



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

2022

**KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
2022 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:

	2022	2021
Admitted Assets:		
Long term bonds	\$ 976,371,857	\$ 956,675,348
Common and preferred stocks	66,244,687	61,195,858
Cash and cash equivalents	18,973,642	24,680,831
Real estate	4,025,000	4,025,000
Other invested assets	12,809,215	5,601,153
Receivable for securities	500,000	641,066
Subtotal cash and invested assets	1,078,924,401	1,052,819,256
Investment income receivable	7,428,816	6,257,069
Premiums receivable or deferred	46,357,336	41,193,762
Reinsurance recoverable on paid losses and loss expenses	76,154	62,355
Reinsurance deposits held by third party	1,150,000	750,000
Other admitted assets	67,373	58,036
Total admitted assets	\$ 1,134,004,080	\$ 1,101,140,478

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	2022	2021
Liabilities and Policyholder Surplus:		
Unpaid loss reserves	\$ 604,836,168	\$ 603,443,536
Unpaid loss adjustment expense reserves	52,567,958	53,129,762
Premiums written but not yet earned	62,865,476	59,450,931
Commissions payable	12,030,188	11,545,625
Other expenses payable	6,033,825	5,565,186
Amounts withheld or retained for others	11,290,374	9,856,337
Ceded reinsurance premiums payable	513,156	963,598
Funds withheld under reinsurance treaties	1,684,846	1,418,805
Retroactive reinsurance reserves assumed	35,888,900	24,788,343
Retroactive reinsurance reserves ceded	0	(17,062,629)
Funds withheld on retroactive reinsurance ceded	1,472,783	26,190,953
Liability for projected pension benefits	6,813,141	10,277,378
Other liabilities	1,115,361	801,813
Total liabilities	797,112,176	790,369,638
Policyholder surplus	336,891,904	310,770,840
Total liabilities and policyholder surplus	\$ 1,134,004,080	\$ 1,101,140,478

Assets

Cash and invested assets made up 95% of KEMI's total admitted assets at the end of 2022. KEMI's long-term bond portfolio had a carrying value of \$976,371,857 and a fair market value of \$867,362,714. Of total long-term bonds held at year end, 97% were rated either NAIC 1 (highest quality) or NAIC 2 (high quality). The fixed income portfolio had an effective maturity of 6.47 years, an average book yield of 3.31% and an average credit rating of A2/A. Preferred stocks had a carrying value of \$1,751,725 and a fair market value of \$1,687,128. Common stocks, which were stated at fair market value as determined by the Securities Valuation Office of the NAIC, totaled \$64,492,962 and reflected net unrealized gains of \$7,527,792 at year end. Money market funds had a fair market value of \$6,051,657 and operating cash balances totaled \$12,921,985.

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 \$12,809,215 in capital contributions and \$675,000 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, \$35,145,692 of the \$46,357,336 in premium balances at the end of 2022 represent future installments that were deferred and not yet due. Statutory Accounting Principles also require management to estimate the

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amount of premium that will be earned but unbilled at the end of each policy in force based upon past policy audit experience. Management's estimate of \$3,627,033 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 2022 KEMI's non-admitted assets totaled \$18,074,640, for a net increase of \$1,115,286 from the prior year. Included in non-admitted assets is \$7,408,930 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 \$10,135,462 which will be amortized through the income statement until 2030. Other non-admitted assets include undepreciated balances of furniture, equipment and application software of \$245,313, prepaid expenses of \$157,848 and other receivables of \$127,087.

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 2022, adjustments to the loss and loss adjustment expense reserves of prior accident years resulted in a net decrease of \$18,680,649 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% to reflect the time value of money.

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 adverse development coverage with unaffiliated, high quality reinsurers that provides protection against unfavorable development arising from existing and/or newly reported claims (including black lung). The earlier of the two agreements, which covered accident years 1995-2014, was commuted effective September 30, 2022 and produced a profit sharing gain of \$9.4 million. The remaining agreement covers accident years 2015-2019 and, similar to the earlier agreement, contains a profit sharing provision upon commutation. To date, KEMI has not experienced adverse development that would trigger this agreement.

At the end of 2022, KEMI had 4,162 open claims from direct business, consisting of 2,686 indemnity claims and 1,476 medical-only claims. KEMI also had 100 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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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 2022, as it has every year since its inception.

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

	2022	2021
Unpaid losses and loss adjustment expenses, beginning	\$ 656,573,298	\$ 653,006,343
Losses and loss adjustment expenses incurred:		
Gross losses incurred	79,738,902	81,279,854
Gross loss adjustment expenses incurred	25,582,900	24,265,855
Ceded losses and loss adjustment expenses incurred	(2,126,329)	(4,955,967)
Subrogation recoveries	(435,506)	(310,572)
Net incurred	102,759,967	100,279,170
Losses and loss adjustment expenses paid:		
Gross losses paid	76,671,684	74,311,716
Gross loss adjustment expenses paid	26,085,150	23,561,043
Ceded losses and loss adjustment expenses recovered	(392,189)	(849,972)
Subrogation recoveries	(435,506)	(310,572)
Net paid	101,929,139	96,712,215
Unpaid losses and loss adjustment expenses, ending	\$ 657,404,126	\$ 656,573,298

Loss Portfolio Transfers

Effective October 31, 2014, KEMI entered into a loss portfolio transfer agreement with the Commissioner of Insurance of the Commonwealth of Kentucky, Rehabilitator of Kentucky School Boards Insurance Trust (KSBIT) Workers' Compensation Self-Insurance Fund. Pursuant to this loss portfolio transfer, approximately \$35 million of workers' compensation claim 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 were less than originally projected. Therefore, KEMI returned \$16.3 million of transferred reserves back to the Rehabilitator in 2019 and 2020. As of December 31, 2022, KSBIT's cash balance was \$8,718,575, reinsurance receivables on paid losses and loss adjustment expenses were \$210,916, net reported loss and loss adjustment expense reserves were \$7,378,852 and net incurred but not reported (IBNR) loss and loss adjustment expense reserves were \$1,550,639.

Effective July 7, 2017, KEMI entered into a loss portfolio transfer agreement with the Kentucky Workers' Compensation Funding Commission (the Funding Commission) wherein all authority and responsibility to administer the Kentucky Coal Workers' Pneumoconiosis Fund (KCWPF) was transferred from the Funding Commission to KEMI. The purpose of KCWPF is to pay one-half of the indemnity benefits for coal-related occupational disease claims incurred on or after December 12, 1996 and filed on or before June 30, 2017. Pursuant to this loss portfolio transfer, the Funding Commission transferred all of the existing assets and liabilities of KCWPF to KEMI. Based on current actuarial reserve studies, claim liabilities were less than originally projected; therefore, in

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2021 and 2022, KEMI distributed \$22.3 million of excess reserves from KCWPF in accordance with KRS 342.1242(8). Active coal operators in good standing with the Commonwealth of Kentucky received settlement distributions totaling \$10.2 million and the Kentucky Coal Employers' Self-Insurance Guarantee Fund received settlement distributions totaling \$12.1 million. As of December 31, 2022, KCWPF's cash balance was \$8,192,448 and net loss and loss adjustment expense reserves were \$8,192,448.

Effective July 1, 2022, KEMI entered into a loss portfolio transfer agreement with the Commissioner of Insurance of the Commonwealth of Kentucky, Rehabilitator of the AIK Comp (AIK) self-insurance fund. Pursuant to this loss portfolio transfer, approximately \$5.7 million of AIK workers' compensation claim liabilities incurred prior to March 1, 1997 were transferred to KEMI by the Rehabilitator. In exchange for assuming responsibility for these claim liabilities and the handling thereof, KEMI received \$5,719,371 in cash. As of December 31, 2022, AIK's cash balance was \$5,255,097, net reported loss and loss adjustment expense reserves were \$3,313,255 and net incurred but not reported (IBNR) loss and loss adjustment expense reserves were \$1,941,842.

Effective July 1, 2022, KEMI entered into a loss portfolio transfer agreement with the Commissioner of Insurance of the Commonwealth of Kentucky, Rehabilitator of the Kentucky Coal Producers' Self-Insurance Fund (KCP). Pursuant to this loss portfolio transfer, approximately \$14.1 million of KCP workers' compensation claim liabilities incurred prior to November 1, 1991 were transferred to KEMI by the Rehabilitator. Any KCP claims arising under the Federal Black Lung Benefits Act are specifically excluded from this loss portfolio transfer agreement. In exchange for assuming responsibility for these claim liabilities and the handling thereof, KEMI received \$14,073,195 in cash. As of December 31, 2022, KCP's cash balance was \$13,681,611, TPA advances were \$41,169, net reported loss and loss adjustment expense reserves were \$7,684,915 and net incurred but not reported (IBNR) loss and loss adjustment expense reserves were \$6,037,865.

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 approximately \$25 million from the date of withdrawal through the end of 2022.

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. Participants are fully vested after 60 months of service.

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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.

Policyholder Surplus

During 2022 KEMI's policyholder surplus increased by \$26,121,064. Contributing to this increase were: net income of \$31,316,084, net unrealized losses of \$7,543,971, net increases in non-admitted assets of \$1,115,286, and net decreases in projected pension and postretirement liabilities of \$3,464,237.

The Company's overall financial position remained strong in 2022. 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.

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:

	2022	2021
Income and Expense:		
Net premiums earned	\$ 139,684,862	\$ 127,846,680
Losses incurred	(77,260,230)	(76,016,099)
Loss adjustment expenses incurred	(25,499,737)	(24,263,071)
Underwriting expenses incurred	(33,732,442)	(31,856,781)
Net underwriting gain (loss)	3,192,453	(4,289,271)
Net investment income	30,122,140	25,308,711
Net realized capital gains (losses)	289,694	9,280,654
Other income (expense)	(1,960,872)	(1,109,470)
Net periodic pension and postretirement benefit cost	(1,956,625)	(2,562,437)
Retroactive reinsurance commutation gain	9,414,248	0
Net income before policyholder dividends	39,101,038	26,628,187
Dividends to policyholders	(7,784,954)	(8,390,828)
Net income after policyholder dividends	\$ 31,316,084	\$ 18,237,359

KEMI's direct written premiums for 2022 were \$142,864,950 versus \$131,859,006 for 2021, representing an increase of \$11,005,944 or 8.3%. New business increased by \$2.3 million from 2021, primarily due to a modest resurgence in coal operations. As for existing business, KEMI retained approximately 90% of the policy premium from 2021 in 2022. Other contributions to premium growth include wage inflation on covered payroll, including a significant increase in the amount of audit premiums generated due to wage inflation.

In 2020 and 2021, incurred losses and loss adjustment expenses were lower than recent trends due to the COVID-19 pandemic. Reported claim volumes have increased in 2021 and 2022, but still have not returned to pre-pandemic

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levels. During 2022 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 2021 and 2022. Significant reductions in leverage were achieved through the use of structured settlements (as noted in the previous paragraph), the distribution of excess loss portfolio funds (as noted on pages 4-5), and the commutation of an adverse development cover which produced a profit sharing gain of \$9.4 million (as noted on page 3).

In June 2022, KEMI's Board of Directors approved a dividend payable to policyholders who had maintained a loss ratio of 65% or less for the 2019 policy year, and who still had active policies with KEMI at the time of payout. Nearly 14,000 dividend checks totaling \$7,784,954 were distributed in August 2022.

In November 2022, A.M. Best affirmed KEMI's Financial Strength Rating of A- (Excellent) with a stable outlook.

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:

	2022	2021
Cash Flows from Operations:		
Net cash from underwriting and claims	\$ 3,282,803	\$ 4,235,909
Net investment income received	30,941,918	30,387,977
Dividends paid to policyholders	(7,784,954)	(8,390,828)
Other income (expense)	(3,917,497)	(3,671,907)
Retroactive reinsurance commutation gain	9,414,248	0
Net cash provided by (used for) operations	31,936,518	22,561,151
Cash Flows from Investments:		
Proceeds from investments sold or matured	141,253,623	246,655,024
Cost of investments acquired	(180,525,943)	(242,390,548)
Net cash provided by (used for) investments	(39,272,320)	4,264,476
Cash Flows from Other Sources:		
Net cash used for retroactive reinsurance assumed	1,686,309	(24,776,480)
Other net cash provided (used)	(57,696)	3,094,406
Net cash provided by (used for) other sources	1,628,613	(21,682,074)
Net change in cash and cash equivalents	(5,707,189)	5,143,553
Cash and cash equivalents, beginning of year	24,680,831	19,537,278
Cash and cash equivalents, end of year	\$ 18,973,642	\$ 24,680,831

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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. Furthermore, a relatively short effective maturity of 6.47 years has enabled KEMI to reinvest maturing bonds at higher yields due to increasing interest rates in 2022. Maturity dates for KEMI's fixed income securities are selected to 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						
	3/31/2022		6/30/2022		9/30/2022		12/31/2022		12/31/2022						
ASSETS															
Long-term bonds	\$	970,912,412	\$	960,761,672	\$	973,106,186	\$	976,371,857	\$	976,371,857					
Preferred stocks		410,000		1,230,000		1,751,725		1,751,725		1,751,725					
Common stocks		59,745,223		55,634,068		53,729,323		64,492,962		64,492,962					
Cash and cash equivalents		16,963,818		19,500,408		22,101,543		18,973,642		18,973,642					
Real estate		4,025,000		4,025,000		4,025,000		4,025,000		4,025,000					
Other invested assets		6,893,946		10,302,926		11,912,686		12,809,215		12,809,215					
Receivable for securities		5,504,790		511,260		1,454,386		500,000		500,000					
Investment income due and accrued		6,877,180		6,774,169		7,410,698		7,428,816		7,428,816					
Premiums in course of collection		8,354,698		15,885,999		9,023,419		11,211,644		11,211,644					
Premiums deferred and not yet due		35,830,245		18,875,654		37,323,593		35,145,692		35,145,692					
Policy deductibles receivable		1,406		1,607		676		1,249		1,249					
Reinsurance receivable		29,016		79,498		28,306		76,154		76,154					
Funds on deposit with reinsurers		750,000		750,000		750,000		1,150,000		1,150,000					
Electronic data processing equipment		95,154		91,046		77,185		66,124		66,124					
TOTAL ASSETS	\$	1,116,392,888	\$	1,094,423,307	\$	1,122,694,726	\$	1,134,004,080	\$	1,134,004,080					
LIABILITIES & SURPLUS															
Loss reserves	\$	605,301,685	\$	607,155,569	\$	608,795,171	\$	604,836,168	\$	604,836,168					
Loss adjustment expense reserves		52,810,536		52,706,365		52,464,390		52,567,958		52,567,958					
Commissions payable		12,318,489		11,856,131		11,695,391		12,030,188		12,030,188					
Other expenses payable		4,852,235		4,772,059		5,096,026		6,033,825		6,033,825					
Unearned premiums		59,271,941		52,698,931		66,316,921		62,865,476		62,865,476					
Ceded reinsurance premiums payable		(1,470,526)		(1,271,809)		(1,051,826)		513,156		513,156					
Funds withheld under reinsurance treaties		1,407,109		1,400,385		1,348,137		1,684,846		1,684,846					
Amounts withheld or retained for others		10,003,123		9,465,575		11,060,781		11,290,374		11,290,374					
Remittances and items not allocated		873,069		728,096		991,997		1,115,361		1,115,361					
Provision for reinsurance		0		0		0		0		0					
Payable for securities		15,258,365		0		0		0		0					
Retroactive reinsurance reserves assumed		20,806,364		19,509,848		37,516,862		35,888,900		35,888,900					
Retroactive reinsurance assumed - excess funds to be returned		2,157,046		2,240,363		2,279,865		0		0					
Retroactive reinsurance reserve ceded		(18,115,445)		(18,761,989)		(18,228,061)		0		0					
Funds withheld on retroactive reinsurance reserve ceded		27,775,255		28,957,555		28,963,689		1,472,783		1,472,783					
Liability for projected pension and postretirement benefits		9,543,560		8,809,742		8,075,924		6,813,141		6,813,141					
TOTAL LIABILITIES	\$	802,792,806	\$	780,266,821	\$	815,325,267	\$	797,112,176	\$	797,112,176					
POLICYHOLDER SURPLUS (BEGINNING)	\$	310,770,840	\$	313,600,082	\$	314,156,486	\$	307,369,459	\$	310,770,840					
Net income/(loss) after policyholder dividends		5,484,873		7,663,283		(5,102,249)		23,270,177		31,316,084					
Change in net unrealized capital gains/(losses)		(3,695,509)		(8,290,184)		(3,540,240)		7,981,962		(7,543,971)					
Change in non-admitted assets		306,060		449,487		1,121,644		(2,992,477)		(1,115,286)					
Change in provision for reinsurance		0		0		0		0		0					
Change in projected pension and postretirement benefits		733,818		733,818		733,818		1,262,783		3,464,237					
POLICYHOLDER SURPLUS (ENDING)		313,600,082		314,156,486		307,369,459		336,891,904		336,891,904					
TOTAL LIABILITIES & POLICYHOLDER SURPLUS	\$	1,116,392,888	\$	1,094,423,307	\$	1,122,694,726	\$	1,134,004,080	\$	1,134,004,080					
INCOME STATEMENT															
Net premiums earned	\$	32,788,627	100.00%	\$	34,477,710	100.0%	\$	35,384,422	100.00%	\$	37,034,103	100.00%	\$	139,684,862	100.00%
Deductions:															
Net losses incurred		20,467,904	62.4%	20,356,572	59.0%	21,233,228	60.0%	15,202,526	41.1%	77,260,230	55.3%				
Net loss adjustment expenses incurred		6,174,029	18.8%	6,386,735	18.5%	6,599,167	18.6%	6,339,806	17.1%	25,499,737	18.3%				
Underwriting expenses incurred		7,854,373	24.0%	7,212,110	20.9%	10,307,379	29.1%	8,358,580	22.6%	33,732,442	24.1%				
Total deductions		34,496,306	105.2%	33,955,417	98.5%	38,139,774	107.8%	29,900,912	80.7%	136,492,409	97.7%				
Net underwriting gain/(loss)		(1,707,679)	-5.2%	522,293	1.5%	(2,755,352)	-7.8%	7,133,191	19.3%	3,192,453	2.3%				
Net investment income earned		6,751,990	20.6%	7,520,203	21.8%	7,560,849	21.4%	8,289,098	22.4%	30,122,140	21.6%				
Net realized gains/(losses)		1,042,697	3.2%	296,793	0.9%	(879,745)	-2.5%	(170,051)	-0.5%	289,694	0.2%				
Other income/(expenses)		(98,424)	-0.3%	(227,601)	-0.7%	(789,901)	-2.2%	(844,946)	-2.3%	(1,960,872)	-1.4%				
Net periodic pension and postretirement benefit expense		(503,711)	-1.5%	(448,405)	-1.3%	(453,146)	-1.3%	(551,363)	-1.5%	(1,956,625)	-1.4%				
Retroactive reinsurance commutation gain		0	0.0%	0	0.0%	0	0.0%	9,414,248	25.4%	9,414,248	6.7%				
Net operating gain/(loss)		5,484,873	16.7%	7,663,283	22.2%	2,682,705	7.6%	23,270,177	62.8%	39,101,038	28.0%				
Policyholder dividends		0	0.0%	0	0.0%	(7,784,954)	-22.0%	0	0.0%	(7,784,954)	-5.6%				
NET INCOME/(LOSS) AFTER POLICYHOLDER DIVIDENDS	\$	5,484,873	16.7%	7,663,283	22.2%	(5,102,249)	-14.4%	23,270,177	62.8%	\$	31,316,084	22.4%			

KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY

2022 at a Glance

	<u>Quarter ended</u> <u>3/31/2022</u>	<u>Quarter ended</u> <u>6/30/2022</u>	<u>Quarter ended</u> <u>9/30/2022</u>	<u>Quarter ended</u> <u>12/31/2022</u>	<u>Year ended</u> <u>12/31/2022</u>
<u>Cash and Invested Assets:</u>					
Long-term bonds:					
U.S. government securities	\$ 30,429,392	\$ 28,429,770	\$ 27,197,112	\$ 27,198,764	\$ 27,198,764
U.S. special revenue issuer obligation bonds	24,753,671	24,744,379	24,724,966	24,715,523	24,715,523
U.S. special revenue residential mortgage-backed	98,893,368	94,005,863	101,819,236	99,243,354	99,243,354
U.S. special revenue commercial mortgage-backed	11,042,407	11,031,575	11,020,098	11,009,028	11,009,028
Corporate issuer obligation bonds	591,387,422	588,440,321	595,878,521	603,576,413	603,576,413
Corporate issuer residential mortgage-backed	60,614,781	58,860,235	57,699,226	56,794,425	56,794,425
Corporate issuer commercial mortgage-backed	41,134,322	40,164,957	40,031,922	39,818,917	39,818,917
Other loan-backed and structured securities	94,138,000	96,581,720	96,558,481	95,855,336	95,855,336
All other bonds	18,519,049	18,502,852	18,176,624	18,160,097	18,160,097
Total long-term bonds	<u>970,912,412</u>	<u>960,761,672</u>	<u>973,106,186</u>	<u>976,371,857</u>	<u>976,371,857</u>
Preferred stocks	410,000	1,230,000	1,751,725	1,751,725	1,751,725
Common stocks	59,745,223	55,634,068	53,729,323	64,492,962	64,492,962
Operating cash balances	6,066,574	11,871,274	15,473,338	12,921,985	12,921,985
Cash equivalents (money market funds)	10,897,244	7,629,134	6,628,205	6,051,657	6,051,657
Real estate	4,025,000	4,025,000	4,025,000	4,025,000	4,025,000
Other invested assets	6,893,946	10,302,926	11,912,686	12,809,215	12,809,215
Receivables for securities	5,504,790	511,260	1,454,386	500,000	500,000
Total cash and invested assets	<u>\$ 1,064,455,189</u>	<u>\$ 1,051,965,334</u>	<u>\$ 1,068,080,849</u>	<u>\$ 1,078,924,401</u>	<u>\$ 1,078,924,401</u>
<u>Gross Investment Income Earned:</u>					
Net investment income earned	\$ 6,751,990	\$ 7,520,203	\$ 7,560,849	\$ 8,289,098	\$ 30,122,140
Add back interest expense on reinsurance funds withheld	541,737	546,847	551,634	164,754	1,804,972
Add back investment expenses	431,868	545,209	384,780	511,965	1,873,822
Gross investment income earned	<u>\$ 7,725,595</u>	<u>\$ 8,612,259</u>	<u>\$ 8,497,263</u>	<u>\$ 8,965,817</u>	<u>\$ 33,800,934</u>
<u>Net Realized Investment Gains (Losses):</u>					
Net realized gains (losses) on long-term bonds	\$ 26,828	\$ (316,361)	\$ (518,071)	\$ (356,569)	\$ (1,164,173)
Net realized gains (losses) on common stocks	1,015,869	613,154	(361,674)	186,518	1,453,867
Net realized gains (losses) on other invested assets	0	0	0	0	0
Total net realized investment gains (losses)	<u>\$ 1,042,697</u>	<u>\$ 296,793</u>	<u>\$ (879,745)</u>	<u>\$ (170,051)</u>	<u>\$ 289,694</u>
<u>Direct Policy Activity:</u>					
Direct premiums written	\$ 33,209,203	\$ 27,618,270	\$ 49,386,889	\$ 32,650,588	\$ 142,864,950
Direct premiums earned	\$ 33,387,041	\$ 34,608,213	\$ 35,666,853	\$ 37,580,001	\$ 141,242,108
Direct commissions paid, excluding contingent	\$ 3,223,369	\$ 2,540,597	\$ 4,817,964	\$ 3,082,672	\$ 13,664,602
Direct commissions paid as a % of direct premiums written	9.71%	9.20%	9.76%	9.44%	9.56%
Direct Active Policy Count	20,457	20,423	20,302	20,134	20,134
<u>Direct Claim Activity:</u>					
Direct losses paid, net of subrogation and deductibles	\$ 17,715,784	\$ 17,543,176	\$ 18,864,804	\$ 18,632,610	\$ 72,756,374
Direct loss adjustment expenses paid, net of subrogation and deductibles	\$ 6,283,277	\$ 6,672,973	\$ 6,287,446	\$ 6,034,719	\$ 25,278,415
Direct reserve for unpaid losses, including IBNR	\$ 630,409,493	\$ 632,051,642	\$ 633,813,827	\$ 629,731,802	\$ 629,731,802
Direct reserve for unpaid loss adjustment expenses, including IBNR	\$ 52,975,733	\$ 52,842,222	\$ 52,613,491	\$ 52,735,162	\$ 52,735,162
Direct Open Claim Count	4,249	4,172	4,287	4,162	4,162