

October 13, 2021

Governor Andrew Beshear
700 Capitol Avenue, Suite 100
Frankfort, Kentucky 40601

Dear Governor Beshear:

In accordance with KRS 342.813(3)(b), Kentucky Employers' Mutual Insurance is pleased to provide you with the enclosed administrative budget for calendar year 2022 as approved by the KEMI Board of Directors on October 12, 2021.

Additionally, KRS 342.813(3)(b) requires that we submit KEMI's financial status and actuarial condition along with the approved budget. These reports are also provided for your review.

Sincerely,



Jon E. Stewart
President & CEO

Enclosures

Reports also provided to:
Legislative Research Commission



**Kentucky Employers' Mutual
Insurance Authority**

2022 Operating Budget



MEMORANDUM

TO: Board of Directors
FROM: Jon Stewart
DATE: October 1, 2021
RE: 2022 Operating Budget

I am pleased to present to you KEMI's proposed operating budget for calendar year 2022. Much time and effort has gone into the preparation of this budget and I invite you to contact me at any time during your review to answer questions.

As in the past, each manager used a uniform budget format and approach to develop the budget for their areas of responsibility.

This budget document contains the following:

1. A descriptive layout of KEMI's **Budget Accounts** that make up the overall budget, as well as a listing of KEMI's **Budget Cost Centers** and the individuals responsible for those cost centers.
2. The **2022 Budget by Account**.
3. A **2022 Budget Analysis** that estimates our 2021 actual expenditures through the end of the year. Based upon projections, this analysis shows how we have performed to our 2021 budget and shows our 2022 budget in comparison to 2021 projections.
4. A **2022 Budget Account Summary**, which is a commentary that describes our 2021 budget-to-actual performance and explains the 2022 budget in comparison to our 2021 estimated spending.
5. The **2022 Budget by Division**.
6. The **2022 Budget by Month**.

The Board approved budget is a critical part of our business operation. It is important to us that you understand and support it. We look forward to discussing this with you at the upcoming meeting.

Thank you for your time and involvement in this process.



2022 BUDGET ACCOUNTS

CAPITAL EXPENDITURES

119000 - Furniture & Office Equipment

- 119101 Furniture & Fixtures
- 119102 Office Equipment

114000 - EDP Equipment & Software

- 114001 EDP Equipment
- 114002 Software

GENERAL EXPENSES

708000 - Salaries & Payroll Taxes

- 708100 Salaries
- 708200 Payroll Taxes

721001 - Outsource Staffing

- 721001 Outsource Staffing

709000 - Benefits & Employee Relations

- 709001 Employee Benefits
- 709002 Training
- 709003 Recruiting
- 709004 Relocation
- 709005 Employment Services
- 709006 Payroll Processing
- 709007 Employee Relations

721005 - Outside Services

- 721005 Outside Services

706000 - Surveys & Underwriting Reports

- 706001 Surveys & Underwriting Reports

713000 - Office Building & Maintenance

- 713001 Rent
- 713002 Building Repairs
- 713003 Building Maintenance
- 713004 Grounds Maintenance
- 713025 Property Taxes

716000 - Postage, Telephone & Internet

- 716001 Telephone
- 716002 Postage
- 716004 Internet, Television & Cable

715000 - Supplies, Printing & Publications

- 715001 Office Supplies
- 715002 Printing
- 715003 Books, Publications
& Subscriptions

704000 - Advertising

- 704100 Media Advertising
- 704200 Athletic Sponsorships
- 704300 Business & Civic Sponsorships
- 704400 Charitable Sponsorships
- 704700 Business Development Events
- 704800 Business Entertainment
- 704900 Marketing Materials

707000 - Audits of Assureds' Records

- 707001 Audits of Assureds' Records

712000 - Travel

- 712001 Meals
- 712002 Seminars & Conventions
- 712003 Airfare
- 712004 Mileage
- 712005 Lodging
- 712006 Taxi
- 712007 Parking
- 712008 Auto Rental
- 712011 Tolls
- 712015 Fuel

714000 - Equipment & Equipment Maintenance

- 714001 Equipment
- 714002 Equipment Maintenance
- 714003 Equipment Repairs
- 714004 Equipment Lease

715000 - Software & Software Maintenance

- 715004 Miscellaneous Software
- 715005 Software Maintenance
- 715006 Software as a Service
- 715007 IT Infrastructure as a Service

717000 - Legal, Actuarial & Auditing

- 717001 Auditing
- 717002 Legal
- 717003 Actuarial
- 717004 Legal (Collections)

718000 - Licenses & Fees

- 710011 Licenses & Fees
- 718002 Insurance Dept. Filing Fees
- 718003 Insurance Dept. Examinations
- 718004 Longshore Assessments

721000 - Investment Expenses & Bank Fees

- 721004 Investment Expenses
- 721002 Bank Charges

710000 - Business Insurance

- 710010 Insurance

705000 - Boards, Bureaus & Associations

- 705001 Boards, Bureaus & Assoc.



2022 BUDGET COST CENTERS

Cost Center	Center Code	Responsibility
<u>1000 - Executive:</u>		
Executive	1000	Jon Stewart
Internal Audit	1020	Patrick Simpson
<u>2000 - Administration & Support:</u>		
Systems	2020	Irfan Qureshi
Application Development	2030	Irfan Qureshi
IT Administration	2040	Irfan Qureshi
DevOps	2050	Irfan Qureshi
Cyber Security	2060	Irfan Qureshi
Quality Assurance	2070	Irfan Qureshi
Human Resources	2100	Katy Grachek
Financial Services	2400	Mark Bunning
Legal Services	2700	Tim Feld
Content Governance	2900	Tim Feld
<u>3000 - Strategy, Innovation & Marketing:</u>		
Strategy & Innovation	3000	Elizabeth Paul
Marketing & Customer Service	3500	Elizabeth Paul
<u>5000 - Insurance Services:</u>		
Underwriting	5000	Jeremy Terry
Business Development	5100	Jeremy Terry
Safety Education	5200	Jeremy Terry
Payroll Audit	5300	Jeremy Terry
Claims	5400	Mary Colvin
Claims Legal Services	5700	Mary Colvin
<u>6000 / 7000 - Facilities:</u>		
Louisville Office	6000	Mark Bunning
Lexington Office	7000	Mark Bunning

Kentucky Employers' Mutual Insurance
2022 Budget Worksheet

Summary

Cost Center: Total KEMI Budget



Account	Description	2022 Budget	2021 Budget	Increase / (Decrease)	% of Budget
<u>CAPITAL EXPENDITURES</u>					
Furniture & Office Equipment					
119101	Furniture & Fixtures	25,000	0	25,000	0.06%
119102	Office Equipment	0	0	0	0.00%
	Subtotal Office Building & Equipment	25,000	0	25,000	0.06%
EDP Equipment & Software					
114001	EDP Equipment	64,800	33,250	31,550	0.16%
114002	Software	2,068,000	76,000	1,992,000	4.99%
	Subtotal EDP Equipment & Software	2,132,800	109,250	2,023,550	5.15%
	TOTAL CAPITAL EXPENDITURES	2,157,800	109,250	2,048,550	5.21%
<u>GENERAL EXPENSES</u>					
Salaries & Payroll Taxes					
708100	Salaries	19,973,821	17,729,324	2,244,498	48.22%
708200	Payroll Taxes	1,453,423	1,291,185	162,238	3.51%
	Subtotal Salaries & Payroll Taxes	21,427,244	19,020,509	2,406,735	51.73%
Outsource Staffing					
721001	Outsource Staffing	0	26,000	(26,000)	0.00%
Employee Benefits					
709001	Employee Benefits	5,375,279	5,034,107	341,172	12.98%
709002	Training	147,000	125,080	21,920	0.35%
709003	Recruiting	271,750	179,000	92,750	0.66%
709004	Relocation	15,000	10,000	5,000	0.04%
709005	Employment Services	15,000	13,500	1,500	0.04%
709006	Payroll Processing	0	0	0	0.00%
709007	Employee Relations	137,100	53,150	83,950	0.33%
	Subtotal Employee Benefits	5,961,129	5,414,837	546,292	14.39%
Outside Services					
721005	Outside Services	1,986,100	863,910	1,122,190	4.79%
Surveys & Underwriting Reports					
706001	Surveys & Underwriting Reports	835,555	853,382	(17,827)	2.02%
Office Building Rent & Maintenance					
713001	Rent	944,348	978,436	(34,087)	2.28%
713002	Building Repairs	9,900	14,200	(4,300)	0.02%
713003	Building Maintenance	12,120	12,400	(280)	0.03%
713004	Grounds Maintenance	3,500	3,500	0	0.01%
713025	Property Taxes	56,000	58,500	(2,500)	0.14%
	Subtotal Office Building Rent & Maintenance	1,025,868	1,067,036	(41,167)	2.48%
Postage, Telephone & Internet					
716001	Telephone	173,080	116,980	56,100	0.42%
716002	Postage	229,470	224,170	5,300	0.55%
716004	Internet , Television & Cable Access	65,513	67,011	(1,498)	0.16%
	Subtotal Postage, Telephone & Internet	468,063	408,161	59,902	1.13%
Office Supplies, Printing & Publications					
715001	Office Supplies	53,840	66,900	(13,060)	0.13%
715002	Printing	85,000	105,500	(20,500)	0.21%
715003	Books, Publications & Subscriptions	72,272	35,375	36,897	0.17%
	Subtotal Office Supplies, Printing & Publications	211,112	207,775	3,337	0.51%
Advertising & Business Development					
704100	Media Advertising	56,490	54,015	2,475	0.14%
704200	Athletic Sponsorships	237,000	125,000	112,000	0.57%
704300	Business & Civic Sponsorships	174,700	81,250	93,450	0.42%
704400	Charitable Sponsorships	63,050	45,025	18,025	0.15%
704700	Business Development Events	35,180	29,480	5,700	0.08%
704800	Business Entertainment	16,740	11,940	4,800	0.04%
704900	Marketing Materials	35,300	67,300	(32,000)	0.09%
	Subtotal Advertising & Business Development	618,460	414,010	204,450	1.49%
Audits of Assureds' Records					
707001	Audits of Assureds' Records	90,000	90,000	0	0.22%
Conferences & Travel					
712001	Meals	24,550	25,510	(960)	0.06%
712002	Seminars & Conventions	159,340	120,575	38,765	0.38%
712003	Airfare	49,230	52,950	(3,720)	0.12%
712004	Mileage	199,115	206,879	(7,764)	0.48%
712005	Lodging	73,950	73,750	200	0.18%
712006	Taxi	5,975	6,550	(575)	0.01%
712007	Parking	6,190	6,465	(275)	0.01%
712008	Auto Rental	1,650	1,000	650	0.00%
712011	Tolls	30	30	0	0.00%
712015	Fuel	0	0	0	0.00%
	Subtotal Conferences & Travel	520,030	493,709	26,321	1.26%

Kentucky Employers' Mutual Insurance
2022 Budget Worksheet

Summary

Cost Center: Total KEMI Budget



Account	Description	2022 Budget	2021 Budget	Increase / (Decrease)	% of Budget
Equipment & Software					
714001	Equipment	65,400	46,800	18,600	0.16%
714002	Equipment Maintenance	62,120	93,120	(31,000)	0.15%
714003	Equipment Repairs	2,600	6,600	(4,000)	0.01%
714004	Equipment Lease	47,980	50,685	(2,705)	0.12%
715004	Miscellaneous Software	44,600	36,700	7,900	0.11%
715005	Software Maintenance	321,527	399,481	(77,953)	0.78%
715006	Software as a Service (SaaS)	1,601,830	1,246,064	355,766	3.87%
715007	IT Infrastructure as a Service (IaaS)	616,000	309,852	306,148	1.49%
	Subtotal Equipment & Software	2,762,057	2,189,302	572,756	6.67%
Legal, Actuarial & Auditing					
717001	Auditing	95,000	81,000	14,000	0.23%
717002	Legal	245,000	275,000	(30,000)	0.59%
717003	Actuarial	291,500	291,500	0	0.70%
717004	Legal (Collections)	20,000	20,000	0	0.05%
	Subtotal Legal, Actuarial & Auditing	651,500	667,500	(16,000)	1.57%
Licenses & Fees					
710011	Licenses & Fees	500	800	(300)	0.00%
718002	Insurance Dept. Filing Fees	5,910	5,690	220	0.01%
718003	Insurance Dept. Examinations	20,000	10,000	10,000	0.05%
718004	Longshore Assessments	6,000	9,500	(3,500)	0.01%
	Subtotal Licenses & Fees	32,410	25,990	6,420	0.08%
Investment Expenses & Bank Fees					
721004	Investment Expenses	1,836,800	1,677,000	159,800	4.43%
721002	Bank Charges	262,500	379,500	(117,000)	0.63%
	Subtotal Investment Expenses & Bank Fees	2,099,300	2,056,500	42,800	5.07%
Business Insurance					
710010	Insurance	342,600	272,600	70,000	0.83%
Boards, Bureaus & Associations					
705001	Boards, Bureaus & Associations	235,834	184,487	51,347	0.57%
TOTAL GENERAL EXPENSES		39,267,263	34,255,707	5,011,556	94.79%
TOTAL FIXED ASSETS & GENERAL EXPENSES		\$41,425,063	\$34,364,957	\$7,060,106	100.00%



Kentucky Employers' Mutual Insurance
Budget Analysis
 2022 vs 2021

Description	2021 Budget	2021 Actual thru August	2021 Estimated Sept thru Dec	2021 Projected	2021 Projected vs 2021 Budget	2022 Budget	2022 Budget vs 2021 Projected	2022 Budget vs 2021 Budget
<u>Capital Expenditures</u>								
Furniture & Fixtures	\$0	\$0	\$0	\$0	0%	\$25,000	100%	100%
Office Equipment	0	1,208	792	2,000	100%	0	-100%	0%
EDP Equipment & Software	109,250	0	25,000	25,000	-77%	2,132,800	8431%	1852%
Total Capital Expenditures	\$109,250	\$1,208	\$25,792	\$27,000	-75%	\$2,157,800	7892%	1875%
<u>General Expenses</u>								
Salaries	\$17,729,324	\$11,514,910	5,507,090	\$17,022,000	-4%	\$19,973,821	17%	13%
Payroll Taxes	1,291,185	847,222	386,778	1,234,000	-4%	1,453,423	18%	13%
Outsource Staffing	26,000	88,044	43,956	132,000	408%	0	-100%	-100%
Employee Benefits	5,414,837	3,309,389	1,890,611	5,200,000	-4%	5,961,129	15%	10%
Outside Services	863,910	446,221	413,779	860,000	0%	1,986,100	131%	130%
Surveys & Underwriting Reports	853,382	666,453	155,547	822,000	-4%	835,555	2%	-2%
Office Building Rent & Maintenance	1,067,036	642,270	382,730	1,025,000	-4%	1,025,868	0%	-4%
Postage, Telephone & Internet	408,161	233,372	181,628	415,000	2%	468,063	13%	15%
Office Supplies, Printing & Publications	207,775	109,599	75,401	185,000	-11%	211,112	14%	2%
Advertising & Business Development	414,010	185,983	189,017	375,000	-9%	618,460	65%	49%
Audits of Assureds' Records	90,000	42,514	32,486	75,000	-17%	90,000	20%	0%
Conferences & Travel	493,709	104,981	105,019	210,000	-57%	520,030	148%	5%
Equipment & Equipment Maintenance	507,057	369,452	230,548	600,000	18%	794,100	32%	57%
Software & Software Maintenance	1,682,245	827,437	852,563	1,680,000	0%	1,967,957	17%	17%
Legal, Actuarial & Auditing	667,500	226,997	293,003	520,000	-22%	651,500	25%	-2%
Licenses & Fees	25,990	21,117	4,883	26,000	0%	32,410	25%	25%
Investment Expenses & Bank Fees	2,056,500	1,559,005	680,995	2,240,000	9%	2,099,300	-6%	2%
Business Insurance	272,600	308,326	1,674	310,000	14%	342,600	11%	26%
Boards, Bureaus & Associations	184,487	144,555	39,445	184,000	0%	235,834	28%	28%
Total General Expenses	\$34,255,707	\$21,647,847	\$11,467,153	\$33,115,000	-3%	\$39,267,263	19%	15%
TOTAL	\$34,364,957	\$21,649,055	\$11,492,945	\$33,142,000	-4%	\$41,425,063	25%	21%



Kentucky Employers' Mutual Insurance
2022 Budget
Account Summary

Capital Account	Description	2021 Budget	2021 Actual Projected	2021 Budget Variance	2022 Budget	2022 Budget vs 2021 Projected
119101	Furniture & Fixtures	-	-	-	25,000	25,000

This account represents furniture & fixture purchases that exceed \$1,000 per item.

2021 Budget to Actual
There were no purchases of furniture & fixtures in 2021.

2022 Budget
For 2022, \$25k has been budgeted for furniture due to a possible relocation of the Louisville office.

Capital Account	Description	2021 Budget	2021 Actual Projected	2021 Budget Variance	2022 Budget	2022 Budget vs 2021 Projected
119102	Office Equipment	-	2,000	2,000	-	(2,000)

This account represents office equipment purchases that exceed \$1,000 per item.

2021 Budget to Actual
In 2021, a replacement ice machine was purchased for the 8th floor conference center.

2022 Budget
There is no money budgeted for capital office equipment in 2022.

Capital Account	Description	2021 Budget	2021 Actual Projected	2021 Budget Variance	2022 Budget	2022 Budget vs 2021 Projected
114000	EDP Equipment & Software	109,250	25,000	(84,250)	2,132,800	2,107,800

This account represents EDP equipment & software purchases that exceed \$1,000 per item.

2021 Budget to Actual
Capital EDP equipment & software will end 2021 under budget as the purchase of Oracle Active Data Guard (\$76k) has been reclassified to Outside Services. Also, money budgeted for additional telecommuter equipment has not been needed.

2022 Budget
The 2022 budget for capital EDP equipment & software includes \$2 million of first year implementation costs for a new Business Systems Software to replace our current software. It also includes \$68k for network software, \$47k for new and/or replacement telecommuter equipment, \$10k for firewall replacement and \$8k for conference room upgrades.

Account	Description	2021 Budget	2021 Actual Projected	2021 Budget Variance	2022 Budget	2022 Budget vs 2021 Projected
708000	Salaries & Payroll Taxes	19,020,509	18,256,000	(764,509)	21,427,244	3,171,244

2021 Budget to Actual
Salaries & payroll taxes for 2021 will end the year under budget due to staff vacancies.

2022 Budget
The budget for 2022 includes an overall merit and cost of living increase of 4%. It also includes market equity adjustments deemed necessary for certain job positions, as well as \$1.56 million for the employee incentive plan. Headcount for 2022 has been increased by seven full time employees as compared to the 2021 budget.

Account	Description	2021 Budget	2021 Actual Projected	2021 Budget Variance	2022 Budget	2022 Budget vs 2021 Projected
721001	Outsource Staffing	26,000	132,000	106,000	-	(132,000)

2021 Budget to Actual
During 2021, KEMI utilized an IT contractor from TEK Systems to assist with specialized software development. This account is expected to end the year over budget as project needs continued longer than anticipated.

2022 Budget
KEMI does not plan to use outsource staffing in 2022.

Account	Description	2021 Budget	2021 Actual Projected	2021 Budget Variance	2022 Budget	2022 Budget vs 2021 Projected
709000	Employee Benefits	5,414,837	5,200,000	(214,837)	5,961,129	761,129

Much of this account is based on salaries, as it includes KEMI's contribution to employee retirement plans as well as KEMI's portion of health insurance premiums. It also includes recruiting, relocation, wellness programs and employee appreciation functions.

2021 Budget to Actual
Employee benefits, primarily retirement contributions and health insurance premiums, will end the year under budget due to staff vacancies.

2022 Budget
The 2022 budget for employee benefits reflects an increase over 2021 primarily due to staffing additions (see Salaries & Payroll Taxes, above). This budget also includes funding for Diversity, Equity & Inclusion training, as well as staff development.

Account	Description	2021 Budget	2021 Actual Projected	2021 Budget Variance	2022 Budget	2022 Budget vs 2021 Projected
721005	Outside Services	863,910	860,000	(3,910)	1,986,100	1,126,100

This account is used for specialized consulting assistance needed to implement or maintain unique areas of the business, including governmental affairs, human resources, document management and specialized software upgrades.

2021 Budget to Actual
This account is expected to end 2021 approximately on budget.

2022 Budget
The 2022 budget for this account primarily represents recurring specialized services including governmental relations lobbying, management / board consulting, software implementation services, cyber security testing, medical bill cost containment, bulk mail processing, etc. The budget for 2022 has been increased by \$795k for various IT initiatives, including solutions architecture, process automation, cloud modernization, application development, browser compatibility and more. The budget for 2022 has also been increased by \$111k for various HR initiatives, including organizational development and executive coaching.

Account	Description	2021 Budget	2021 Actual Projected	2021 Budget Variance	2022 Budget	2022 Budget vs 2021 Projected
706000	Surveys & Underwriting Reports	853,382	822,000	(31,382)	835,555	13,555

This account represents mandatory data reporting requirements for NCCI, ISO, the US Government and the Commonwealth of Kentucky.

2021 Budget to Actual
Surveys & underwriting reports are expected to end the year under budget because NCCI transaction based fees were less than anticipated.

2022 Budget
The 2022 budget has decreased slightly from 2021 budgeted amounts due to lower premium and transaction volumes. ISO data reporting and PAAS fees account for \$289k of the 2022 budget, and mandatory NCCI fees account for \$547k of the 2022 budget.

Account	Description	2021 Budget	2021 Actual Projected	2021 Budget Variance	2022 Budget	2022 Budget vs 2021 Projected
713000	Office Building Rent & Maintenance	1,067,036	1,025,000	(42,036)	1,025,868	868

This account includes rent for the Lexington and Louisville offices, as well as routine building maintenance and repairs.

2021 Budget to Actual
For 2021, this account will end the year under budget due to cost savings negotiated with the Webb Companies.

2022 Budget
The 2022 budget for this account remains flat versus 2021 projected amounts. A proposed relocation of the Louisville office to a smaller facility will result in lease savings; however, first year moving costs are expected to offset first year lease savings.

Account	Description	2021 Budget	2021 Actual Projected	2021 Budget Variance	2022 Budget	2022 Budget vs 2021 Projected
716000	Postage, Telephone & Internet	408,161	415,000	6,839	468,063	53,063

This account includes all USPS, UPS, Fed Ex, bulk mail services, internet access, and telephone services.

2021 Budget to Actual
Postage, telephone & internet expenses for 2021 are expected to end the year slightly over budget.

2022 Budget
The 2022 budget for this account has been increased for anticipated cost increases for telephone and internet connectivity.

Account	Description	2021 Budget	2021 Actual Projected	2021 Budget Variance	2022 Budget	2022 Budget vs 2021 Projected
715000	Supplies, Printing & Publications	207,775	185,000	(22,775)	211,112	26,112

All operating supplies and printing costs are budgeted in this account, such as plain paper, letterhead, invoice stock, check stock, etc. Also included are the cost of online research subscriptions utilized by Legal Services, SIU and IT.

2021 Budget to Actual
Office supplies, printing & publications for 2021 are expected to end the year under budget. General office supplies, as well as additional printing costs related to KEMI's new logo, were not as much as expected.

2022 Budget
The 2022 budget for this account was increased to accommodate a \$30k online subscription to Gartner IT Research and Advisory Group.

Account	Description	2021 Budget	2021 Actual Projected	2021 Budget Variance	2022 Budget	2022 Budget vs 2021 Projected
704000	Advertising & Business Development	414,010	375,000	(39,010)	618,460	243,460
<p><i>This account includes media placements in several business publications and the creative production of radio ads, brochures and videos. Also included are sponsorships of various civic and charitable organizations and events, as well as regional athletic sponsorships.</i></p> <p><u>2021 Budget to Actual</u> Advertising and business development expenses are expected to end 2021 under budget, as several sponsorships and events were reevaluated during the year due to the Covid19 pandemic.</p>						
<p><u>2022 Budget</u> The 2022 advertising budget has been increased from 2021 as KEMI expects to resume pre-Covid19 levels of advertising, sponsorships, and business development events.</p>						
Account	Description	2021 Budget	2021 Actual Projected	2021 Budget Variance	2022 Budget	2022 Budget vs 2021 Projected
707000	Audits of Assureds' Records	90,000	75,000	(15,000)	90,000	15,000
<p><i>This account represents the cost of payroll audits performed by outside auditors to verify payroll amounts reported by policyholders.</i></p> <p><u>2021 Budget to Actual</u> Outsourced audits of assureds' payroll records are expected to end 2021 under budget as the Covid19 pandemic decreased the utilization of outsource audits.</p>						
<p><u>2022 Budget</u> The 2022 budget for outsourced payroll audits remains flat as compared to the 2021 budget.</p>						
Account	Description	2021 Budget	2021 Actual Projected	2021 Budget Variance	2022 Budget	2022 Budget vs 2021 Projected
712000	Conferences & Travel	493,709	210,000	(283,709)	520,030	310,030
<p><i>This account represents the cost of travel for all field staff including auditors, loss education and SIU, as well as travel expenses for staff attendance at various seminars and conferences.</i></p> <p><u>2021 Budget to Actual</u> Travel expenses are expected to end 2021 well under budget as the Covid19 pandemic curtailed travel for most of the year. This curtailment affected routine travel by field staff as well as travel related to conferences and events.</p>						
<p><u>2022 Budget</u> The 2022 budget reflects a return to normal travel activities and assumes no Covid19 restrictions. An increase in conference attendance has been budgeted for purposes of staff development. Routine travel costs for KEMI field staff represent 35% of the overall travel budget.</p>						
Account	Description	2021 Budget	2021 Actual Projected	2021 Budget Variance	2022 Budget	2022 Budget vs 2021 Projected
714000	Equipment & Equipment Maintenance	507,057	600,000	92,943	794,100	194,100
<p><i>This account includes lease costs for copiers and mailroom equipment, as well as repairs and maintenance for computers and other equipment. It also includes the cost of small equipment such as computer components, printers, chairs and breakroom appliances.</i></p> <p><u>2021 Budget to Actual</u> Equipment & equipment maintenance is expected to end the year over budget, as expenses for cloud-based server hosting were higher than anticipated.</p>						
<p><u>2022 Budget</u> The 2022 budget for this account includes \$600k for Amazon Web Service (AWS) cloud-based server hosting, as well as recurring costs for equipment lease and maintenance. The 2022 budget for this account has been increased to cover increasing utilization of cloud-based server hosting.</p>						
Account	Description	2021 Budget	2021 Actual Projected	2021 Budget Variance	2022 Budget	2022 Budget vs 2021 Projected
715000	Software & Software Maintenance	1,682,245	1,680,000	(2,245)	1,967,957	287,957
<p><i>This account provides for networks, disaster recovery, work-from-home access, document imaging, database maintenance, underwriting data collection, financial systems, records retention and various other software applications. It includes the cost of Software as a Service (SaaS), routine software maintenance and small noncapitalized software packages.</i></p> <p><u>2021 Budget to Actual</u> This account is expected to end 2021 approximately on budget.</p>						
<p><u>2022 Budget</u> This account includes recurring costs for software as a service (SaaS), software maintenance, and small software purchases. Big ticket items for the 2022 budget include \$320k for Convr AI-focused underwriting software, \$168k for Microsoft Office 365 software, \$105k for Tripwire cyber security software, and \$100k for DocuSign electronic signature solution. The remainder of the budget consists of numerous other software packages that support KEMI's business operations and provide for data security.</p>						

Account	Description	2021 Budget	2021 Actual Projected	2021 Budget Variance	2022 Budget	2022 Budget vs 2021 Projected
717000	Legal, Actuarial & Auditing	667,500	520,000	(147,500)	651,500	131,500
<i>This account reflects costs associated with KEMI's use of outside legal counsel, CPA fees for the annual financial audit, and actuarial services related to loss reserving and premium rate consulting.</i>						
<u>2021 Budget to Actual</u> Legal, actuarial & auditing costs are expected to end the year under budget for 2021 because corporate legal costs have been far less than anticipated in 2021. Auditing and actuarial fees are expected to end the year on target, depending on the timing of invoices.						
<u>2022 Budget</u> The 2022 budget for this account reflects an increase of \$14k in auditing fees and a decrease of \$30k in corporate legal fees related to litigation and other complex civil matters.						

Account	Description	2021 Budget	2021 Actual Projected	2021 Budget Variance	2022 Budget	2022 Budget vs 2021 Projected
718000	Licenses & Fees	25,990	26,000	10	32,410	6,410
<i>This account consists of filing fees paid to the Kentucky Department of Insurance (DOI) and the National Association of Insurance Commissioners (NAIC), as well as DOI examination expenses. Also included are USL&H assessments paid to the U.S. Department of Labor.</i>						
<u>2021 Budget to Actual</u> Licenses & fees are expected to end 2021 on budget.						
<u>2022 Budget</u> The 2022 budget includes a slight increase in USL&H assessments to accommodate several large claims.						

Account	Description	2021 Budget	2021 Actual Projected	2021 Budget Variance	2022 Budget	2022 Budget vs 2021 Projected
721000	Investment Expenses & Bank Fees	2,056,500	2,240,000	183,500	2,099,300	(140,700)
<i>Investment expenses and bank fees include the cost of portfolio management, investment reporting, and all banking activities.</i>						
<u>2021 Budget to Actual</u> Investment expenses are expected to end 2021 \$34k over budget due to increasing portfolio balances. Bank charges are expected to end 2021 \$150k over budget due to the postponement of a project to either outsource credit card processing under a state contract or charge a recoupment fee on all credit card receipts.						
<u>2022 Budget</u> The 2022 budget for investment expenses and bank fees accommodates increasing investment management fees as the market value of KEMI's investment portfolio continues to grow. Also, KEMI management intends to pursue the credit card processing project and anticipates having it in place by April 2022.						

Account	Description	2021 Budget	2021 Actual Projected	2021 Budget Variance	2022 Budget	2022 Budget vs 2021 Projected
710000	Business Insurance	272,600	310,000	37,400	342,600	32,600
<i>Business insurance includes coverage for Executive and General Liability, Property, Workplace Violence, Umbrella, Cyber Crime/Liability and Workers' Compensation.</i>						
<u>2021 Budget to Actual</u> Business insurance will end 2021 over budget due to increasing premiums for Cyber Security Liability coverage.						
<u>2022 Budget</u> The 2022 budget was increased to reflect anticipated premium increases.						

Account	Description	2021 Budget	2021 Actual Projected	2021 Budget Variance	2022 Budget	2022 Budget vs 2021 Projected
705000	Boards, Bureaus & Associations	184,487	184,000	(487)	235,834	51,834
<u>2021 Budget to Actual</u> Boards, bureaus & associations are expected to end 2021 on budget.						
<u>2022 Budget</u> Boards, bureaus & associations reflects KEMI's costs associated with our A.M. Best rating, as well as memberships to trade associations such as PCI, WCRI, IIK, AASCIF and various chambers of commerce. Incidental amounts are included for employees' professional licenses and dues to various professional associations. The increase for 2022 reflects an additional \$30k for annual dues to NAMIC, as well as anticipated increases in rating agency fees and trade association dues.						



2022 Budget by Division

Description	Total KEMI Budget	Executive		Strategy, Innovation & Marketing	Insurance Services		Administration & Support				Facilities	
		Executive	Internal Audit		Policyholder Services	Claims Services	Information Technology	Human Resources	Financial Services	Legal Services	Lexington Office	Louisville Office
Capital Expenditures												
Furniture & Fixtures	\$25,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$25,000
Office Equipment	0	0	0	0	0	0	0	0	0	0	0	0
EDP Equipment & Software	2,132,800	0	0	0	0	0	2,132,800	0	0	0	0	0
Total Capital Expenditures	\$2,157,800	\$0	\$0	\$0	\$0	\$0	\$2,132,800	\$0	\$0	\$0	\$0	\$25,000
General Expenses												
Salaries	\$19,973,821	\$725,792	\$254,820	\$2,004,306	\$4,323,481	\$6,180,717	\$3,744,516	\$376,299	\$904,743	\$1,459,146	\$0	\$0
Payroll Taxes	1,453,423	42,078	19,104	144,811	319,448	456,289	277,285	28,211	63,145	103,052	0	0
Outsource Staffing	0	0	0	0	0	0	0	0	0	0	0	0
Employee Benefits	5,961,129	127,546	66,997	548,860	1,331,192	1,692,751	979,145	593,856	244,241	376,542	0	0
Outside Services	1,986,100	32,500	0	20,000	77,900	137,000	1,186,000	215,100	36,000	236,000	25,000	20,600
Surveys & Underwriting Reports	835,555	0	0	0	538,100	0	0	0	0	297,455	0	0
Office Building Rent & Maintenance	1,025,868	0	0	0	0	0	12,000	0	0	0	911,186	102,682
Postage, Telephone & Internet	468,063	600	600	10,840	15,600	4,950	202,953	600	600	220,820	0	10,500
Supplies, Printing & Publications	211,112	2,100	200	3,609	8,800	18,595	31,533	3,640	119,370	21,045	1,500	720
Advertising & Business Development	618,460	3,000	0	505,415	107,780	0	0	0	900	1,365	0	0
Audits of Assureds' Records	90,000	0	0	0	90,000	0	0	0	0	0	0	0
Conferences & Travel	520,030	42,825	10,450	36,915	164,790	90,985	75,100	22,315	35,425	41,225	0	0
Equipment & Equipment Maintenance	794,100	0	0	1,000	200	5,300	686,000	0	300	74,400	16,400	10,500
Software & Software Maintenance	1,967,957	0	6,000	71,450	352,200	159,250	986,837	272,350	100,500	19,370	0	0
Legal, Actuarial & Auditing	651,500	0	15,000	0	0	0	0	0	371,500	265,000	0	0
Licenses & Fees	32,410	0	0	0	900	0	0	0	31,010	500	0	0
Investment Expenses & Bank Fees	2,099,300	0	0	0	0	0	0	0	2,099,300	0	0	0
Business Insurance	342,600	0	0	0	2,400	0	0	0	340,200	0	0	0
Boards, Bureaus & Associations	235,834	161,100	1,240	28,106	2,590	10,165	1,297	3,550	3,765	24,021	0	0
Total General Expenses	\$39,267,263	\$1,137,542	\$374,410	\$3,375,312	\$7,335,381	\$8,756,003	\$8,182,667	\$1,515,921	\$4,350,998	\$3,139,940	\$954,086	\$145,002
TOTAL BUDGET	\$41,425,063	\$1,137,542	\$374,410	\$3,375,312	\$7,335,381	\$8,756,003	\$10,315,467	\$1,515,921	\$4,350,998	\$3,139,940	\$954,086	\$170,002



Account	Description	January	February	March	April	May	June	July	August	September	October	November	December	Total	2022 Budget	2021 Budget	Increase / (Decrease)	% of Budget
CAPITAL EXPENDITURES																		
Furniture & Office Equipment																		
119101	Furniture & Fixtures	0	0	0	25,000	0	0	0	0	0	0	0	0	25,000	25,000	0	25,000	0.06%
119102	Office Equipment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.00%
	Subtotal Office Building & Equipment	0	0	0	25,000	0	0	0	0	0	0	0	0	25,000	25,000	0	25,000	0.06%
EDP Equipment & Software																		
114001	EDP Equipment	38,300	1,500	1,500	1,500	1,500	1,500	11,500	1,500	1,500	1,500	1,500	1,500	64,800	64,800	33,250	31,550	0.16%
114002	Software	167,083	172,083	167,083	167,083	167,083	167,083	167,083	225,083	167,083	167,083	167,083	167,083	2,068,000	2,068,000	76,000	1,992,000	4.99%
	Subtotal EDP Equipment & Software	205,383	173,583	168,583	168,583	168,583	168,583	178,583	226,583	168,583	168,583	168,583	168,583	2,132,800	2,132,800	109,250	2,023,550	5.15%
TOTAL CAPITAL EXPENDITURES		205,383	173,583	168,583	193,583	168,583	168,583	178,583	226,583	168,583	168,583	168,583	168,583	2,157,800	2,157,800	109,250	2,048,550	5.21%
GENERAL EXPENSES																		
Salaries & Payroll Taxes																		
708100	Salaries	1,371,018	1,371,018	2,987,162	2,134,243	1,425,162	1,425,162	1,425,162	1,425,162	2,134,243	1,425,162	1,425,162	1,425,162	19,973,821	19,973,821	17,729,324	2,244,498	48.22%
708200	Payroll Taxes	102,785	102,785	223,948	160,004	106,844	105,200	105,200	102,893	149,393	98,871	98,871	96,630	1,453,423	1,453,423	1,291,185	162,238	3.51%
	Subtotal Salaries & Payroll Taxes	1,473,804	1,473,804	3,211,110	2,294,248	1,532,007	1,530,362	1,530,362	1,528,055	2,283,636	1,524,033	1,524,033	1,521,792	21,427,244	21,427,244	19,020,509	2,406,735	51.73%
Outsource Staffing																		
721001	Outsource Staffing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	26,000	(26,000)	0.00%
Employee Benefits																		
709001	Employee Benefits	410,296	410,296	481,119	562,665	421,177	421,177	421,177	421,177	562,665	421,177	421,177	421,177	5,375,279	5,375,279	5,034,107	341,172	12.98%
709002	Training	19,759	8,559	8,559	15,409	17,809	10,199	15,309	8,559	8,559	17,159	8,559	8,559	147,000	147,000	125,080	21,920	0.35%
709003	Recruiting	63,146	3,333	2,083	63,146	2,083	2,083	63,146	2,083	64,396	2,083	2,083	2,083	271,750	271,750	179,000	92,750	0.66%
709004	Relocation	15,000	0	0	0	0	0	0	0	0	0	0	0	15,000	15,000	10,000	5,000	0.04%
709005	Employment Services	2,750	500	500	2,750	500	500	2,750	500	500	2,750	500	500	15,000	15,000	13,500	1,500	0.04%
709006	Payroll Processing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.00%
709007	Employee Relations	9,058	3,808	3,808	8,358	3,808	3,808	8,358	38,808	3,808	8,358	21,308	23,808	137,100	137,100	53,150	83,950	0.33%
	Subtotal Employee Benefits	520,009	426,496	496,070	652,329	445,378	437,768	510,740	471,128	577,616	513,840	453,628	456,128	5,961,129	5,961,129	5,414,837	546,292	14.39%
Outside Services																		
721005	Outside Services	443,458	215,333	113,133	219,158	129,333	175,333	144,158	90,333	90,833	182,158	92,533	90,333	1,986,100	1,986,100	863,910	1,122,190	4.79%
Surveys & Underwriting Reports																		
706001	Surveys & Underwriting Reports	376,705	19,750	28,850	97,250	19,750	19,750	97,250	19,750	19,750	97,250	19,750	19,750	835,555	835,555	853,382	(17,827)	2.02%
Office Building Rent & Maintenance																		
713001	Rent	80,153	80,153	80,153	90,153	89,153	74,941	74,941	74,941	74,941	74,941	74,941	74,941	944,348	944,348	978,436	(34,087)	2.28%
713002	Building Repairs	825	825	825	825	825	825	825	825	825	825	825	825	9,900	9,900	14,200	(4,300)	0.02%
713003	Building Maintenance	1,010	1,010	1,010	1,010	1,010	1,010	1,010	1,010	1,010	1,010	1,010	1,010	12,120	12,120	12,400	(280)	0.03%
713004	Grounds Maintenance	875	0	0	875	0	0	875	0	875	0	875	0	3,500	3,500	3,500	0	0.01%
713025	Property Taxes	0	0	0	0	0	0	0	0	0	0	56,000	0	56,000	56,000	58,500	(2,500)	0.14%
	Subtotal Office Building Rent & Maintenance	82,863	81,988	81,988	92,863	90,988	76,776	77,651	76,776	76,776	77,651	132,776	76,776	1,025,868	1,025,868	1,067,036	(41,167)	2.48%
Postage, Telephone & Internet																		
716001	Telephone	15,807	5,807	5,807	9,207	5,807	5,807	5,807	5,807	5,807	95,807	5,807	5,807	173,080	173,080	116,980	56,100	0.42%
716002	Postage	27,431	17,571	17,571	20,071	17,571	17,571	20,071	17,571	20,071	21,331	17,571	17,571	229,470	229,470	224,170	5,300	0.55%
716004	Internet , Television & Cable Access	5,459	5,459	5,459	5,459	5,459	5,459	5,459	5,459	5,459	5,459	5,459	5,459	65,513	65,513	67,011	(1,498)	0.16%
	Subtotal Postage, Telephone & Internet	48,697	28,837	28,837	34,737	28,837	28,837	31,337	28,837	28,837	122,597	28,837	28,837	468,063	468,063	408,161	59,902	1.13%
Office Supplies, Printing & Publications																		
715001	Office Supplies	10,028	3,828	3,828	4,128	3,828	3,828	4,928	3,828	3,828	4,128	3,828	3,828	53,840	53,840	66,900	(13,060)	0.13%
715002	Printing	6,625	6,625	6,625	12,125	6,625	6,625	6,625	6,625	6,625	6,625	6,625	6,625	85,000	85,000	105,500	(20,500)	0.21%
715003	Books, Publications & Subscriptions	37,081	2,181	4,581	3,443	2,531	2,331	2,843	3,746	2,181	5,993	2,831	2,531	72,272	72,272	35,375	36,897	0.17%
	Subtotal Office Supplies, Printing & Publications	53,734	12,634	15,034	19,697	12,984	12,784	14,397	14,199	12,634	16,747	13,284	12,984	211,112	211,112	207,775	3,337	0.51%
Advertising & Business Development																		
704100	Media Advertising	20,328	1,427	1,427	8,248	1,427	1,427	8,248	1,427	1,427	8,248	1,427	1,427	56,490	56,490	54,015	2,475	0.14%
704200	Athletic Sponsorships	100,000	0	33,000	0	0	0	2,500	0	101,500	0	0	0	237,000	237,000	125,000	112,000	0.57%
704300	Business & Civic Sponsorships	64,733	10,833	11,833	8,333	8,333	14,633	14,333	8,333	8,333	8,333	8,333	8,333	174,700	174,700	81,250	93,450	0.42%
704400	Charitable Sponsorships	21,125	4,200	3,750	5,075	4,900	10,500	7,125	1,500	1,000	1,375	0	2,500	63,050	63,050	45,025	18,025	0.15%
704700	Business Development Events	1,008	1,008	5,008	12,738	1,008	1,008	1,008	1,008	1,008	5,358	1,008	1,008	35,180	35,180	29,480	5,700	0.08%
704800	Business Entertainment	1,395	1,395	1,395	1,395	1,395	1,395	1,395	1,395	1,395	1,395	1,395	1,395	16,740	16,740	11,940	4,800	0.04%
704900	Marketing Materials	10,500	0	50	7,250	0	0	7,000	0	0	10,500	0	0	35,300	35,300	67,300	(32,000)	0.09%
	Subtotal Advertising & Business Development	219,090	18,864	56,464	43,040	20,064	28,964	41,610	13,664	114,664	35,210	12,164	14,664	618,460	618,460	414,010	204,450	1.49%



Account	Description	January	February	March	April	May	June	July	August	September	October	November	December	Total	2022 Budget	2021 Budget	Increase / (Decrease)	% of Budget
Audits of Assureds' Records																		
707001	Audits of Assureds' Records	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	90,000	90,000	90,000	0	0.22%
Conferences & Travel																		
712001	Meals	2,063	1,813	1,813	2,063	1,813	3,613	2,063	1,813	1,813	2,063	1,813	1,813	24,550	24,550	25,510	(960)	0.06%
712002	Seminars & Conventions	13,278	13,278	13,278	13,278	13,278	13,278	13,278	13,278	13,278	13,278	13,278	13,278	159,340	159,340	120,575	38,765	0.38%
712003	Airfare	4,103	4,103	4,103	4,103	4,103	4,103	4,103	4,103	4,103	4,103	4,103	4,103	49,230	49,230	52,950	(3,720)	0.12%
712004	Mileage	17,244	16,199	16,199	17,244	16,199	16,199	17,594	16,199	16,199	17,244	16,199	16,399	199,115	199,115	206,879	(7,764)	0.48%
712005	Lodging	6,508	5,833	5,833	6,508	5,833	5,833	6,508	5,833	5,833	6,508	7,083	5,833	73,950	73,950	73,750	200	0.18%
712006	Taxi	498	498	498	498	498	498	498	498	498	498	498	498	5,975	5,975	6,550	(575)	0.01%
712007	Parking	828	488	488	488	488	488	488	488	488	488	488	488	6,190	6,190	6,465	(275)	0.01%
712008	Auto Rental	138	138	138	138	138	138	138	138	138	138	138	138	1,650	1,650	1,000	650	0.00%
712011	Tolls	3	3	3	3	3	3	3	3	3	3	3	3	30	30	30	0	0.00%
712015	Fuel	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.00%
	Subtotal Conferences & Travel	44,661	42,351	42,351	44,321	42,351	44,151	44,671	42,351	42,351	44,321	43,601	42,551	520,030	520,030	493,709	26,321	1.28%
Equipment & Software																		
714001	Equipment	9,383	2,933	2,933	24,183	2,933	2,933	4,183	2,933	2,933	4,183	2,933	2,933	65,400	65,400	46,800	18,600	0.16%
714002	Equipment Maintenance	2,350	0	260	5,350	0	0	2,350	44,200	260	2,350	5,000	0	62,120	62,120	93,120	(31,000)	0.15%
714003	Equipment Repairs	383	133	133	383	133	133	383	133	133	383	133	133	2,600	2,600	6,600	(4,000)	0.01%
714004	Equipment Lease	7,095	2,450	2,450	7,095	2,450	2,450	7,095	2,450	2,450	7,095	2,450	2,450	47,980	47,980	50,685	(2,705)	0.12%
715004	Miscellaneous Software	3,883	3,633	3,633	3,883	3,633	3,633	3,883	3,633	3,633	3,883	3,633	3,633	44,600	44,600	36,700	7,900	0.11%
715005	Software Maintenance	44,313	12,813	12,813	73,820	21,913	22,813	12,813	23,483	15,313	12,813	33,813	34,813	321,527	321,527	399,481	(77,953)	0.78%
715006	Software as a Service (SaaS)	141,513	178,583	31,108	28,358	194,308	66,558	351,961	53,916	331,946	38,711	16,571	168,296	1,601,830	1,601,830	1,246,064	355,766	3.87%
715007	IT Infrastructure as a Service (IaaS)	51,333	51,333	51,333	51,333	51,333	51,333	51,333	51,333	51,333	51,333	51,333	51,333	616,000	616,000	309,852	306,148	1.49%
	Subtotal Equipment & Software	260,254	251,879	104,664	194,407	276,704	149,854	434,002	182,082	408,002	120,752	115,867	263,592	2,762,057	2,762,057	2,189,302	572,756	6.67%
Legal, Actuarial & Auditing																		
717001	Auditing	13,500	12,000	12,000	15,500	0	3,000	4,500	3,000	3,000	16,500	0	12,000	95,000	95,000	81,000	14,000	0.23%
717002	Legal	20,417	20,417	20,417	20,417	20,417	20,417	20,417	20,417	20,417	20,417	20,417	20,417	245,000	245,000	275,000	(30,000)	0.59%
717003	Actuarial	23,000	28,000	23,000	23,000	33,500	23,000	23,000	23,000	23,000	23,000	23,000	23,000	291,500	291,500	291,500	0	0.70%
717004	Legal (Collections)	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	20,000	20,000	20,000	0	0.05%
	Subtotal Legal, Actuarial & Auditing	58,583	62,083	57,083	60,583	55,583	48,083	49,583	48,083	48,083	61,583	45,083	57,083	651,500	651,500	667,500	(16,000)	1.57%
Licenses & Fees																		
710011	Licenses & Fees	0	0	0	0	0	0	500	0	0	0	0	0	500	500	800	(300)	0.00%
718002	Insurance Dept. Filing Fees	115	5,025	15	115	15	235	115	15	15	215	15	15	5,910	5,910	5,690	220	0.01%
718003	Insurance Dept. Examinations	0	0	0	0	0	0	0	20,000	0	0	0	0	20,000	20,000	10,000	10,000	0.05%
718004	Longshore Assessments	3,000	0	0	0	0	0	3,000	0	0	0	0	0	6,000	6,000	9,500	(3,500)	0.01%
	Subtotal Licenses & Fees	3,115	5,025	15	115	15	235	3,615	20,015	15	215	15	15	32,410	32,410	25,990	6,420	0.08%
Investment Expenses & Bank Fees																		
721004	Investment Expenses	395,400	29,400	22,900	405,400	22,900	22,900	415,400	22,900	22,900	425,400	28,400	22,900	1,836,800	1,836,800	1,677,000	159,800	4.43%
721002	Bank Charges	44,450	34,450	34,450	4,450	4,450	4,450	4,450	113,050	4,450	4,450	4,450	4,950	262,500	262,500	379,500	(117,000)	0.63%
	Subtotal Investment Expenses & Bank Fees	439,850	63,850	57,350	409,850	27,350	27,350	419,850	135,950	27,350	429,850	32,850	27,850	2,099,300	2,099,300	2,056,500	42,800	5.07%
Business Insurance																		
710010	Insurance	200	200	200	200	320,200	20,400	200	200	200	200	200	200	342,600	342,600	272,600	70,000	0.83%
Boards, Bureaus & Associations																		
705001	Boards, Bureaus & Associations	105,552	22,164	439	1,469	1,689	58,539	7,797	21,774	866	9,499	4,839	1,209	235,834	235,834	184,487	51,347	0.57%
TOTAL GENERAL EXPENSES																		
		4,138,075	2,732,758	4,301,088	4,171,766	3,010,733	2,666,686	3,414,722	2,700,696	3,739,112	3,243,405	2,526,959	2,621,263	39,267,263	39,267,263	34,255,707	5,011,556	94.79%
TOTAL FIXED ASSETS & GENERAL EXPENSES																		
		\$4,343,458	\$2,906,342	\$4,469,672	\$4,365,349	\$3,179,316	\$2,835,269	\$3,593,306	\$2,927,279	\$3,907,696	\$3,411,988	\$2,695,542	\$2,789,847	\$41,425,063	\$41,425,063	\$34,364,957	\$7,060,106	100.00%

KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
Statement of Admitted Assets, Liabilities and Policyholder Equity
as of June 30, 2021
Statutory Basis of Accounting

ASSETS

Long-term bonds	\$ 962,531,499
Common stocks	50,925,714
Cash and short-term investments	42,748,222
Real estate	4,025,000
Other invested assets	4,446,535
Receivable for securities	0
Investment income due and accrued	6,419,771
Premiums in course of collection	23,137,166
Premiums deferred and not yet due	16,441,240
Policy deductibles receivable	2,027
Non-admitted premiums receivable	(7,916,447)
Reinsurance recoverable	114,459
Reinsurance deposits	750,000
Receivables for retroactive reinsurance reserves assumed	1,096,331
Electronic data processing equipment, net of depreciation	100,603

TOTAL ASSETS **\$ 1,104,822,120**

LIABILITIES AND POLICYHOLDER EQUITY

Loss reserves	\$ 599,010,705
Loss adjustment expense reserves	53,247,625
Commissions payable	11,383,750
Other expenses payable	4,486,669
Unearned premiums	50,534,390
Ceded reinsurance premiums payable	(764,696)
Funds withheld under reinsurance treaties	1,084,966
Amounts withheld or retained for others	8,328,200
Unallocated cash	773,306
Provision for reinsurance	0
Payable for securities	2,516,288
Retroactive reinsurance reserves assumed	26,782,737
Retroactive reinsurance assumed - excess funds to be returned	22,414,538
Retroactive reinsurance reserves ceded	(15,952,085)
Funds withheld on retroactive reinsurance ceded	24,030,108
Liability for projected pension benefits	11,972,495
Liability for projected retiree health insurance	0

TOTAL LIABILITIES **799,848,996**

POLICYHOLDER EQUITY (beginning) **283,404,169**

Net income / (loss)	18,360,873
Unrealized capital gain / (loss)	366,233
Change in non-admitted assets	(625,787)
Change in provision for reinsurance	0
Change in projected pension benefits	3,467,636
Change in projected retiree health insurance	0

POLICYHOLDER EQUITY (ending) **304,973,124**

TOTAL LIABILITIES AND POLICYHOLDER EQUITY **\$ 1,104,822,120**

KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY

**Statement of Income
for the six months ended June 30, 2021
Statutory Basis of Accounting**

Net premiums earned	\$	61,117,253
Deductions		
Losses incurred		34,760,955
Loss expenses incurred		12,459,326
Underwriting expenses incurred		14,596,707
Total deductions		61,816,988
Net underwriting gain / (loss)		(699,735)
Net investment income earned		15,602,184
Net realized investment gains / (losses)		5,299,703
Net periodic pension and postretirement benefit cost		(1,261,402)
Retroactive reinsurance ceded expense		0
Bad debts and other income / (expenses)		(579,877)
NET INCOME / (LOSS)	\$	18,360,873

KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
Statement of Solvency
for the six months ended June 30, 2021
Statutory Basis of Accounting

POLICYHOLDER EQUITY (beginning)	\$	283,404,169
Net income / (loss)		18,360,873
Unrealized capital gain / (loss)		366,233
(Increase) / decrease in non-admitted portion of furniture, fixtures, EDP equipment and software		68,239
(Increase) / decrease in uncollected premiums and agents' balances over 90 days past due		(33,510)
(Increase) / decrease in prepaid pension and retiree health insurance plans		(738,598)
(Increase) / decrease in other non-admitted assets		78,082
Change in provision for reinsurance		0
Change in projected liabilities for pension and retiree health insurance plans		<u>3,467,636</u>
POLICYHOLDER EQUITY (ending)	\$	<u>304,973,124</u>

Statement of Actuarial Opinion Annual Statement of Kentucky Employers' Mutual Insurance For the Year Ended December 31, 2020

Identification

I, John Herzfeld, am associated with the firm of Milliman, Inc. I am a consulting actuary to Kentucky Employers' Mutual Insurance ("the Company") and was appointed by the Board of Directors of the Company on September 6, 2017 to render this opinion. I am a Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries. I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. I meet the definition of a Qualified Actuary per the *NAIC Annual Statement Instructions – Property/Casualty, Actuarial Opinion* ("the NAIC Instructions").

The intended purpose of this opinion is to satisfy the requirement for such an opinion under the NAIC Instructions. The loss and loss adjustment expense reserves as specified in the Scope section herein are the responsibility of the Company. My responsibility is to express an opinion relating to those reserves.

Scope

I have examined the reserves listed in Exhibit A, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials, as of December 31, 2020. The items upon which I am expressing an opinion, as shown in Exhibit A, reflect Disclosure items (8 through 13.2) shown in Exhibit B. The carried reserves are stated in accordance with Statutory Accounting Principles.

The following list summarizes the basis of the carried loss and loss adjustment expense reserves, as represented to me by Company management:

- Reflect tabular discounting of the indemnity portion of the coal Occupational Disease ("OD") claims
- Do not include an explicit risk margin
- Net of anticipated salvage and subrogation
- Gross of deductibles recoverable, which are immaterial to the Company's reserves
- On a net basis, reflect ceded reinsurance recoverable
- Include provisions for all loss adjustment expenses, such as coverage dispute costs, defense and investigation costs, and claims administration expenses. The reserve for loss adjustment expenses was established based on the estimated amount to adjust all unpaid claims, regardless of pre-payments made to third party claims administrators.

I prepared my analysis consistent with the basis of the carried reserves. Further information on tabular discounting, reinsurance recoverable, and the collectability of recoverables is included in the *Relevant Comments* section herein.

In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data evaluated as of December 31, 2020 and reviewed information provided to me by the Company through February 21, 2021. In this regard, I relied on Jon Stewart, President of the Company, as to the accuracy and completeness of the data. I evaluated the data used directly in my analysis for reasonableness and consistency. My evaluation did not reveal any data points materially affecting my analysis that fell outside of the range of reasonable possibilities. In performing this evaluation, I have assumed that the Company (a) used its best efforts to supply accurate and complete data and (b) did not knowingly provide any inaccurate data. I also reconciled the earned premium amounts, paid loss and loss adjustment expense amounts, and case reserve amounts as of December 31, 2020 used in my analysis against Schedule P - Part 1 of the Company's current Annual Statement. In other respects, the analysis underlying my opinion included the use of such actuarial assumptions and methods and such tests of calculations as I considered necessary.

My review was limited to the items included in Exhibit A and did not include an analysis of any income statement items or other balance sheet items. My opinion on the reserves assumes the existence of valid assets underlying the reserves and that these assets are appropriate to meet the cash flow needs of the Company. I have not reviewed the held assets.

Opinion

In my opinion, the sum of the amounts carried on account of items 1 and 2, the sum of the amounts carried on account of items 3 and 4, and the amount carried on account of item 5, all as shown in Exhibit A:

- A. Meet the requirements of the insurance laws of the Commonwealth of Kentucky;
- B. Are consistent with reserves computed in accordance with actuarial standards of practice promulgated by the Actuarial Standards Board; and
- C. Make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements.

The Company entered into a loss portfolio transfer agreement to assume losses related to the Kentucky Coal Workers' Pneumoconiosis Fund ("KCWPF"). In forming my opinion regarding the reserves related to this agreement, I made use of an analysis performed by Solomon Frazier of Taylor-Walker Consulting LLC. Solomon is a Fellow of the Casualty Actuarial Society ("FCAS") and a Member of the American Academy of Actuaries ("MAAA"). The reserves for the KCWPF are \$19,751,766, or 3.0% of the Company's net carried reserves.

Relevant Comments

COMPANY SPECIFIC RISK FACTORS

The Company is exposed to risks and uncertainties in its normal course of business that will result in the actual future net loss and loss adjustment expense payments deviating from the provision in the Company's net carried reserves. I have identified the major risk factors relevant to the carried loss and loss adjustment expense reserves as exposure to coal OD claims; exposure to large, fortuitous losses; the nature of workers compensation coverage; and the uncertainty regarding the potential impact of the COVID-19 pandemic. The potential impact of these risk factors is described in more detail in the following paragraphs and in the report supporting this opinion. The absence of other risk factors from this listing does not imply that additional risk factors will not be identified in the future as being a significant influence on the Company. In addition, there is the risk of extraordinary future emergence of new classes or types of losses not sufficiently represented in the Company's historical database or that are not yet fully quantifiable.

The final values of coal OD claims are driven by economic and legislative factors that may cause large swings in valuation. There is significant uncertainty as to the viability of the coal mining industry, which increases the uncertainty of the final settlement values. Actual future loss payments may differ materially from the carried net reserves, as the number of accepted claims and the ultimate settlement amounts may be affected by future changes in the statutory mechanisms, modifications by court decisions, and changes in filing patterns driven by perceptions of success (or lack thereof) on the part of claimants and their advisors.

The variability associated with the estimates of net reserves for unpaid losses and loss adjustment expenses is magnified by the Company's exposure to large, fortuitous losses within its net retained limits. The emergence of individual large losses (or changes in incurred values on existing claims) could materially change the future net loss and loss adjustment expense payments.

Historically, workers compensation coverage has been subject to higher levels of variability due to the long-tailed nature of the coverage. The payment of losses will likely be made over a long period of time and is subject to a number of uncertainties such as inflation, the legal environment, and improvements in medical research and technology many years in the future.

Based on discussions with Company management, it is my understanding that there is substantial uncertainty regarding the impact of COVID-19 on the level and nature of business activity of the Company. Exposures, claim frequency, claim severity, and payout and reporting patterns will likely be affected in ways that cannot currently be estimated. Each of these may affect the amount and timing of future claim payments.

It is unknown how the COVID-19 pandemic may affect the availability and timeliness of medical treatment (whether or not COVID-19 related). Indemnity benefits and the availability/timeliness of medical treatment may be impacted by the COVID-19 pandemic. The length of the recovery period, the ultimate cost of treatment, and the timing of payments for workplace and other injuries may be affected. In addition, the pandemic may influence the filing behavior of claimants and the settlement of

claims in unexpected ways. Jurisdictional modifications to the presumption of coverage of benefits as related to COVID-19 claims has the potential to add significantly to the number of workers compensation claims.

This unprecedented and ongoing event is likely to affect the economy and claim costs in ways that cannot be fully anticipated. I understand no explicit adjustments have been made to reflect the potential impact of COVID-19 in the derivation of the Company's carried reserves. The carried loss and loss adjustment expense reserves are subject to greater uncertainty in light of the COVID-19 pandemic.

RISK OF MATERIAL ADVERSE DEVIATION

I evaluated the risk of material adverse deviation using a materiality standard of 10% of the Company's statutory surplus, or \$28,340,417, as shown in item 5 of Exhibit B. I selected the materiality standard based on the fact that I prepared this opinion for the regulatory review of the Company. Other measures of materiality might be used for reserves that are being evaluated in a different context.

Having considered the risk factors above and the inherent variability associated with a reserve for future loss and loss adjustment expense obligations, I believe that significant risks and uncertainties exist that could reasonably result in material adverse deviation from the carried net reserve amounts. This statement is based on the materiality standard above and my belief that the probability of adverse development of this magnitude is greater than remote.

OTHER DISCLOSURES IN EXHIBIT B

Discounting

The Company applies tabular discounting to the indemnity portion of coal OD claims. Note 32 of the Annual Statement contains details of the amounts disclosed in item 9. The amount of tabular discount as of December 31, 2020 is \$77,485,326 on a net of reinsurance basis, which is approximately 27.3% of the Company's policyholders' surplus.

Voluntary and Involuntary Underwriting Pools and Associations

The Company does not participate in voluntary or involuntary pools or associations.

Asbestos and Environmental Exposure

I have reviewed the Company's exposure to asbestos and environmental claims. In my opinion, there is a remote chance of material liability, since the Company represented that there are no reported asbestos and environmental claims to date.

Extended Loss and Loss Adjustment Expense Reserves

The Company does not provide pre-funded extended reporting loss and loss adjustment expense coverage within professional liability claims-made contracts, and therefore, carries no extended reporting loss and loss adjustment expense reserves.

Accident and Health Long Duration Contracts

The Company does not write and therefore does not carry reserves for accident and health long duration contracts, defined as contracts in which the contract term is greater than or equal to thirteen months and contract reserves are required.

REINSURANCE

The actuarial report prepared in support of this opinion includes a summary of the Company's ceded reinsurance that is or could be material to the Company's ceded loss and loss adjustment expense reserves as of December 31, 2020. The Company has represented that the summary is materially accurate and complete, and that the Company has determined that these contracts should be accounted for as reinsurance. The assessment of whether a reinsurance contract meets the requirements for reinsurance accounting is a management and accounting decision. I express no opinion as to whether the Company's ceded reinsurance contracts meet the requirements for reinsurance accounting.

Based on representations made by the Company and the Company's description of its ceded and assumed reinsurance, the Company has two loss portfolio transfers (assumed) and two adverse development covers (ceded) that are accounted for as retroactive reinsurance (defined as contractual arrangements that do not include transfer of both timing and underwriting risk). The data provided for my analysis is gross of the adverse development cover, which, as of December 31, 2020, has not been triggered. As a result, my evaluation of the net reserves was performed on a gross basis with respect to the adverse development cover. I am not aware of any other reinsurance transaction that either has been or should have been accounted for as retroactive reinsurance or as financial reinsurance.

I reviewed the Company's ceded reinsurance balances as shown in Schedule F of the Company's Annual Statement. There are no material reinsurance recoverables on paid losses that are classified as over 90 days past due. Further, the Company has represented that it knows of no uncollectable reinsurance cessions and no disputed reinsurance balances. As the Company has more extensive knowledge of and a closer relationship with its reinsurers, I have relied on the Company's assessment of the potential for uncollectable reinsurance. I also reviewed the ratings of the Company's reinsurers as listed in Schedule F, Part 3, using the A.M. Best Insurance Reports published as of January 15, 2021. There are no material reinsurance recoverables with assuming companies that were rated vulnerable (B or lower) by A.M. Best or that were reported to be in liquidation, conservation, or receivership. I am not aware of any reinsurance that the Company treated as collectable but should have treated as uncollectable.

Based on the information cited above, my opinion on the loss and loss adjustment expense reserves net of ceded reinsurance assumes that all ceded reinsurance is valid and collectable. I have performed no additional review of the collectability of the Company's reinsurance and am expressing no opinion on the financial condition of its reinsurers. I am not able to further assess the potential for uncollectable reinsurance without performing a substantial amount of additional work beyond the scope of my review. I have not anticipated any contingent liabilities that could arise if the reinsurers do not meet their obligations to the Company as reflected in the data and other information provided to me.

There has been significant volatility as a result of the COVID-19 pandemic, and the Company's reinsurers' ability to meet their obligations could be impacted. To the extent that the reinsurers are unable to meet their obligations, the Company's net liability may increase.

IRIS RATIOS

The booked reserves do not create exceptional values in the IRIS tests One-Year Reserve Development to Policyholders' Surplus, Two-Year Reserve Development to Policyholders' Surplus, or Estimated Current Reserve Deficiency to Policyholders' Surplus.

Supporting Documents and Usage

An actuarial report, including underlying actuarial work papers supporting the findings expressed in this Statement of Actuarial Opinion, will be provided to the Company to be retained for a period of seven years in its administrative offices and made available for regulatory examination. In addition, documentation that I am a Qualified Actuary per the NAIC Instructions has been provided to Company management for distribution to the Board.

This Statement of Actuarial Opinion is intended solely for the use of, and is only to be relied upon by, the Company and the various state departments with which the Company files its Annual Statement.

The electronic version of this document will be released with no security features as required by the National Association of Insurance Commissioners. Milliman, Inc. is not responsible for any modifications made to this document after its release.



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February 24, 2021

EXHIBIT A: SCOPE

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES:	AMOUNT
1. Unpaid Losses (Liabilities, Surplus and Other Funds page, Col. 1, Line 1)	\$600,610,041
2. Unpaid Loss Adjustment Expenses (Liabilities, Surplus and Other Funds page, Col. 1, Line 3)	\$52,396,302
3. Unpaid Losses – Direct and Assumed (should equal Schedule P, Part 1, Totals from Cols. 13 and 15, Line 12 x 1,000)	\$625,513,000
4. Unpaid Loss Adjustment Expenses – Direct and Assumed (should equal Schedule P, Part 1, Totals from Cols. 17, 19 and 21, Line 12 x 1,000)	\$52,821,000
5. The Page 3 write-in item reserve, “Retroactive Reinsurance Reserve Assumed”	\$29,275,852
6. Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion	\$0
PREMIUM RESERVES:	
7. Reserve for Direct and Assumed Unearned Premiums for P&C Long Duration Contracts	\$0
8. Reserve for Net Unearned Premiums for P&C Long Duration Contracts	\$0
9. Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion	\$0

EXHIBIT B: DISCLOSURES

1. Name of the Appointed Actuary	Herzfeld	John
2. The Appointed Actuary's Relationship to the Company Enter E or C based upon the following: E if an Employee of the Company or Group C if a Consultant		C
3. The Appointed Actuary's Accepted Actuarial Designation (indicated by the letter code): F if a Fellow of the Casualty Actuarial Society (FCAS) A if an Associate of the Casualty Actuarial Society (ACAS) S if a Fellow of the Society of Actuaries (FSA) through the General Insurance track M if the actuary does not have an Accepted Actuarial Designation, but is approved by the Academy's Casualty Practice Council O for Other		F
4. Type of Opinion, as identified in the OPINION paragraph Enter R, I, E, Q, or N based upon the following: R if Reasonable I if Inadequate or Deficient Provision E if Excessive or Redundant Provision Q if Qualified (use Q when part of the Opinion is Qualified) N if No Opinion		R
5. Materiality Standard expressed in US dollars (used to answer Question #6)		\$28,340,417
6. Are there significant risks that could result in Material Adverse Deviation?	Yes <input checked="" type="checkbox"/> X] No <input type="checkbox"/> N/A <input type="checkbox"/>	
7. Statutory Surplus (Liabilities, Surplus and Other Funds page, Col. 1, Line 37)		\$283,404,169
8. Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P (Part 1 Summary, Col. 23, Line 12 x 1000)		\$3,000,000
9. Discount included as a reduction to loss reserves and loss adjustment expense reserves as reported in Schedule P		
9.1 Nontabular Discount [Notes, Line 32B23, (amounts 1, 2, 3 & 4)], Electronic Filing Cols. 1,2,3 & 4		\$0
9.2 Tabular Discount [Notes, Line 32A23, (amounts 1 & 2)], Electronic Filing Cols. 1 & 2.		\$77,485,326
10. The net reserves for losses and loss adjustment expenses for the Company's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and loss adjustment expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines		\$0
11. The net reserves for losses and loss adjustment expenses that the Company carries for the following liabilities included on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines		
11.1 Asbestos, as disclosed in the Notes to Financial Statements (Notes, Line 33A03D, ending asbestos reserve for current year) Electronic Filing Col. 5		\$0
11.2 Environmental, as disclosed in the Notes to Financial Statements (Notes, Line 33D03D, ending net environmental reserve for current year) Electronic Filing Col. 5		\$0

EXHIBIT B: DISCLOSURES (continued)

12. The total claims-made extended loss and loss adjustment expense, and unearned premium reserves (Greater than or equal to Schedule P Interrogatories)	
12.1 Amount reported as loss and loss adjustment expense reserves	\$0
12.2 Amount reported as unearned premium reserves	\$0
13. The net reserves for the A&H Long Duration Contracts that the Company carries on the following lines on the Liabilities, Surplus and Other Funds page:	
13.1 Losses	\$0
13.2 Loss Adjustment Expenses	\$0
13.3 Unearned Premium	\$0
13.4 Write-In	\$0
14. Other items on which the Appointed Actuary is providing Relevant Comment	\$0