance sheet by a direct charge to surplus. At the end of 2020 KEMI's non-admitted assets totaled \$17,402,623, for a net decrease of \$2,295,573 from the prior year. Included in non-admitted assets is \$7,882,937 of premium balances that are more than ninety days past due or are otherwise determined to be uncollectible. The collectability of these receivables is regularly assessed and balances are written off to bad debt only after all efforts to secure payment have been exhausted. Also included are prepaid pension and postretirement assets of \$8,654,524 which will be amortized through the income statement over the next five to ten years. Other non-admitted assets include undepreciated balances of furniture, equipment and application software of \$460,935, prepaid expenses of \$58,150 and miscellaneous receivables of \$346,077.

Liabilities

Reserves for unpaid losses and loss adjustment expenses are stated at the Company's best estimate of the ultimate cost, net of ceded reinsurance, of settling all incurred but unpaid claims. Unpaid loss and loss adjustment expense reserves are based on industry statistics and Company history, along with management's expectations of loss relative to premiums earned by accident year. The method for making such estimates and for establishing the resulting liability is continually reviewed and any adjustments are reflected in the period determined. During 2020, adjustments to the loss and loss adjustment expense reserves of prior accident years resulted in a net decrease of \$21,129,652 to those reserves.

In recent years, KEMI has experienced an increase in the number of coal mine occupational disease (black lung) claims reported. This increase is the result of both a decrease in the coal mining industry's workforce as well as recent amendments to the Federal Coal Mine Health and Safety Act. The Company closely monitors economic and regulatory changes impacting the coal industry, and continually evaluates the need for additional protection from losses which might arise from this industry segment. KEMI discounts the indemnity portion of black lung claim reserves on a tabular basis at a rate of 3.5%.

KEMI maintains Excess of Loss reinsurance coverage with unaffiliated, high quality reinsurers to limit its exposure to individual large losses as well as geographical concentrations of policyholders. KEMI also maintains two agreements for adverse development cover with unaffiliated reinsurers. These agreements provide additional reinsurance protection against unfavorable development arising from existing and/or newly reported claims for accident years 1995-2019. The adverse development cover for accident years 2015-2019 was purchased during 2020, and KEMI's income statement reflects a reinsurance premium of \$4.3 million related to the agreement. To date, KEMI has not experienced significant adverse development that would trigger either of these agreements.

At the end of 2020, KEMI had 4,141 open claims from direct business, consisting of 2,794 indemnity claims and 1,347 medical-only claims. KEMI also had 87 open claims from business assumed under the Company's multi-state program, which provides workers' compensation coverage to Kentucky-based policyholders with similar operations in other states.

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Management believes that its loss reserving methodologies are conservative and that the Company's reserves are adequate. KEMI's reserves are evaluated at least twice a year by an independent actuary who provides an annual Statement of Actuarial Opinion to KEMI's independent auditors and to regulatory agencies. KEMI received an Unqualified Statement of Actuarial Opinion for 2020, as it has every year since its inception.

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

	<u>2020</u>	<u>2019</u>
Unpaid losses and loss adjustment expenses, January 1	\$ 665,333,695	\$ 633,282,511
Gross losses incurred	71,475,913	108,770,276
Gross loss adjustment expenses incurred	21,550,440	26,452,406
Ceded losses and loss adjustment expenses incurred	(1,199,959)	(2,807,751)
Subrogation recoveries	(719,688)	(445,809)
Policy deductibles	<u>(20,771)</u>	<u>0</u>
Net incurred	<u>91,085,935</u>	<u>131,969,122</u>
Gross losses paid	83,074,733	78,468,772
Gross loss adjustment expenses paid	22,231,956	22,396,506
Ceded losses and loss adjustment expenses recovered	(1,152,943)	(501,531)
Subrogation recoveries	(719,688)	(445,809)
Policy deductibles	<u>(20,771)</u>	<u>0</u>
Net paid	<u>103,413,287</u>	<u>99,917,938</u>
Unpaid losses and loss adjustment expenses, December 31	<u>\$ 653,006,343</u>	<u>\$ 665,333,695</u>

During 2014, KEMI voluntarily executed a loss portfolio transfer with the Kentucky Commissioner of Insurance, Rehabilitator of the Kentucky School Boards Insurance Trust Workers' Compensation Self Insurance Fund (KSBIT). In exchange for \$35 million of guaranteed assessments due from the school boards formerly insured by KSBIT, KEMI assumed responsibility for approximately \$35 million in unpaid claim liabilities incurred for the period July 7, 1978 through June 30, 2013. Final installments under the guaranteed receivables program were received in 2020. As a result of efficient claims handling practices, actuarially determined claim liabilities were less than originally projected; therefore, KEMI returned \$16.3 million of transferred reserves back to the KSBIT Rehabilitator during 2019 and 2020.

During 2017, KEMI voluntarily executed a loss portfolio transfer with the Kentucky Workers' Compensation Funding Commission (the Funding Commission) wherein all authority and responsibility to administer the Kentucky Coal Workers' Pneumoconiosis Fund (KCWPF) was transferred from the Funding Commission to KEMI. The purpose of KCWPF is to pay one-half of the indemnity benefits for coal-related occupational disease claims incurred on or after December 12, 1996 and filed on or before June 30, 2017. The Funding Commission transferred to KEMI all of the existing assets and liabilities of KCWPF, as well as continuing to impose and remit to KEMI all quarterly coal assessments. Coal assessments ceased effective January 1, 2020, as both parties have agreed that the claim liabilities are fully funded. Based on current actuarial reserve studies, KEMI expects to have over \$20 million in excess KCWPF funds that will be distributed in a manner determined by the Kentucky Legislature. Senate Bill 141 was passed and signed by the Governor during the regular legislative session of 2021.

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Effective July 1, 2016, KEMI established a contributory 401(a) defined benefit pension plan for which it is the plan sponsor. This defined benefit pension plan was only made available to active employees at June 30, 2016 who were fully vested in a predecessor plan, the Kentucky Retirement Systems' (KRS) defined benefit pension plan. KEMI's 401(a) defined benefit plan provides for 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 plan. Employer contributions to the defined benefit plans are evaluated as deemed necessary to ensure the financial soundness of the plans.

Effective July 1, 2016, KEMI established a 401(a) defined contribution plan for which it is the plan sponsor. 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. Participation in the defined contribution plan is not mandatory; however, employees who elect to participate are required to contribute 6% of their salary to the plan. KEMI provides matching funds of 6% to the 401(a) defined contribution plan for participants hired on or after July 1, 2016; an enhanced match and access to the retiree health plan is provided for participants hired prior to July 1, 2016 who were previously members of KRS but opted out of KEMI's 401(a) defined benefit pension plan. KEMI also established a 457(b) plan effective July 1, 2016 for which it is the plan sponsor and to which all employees may elect to contribute additional elective deferrals. Participants are fully vested after 60 months of service.

Policyholder Surplus

During 2020 KEMI's policyholder surplus increased by \$21,679,606. Of this increase, \$22,530,767 was attributable to KEMI's net income for the year. Also contributing to the increase were net unrealized capital gains of \$750,995 on common stock holdings and a decrease of \$2,295,573 in non-admitted assets. Reducing surplus were net actuarial changes to projected pension benefits and postretirement benefits of \$3,897,729.

Under Statutory Accounting Principles investments in common stock are carried at fair market value on the balance sheet, with changes in the fair market value flowing through policyholder surplus. Declines in the fair market value of common stock holdings result in decreases to policyholder surplus; increases in those fair market values result in increases to policyholder surplus. As previously discussed, COVID-19 negatively impacted the US economy and financial markets in the first half of 2020; however, substantial recoveries occurred throughout the remainder of the year. By December 31, 2020, the fair market value of KEMI's common stock holdings had returned to pre-COVID-19 levels.

A.M. Best affirmed KEMI's Financial Strength Rating of A- (Excellent) in November 2020. A.M. Best also upgraded KEMI's outlook from negative to stable based on improved capital adequacy scores as measured by Best's Capital Adequacy Ratio (BCAR).

The Company's overall financial position remained strong in 2020. KEMI's mission is to make workers' compensation coverage affordable to employers by adhering to financially responsible underwriting practices, promoting safety in the workplace, protecting itself against unfavorable loss development and controlling overhead costs. Management regularly evaluates premium and claim levels, operating expenditures, and investment performance to maintain the Company's sound financial footing. Looking forward, increases to surplus are expected from net investment income, modest rate adjustments, and a continued focus on controlling claim costs and operating expenses.

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RESULTS OF OPERATIONS

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

	<u>2020</u>	<u>2019</u>
Net premiums earned	\$ 131,091,335	\$ 163,378,525
Losses incurred	69,555,135	105,160,834
Loss adjustment expenses incurred	21,530,800	26,808,288
Underwriting expenses incurred	<u>29,224,282</u>	<u>30,171,139</u>
Net underwriting gain (loss)	10,781,118	1,238,264
Net investment income	25,512,693	28,196,803
Net realized capital gains	3,794,640	12,096,439
Other income (expenses)	(2,636,317)	(1,881,503)
Net periodic pension and postretirement benefit costs	(2,523,579)	(2,650,404)
Retroactive reinsurance premium expense	<u>(4,320,000)</u>	<u>0</u>
Net income before policyholder dividends	30,608,555	36,999,599
Dividends to policyholders	<u>(8,077,788)</u>	<u>0</u>
 Net income after policyholder dividends	 <u>\$ 22,530,767</u>	 <u>\$ 36,999,599</u>

KEMI's direct written premiums for 2020 were \$122,305,429 versus \$158,456,916 for 2019, representing a decline of \$36,151,487 or 22.8%. Nearly \$22 million of the premium decrease was the result of continued declines in the coal mining industry. Coal mines continue to close or lay off workers in response to lower demand for coal as an energy source, thereby lowering coal operators' payroll levels upon which KEMI's premiums are calculated.

KEMI's non-coal book of business continued to perform well in 2020 even throughout the COVID-19 pandemic. Non-coal direct written premiums were down by approximately \$14 million or 11.3%, of which 7.5% was due to premium rate reductions for 2020 versus 2019. The remaining decrease in non-coal premiums was primarily attributable to KEMI's proactive evaluation of current policyholder payroll reductions due to COVID-19 layoffs.

During 2020, KEMI launched an initiative to settle certain high dollar claims full and final by utilizing structured settlements. KEMI purchased annuities from life insurers under which the claimants were the sole payees, and for which KEMI retained no contingent liability in the event of default or insolvency of the life insurer. The purchase of these annuities allowed KEMI to realize savings on large claims and to reduce reserves for losses and loss adjustment expenses, which improved leverage. This program did, however, increase the level of claim payment activity in 2020, which is evidenced in "gross losses paid" in the chart on page 4.

In October 2020, KEMI's Board of Directors approved a dividend payable to policyholders who had maintained a loss ratio of 65% or less for the 2017 policy year, and who still had active policies with KEMI at the time of payout. Over 13,000 dividend checks totaling \$8,077,788 were distributed in November 2020. In addition to the policyholder dividend, KEMI's Board of Directors approved a 6.4% overall rate reduction for the 2021 policy year.

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CASH FLOW AND LIQUIDITY

Cash Flow

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

	<u>2020</u>	<u>2019</u>
Cash Flows from Operations:		
Net cash from underwriting and claims	\$ (4,443,478)	\$ 30,816,765
Investment income received	31,931,117	32,144,302
Dividends paid to policyholders	(8,077,788)	0
Miscellaneous income (expense)	<u>(9,479,896)</u>	<u>(4,531,907)</u>
Net cash provided by (used for) operations	<u>9,929,955</u>	<u>58,429,160</u>
Cash Flows from Investments:		
Proceeds from investments sold or matured	243,243,089	271,560,415
Cost of investments acquired	<u>(264,073,848)</u>	<u>(323,563,659)</u>
Net cash provided by (used for) investments	<u>(20,830,759)</u>	<u>(52,003,244)</u>
Cash Flows from Other Sources:		
Net cash provided by (used for) retroactive reinsurance	(12,983,090)	4,292,148
Other net cash provided (used)	<u>(314,068)</u>	<u>(2,207,503)</u>
Net cash provided by (used for) other sources	<u>(13,297,158)</u>	<u>2,084,645</u>
Net change in cash and short-term investments	(24,197,962)	8,510,561
Cash and short-term investments, beginning of year	<u>43,735,240</u>	<u>35,224,679</u>
Cash and short-term investments, end of year	<u>\$ 19,537,278</u>	<u>\$ 43,735,240</u>

Liquidity

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

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

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

BALANCE SHEET	Quarter ended		Quarter ended		Quarter ended		Quarter ended		Year ended						
	3/31/2020		6/30/2020		9/30/2020		12/31/2020		12/31/2020						
ASSETS															
Long-term bonds	\$	943,697,183	\$	949,680,970	\$	958,067,409	\$	957,463,822	\$	957,463,822					
Common stocks		42,956,510		49,605,127		53,229,014		58,480,389		58,480,389					
Cash and short-term investments		35,518,296		43,381,538		38,241,726		19,537,278		19,537,278					
Real estate		4,025,000		4,025,000		4,025,000		4,025,000		4,025,000					
Other invested assets		0		0		866,220		3,154,809		3,154,809					
Receivable for securities		207,364		1,496,511		0		0		0					
Investment income due and accrued		6,809,512		6,469,754		6,726,057		6,317,386		6,317,386					
Premiums in course of collection		8,660,553		17,505,271		7,928,613		8,807,782		8,807,782					
Premiums deferred and not yet due		39,553,845		16,993,753		33,920,724		31,779,855		31,779,855					
Policy deductibles receivable		0		2,219		3,479		4,557		4,557					
Reinsurance receivable		78,487		97,855		72,009		637,970		637,970					
Funds on deposit with reinsurers		750,000		750,000		750,000		750,000		750,000					
Electronic data processing equipment		56,078		44,674		38,749		151,137		151,137					
Receivables for retroactive reinsurance reserves assumed		3,563,309		3,554,012		796,683		596,288		596,288					
Retroactive reinsurance funds held by KY WC Funding Commission		0		0		0		1,427,728		1,427,728					
TOTAL ASSETS	\$	1,085,876,137	\$	1,093,606,684	\$	1,104,665,683	\$	1,093,134,001	\$	1,093,134,001					
LIABILITIES & SURPLUS															
Loss reserves	\$	612,553,743	\$	611,258,348	\$	607,560,269	\$	600,610,041	\$	600,610,041					
Loss adjustment expense reserves		53,164,362		52,878,024		52,610,237		52,396,302		52,396,302					
Commissions payable		12,452,899		9,824,840		11,005,088		11,188,254		11,188,254					
Other expenses payable		3,811,791		3,996,151		4,839,396		4,856,407		4,856,407					
Unearned premiums		64,854,498		51,092,188		61,856,112		56,596,040		56,596,040					
Ceded reinsurance premiums payable		(1,145,670)		(1,143,116)		(1,190,565)		(102,810)		(102,810)					
Funds withheld under reinsurance treaties		1,024,431		907,829		866,153		1,179,425		1,179,425					
Amounts withheld or retained for others		8,719,750		7,882,152		9,477,520		7,680,342		7,680,342					
Remittances and items not allocated		565,911		683,242		543,719		652,187		652,187					
Payable for securities		0		12,153,432		3,100,000		1,150,000		1,150,000					
Retroactive reinsurance reserves assumed		63,982,117		59,532,239		30,430,902		29,275,852		29,275,852					
Retroactive reinsurance assumed - excess funds to be returned		0		0		28,528,029		21,763,270		21,763,270					
Retroactive reinsurance reserve ceded		(25,190,526)		(24,734,476)		(24,880,174)		(15,223,789)		(15,223,789)					
Funds withheld on retroactive reinsurance reserve ceded		30,857,473		30,761,634		31,413,916		22,268,180		22,268,180					
Liability for projected pension and postretirement benefits		10,715,089		9,887,776		9,060,463		15,440,131		15,440,131					
TOTAL LIABILITIES	\$	836,365,868	\$	824,980,263	\$	825,221,065	\$	809,729,832	\$	809,729,832					
POLICYHOLDER SURPLUS (BEGINNING)	\$	261,724,563	\$	249,510,269	\$	268,626,421	\$	279,444,618	\$	261,724,563					
Net income/(loss) after policyholder dividends		5,516,342		7,183,567		5,173,626		4,657,232		22,530,767					
Change in net unrealized capital gains/(losses)		(17,227,509)		9,011,515		3,899,925		5,067,064		750,995					
Change in non-admitted assets		(1,330,440)		2,093,757		917,333		614,923		2,295,573					
Change in projected pension and postretirement benefits		827,313		827,313		827,313		(6,379,668)		(3,897,279)					
POLICYHOLDER SURPLUS (ENDING)		249,510,269		268,626,421		279,444,618		283,404,169		283,404,169					
TOTAL LIABILITIES & POLICYHOLDER SURPLUS	\$	1,085,876,137	\$	1,093,606,684	\$	1,104,665,683	\$	1,093,134,001	\$	1,093,134,001					
INCOME STATEMENT															
Net premiums earned	\$	35,217,976	100.0%	\$	33,051,794	100.0%	\$	31,171,437	100.0%	\$	31,650,128	100.0%	\$	131,091,335	100.0%
Deductions:															
Net losses incurred		22,301,726	63.3%		19,027,530	57.6%		14,327,419	46.0%		13,898,460	43.9%		69,555,135	53.1%
Net loss adjustment expenses incurred		5,763,553	16.4%		5,393,375	16.3%		4,801,825	15.4%		5,572,047	17.6%		21,530,800	16.4%
Underwriting expenses incurred		7,691,394	21.8%		6,455,198	19.5%		8,662,511	27.8%		6,415,179	20.3%		29,224,282	22.3%
Total deductions		35,756,673	101.5%		30,876,103	93.4%		27,791,755	89.2%		25,885,686	81.8%		120,310,217	91.8%
Net underwriting gain/(loss)		(538,697)	-1.5%		2,175,691	6.6%		3,379,682	10.8%		5,764,442	18.2%		10,781,118	8.2%
Net investment income earned		6,462,987	18.4%		6,752,793	20.4%		6,072,146	19.5%		6,224,767	19.7%		25,512,693	19.5%
Net realized gains/(losses)		528,597	1.5%		259,319	0.8%		1,441,285	4.6%		1,565,439	4.9%		3,794,640	2.9%
Other income/(expenses)		(276,617)	-0.8%		(1,416,182)	-4.3%		(716,764)	-2.3%		(226,754)	-0.7%		(2,636,317)	-2.0%
Net periodic pension and postretirement benefit expense		(659,928)	-1.9%		(588,054)	-1.8%		(682,723)	-2.2%		(592,874)	-1.9%		(2,523,579)	-1.9%
Retroactive reinsurance expense		0	0.0%		0	0.0%		(4,320,000)	-13.9%		0	0.0%		(4,320,000)	-3.3%
Net operating gain/(loss)		5,516,342	15.7%		7,183,567	21.7%		5,173,626	16.6%		12,735,020	40.2%		30,608,555	23.3%
Policyholder dividends		0	0.0%		0	0.0%		0	0.0%		(8,077,788)	-25.5%		(8,077,788)	-6.2%
NET INCOME/(LOSS) AFTER POLICYHOLDER DIVIDENDS	\$	5,516,342	15.7%	\$	7,183,567	21.7%	\$	5,173,626	16.6%	\$	4,657,232	14.7%	\$	22,530,767	17.2%

KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
2020 at a Glance

	Quarter ended <u>3/31/2020</u>	Quarter ended <u>6/30/2020</u>	Quarter ended <u>9/30/2020</u>	Quarter ended <u>12/31/2020</u>	Year ended <u>12/31/2020</u>
<u>Cash and Invested Assets:</u>					
Long-term bonds:					
U.S. government securities	\$ 46,556,928	\$ 46,533,666	\$ 46,504,169	\$ 44,999,865	\$ 44,999,865
U.S. special revenue bonds	188,999,593	173,759,533	178,586,686	173,795,865	173,795,865
Corporate issuer obligation bonds	531,596,072	559,086,811	564,494,362	559,337,071	559,337,071
Corporate issuer mortgage-backed securities	67,583,439	68,501,645	63,487,348	68,763,426	68,763,426
Other loan-backed and structured securities	100,359,192	91,837,116	93,465,111	93,062,837	93,062,837
All other bonds	8,601,959	9,962,199	11,529,733	17,504,758	17,504,758
Total long-term bonds	<u>943,697,183</u>	<u>949,680,970</u>	<u>958,067,409</u>	<u>957,463,822</u>	<u>957,463,822</u>
Common stocks	42,956,510	49,605,127	53,229,014	58,480,389	58,480,389
Short-term investments	24,960,309	21,536,251	18,718,961	7,391,088	7,391,088
Operating cash balances	10,557,987	21,845,287	19,522,765	12,146,190	12,146,190
Real estate	4,025,000	4,025,000	4,025,000	4,025,000	4,025,000
Other invested assets	0	0	866,220	3,154,809	3,154,809
Receivables for securities	207,364	1,496,511	0	0	0
Total cash and invested assets	<u>\$ 1,026,404,353</u>	<u>\$ 1,048,189,146</u>	<u>\$ 1,054,429,369</u>	<u>\$ 1,042,661,298</u>	<u>\$ 1,042,661,298</u>
<u>Gross Interest and Dividends Earned:</u>					
Net interest and dividends earned	\$ 6,462,987	\$ 6,752,793	\$ 6,072,146	\$ 6,224,767	\$ 25,512,693
Add back interest expense on reinsurance funds withheld	364,497	366,289	512,215	518,174	1,761,175
Add back investment income attributable to KCWPF	243,720	251,233	410,107	223,219	1,128,279
Add back investment expenses	426,745	393,004	426,176	486,103	1,732,028
Gross interest and dividends earned	<u>\$ 7,497,949</u>	<u>\$ 7,763,319</u>	<u>\$ 7,420,644</u>	<u>\$ 7,452,263</u>	<u>\$ 30,134,175</u>
<u>Net Realized Investment Gains (Losses):</u>					
Net realized gains (losses) on long-term bonds	\$ 191,304	\$ 396,149	\$ 1,079,409	\$ 1,025,774	\$ 2,692,636
Net realized gains (losses) on common stocks	337,293	(136,830)	(19,217)	534,254	715,500
Net realized gains (losses) on other invested assets	0	0	381,093	5,411	386,504
Total net realized investment gains (losses)	<u>\$ 528,597</u>	<u>\$ 259,319</u>	<u>\$ 1,441,285</u>	<u>\$ 1,565,439</u>	<u>\$ 3,794,640</u>
<u>Direct Policy Activity:</u>					
Direct premiums written	\$ 32,952,897	\$ 20,306,991	\$ 42,613,174	\$ 26,432,367	\$ 122,305,429
Direct premiums earned	\$ 35,659,491	\$ 33,622,616	\$ 31,637,572	\$ 32,109,971	\$ 133,029,650
Direct commissions paid, excluding contingent	\$ 2,950,542	\$ 2,140,428	\$ 4,206,601	\$ 2,556,672	\$ 11,854,243
Direct commissions paid as a % of direct premiums written	8.95%	10.54%	9.87%	9.67%	9.69%
Direct Active Policy Count	21,804	21,397	21,181	20,842	20,842
<u>Direct Claim Activity:</u>					
Direct losses paid, net of subrogation and deductibles	\$ 22,003,284	\$ 20,141,665	\$ 17,646,930	\$ 21,121,930	\$ 80,913,809
Direct loss adjustment expenses paid, net of subrogation and deductibles	\$ 5,589,418	\$ 5,555,717	\$ 4,953,259	\$ 5,643,639	\$ 21,742,033
Direct reserve for unpaid losses, including IBNR	\$ 634,573,004	\$ 633,966,736	\$ 629,791,843	\$ 622,033,173	\$ 622,033,173
Direct reserve for unpaid loss adjustment expenses, including IBNR	\$ 53,404,750	\$ 53,077,901	\$ 52,842,677	\$ 52,641,651	\$ 52,641,651
Direct Open Claim Count	4,672	4,049	4,167	4,141	4,141