



KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH SUPPLEMENTARY SCHEDULES

2021

KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
2021 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>2021</u>	<u>2020</u>
Admitted Assets:		
Long-term bonds	\$ 956,675,348	\$ 957,463,822
Common stocks	61,195,858	58,480,389
Cash and cash equivalents	24,680,831	19,537,278
Real estate	4,025,000	4,025,000
Other invested assets	5,601,153	3,154,809
Receivable for securities	<u>641,066</u>	<u>0</u>
Subtotal cash and invested assets	1,052,819,256	1,042,661,298
Investment income receivable	6,257,069	6,317,386
Premiums receivable or deferred	41,193,762	40,587,637
Reinsurance receivable on paid losses and loss expenses	62,355	637,970
Receivables for retroactive reinsurance assumed	0	2,024,016
Other admitted assets	<u>808,036</u>	<u>905,694</u>
 Total admitted assets	 <u>\$ 1,101,140,478</u>	 <u>\$ 1,093,134,001</u>

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	<u>2021</u>	<u>2020</u>
Liabilities and Policyholder Surplus:		
Unpaid loss reserves	\$ 603,443,536	\$ 600,610,041
Unpaid loss adjustment expense reserves	53,129,762	52,396,302
Premiums written but not yet earned	59,450,931	56,596,040
Commissions payable	11,545,625	11,188,254
Other expenses payable	5,565,186	4,856,407
Amounts withheld or retained for others	9,856,337	7,680,342
Ceded reinsurance - premiums payable	963,598	(102,810)
Ceded reinsurance - funds withheld	1,418,805	1,179,425
Retroactive reinsurance - assumed reserves	22,177,250	29,275,852
Retroactive reinsurance - assumed excess funds to be returned	2,611,093	21,763,270
Retroactive reinsurance - ceded reserves	(17,062,629)	(15,223,789)
Retroactive reinsurance - ceded funds withheld	26,190,953	22,268,180
Liability for projected pension and postretirement benefits	10,277,378	15,440,131
Other liabilities	<u>801,813</u>	<u>1,802,187</u>
Total liabilities	790,369,638	809,729,832
Policyholder surplus	<u>310,770,840</u>	<u>283,404,169</u>
Total liabilities and policyholder surplus	<u>\$ 1,101,140,478</u>	<u>\$ 1,093,134,001</u>

Assets

Cash and invested assets made up 95% of KEMI's total admitted assets at the end of 2021. KEMI's long-term bond portfolio had a carrying value of \$956,675,348 and a fair market value of \$984,243,360. Of total long-term bonds held at year end, 97% were rated either NAIC 1 (highest quality) or NAIC 2 (high quality). Money market funds had a fair market value of \$15,166,565 and operating cash balances totaled \$9,514,266. The fixed income portfolio had an effective maturity of 5.79 years, an average book yield of 2.8% 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 \$61,195,858 and reflected net unrealized gains of \$12,095,914 at year end.

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-A, LP for a total commitment of \$20 million, of which \$5,601,153 in capital contributions and \$450,000 in expenses have 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-A, LP currently yields an annual return of 7%, paid quarterly.

Premiums receivable or deferred are policy payments due from KEMI policyholders. Pursuant to payment plan arrangements, \$33,679,868 of the \$41,193,762 in premium balances at the end of 2021 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 \$2,962,528 is included in KEMI's deferred premium balances.

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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 2021 KEMI's non-admitted assets totaled \$16,959,354, for a net decrease of \$443,269 from the prior year. Included in non-admitted assets is \$8,147,341 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 \$8,092,087 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 \$323,941, prepaid expenses of \$124,702 and miscellaneous receivables of \$271,283.

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 2021, adjustments to the loss and loss adjustment expense reserves of prior accident years resulted in a net decrease of \$14,743,100 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 treaty reinsurance agreements with unaffiliated, high quality reinsurers to limit its exposure to losses in excess of \$3 million per occurrence and up to \$125 million per occurrence. KEMI also maintains an excess of loss facultative reinsurance agreement with unaffiliated, high quality reinsurers that provides catastrophe protection for losses in excess of \$125 million per occurrence and up to \$305 million per occurrence in certain geographical locations where KEMI has heavy concentrations of policyholders. All of KEMI's excess of loss agreements include protection against acts of terrorism. In addition to excess of loss reinsurance coverage, KEMI maintains two agreements for adverse development coverage with three unaffiliated reinsurers. These agreements provide additional reinsurance protection against unfavorable development arising from existing and/or newly reported claims (including black lung) for accident years 1995-2019. To date, KEMI has not experienced significant adverse development that would trigger either of these agreements.

At the end of 2021, KEMI had 4,254 open claims from direct business, consisting of 2,688 indemnity claims and 1,566 medical-only claims. KEMI also had 96 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.

KEMI's loss reserving methodologies are conservative and management's goal is to maintain reserve balances in excess of actuarial point estimates. Reserves are evaluated at least twice a year by an independent actuarial firm that provides an annual Statement of Actuarial Opinion to KEMI's independent auditors and regulatory agencies. KEMI received an Unqualified Statement of Actuarial Opinion for 2021, as it has every year since its inception.

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

	<u>2021</u>	<u>2020</u>
Unpaid losses and loss adjustment expenses, January 1	\$ 653,006,343	\$ 665,333,695
Gross losses incurred	81,292,461	71,475,913
Gross loss adjustment expenses incurred	24,273,220	21,550,440
Ceded losses and loss adjustment expenses incurred	(4,955,967)	(1,199,959)
Subrogation recoveries	(310,572)	(719,688)
Policy deductibles	<u>(19,972)</u>	<u>(20,771)</u>
Net incurred	<u>100,279,170</u>	<u>91,085,935</u>
Gross losses paid	74,324,323	83,074,733
Gross loss adjustment expenses paid	23,568,408	22,231,956
Ceded losses and loss adjustment expenses recovered	(849,972)	(1,152,943)
Subrogation recoveries	(310,572)	(719,688)
Policy deductibles	<u>(19,972)</u>	<u>(20,771)</u>
Net paid	<u>96,712,215</u>	<u>103,413,287</u>
Unpaid losses and loss adjustment expenses, December 31	<u>\$ 656,573,298</u>	<u>\$ 653,006,343</u>

Loss Portfolio Transfers

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 are expected to be less than originally projected. Therefore, KEMI returned \$16.3 million of transferred reserves back to the Rehabilitator in 2019 and 2020. These excess reserve transfers consummated full and final settlement with the Rehabilitator, and the KSBIT loss portfolio is now managed solely by KEMI. At the end of 2021, KSBIT's cash balance was \$8,721,111, reinsurance receivables on paid losses and loss adjustment expenses were \$610,592, net reported loss and loss adjustment expense reserves were \$8,064,702, and net incurred but not reported (IBNR) loss and loss adjustment expense reserves were \$1,267,001. KSBIT reserves for unpaid losses and loss adjustment expenses are not discounted.

During 2017, KEMI voluntarily executed a loss portfolio transfer with the Kentucky Workers' Compensation Funding Commission (the Funding Commission) wherein all authority and responsibility to administer the Kentucky Coal Workers' Pneumoconiosis Fund (KCWPF) was transferred from the Funding Commission to KEMI. The purpose of KCWPF is to pay one-half of the indemnity benefits for coal-related occupational disease claims incurred on or after December 12, 1996 and filed on or before June 30, 2017. Pursuant to the loss portfolio transfer agreement, the Funding Commission transferred to KEMI all existing assets and liabilities of KCWPF. Assessments ceased effective January 1, 2020; however, assessment audit adjustments for 2019 and prior years continue to be received (or disbursed) by the Funding Commission and are then remitted (or charged) to KCWPF. Based on current actuarial reserve studies, claim liabilities are expected to be less than originally projected; therefore, in 2021

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KEMI distributed \$20 million of excess reserves from KCWPF in a manner set forth by the Kentucky Legislature. Active coal operators in good standing with the Commonwealth of Kentucky received settlement distributions totaling \$9,020,611, and the Kentucky Coal Employers' Self-Insurance Guarantee Fund received settlement distributions totaling \$10,979,389. Upon conclusion of certain ongoing matters, KEMI plans to make a full and final settlement distribution of remaining excess reserves. At the end of 2021, KCWPF's cash balance was \$16,067,232, amounts payable to the Funding Commission were \$41,540, excess assessments to be returned were \$2,569,553, and net loss and loss adjustment expense reserves were \$13,456,139. KCWPF reserves for unpaid losses and loss adjustment expenses are not discounted.

Retirement Plans

Prior to July 1, 2016, all full-time KEMI employees were enrolled in a mandatory defined benefit plan regulated by the Kentucky Retirement Systems (KRS). KEMI voluntarily ceased participation in KRS effective June 30, 2016. By withdrawing from KRS and establishing its own retirement plans, KEMI has realized employer contribution savings of \$21.9 million from the date of withdrawal through the end of 2021.

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 the KRS predecessor 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 who 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 2021 KEMI's policyholder surplus increased by \$27,366,671. Contributing to this increase were: net income of \$18,237,359, net unrealized gains of \$3,523,290, net decreases in non-admitted assets of \$443,269, and net decreases in projected pension and postretirement liabilities of \$5,162,753.

The Company's overall financial position remained strong in 2021. 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 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>2021</u>	<u>2020</u>
Net premiums earned	\$ 127,846,680	\$ 131,091,335
Losses incurred	76,016,099	69,555,135
Loss adjustment expenses incurred	24,263,071	21,530,800
Underwriting expenses incurred	<u>31,856,781</u>	<u>29,224,282</u>
Net underwriting gain (loss)	(4,289,271)	10,781,118
Net investment income	25,308,711	25,512,693
Net realized capital gains	9,280,654	3,794,640
Other income (expenses)	(1,109,470)	(2,636,317)
Net periodic pension and postretirement benefit costs	(2,562,437)	(2,523,579)
Retroactive reinsurance premium expense	<u>0</u>	<u>(4,320,000)</u>
Net income before policyholder dividends	26,628,187	30,608,555
Dividends to policyholders	<u>(8,390,828)</u>	<u>(8,077,788)</u>
 Net income after policyholder dividends	 <u>\$ 18,237,359</u>	 <u>\$ 22,530,767</u>

KEMI's direct written premiums for 2021 were \$131,859,006 versus \$122,305,429 for 2020, representing an increase of \$9,553,577 or 7.8%. Although new business was relatively flat from 2020, KEMI retained over 90% of its existing policyholders in 2021. The primary driver of written premium fluctuations between 2020 and 2021 were changing economic conditions in the coal industry. In 2020 KEMI saw a 67.5% reduction in coal premiums, which rebounded in 2021. Overall premium rates were reduced by 6.4% from 2020 to 2021.

In 2020, incurred losses and loss adjustment expenses were lower than recent historical trends. Reported claims were down by approximately 40% in 2020 and into the first half of 2021. As in 2020, during 2021 KEMI continued its initiative to settle certain claims through the use of structured settlements. The purchase of these structured settlements has allowed KEMI to realize savings on large claims and to reduce reserves for losses and loss adjustment expenses.

Management continued its focus on reducing leverage throughout 2020 and 2021. Significant reductions in leverage were achieved through the use of structured settlements (as noted in the previous paragraph), as well as the distribution of excess reserves held in the KSBIT and KCWPF loss portfolios (as noted on pages 4-5).

In June 2021, KEMI's Board of Directors approved a dividend payable to policyholders who had maintained a loss ratio of 65% or less for the 2018 policy year, and who still had active policies with KEMI at the time of payout. Over 14,000 dividend checks totaling \$8,390,828 were distributed in August 2021.

In November 2021, A.M. Best affirmed KEMI's Financial Strength Rating of A- (Excellent) with a stable outlook.

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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>2021</u>	<u>2020</u>
Cash Flows from Operations:		
Net cash from underwriting and claims	\$ 4,235,909	\$ (4,443,478)
Investment income received	30,387,977	31,931,117
Dividends paid to policyholders	(8,390,828)	(8,077,788)
Miscellaneous income (expense)	<u>(3,671,907)</u>	<u>(9,479,896)</u>
Net cash provided by (used for) operations	<u>22,561,151</u>	<u>9,929,955</u>
Cash Flows from Investments:		
Proceeds from investments sold or matured	246,655,024	243,243,089
Cost of investments acquired	<u>(242,390,548)</u>	<u>(264,073,848)</u>
Net cash provided by (used for) investments	<u>4,264,476</u>	<u>(20,830,759)</u>
Cash Flows from Other Sources:		
Net cash used for retroactive reinsurance assumed	(24,776,480)	(12,983,090)
Other net cash provided (used)	<u>3,094,406</u>	<u>(314,068)</u>
Net cash provided by (used for) other sources	<u>(21,682,074)</u>	<u>(13,297,158)</u>
Net change in cash and short-term investments	5,143,553	(24,197,962)
Cash and short-term investments, beginning of year	<u>19,537,278</u>	<u>43,735,240</u>
Cash and short-term investments, end of year	<u>\$ 24,680,831</u>	<u>\$ 19,537,278</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.

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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						
	3/31/2021		6/30/2021		9/30/2021		12/31/2021		12/31/2021						
ASSETS															
Long-term bonds	\$	950,968,166	\$	962,531,499	\$	959,127,514	\$	956,675,348	\$	956,675,348					
Common stocks		63,147,721		50,925,714		54,890,676		61,195,858		61,195,858					
Cash and cash equivalents		33,560,931		42,748,222		16,206,658		24,680,831		24,680,831					
Real estate		4,025,000		4,025,000		4,025,000		4,025,000		4,025,000					
Other invested assets		4,082,150		4,446,535		4,446,535		5,601,153		5,601,153					
Receivable for securities		0		0		3,000,000		641,066		641,066					
Investment income due and accrued		6,524,214		6,419,771		6,620,854		6,257,069		6,257,069					
Premiums in course of collection		6,498,272		15,770,681		6,766,945		7,513,894		7,513,894					
Premiums deferred and not yet due		35,695,830		15,891,278		34,493,255		33,679,868		33,679,868					
Policy deductibles receivable		1,094		2,027		1,721		0		0					
Reinsurance receivable		44,695		114,459		141,872		62,355		62,355					
Funds on deposit with reinsurers		750,000		750,000		750,000		750,000		750,000					
Electronic data processing equipment		125,870		100,603		75,337		58,036		58,036					
Receivables for retroactive reinsurance reserves assumed		889,958		1,096,331		1,209,567		0		0					
TOTAL ASSETS	\$	1,106,313,901	\$	1,104,822,120	\$	1,091,755,934	\$	1,101,140,478	\$	1,101,140,478					
LIABILITIES & SURPLUS															
Loss reserves	\$	600,403,763	\$	599,010,705	\$	601,901,831	\$	603,443,536	\$	603,443,536					
Loss adjustment expense reserves		53,063,746		53,247,625		53,178,513		53,129,762		53,129,762					
Commissions payable		11,882,797		11,383,750		10,955,175		11,545,625		11,545,625					
Other expenses payable		4,418,847		4,486,669		5,392,512		5,565,186		5,565,186					
Unearned premiums		58,315,014		50,534,390		64,051,470		59,450,931		59,450,931					
Ceded reinsurance premiums payable		(1,047,436)		(764,696)		(462,581)		963,598		963,598					
Funds withheld under reinsurance treaties		1,112,426		1,084,966		1,009,793		1,418,805		1,418,805					
Amounts withheld or retained for others		8,882,276		8,328,200		9,628,948		9,856,337		9,856,337					
Remittances and items not allocated		821,922		773,306		671,810		801,813		801,813					
Payable for securities		3,017,725		2,516,288		0		0		0					
Retroactive reinsurance reserves assumed		28,512,208		26,782,737		25,115,001		22,177,250		22,177,250					
Retroactive reinsurance assumed - excess funds to be returned		21,572,242		22,414,538		3,604,778		2,611,093		2,611,093					
Retroactive reinsurance reserve ceded		(17,059,909)		(15,952,085)		(16,634,110)		(17,062,629)		(17,062,629)					
Funds withheld on retroactive reinsurance reserve ceded		24,619,049		24,030,108		25,235,183		26,190,953		26,190,953					
Liability for projected pension and postretirement benefits		14,706,313		11,972,495		11,238,677		10,277,378		10,277,378					
TOTAL LIABILITIES	\$	813,220,983	\$	799,848,996	\$	794,887,000	\$	790,369,638	\$	790,369,638					
POLICYHOLDER SURPLUS (BEGINNING)	\$	283,404,169	\$	293,092,918	\$	304,973,124	\$	296,868,934	\$	283,404,169					
Net income/(loss) after policyholder dividends		6,379,268		11,981,605		(7,763,805)		7,640,291		18,237,359					
Change in net unrealized capital gains/(losses)		2,251,975		(1,885,742)		(2,073,334)		5,230,391		3,523,290					
Change in non-admitted assets		323,688		(949,475)		999,131		69,925		443,269					
Change in projected pension and postretirement benefits		733,818		2,733,818		733,818		961,299		5,162,753					
POLICYHOLDER SURPLUS (ENDING)		293,092,918		304,973,124		296,868,934		310,770,840		310,770,840					
TOTAL LIABILITIES & POLICYHOLDER SURPLUS	\$	1,106,313,901	\$	1,104,822,120	\$	1,091,755,934	\$	1,101,140,478	\$	1,101,140,478					
INCOME STATEMENT															
Net premiums earned	\$	29,692,412	100.00%	\$	31,424,841	100.00%	\$	32,587,182	100.00%	\$	34,142,245	100.00%	\$	127,846,680	100.00%
Deductions:															
Net losses incurred		17,128,525	57.7%		17,632,430	56.1%		21,760,615	66.8%		19,494,529	57.1%		76,016,099	59.5%
Net loss adjustment expenses incurred		6,377,676	21.5%		6,081,650	19.4%		5,706,784	17.5%		6,096,961	17.9%		24,263,071	19.0%
Underwriting expenses incurred		7,660,635	25.8%		6,936,072	22.1%		9,647,729	29.6%		7,612,345	22.3%		31,856,781	24.9%
Total deductions		31,166,836	105.0%		30,650,152	97.5%		37,115,128	113.9%		33,203,835	97.3%		132,135,951	103.4%
Net underwriting gain/(loss)		(1,474,424)	-5.0%		774,689	2.5%		(4,527,946)	-13.9%		938,410	2.7%		(4,289,271)	-3.4%
Net investment income earned		6,533,962	22.0%		9,068,222	28.9%		3,228,041	9.9%		6,478,486	19.0%		25,308,711	19.8%
Net realized gains/(losses)		2,324,761	7.8%		2,974,942	9.5%		2,946,479	9.0%		1,034,472	3.0%		9,280,654	7.3%
Other income/(expenses)		(343,680)	-1.2%		(236,197)	-0.8%		(322,826)	-1.0%		(206,767)	-0.6%		(1,109,470)	-0.9%
Net periodic pension and postretirement benefit expense		(661,351)	-2.2%		(600,051)	-1.9%		(696,725)	-2.1%		(604,310)	-1.8%		(2,562,437)	-2.0%
Net operating gain/(loss)		6,379,268	21.5%		11,981,605	38.1%		627,023	1.9%		7,640,291	22.4%		26,628,187	20.8%
Policyholder dividends		0	0.0%		0	0.0%		(8,390,828)	-25.7%		0	0.0%		(8,390,828)	-6.6%
NET INCOME/(LOSS) AFTER POLICYHOLDER DIVIDENDS	\$	6,379,268	21.5%	\$	11,981,605	38.1%	\$	(7,763,805)	-23.8%	\$	7,640,291	22.4%	\$	18,237,359	14.3%

KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
2021 at a Glance

	Quarter ended <u>3/31/2021</u>	Quarter ended <u>6/30/2021</u>	Quarter ended <u>9/30/2021</u>	Quarter ended <u>12/31/2021</u>	Year ended <u>12/31/2021</u>
Cash and Invested Assets:					
Long-term bonds:					
U.S. government securities	\$ 39,954,937	\$ 39,452,132	\$ 33,948,908	\$ 30,446,852	\$ 30,446,852
U.S. special revenue bonds	167,866,249	157,052,856	152,682,722	147,842,329	147,842,329
Corporate issuer obligation bonds	565,090,044	585,651,275	586,773,051	575,284,957	575,284,957
Corporate issuer residential mortgage-backed	35,780,869	31,165,405	32,026,882	53,508,153	53,508,153
Corporate issuer commercial mortgage-backed	40,607,070	48,730,986	55,327,124	53,254,904	53,254,904
Other loan-backed and structured securities	86,184,762	85,013,549	82,922,645	80,911,132	80,911,132
All other bonds	15,484,235	15,465,296	15,446,182	15,427,021	15,427,021
Total long-term bonds	<u>950,968,166</u>	<u>962,531,499</u>	<u>959,127,514</u>	<u>956,675,348</u>	<u>956,675,348</u>
Common stocks	63,147,721	50,925,714	54,890,676	61,195,858	61,195,858
Operating cash balances	9,241,185	7,758,040	9,609,534	9,514,266	9,514,266
Cash equivalents (money market funds)	24,319,746	34,990,182	6,597,124	15,166,565	15,166,565
Real estate	4,025,000	4,025,000	4,025,000	4,025,000	4,025,000
Other invested assets	4,082,150	4,446,535	4,446,535	5,601,153	5,601,153
Receivables for securities	0	0	3,000,000	641,066	641,066
Total cash and invested assets	<u>\$ 1,055,783,968</u>	<u>\$ 1,064,676,970</u>	<u>\$ 1,041,696,383</u>	<u>\$ 1,052,819,256</u>	<u>\$ 1,052,819,256</u>
Gross Interest and Dividends Earned:					
Net interest and dividends earned	\$ 6,533,962	\$ 9,068,222	\$ 3,228,041	\$ 6,478,486	\$ 25,308,711
Add back interest expense on reinsurance funds withheld	523,123	526,962	530,626	535,895	2,116,606
Add back investment income attributable to KCWPF	238,186	223,557	87,974	0	549,717
Add back investment expenses	605,963	403,182	513,328	856,191	2,378,664
Gross interest and dividends earned	<u>\$ 7,901,234</u>	<u>\$ 10,221,923</u>	<u>\$ 4,359,969</u>	<u>\$ 7,870,572</u>	<u>\$ 30,353,698</u>
Net Realized Investment Gains (Losses):					
Net realized gains (losses) on long-term bonds	\$ 363,789	\$ (1,892,088)	\$ 2,240,459	\$ 46,816	\$ 758,976
Net realized gains (losses) on common stocks	1,950,208	4,867,030	706,020	884,898	8,408,156
Net realized gains (losses) on other invested assets	10,764	0	0	102,758	113,522
Total net realized investment gains (losses)	<u>\$ 2,324,761</u>	<u>\$ 2,974,942</u>	<u>\$ 2,946,479</u>	<u>\$ 1,034,472</u>	<u>\$ 9,280,654</u>
Direct Policy Activity:					
Direct premiums written	\$ 32,188,410	\$ 23,737,320	\$ 46,467,331	\$ 29,465,945	\$ 131,859,006
Direct premiums earned	\$ 30,300,090	\$ 31,635,339	\$ 32,873,458	\$ 34,434,276	\$ 129,243,163
Direct commissions paid, excluding contingent	\$ 3,046,840	\$ 2,205,990	\$ 4,557,046	\$ 2,822,363	\$ 12,632,239
Direct commissions paid as a % of direct premiums written	9.47%	9.29%	9.81%	9.58%	9.58%
Direct Active Policy Count	20,653	20,713	20,622	20,548	20,548
Direct Claim Activity:					
Direct losses paid, net of subrogation and deductibles	\$ 17,137,732	\$ 18,594,451	\$ 18,369,629	\$ 17,025,959	\$ 71,127,771
Direct loss adjustment expenses paid, net of subrogation and deductibles	\$ 5,529,821	\$ 5,729,760	\$ 5,557,426	\$ 5,815,319	\$ 22,632,326
Direct reserve for unpaid losses, including IBNR	\$ 620,933,808	\$ 620,931,913	\$ 625,727,304	\$ 626,378,181	\$ 626,378,181
Direct reserve for unpaid loss adjustment expenses, including IBNR	\$ 53,283,397	\$ 53,475,527	\$ 53,405,865	\$ 53,324,560	\$ 53,324,560
Direct Open Claim Count	4,294	4,365	4,521	4,254	4,254