



COMMONWEALTH OF KENTUCKY

Mike Harmon
AUDITOR OF PUBLIC ACCOUNTS

Daniel Cameron
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January 12, 2022

Honorable David Osborne
Speaker, House of Representatives
Kentucky General Assembly
State Capitol, Room 309
Frankfort, KY 40601

Honorable Robert Stivers
President, Senate
Kentucky General Assembly
State Capitol, Room 319
Frankfort, KY 40601

Re: Biennial Report to the General Assembly on Kentucky Employers' Mutual Insurance Authority

Dear Speaker Osborne and President Stivers:

The Attorney General (AG) and the Auditor of Public Accounts (APA) are required by KRS 342.843(1) to monitor the operations of the Kentucky Employers' Mutual Insurance Authority (KEMI), and to jointly submit to the General Assembly, each year in which the General Assembly convenes in an even-numbered-year regular session, a report of the results of the monitoring activities. This correspondence serves as the report required by KRS 342.843(5).

During the calendar years of 2020 and 2021, the Office of the Attorney General and the Auditor of Public Accounts monitored the operations of KEMI by attending regular meetings, special meetings, and committee meetings of KEMI's Board of Directors (Board), and by reviewing KEMI records.

Our offices have reviewed KEMI's quarterly and annual statements filed with the Kentucky Department of Insurance (KDOI) as required by statute. The independent certified public accounting firm, MCM CPAs & Advisors LLP, performed KEMI's annual financial audits for FY 2019 and FY 2020. We reviewed the annual audits and found that the audits reported no material weaknesses.

KEMI's Board retained the services of Conning Asset Management (Conning) as the investment manager to handle KEMI's portfolio. KEMI's Management continued to follow an established investment policy.

Throughout 2020 and 2021, KEMI's Internal Auditor (IA), who reports directly to the Board in accordance with KRS 342.811(3), performed numerous operational reviews and made monthly reports thereon.

The following are the highlights of KEMI Board activity during 2020-2021, by Board meeting dates:

February 11, 2020

- KEMI's CEO provided an update on year-end activities and noted that 2019 was KEMI's best financial year in its 25 year history.
- KEMI's CEO continued by reporting that three years following KEMI's exit from the KERS pension program in 2016, KEMI had seen significant savings and that KEMI was nearing break-even.
- KEMI's CFO provided a detailed review of the 12-31-2019 Financial Report and information.
- KEMI's CEO discussed the 2020 Reinsurance Renewal, he provided a general overview of reinsurance for risk mitigation.
- KEMI staff provided a detailed overview regarding management of KEMI's coal accounts and the significant impact coal accounts have on the organization.
- KEMI staff provided an overview of the claims unit and discussed KEMI's passion for caring for injured workers and returning them to work following appropriate and reasonable medical care.
- KEMI's internal audit director discussed his reviews.
- The KEMI Board approved the Contract Approval Listing as presented.
- The following KEMI Board committees presented their reports – Executive, Audit/Finance/Investment, Human Resources, By-Laws, Space Planning and Marketing committees. During these presentations, the Board approved the 2020 EIP Plan, the CEO 2020 Smart Goals, the 2020 Internal Audit Director 2020 Smart Goals, and the Executive Leadership Team Salary Benchmarks.
- The KEMI board approved the KSBIT refund as recommended.

April 28, 2020

- KEMI's CEO indicated KEMI's pandemic plan was implemented on March 13, 2020.
- At this time, KEMI's CEO is estimating a loss of \$4-6 million in losses due to the pandemic, but with KEMI's strong financial position, this should not affect their financial strength.
- KEMI staff discussed measures KEMI has taken to ease the financial burden to policyholders during these challenging times.
- KEMI staff provided the Board with an overview of KEMI's COVID-19 claims experience to-date.

- The KEMI Board approved early disbursements of contingent commission payments to qualifying agents based on staff recommendations due to the pandemic.
- The KEMI Board discussed the vacation policy.
- KEMI's internal audit director provided a high-level overview of his Internal Audit Activity Report for February and March indicating that a similar report is provided prior to each Board meeting and includes a summary of all internal audit activities.
- KEMI's CFO presented the first quarter financial information.
- KEMI's CFO also indicated that the 2019 annual independent audit is almost complete and the firm is in the final stages of completing the audit.
- KEMI's CFO provided a review of updates to the renewal of KEMI's corporate insurance policies.
- KEMI's CEO gave a legislative update.
- The KEMI Board approved the Contract Approval Listing as presented.

June 9, 2020

- The Board Nominating Committee gave its report on board officer nominations. The nominations for Board Chair, Vice-Chair, and Secretary were all approved.
- KEMI's external auditor presented and discussed the 2019 independent audit and the Board approved to accept the report.
- KEMI's CEO provided a Covid-19 update and its impacts of services.
- KEMI staff provided a policyholder services update in relation to COVID-19 impacts.
- KEMI's internal audit director provided a detailed review of the April 2020 - May 2020 Internal Audit Activity Report and the procurement and contract review.
- KEMI's CFO presented financial information and the anticipated impacts that COVID-19 will have on Kentucky businesses.
- KEMI's CEO reported to the Board that Management continued to evaluate how best to handle anticipated adverse claims development from the coal industry.
- KEMI's General Counsel gave a legislative update.
- The KEMI Board approved the Contract Approval Listing as presented.
- The KEMI Board approved the updated vacation policy as presented.
- The KEMI Board chair made committee appointments.

July 8, 2020

- KEMI's CEO reported on the Adverse Development Cover and the Board authorized the CEO to negotiate and finalize the ADC program under the terms of the revised quote presented.
- KEMI's CFO requested that the Board reallocate budget dollars to accommodate needed technology changes for successful transition to a telework environment on an ongoing basis.
- The KEMI Board approved the recommendation regarding budget reallocation and equipment purchases.
- The KEMI Board approved the Contract Approval Listing as presented.
- KEMI's CEO provided a brief update indicating that premium for June 2020 was up slightly compared to the prior year.

August 11, 2020

- KEMI's CEO discussed the possible impact of COVID-19 to workers' compensation premium and COVID-19 delays being experienced in workers' compensation programs at the US Department of Labor.
- KEMI's CEO updated the Board on KEMI's re-entry plans.
- KEMI staff provided a book of business update reporting significant declines in premium consistent with other updates given to the Board in 2020 due to COVID.
- KEMI staff discussed the impact COVID-19 has had on reported claims to-date.
- KEMI's Internal Audit Director provided a detailed review of the June 2020 - July 2020 Internal Audit Activity Report.
- KEMI's CFO provided a review of the balance sheet, income statement, and cash flow statements as of 06-30-2020. He noted a detailed review of the report was provided to the Audit/Finance/Investment Committee at their committee meeting.
- The KEMI Board approved the Contract Approval Listing as presented.
- The following KEMI Board committees presented their reports – Executive, Audit/Finance/Investment, Human Resources, By-Laws, and Marketing committees.

October 13, 2020

- The Board approved rates, commissions, and dividend recommendations.
- KEMI's CEO gave a business update on AM Best rating, Reinsurance claims, and Black Lung evaluation.
- KEMI Staff provided an update on policy holder services and claims.
- KEMI's Internal Audit Director discussed reviews included in his activity report for August 2020 - September 2020.
- KEMI's Internal Audit Director further indicated that he would like the opportunity to once again meet with the Audit/Finance/Investment Committee in December to allow the Board an opportunity to ask any questions, review the internal audit charter, look at overall activity from 2020 as well as the 2021 audit schedule and gather feedback from the Board.
- KEMI's CFO reviewed the balance sheet, reporting very little change since the last meeting. He indicated that he did not anticipate growth in assets throughout the rest of the year. He also reviewed the income statement detailing policy holder revenue and expenses.
- The KEMI Board approved a motion to issue a refund in the amount of \$6,750,000 to schools included in the Kentucky School Board Insurance Trust (KSBIT) loss portfolio transfers
- KEMI's CFO reported that the CPA firm had completed the audit regarding procedures pertaining to the pension plan and that the report indicated KEMI was following procedures appropriately.
- The KEMI Board approved the Contract Approval Listing as presented.
- The following KEMI Board committees presented their reports - Executive, Audit/Finance/Investment, Human Resources, By-Laws, and Marketing committees.

December 8, 2020

- KEMI's CEO reported on the following topics: Remote work, staffing, staff committee appointments, diversity & inclusion training, dividend & KSBIT disbursements, rate filings, actuarial analysis of loss & loss expense.
- KEMI staff updated the board relating to direct written premiums and open claims.
- KEMI's Internal Audit Director discussed reviews included in his activity report for October 2020 - November 2020.
- KEMI's CFO presented the 10/31/2020 balance sheet and income statement. He also discussed the KSBIT financials.
- The KEMI Board approved the Contract Approval Listing as presented.
- The following KEMI Board committees presented their reports - Executive, Audit/Finance/Investment, Human Resources, By-Laws, and Marketing committees.

February 9, 2021

- KEMI's CEO gave an update relating to telework.
- KEMI's CEO also discussed the adverse development cover purchased in 2020, which helped mitigate risk from black lung claims.
- KEMI's CEO gave an update on KSBIT (Kentucky School Boards Insurance Trust) loss portfolio transfer and the Kentucky Coal Workers' Pneumoconiosis Fund.
- KEMI staff presented an update on the direct written premiums from 2019 to 2020.
- KEMI staff presented information relating to open claims at year-end 2020.
- KEMI's general counsel gave a legal services update regarding collection efforts following the premium audit process.
- KEMI staff gave an update on the agency's efforts to control cost and drive employee engagement.
- KEMI's Internal Audit Director discussed reviews included in his activity report for December 2020 – January 2021.
- KEMI's CFO provided highlights relating to financial growth. He also discussed the balance sheet and income statement comparisons of the 2020 pro-forma to year-end.
- The KEMI Board approved the Contract Approval Listing as presented.
- The following KEMI Board committees presented their reports – Executive, Audit/Finance/Investment, Human Resources, By-Laws, and Marketing committees.

April 13, 2021

- KEMI's external auditor presented the 2020 independent audit and the board approved the audit.
- KEMI's CEO discussed the dividend consideration for policy year 2018.
- Staff discussed the re-entry plan for staff coming back to the office.
- Staff gave an update on policyholder services and claims.
- KEMI's Internal Audit Director discussed his activity report specifically the actuarial claims reserves.
- KEMI's Internal Audit Director also discussed the procurement and contract review.

- The KEMI Board approved the SMART Goals as presented by the KEMI Internal Audit Director.
- KEMI's CFO discussed a proposed investment policy revision and that was approved by the KEMI Board.
- KEMI's CFO reported very little change in financials from the year-end.
- KEMI's CFO reported KEMI was under budget for the first two months and the variance was due to timing.
- KEMI's CFO discussed loss and LAE Reserve analysis. The KEMI Board approved the Milliman report of the reserve analysis and opinion.
- The KEMI Board approved the Contract Approval Listing as presented.
- The following KEMI Board committees presented their reports – Executive, Audit/Finance/Investment, Human Resources, By-Laws, and Marketing committees.
- The KEMI board approved the new KEMI logo based on the report from the Marketing committee.
- The KEMI Board approved the recommendations from the Nominating Committee for the Board officer positions.

June 8, 2021

- KEMI's CEO reported that offices would officially reopen on June 14, 2021.
- KEMI's CEO reported increases in premium volume and claims, but noted that claims activity was still down compared to last year.
- KEMI's CEO advised that strategic planning will begin in July by the leadership team.
- Staff reported the policy premium was up 5% through the first five months of 2021.
- Staff discussed new triage and telehealth services implementation.
- KEMI's internal audit director discussed his report and his reserve review of KSBIT claims.
- The KEMI Board approved revisions to the risk appetite statement and also approved dividend recommendations.
- KEMI's CFO reported that KEMI financials were in line with forecasting for the year.
- KEMI'S CFO reports that there had been a 7.5% rate decrease in premiums.
- KEMI's CFO reported that KSBIT transactions had been completed
- KEMI's CFO discussed coal fund transactions. He pointed out the line item for excess funds to be returned and advised it was the total amount eligible for return.
- The KEMI Board approved the Contract Approval Listing as presented.
- The KEMI Board approved the proposed procurement policy changes.
- The KEMI Board approved the proposed revisions to the Executive Committee charter
- The following KEMI Board committees presented their reports – Executive, Audit/Finance/Investment, Human Resources, By-Laws, and Marketing committees.
- The KEMI Board approved the investment policy revisions.
- The KEMI Board appointed CEO, CFO, Legal Counsel and 5 other management staff to the internal retirement committee.
- The KEMI Board approved the revised Personal Relationship Policy.

August 10, 2021

- KEMI's CEO reported that half way through the year he felt good about where business stood. He also noted that the coal book of business was no longer KEMI's largest business segment and indicated that school boards are the largest business segment.
- KEMI's CEO also indicated that claims continue to be down year to date.
- KEMI's CEO reported that \$8.4 million was paid in dividends, which was 14,053 checks.
- KEMI's internal audit director discussed his report which included claim reserve adequacy, semi-annual black lung data review, quarterly portfolio reconciliation review and the System Organizational Control audits.
- KEMI's CFO reported revenues were up slightly and claims were down overall.
- KEMI's CFO indicated that the most significant change in the income statement and balance related to liquidating equities and making an extra pension payment.
- KEMI's CFO reported that the balance sheet in comparison to pro-forma was very close to forecast.
- The KEMI Board approved the Contract Approval Listing as presented.
- The following KEMI Board committees presented their reports – Executive, Audit/Finance/Investment, and Marketing committees.

October 12, 2021

- KEMI's CEO began by indicating that KEMI was experiencing an increase in premium, some of which was in the coal industry since coal prices were up and policyholders were increasing payrolls.
- KEMI's CEO continued by reporting that there had also been a significant increase in claims activity during September, with claims reported to be returning to pre-COVID volume.
- KEMI's CEO reported that strategic planning was nearing completion and that there would be a meeting next week for management to evaluate the impact a new operating system would have on other IT projects.
- KEMI's Internal Auditor discussed highlights from his activity report including the annual paid medical bill duplicate review. He also discussed the premium audit and loss education activity. He continued by discussing the employee salary benchmarking data and analysis.
- KEMI's CFO reviewed the balance sheet for 08/31/2021 acknowledging very little growth in the investment portfolio for the year due to dividend and coal fund payouts even though there had been positive cash flow from operations. He also discussed the income statement noting written premium was up as of 08/31/2021 with net premium down slightly due to timing of accruals.
- The KEMI Board approved the Contract Approval Listing as presented.
- The KEMI Board approved the rate recommendations including other rating changes as presented by KEMI Management, which are to be effective January 1, 2022, and authorized KEMI Management to make appropriate filings with the Department of Insurance.
- The following KEMI Board committees presented their reports – Executive, Audit/Finance/Investment, Human Resources, By-Laws, and Marketing committees.

December 14, 2021

- KEMI's CEO reported year to date policyholder premiums through November were up 7.0%. In addition, reported claims through November are up 2.7%.
- KEMI's CEO also gave an update on KEMI's A.M. Best Rating of A- (stable outlook). KEMI's financial strength remains strong.
- KEMI's internal auditor gave an update on his monthly reserve claim reviews, active claim reviews, semi-annual claim reserve file reviews of KSBIT claims, and policy reviews.
- KEMI's CFO reviewed the balance sheet for 10/31/2021 noting total assets and total liabilities are very similar to the same period last year. He also discussed the income statement noting net income has increased compared to the same period last year.
- The KEMI Board approved the Contract Approval Listing as presented.
- The following KEMI Board committees presented their reports – Executive, Audit/Finance/Investment, Human Resources, By-Laws, and Marketing committees.

KEMI continues to cooperate with our offices. As directed by statute, the Office of the Attorney General and the Auditor of Public Accounts will continue to monitor KEMI's operations. Please let us know if additional information is required.

Sincerely,

Mike Harmon
AUDITOR OF PUBLIC ACCOUNTS



Farah Petter, CPA
Assistant Auditor of Public Accounts

Daniel Cameron
ATTORNEY GENERAL



Christian Lewis
Assistant Attorney General

cc: Jay Hartz, Director, LRC