



**COMMONWEALTH OF KENTUCKY**

**Allison Ball**  
**AUDITOR OF PUBLIC ACCOUNTS**

**Russell Coleman**  
**ATTORNEY GENERAL**

January 25, 2024

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 2022 and 2023, 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. 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 previous administration has 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 FY2021 and FY 2022. The previous administration 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.

KEMI continues to graciously 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,

**Allison Ball**  
**AUDITOR OF PUBLIC ACCOUNTS**



Shawna Crouse, CPA  
Assistant State Auditor

**Russell Coleman**  
**ATTORNEY GENERAL**



Christian Lewis  
Special Attorney

Enclosure: KEMI Biennial Board Meeting Minutes

cc: Jay Hartz, Director, LRC

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**KEMI Biennial Board Meeting Minutes for period January 2022 through December 2023:****January 11, 2022**

- KEMI's CEO discussed the Loss Portfolio Transfer proposals. Board members ask many questions and his was a very lengthy discussion.
- The Board Chair called for a motion to grant authority to KEMI's CEO to enter a preliminary agreement on behalf of KEMI with the Commissioner at the Department of Insurance to initiate loss portfolio transfers for both the Kentucky Coal Producers - 920 Fund and Associated Industries of Kentucky - 920 Fund contingent upon appropriate funding as presented and discussed by KEMI's CEO. Motion passed without objection.

**February 8, 2022**

- KEMI's CEO reported it is a very active time at KEMI with performance appraisals, audits, and actuarial reviews in progress.
- KEMI's CEO also discussed the status of the loss portfolio transfers and indicated funding was contingent upon legislative approval.
- KEMI staff gave a book of business update and a claims service update.
- KEMI's CEO discussed KEMI's 2021 NCCI Preliminary Carrier Data Quality Report and the importance of accurate data reporting.
- KEMI's internal auditor discussed the annual review of claims reserves and procedures included in his report. He reported no issues or concerns.
- KEMI CFO discussed the financials. He reported that December 31 numbers were complete and had received preliminary agreement from the independent auditor.
- KEMI's CFO reported that KEMI was underbudget for the 2021 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, Bylaws/Legislative Relations, and the Marketing Committee.

**April 21, 2022**

- KEMI's external auditor presented the 2021 independent audit, and the board approved the audit.
- KEMI's CFO discussed the business update that was included in the board packet.
- KEMI staff gave a brief policyholder services update and a claims update.
- KEMI's CEO discussed the Loss Portfolio Transfers.
- KEMI's CEO discussed the results of a staff culture and engagement survey.
- KEMI's internal auditor discussed the internal activity report for February and March 2022.
- KEMI's CFO discussed financials as of February 28, 2022. He indicated there was not much change in the financials from year-end 2021. He also discussed the budget variance report and the Loss & LAE Reserve Analysis as of 12/31/2021.
- The KEMI Board approved the Contract Approval Listing as presented.
- The following KEMI Board committees presented their reports - Executive and Nominating Committee.

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**August 9, 2022**

- KEMI'S CEO discussed the Eastern Kentucky Flooding, and that KEMI has implemented holds on cancellations and expirations, deferral of audits, flexible payment arrangements, etc. for policyholders in the 13 counties under a state of emergency. This is all per the Department of Insurance's guidance.
- KEMI's CEO informed the Board that July 1 each year was KEMI's largest premium day. He indicated that school boards were among the accounts that typically renew on July 1.
- KEMI's CEO reported that claims continue to increase, mostly related to school accounts.
- KEMI's CEO reported the agency is working diligently to implement Origami Operating System.
- KEMI's CEO indicated the last batch of dividend checks would be mailed today.
- KEMI's CEO reported that staff are working on the 2023 operating budget and would present to the finance committee in October.
- KEMI's CEO reported a successful implementation of a Human Resources Information System in July.
- KEMI's internal auditor discussed in summary his report which included claim medical reserve review, business continuity review, black lung review and an employee compensation analysis. He also noted a SOC 2 Type 2 audit was in progress.
- KEMI's CFO presented financial reports as of 6/30/2022. He reported very little change on the balance sheet from the 2021-year end. He also noted IBNR remained relatively constant. Also mentioned that liabilities had gone down over the last couple of years. Additionally, he advised if the market remained consistent through the remainder of the year, there would not be significant growth in surplus this year.
- KEMI's CFO discussed that reporting premium was up, but the growth was due to coal. Also noted that dividends issued in July would result in a decrease in surplus.
- The KEMI Board approved the Contract Approval Listing as presented.
- The following KEMI Board committees presented their reports - Executive, Audit/Finance/Investment, Human Resources, and the Bylaws/Legislative Relations Committee.

**October 11, 2022**

- KEMI's CEO introduced the Board appointed actuary.
- KEMI's board chair requested a motion to approve rate recommendations as presented and be effective January 1, 2023 and to authorize KEMI management to make appropriate filings with the Department of Insurance and the motion passed.
- KEMI's CEO reported premiums remained up year-to-date. He reiterated that much of the growth was in the coal book and small growth in non-coal premium.
- KEMI's CEO reported the Claims Department was also performing well. He indicated that for the month of September there was a significant increase in claims reported for school boards, which was attributed to schools returning to session.
- KEMI's CEO advised that Milliman conducted the reserving analysis as of 06/30, the traumatic coal and noncoal review at 9/30, and the entire book of business would be reviewed at the end of the year.

- KEMI's CEO reported that the annual rating meeting was held on September 28 and was the best rating meeting KEMI had in several years.
- KEMI's internal auditor discussed the internal activity report for reviewing the claims settlement, actuarial valuation of black lung liabilities, vendor risk management, semi-annual assessment with external validation. Also discussed the breach management response related to the risk tolerance dashboard.
- KEMI's CFO presented financial reports as of 08/31/2022. He discussed loss reserves and reported constancy in values over the last few years was a testament to the settlement program KEMI had in place. He noted that policyholder equity was essentially the same as at the beginning of the year.
- KEMI's CFO discussed the KSBIT Loss Portfolio Transfer and the Coal Fund Loss Portfolio transfer. He also indicated that KEMI was significantly under budget for the year.
- The KEMI Board approved the Contract Approval Listing as presented.
- The following KEMI Board committees presented their reports - Executive, Audit/Finance/Investment, and Human Resources Committee.

### **December 13, 2022**

- KEMI's CEO indicated he had sent the Board KEMI's published A.M. Best report in November following affirmation of the A- (Excellent) Stable Outlook financial stability rating.
- KEMI's CEO indicated premium was up for the year and claims for the year were flat in comparison to the same period as last year.
- KEMI's CEO reported that KEMI conducted disaster recovery testing and that 21 of the 22 tests conducted were fully successful with one successful with troubleshooting.
- KEMI's internal auditor discussed in summary his report which included black lung claims, underwriting process, annual paid medical bill duplicate review and the results of the Internal Audit Self-Assessment with Independent Validation.
- The KEMI Board approved the Risk Appetite Statement and 2023 Strategic plan as presented.
- KEMI's CFO presented financial reports as of 08/31/2022. He discussed the balance sheet assets and impact of inflation on the bond portfolio and how losses were handled in statutory accounting. He reported that there had been growth in assets. He continued by discussing liabilities and increases resulting from higher reserves and the two new loss portfolio transfers. He also indicated revenues were up due to coal and new growth, underwriting loss, investment income, and the absence of realized gains for the year.
- KEMI's CFO discussed the analysis of the pension and health retirement plan. KEMI plans to have plan fully funded by 2026. The Board then approved additional funding for the defined benefit plan. The KEMI Board also approved an amendment to the KEMI Defined Benefit Plan.
- The KEMI Board approved the Contract Approval Listing as presented.
- KEMI's General Counsel referenced the Guide to Executive Branch Code of Ethics. He reminded the Board that KEMI, the Board, and its employees were governed by KRS 11A. He reported that he was assigned the role of Ethics Officer and that KEMI took ethics responsibilities very seriously.
- The following KEMI Board committees presented their reports - Executive, Audit/Finance/Investment, and Human Resources Committee.

**February 14, 2023**

- KEMI's CEO provided a year-end recap of 2022 advising the KEMI ended the year with \$142M in direct premiums. He indicated much of the growth was in the coal book but there was also non-coal book growth.
- KEMI's CEO discussed that KEMI's reported claims continued to be lower than pre-COVID totals.
- KEMI's CEO presented a five-year history of key metrics including net written premium, net income, combined ratio, policyholder equity, claims leverage, return on revenue, and return on equity.
- KEMI's CEO reported that actuarial reports had been received and the Defined Benefit Plan was 84% funded.
- KEMI's CEO discussed the statutory requirement that KEMI provide statistical data to the National Council on Compensation Insurance (NCCI). He shared that KEMI had received all A's.
- KEMI's internal auditor discussed the internal activity report which included the cybersecurity review, SOC 2 certification, and Bitsight rating. He also discussed the black lung reserve liabilities.
- KEMI's CFO presented financial reports as of 12/31/2022. He indicated a slight increase in liabilities and leverage went down since policy holder equity increased. Also, net premiums were up, and losses were down.
- The KEMI Board approved the Contract Approval Listing as presented.
- The following KEMI Board committees presented their reports - Executive, Audit/Finance/Investment, Human Resources, and the Bylaws/Legislative Relations Committee.

**April 11, 2023**

- KEMI's CEO recognized KEMI's new controller and expressed appreciation for her efforts as a manager of KEMI's Finance Department.
- KEMI's CEO introduced the audit firm to present the 2022 independent audit. The firm indicated KEMI received a clean audit opinion with no findings. The KEMI board accepted the audit.
- KEMI staff presented an update relating to policyholder services. He indicated from a premium audit standpoint, 2022 was the best year in the organization's history. He advised that the growth in the coal industry was beginning to decline. Also due to the pandemic, loss estimates for the school business were deflated, which could entice increased competition and result in underpricing. KEMI CEO explained that KEMI would not underprice the accounts to retain the renewals and would maintain underwriting discipline even if accounts were lost.
- KEMI staff presented an update on the new operating system for handling claims, policies, and billing operations. There have been some issues with the vendor and their timely design of the system. KEMI staff are continually meeting with the vendor to figure out the design. The original implementation date has been pushed out.

- KEMI's CEO indicated that rates and dividends would be discussed in June.
- KEMI's internal auditor discussed the internal activity report which included that the year-end wraps up indicated really good results. He discussed non-renewal statistics and the number of carriers competing for accounts. He discussed the purpose, scope, approach, and findings relating to the account payable review. He also indicated there were no material issues or concerns with the employee travel review. They also discussed the risk tolerance dashboard from an annual perspective.
- KEMI's CFO advised the balance sheet had grown slightly since year-end, which was reflective of more premium. He indicated the portfolio had grown and explained how reporting was done per statutory accounting. He reported on liabilities noting that reserves remained consistent with no large losses reported. He discussed the income statement, reporting higher premiums, lower loss costs, and lower underwriting loss. Additionally he discussed the budget variance report.
- The KEMI Board approved the Contract Approval Listing as presented.
- The following KEMI Board committees presented their reports - Executive, Audit/Finance/Investment, Human Resources, Bylaws/Legislative Relations Committee, and the Nominating committee.

### **June 13, 2023**

- KEMI's CEO discussed increases in premium in comparison to the same period of 2022. He mentioned that Management was pleased with the increase in non-coal premium since there had been modest decrease in non-coal premium during the pandemic. Additionally, he noted that audit premium continued to increase and reflected the low unemployment rate in the state. It was also noted that KEMI's market share was 25.8% in 2022. He also reported that claims were stable, and that KEMI is researching approaches that could reduce leverage related to black lung liabilities.
- KEMI's internal auditor discussed the internal activity report which included a new claims reserve review for injuries that have potential for significant reserves. Also discussed was his review of the business development management functions. It was noted that capital modeling was beneficial to strategy and understanding capital position in relation to peers. He discussed his review of the annual risk register process, risk identification & prioritization, and the risk tolerance dashboard.
- The KEMI board approved a dividend recommendation. This dividend to eligible policyholders would be in late July or early August.
- KEMI's CFO indicated there was not much change with only nominal growth since year-end. He continued with the review of the balance sheet by discussing non-admitted prepaid pension and retiree health insurance and discussed pension funding that had occurred the prior quarter. He also reviewed investment income indicating return on bonds was up significantly from last year due to increase in interest rates and ability to invest at a higher rate, which made investment income higher. Also discussed the individual financial statements for the loss portfolio transfers and the budget variance report.
- The KEMI Board approved the Contract Approval Listing as presented.
- The following KEMI Board committees presented their reports - Executive committee.

**August 8, 2023**

- KEMI's CEO discussed dividend payments for policyholders. The CEO also discussed the reopening of claims and adverse development related to inappropriate reserving. Additionally, there was a 4.5% rate of return on bonds related to the defined benefit plan.
- KEMI staff discussed key elements of direct written premiums and policy retention.
- The KEMI board voted and passed the recommendation from staff concerning commissions.
- KEMI staff indicated that for the most part claims had been quiet for the first half of the year.
- KEMI staff discussed the new claims software and the status of implementation.
- KEMI's internal auditor discussed the internal activity report which included claims medical reserves, COLA for black lung, and the defined benefit plan review.
- KEMI's CFO indicated there was a savings of \$25 million since KEMI left the Kentucky Retirement plan. The CFO reviewed the balance sheet and income statement with the Board. He indicated overall net income was indicative of a good year.
- The CFO continued discussing the financial statements in comparison to proformas for 2023 and expressed how pleased he was with the small amount of variance. Additionally, the CFO reported KEMI remained under budget for the first half of the year and was expected to remain under budget for the year.
- The KEMI Board approved the Contract Approval Listing as presented.
- The Board adopted procurement policy revisions as it relates to RFPs.
- The following KEMI Board committees presented their reports - Executive, Audit/Finance/Investment, and Human Resources.
- The KEMI board voted and approved a KEMI salary grade increase of 3%. There was also approval of tweaks to some employee contracts.

**October 10, 2023**

- KEMI's CEO reported that revenue was up 11% compared to last year, and that claims and losses were both down 1.4% and 9.1% respectively.
- KEMI's CEO shared that he and Mr. Feld met with Senator McConnell's Chief of Staff to discuss air ambulance legislation and black lung claims.
- Discussions surrounding the selection of the Land RFP and the Retirement Plan RFP indicated positive movement and hopeful expectations.
- Mr. Bunning reported that investments had not changed much, but that they became more volatile. He also reminded the board that the unfunded liability had been paid off regarding their pension program.
- Mr. Bunning indicated that KEMI was operating under-budget, partially because the new software, Origami, had been scheduled to pay out in 2023, but would now be pushed to 2024.

**December 21, 2023**

- KEMI's CEO reported that rates were approved in November at 10.8% and will be in effect January 1, 2024.
- KEMI's CEO explained and shared that 26 policy holders received Destiny Awards.



- KEMI's CEO shared that claims and losses were at a historic low – less than 52%.
- KEMI's CEO provided an update on the progress for securing a new policy and claims administration software, Origami. He said the project was at 80% completion and it would be ready to go live very soon.
- KEMI's CEO noted that the Department of Insurance audit was upcoming and that there was very low concern for findings, and additionally that KEMI received a clean opinion from the SOC2 Audit.
- KEMI's CEO reported that the organization had successfully completed a disaster recovery test with only one point of concern that required remediation, and it was corrected successfully.
- The RFP for real-estate personal services was completed and Jamie Schrader was selected. Jamie is scheduled to present his recommendation to the board in a closed session in late January.
- The RFP for a retirement contract was completed and TransAmerica was selected. It is more expensive, but it was decided that they met the needs and provided a better customer service experience.
- Office renovations updates and approvals for reimbursement of the CEO's travel were discussed and approved.
- The HR Director expressed appreciation for and satisfaction with the CEO based on the published outcomes of his performance metrics scorecard, on which he received the second from highest rating (Advanced). Based on the successful completion of the metrics, it was recommended that the board approve a 6.43% raise to the CEO's salary. It was approved and appreciations from various board members were shared for the satisfactory job the CEO was doing and had done over the previous year.