



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

2023

**KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
2023 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, and is the largest provider of workers' compensation insurance in Kentucky, with policyholders in all 120 counties.

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:

	2023	2022
Admitted Assets:		
Long term bonds	\$ 983,132,973	\$ 976,371,857
Common and preferred stocks	69,047,629	66,244,687
Cash and cash equivalents	37,373,444	18,973,642
Real estate	4,025,000	4,025,000
Other invested assets	12,801,986	12,809,215
Receivable for securities	35,611	500,000
Subtotal cash and invested assets	1,106,416,643	1,078,924,401
Investment income receivable	8,427,549	7,428,816
Premiums receivable or deferred	57,394,285	46,357,336
Reinsurance recoverable on paid losses and loss expenses	15,539	76,154
Reinsurance deposits held by third party	1,770,000	1,150,000
Other admitted assets	143,827	67,373
Total admitted assets	\$ 1,174,167,843	\$ 1,134,004,080

KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
2023 MANAGEMENT'S DISCUSSION AND ANALYSIS

	2023	2022
Liabilities and Policyholder Surplus:		
Unpaid loss reserves	\$ 616,863,107	\$ 604,836,168
Unpaid loss adjustment expense reserves	53,093,803	52,567,958
Premiums written but not yet earned	69,635,390	62,865,476
Commissions payable	13,533,573	12,030,188
Other expenses payable	6,826,855	6,033,825
Amounts withheld or retained for others	13,052,398	11,290,374
Ceded reinsurance premiums payable	808,745	513,156
Funds withheld under reinsurance treaties	2,013,337	1,684,846
Retroactive reinsurance reserves assumed	32,096,306	35,888,900
Retroactive reinsurance reserves ceded	0	0
Funds withheld on retroactive reinsurance ceded	2,087,828	1,472,783
Liability for projected pension benefits	0	6,813,141
Other liabilities	1,136,249	1,115,361
Total liabilities	811,147,591	797,112,176
Policyholder surplus	363,020,252	336,891,904
Total liabilities and policyholder surplus	\$ 1,174,167,843	\$ 1,134,004,080

Assets

Cash and invested assets made up 94% of KEMI's total admitted assets at the end of 2023. KEMI's long-term bond portfolio had a carrying value of \$983,132,973 and a fair market value of \$906,197,908. Of total long-term bonds held at year end, 90% were rated either NAIC 1 (highest quality) or NAIC 2 (high quality). The fixed income portfolio had an effective maturity of 7.21 years, an average book yield of 3.64% and an average credit rating of A2/A. Preferred stocks had a carrying value of \$1,751,725 and a fair market value of \$1,721,145. Common stocks, which were stated at fair market value as determined by the Securities Valuation Office of the NAIC, totaled \$67,295,904 and reflected net unrealized gains of \$8,025,444 at year end. Money market funds had a fair market value of \$21,410,338 and operating cash balances totaled \$15,963,106.

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 \$0.7 million remains unused. 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. As of December 31, 2023, fund closings have occurred resulting in a reduction of KEMI's carrying value to zero with any excess earnings received to be recorded to realized gains. The complete closing of the fund is expected to occur in 2024, during which all earnings received will be recorded as realized gains and the fund subsequently removed from KEMI's holdings.

KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY 2023 MANAGEMENT'S DISCUSSION AND ANALYSIS

In 2023, KEMI also committed to purchase a minority interest in ElmTree US Net Lease Fund V-A, LP for a total of \$30 million, of which \$12.8 million in capital contributions and \$0 in expenses have been paid to date. Similar to Fund IV-A, this private equity limited partnership invests in newly constructed and build-to-suit commercial net lease real estate with tenant lease terms of 12 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 V-A, LP seeks to yield an annual return of 7%, paid quarterly.

Premiums receivable or deferred are policy payments due from KEMI policyholders. Pursuant to payment plan arrangements, \$44,452,815 of the \$57,394,285 in premium balances at the end of 2023 represent future installments that were deferred and not yet due. Statutory Accounting Principles also require management to estimate the amount of premium that will be earned but unbilled at the end of each policy in force based upon past policy audit experience. Management's estimate of \$4,817,659 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 2023 KEMI's non-admitted assets totaled \$21,914,657, for a net increase of \$3,840,017 from the prior year. Included in non-admitted assets is \$9,321,667 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 \$11,903,164 which will be amortized through the income statement until 2030. Other non-admitted assets include undepreciated balances of furniture, equipment, and application software of \$189,160, prepaid expenses of \$318,485, and other receivables of \$182,181.

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 2023, adjustments to the loss and loss adjustment expense reserves of prior accident years resulted in a net decrease of \$200,179 to those reserves due to favorable development in prior accident years.

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. In 2023, in conjunction with its external actuaries, KEMI lengthened the cash flow related to Coal OD claims using a more robust payout method. This increase in reserves specifically for coal continues to exhibit the company's commitment to ensuring both surplus strength and conservative reserving for black lung claims.

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 exceeding \$125 million per occurrence and up to \$305 million per occurrence in certain geographical locations where KEMI has heavy concentrations of policyholders. All KEMI's excess of loss agreements include protection against acts of terrorism.

KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
2023 MANAGEMENT'S DISCUSSION AND ANALYSIS

In addition to excess of loss reinsurance coverage, KEMI maintains adverse development coverage with an unaffiliated, high-quality reinsurer that provides protection against unfavorable development arising from existing and/or newly reported claims (including black lung). The agreement covers accident years 2015-2019 and contains a profit-sharing provision upon commutation. To date, KEMI has not experienced adverse development that would trigger this agreement.

At the end of 2023, KEMI had 3,982 open claims from direct business, consisting of 2,565 indemnity claims and 1,417 medical-only claims. KEMI also had 124 open claims from business assumed under the Company's multi-state program, which provides workers' compensation coverage to Kentucky-based policyholders with similar operations in other states.

KEMI's loss reserving methodologies are conservative and management's goal is to maintain reserve balances in excess of actuarial point estimates. Reserves are evaluated at least twice each 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 2023, as it has every year since its inception.

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

	2023	2022
Unpaid losses and loss adjustment expenses, beginning	\$ 657,404,126	\$ 656,573,298
Losses and loss adjustment expenses incurred:		
Gross losses incurred	82,825,855	79,738,902
Gross loss adjustment expenses incurred	29,020,278	25,582,900
Ceded losses and loss adjustment expenses incurred	(1,174,798)	(2,126,329)
Subrogation recoveries	(1,054,673)	(435,506)
Net incurred	109,616,662	102,759,967
Losses and loss adjustment expenses paid:		
Gross losses paid	71,097,339	76,671,684
Gross loss adjustment expenses paid	28,524,608	26,085,150
Ceded losses and loss adjustment expenses recovered	(1,503,396)	(392,189)
Subrogation recoveries	(1,054,673)	(435,506)
Net paid	97,063,878	101,929,139
Unpaid losses and loss adjustment expenses, ending	\$ 669,956,910	\$ 657,404,126

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, 2023, KSBIT's cash balance was \$8,205,795,

KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY 2023 MANAGEMENT'S DISCUSSION AND ANALYSIS

reinsurance receivables on paid losses and loss adjustment expenses were \$132,914, net reported loss and loss adjustment expense reserves were \$6,514,245 and net incurred but not reported (IBNR) loss and loss adjustment expense reserves were \$1,824,464.

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 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, 2023, KCWPF's cash balance was \$6,404,864 and net loss and loss adjustment expense reserves were \$6,404,864.

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, 2023, AIK's cash balance was \$4,416,227, net reported loss and loss adjustment expense reserves were \$5,029,485 and net incurred but not reported (IBNR) loss and loss adjustment expense reserves were \$(613,258).

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, 2023, KCP's cash balance was \$12,940,073, TPA advances were \$129,347, net reported loss and loss adjustment expense reserves were \$3,771,951 and net incurred but not reported (IBNR) loss and loss adjustment expense reserves were \$9,297,469.

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 in excess of \$30 million from the date of withdrawal through the end of 2023.

Effective July 1, 2016, KEMI established a contributory 401(a) defined benefit pension plan for which it is the plan sponsor. The plan provides for 401(a) pension benefits and 401(h) 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 defined benefit pension plan. In April 2023, KEMI contributed \$6.8 million to

KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
2023 MANAGEMENT'S DISCUSSION AND ANALYSIS

bring the plan to 100% funded status based on December 31, 2022, actuarial estimates. Per external actuarial evaluations, both the defined benefit 401(a) and 401(h) plans are fully funded as of December 31, 2023. Employer contributions are continually evaluated to ensure the financial soundness of the plan.

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.

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

As of December 31, 2023, KEMI's policyholder surplus had increased by \$26,128,348 over the prior year. Contributing to this increase were: net income of \$21,024,621, net unrealized gains of \$2,250,298, net decreases in non-admitted assets of \$3,840,017, net decrease in provision for reinsurance of \$119,695, and net increases in projected pension and postretirement liabilities of \$6,813,141.

The Company's overall financial position remained strong in 2023. 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:

	<u>2023</u>	<u>2022</u>
Income and Expense:		
Net premiums earned	\$ 154,778,301	\$ 139,684,862
Losses incurred	(80,593,446)	(77,260,230)
Loss adjustment expenses incurred	(29,023,216)	(25,499,737)
Underwriting expenses incurred	<u>(38,252,110)</u>	<u>(33,732,442)</u>
Net underwriting gain (loss)	6,909,529	3,192,453
Net investment income	34,736,450	30,122,140
Net realized capital gains (losses)	1,074,707	289,694
Other income (expense)	(1,205,723)	(1,960,872)
Net periodic pension and postretirement benefit cost	(5,032,298)	(1,956,625)

KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
2023 MANAGEMENT'S DISCUSSION AND ANALYSIS

Retroactive reinsurance commutation gain	0	9,414,248
Net income before policyholder dividends	36,482,665	39,101,038
Dividends to policyholders	(15,458,044)	(7,784,954)
Net income after policyholder dividends	\$ 21,024,621	\$ 31,316,084

KEMI's direct written premiums for 2023 were \$161,837,132 versus \$142,864,950 for 2022, representing an increase of \$18,972,182 or 13.3%, due from new business in both coal and non-coal business, and an increase in retention up to 90.2% for 2023. Audit premium and wage inflation both contributed to the increase in premium income in 2023, with total in-force payroll increasing 6.7% for the year.

Total claims counts for 2023 decreased 2.8% for reported claims and 5.6% for total open claims. With continued favorable development and a decrease of 12.9% in paid losses, KEMI ended the year with a total net loss ratio of 53.1% for coal and non-coal combined. During 2023 KEMI continued its initiative to settle certain claims through the use of structured settlements, resulting in a reduction of open claim balances. 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 2022 and 2023. Reductions in leverage were achieved using structured settlements (as noted in the previous paragraph), and the distribution of excess loss portfolio funds (as noted on pages 4-5).

In July 2023, KEMI's Board of Directors approved a dividend payable to policyholders who had maintained a loss ratio of 65% or less for the 2020 policy year, and who still had active policies with KEMI at the time of payout. Nearly 13,000 dividend checks totaling \$15,458,044 were distributed in August 2023 as compared to \$7,784,954 in 2022.

In November 2023, 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:

	2023	2022
Cash Flows from Operations:		
Net cash from underwriting and claims	\$ 15,514,802	\$ 3,282,803
Net investment income received	35,670,202	30,941,918
Dividends paid to policyholders	(15,458,044)	(7,784,954)
Other income (expense)	(6,238,021)	(3,917,497)
Retroactive reinsurance commutation gain	0	9,414,248
Net cash provided by (used for) operations	29,488,939	31,936,518
Cash Flows from Investments:		
Proceeds from investments sold or matured	110,927,188	141,253,623

KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
2023 MANAGEMENT'S DISCUSSION AND ANALYSIS

Cost of investments acquired	<u>(117,963,913)</u>	<u>(180,525,943)</u>
Net cash provided by (used for) investments	<u>(7,036,725)</u>	<u>(39,272,320)</u>
Cash Flows from Other Sources:		
Net cash used for retroactive reinsurance assumed	(3,792,594)	1,686,309
Other net cash provided (used)	<u>(259,819)</u>	<u>(57,696)</u>
Net cash provided by (used for) other sources	<u>(4,052,412)</u>	<u>1,628,613</u>
Net change in cash and cash equivalents	18,399,802	(5,707,189)
Cash and cash equivalents, beginning of year	<u>18,973,642</u>	<u>24,680,831</u>
Cash and cash equivalents, end of year	<u>\$ 37,373,444</u>	<u>\$ 18,973,642</u>

Liquidity

KEMI's portfolio of cash and invested assets exceeds the estimated amounts eventually required to satisfy KEMI's liabilities. As additional funds become available, they are primarily invested in high quality long-term bonds. Furthermore, a relatively short effective maturity of 7.21 years has enabled KEMI to reinvest maturing bonds at higher yields due to increasing interest rates in 2023. 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 3/31/2023		Quarter ended 6/30/2023		Quarter ended 9/30/2023		Quarter ended 12/31/2023		Year ended 12/31/2023						
ASSETS															
Long-term bonds	\$	980,151,459	\$	983,081,312	\$	981,981,643	\$	983,132,973	\$	983,132,973					
Preferred stocks		1,751,725		1,751,725		1,751,725		1,751,725		1,751,725					
Common stocks		62,988,555		63,660,105		61,657,539		67,295,904		67,295,904					
Cash and cash equivalents		29,035,879		29,577,755		30,469,185		37,373,444		37,373,444					
Real estate		4,025,000		4,025,000		4,025,000		4,025,000		4,025,000					
Other invested assets		4,748,792		4,748,792		7,075,034		12,801,986		12,801,986					
Receivable for securities		500,000		500,000		511,016		35,611		35,611					
Investment income due and accrued		7,808,136		8,097,424		7,964,698		8,427,549		8,427,549					
Premiums in course of collection		10,451,552		17,324,506		11,479,779		12,941,470		12,941,470					
Premiums deferred and not yet due		40,398,514		26,208,356		42,051,214		44,452,815		44,452,815					
Policy deductibles receivable		716		2,886		1,368		6,157		6,157					
Reinsurance receivable		52,952		25,814		57,699		15,539		15,539					
Funds on deposit with reinsurers		1,150,000		1,150,000		1,150,000		1,770,000		1,770,000					
Electronic data processing equipment		70,286		97,429		178,420		137,670		137,670					
TOTAL ASSETS	\$	1,143,133,566	\$	1,140,251,104	\$	1,150,354,320	\$	1,174,167,843	\$	1,174,167,843					
LIABILITIES & SURPLUS															
Loss reserves	\$	609,162,163	\$	608,028,493	\$	612,956,854	\$	616,863,107	\$	616,863,107					
Loss adjustment expense reserves		53,268,430		53,009,029		53,144,024		53,093,803		53,093,803					
Commissions payable		13,084,609		12,894,449		12,659,040		13,533,573		13,533,573					
Other expenses payable		4,199,947		5,199,984		5,447,117		6,826,855		6,826,855					
Unearned premiums		63,915,329		58,442,426		69,822,066		69,635,390		69,635,390					
Ceded reinsurance premiums payable		(41,145)		(1,242,327)		(979,940)		808,745		808,745					
Funds withheld under reinsurance treaties		1,716,226		1,656,775		1,601,183		2,013,337		2,013,337					
Amounts withheld or retained for others		11,452,103		11,413,936		12,618,901		13,052,398		13,052,398					
Remittances and items not allocated		982,564		937,464		870,349		1,016,554		1,016,554					
Provision for reinsurance		0		0		0		119,695		119,695					
Payable for securities		0		0		0		0		0					
Retroactive reinsurance reserves assumed		34,860,940		33,784,736		32,774,238		32,096,306		32,096,306					
Retroactive reinsurance assumed - excess funds to be returned		0		0		0		0		0					
Retroactive reinsurance reserve ceded		0		0		0		0		0					
Funds withheld on retroactive reinsurance reserve ceded		1,625,123		1,778,407		1,932,640		2,087,828		2,087,828					
Liability for projected pension and postretirement benefits		6,079,323		0		0		0		0					
TOTAL LIABILITIES	\$	800,305,612	\$	785,903,372	\$	802,846,472	\$	811,147,591	\$	811,147,591					
POLICYHOLDER SURPLUS (BEGINNING)	\$	336,891,904	\$	342,827,954	\$	354,347,732	\$	347,507,848	\$	336,891,904					
Net income/(loss) after policyholder dividends		6,085,058		11,581,381		(4,366,753)		7,724,935		21,024,621					
Change in net unrealized capital gains/(losses)		(813,286)		159,150		(3,532,908)		6,437,342		2,250,298					
Change in non-admitted assets		(69,540)		(6,300,076)		1,059,777		1,469,822		(3,840,017)					
Change in provision for reinsurance		0		0		0		(119,695)		(119,695)					
Change in projected pension and postretirement benefits		733,818		6,079,323		0		0		6,813,141					
POLICYHOLDER SURPLUS (ENDING)		342,827,954		354,347,732		347,507,848		363,020,252		363,020,252					
TOTAL LIABILITIES & POLICYHOLDER SURPLUS	\$	1,143,133,566	\$	1,140,251,104	\$	1,150,354,320	\$	1,174,167,843	\$	1,174,167,843					
INCOME STATEMENT															
Net premiums earned	\$	38,723,752	100.00%	\$	37,500,453	100.0%	\$	38,421,725	100.00%	\$	40,132,371	100.00%	\$	154,778,301	100.00%
Deductions:															
Net losses incurred		21,961,356	56.7%	17,644,434	47.1%	19,953,901	51.9%	21,033,755	52.4%	21,033,755	52.4%	21,033,755	52.4%	80,593,446	52.1%
Net loss adjustment expenses incurred		8,837,833	22.8%	6,274,969	16.7%	6,760,564	17.6%	7,149,850	17.8%	7,149,850	17.8%	7,149,850	17.8%	29,023,216	18.8%
Underwriting expenses incurred		8,991,100	23.2%	8,910,585	23.8%	9,986,713	26.0%	10,363,712	25.8%	10,363,712	25.8%	10,363,712	25.8%	38,252,110	24.7%
Total deductions		39,790,289	102.8%	32,829,988	87.5%	36,701,178	95.5%	38,547,317	96.1%	38,547,317	96.1%	38,547,317	96.1%	147,868,772	95.5%
Net underwriting gain/(loss)		(1,066,537)	-2.8%	4,670,465	12.5%	1,720,547	4.5%	1,585,054	3.9%	1,585,054	3.9%	1,585,054	3.9%	6,909,529	4.5%
Net investment income earned		8,558,187	22.1%	8,525,907	22.7%	8,717,851	22.7%	8,934,505	22.3%	8,934,505	22.3%	8,934,505	22.3%	34,736,450	22.4%
Net realized gains/(losses)		(608,800)	-1.6%	(374,763)	-1.0%	2,216,551	5.8%	(158,281)	-0.4%	(158,281)	-0.4%	(158,281)	-0.4%	1,074,707	0.7%
Other income/(expenses)		(215,626)	-0.6%	(80,403)	-0.2%	(322,876)	-0.8%	(586,818)	-1.5%	(586,818)	-1.5%	(586,818)	-1.5%	(1,205,723)	-0.8%
Net periodic pension and postretirement benefit expense		(582,166)	-1.5%	(1,159,825)	-3.1%	(1,240,782)	-3.2%	(2,049,525)	-5.1%	(2,049,525)	-5.1%	(2,049,525)	-5.1%	(5,032,298)	-3.3%
Retroactive reinsurance commutation gain		0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Net operating gain/(loss)		6,085,058	15.7%	11,581,381	30.9%	11,091,291	28.9%	7,724,935	19.2%	7,724,935	19.2%	7,724,935	19.2%	36,482,665	23.6%
Policyholder dividends		0	0.0%	0	0.0%	(15,458,044)	-40.2%	0	0.0%	0	0.0%	0	0.0%	(15,458,044)	-10.0%
NET INCOME/(LOSS) AFTER POLICYHOLDER DIVIDENDS	\$	6,085,058	15.7%	11,581,381	30.9%	(4,366,753)	-11.4%	7,724,935	19.2%	7,724,935	19.2%	7,724,935	19.2%	21,024,621	13.6%

KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY
2023 at a Glance

	Quarter ended <u>3/31/2023</u>	Quarter ended <u>6/30/2023</u>	Quarter ended <u>9/30/2023</u>	Quarter ended <u>12/31/2023</u>	Year ended <u>12/31/2023</u>
Cash and Invested Assets:					
Long-term bonds:					
U.S. government securities	\$ 24,701,441	\$ 24,703,941	\$ 26,017,495	\$ 23,441,201	\$ 23,441,201
U.S. special revenue issuer obligation bonds	24,706,033	24,296,438	24,271,718	24,261,980	24,261,980
U.S. special revenue residential mortgage-backed	97,231,331	94,807,668	92,476,288	90,518,465	90,518,465
U.S. special revenue commercial mortgage-backed	10,998,045	10,986,967	10,975,823	10,961,633	10,961,633
Corporate issuer obligation bonds	611,078,778	613,445,489	615,799,863	624,089,225	624,089,225
Corporate issuer residential mortgage-backed	56,070,336	55,113,168	54,164,686	53,376,517	53,376,517
Corporate issuer commercial mortgage-backed	39,728,148	36,451,323	36,339,004	35,621,779	35,621,779
Other loan-backed and structured securities	97,493,639	105,149,281	104,139,090	103,081,341	103,081,341
All other bonds	18,143,708	18,127,037	17,797,676	17,780,832	17,780,832
Total long-term bonds	<u>980,151,459</u>	<u>983,081,312</u>	<u>981,981,643</u>	<u>983,132,973</u>	<u>983,132,973</u>
Preferred stocks	1,751,725	1,751,725	1,751,725	1,751,725	1,751,725
Common stocks	62,988,555	63,660,105	61,657,539	67,295,904	67,295,904
Operating cash balances	18,487,570	14,273,856	17,549,528	15,963,106	15,963,106
Cash equivalents (money market funds)	10,548,309	15,303,899	12,919,657	21,410,338	21,410,338
Real estate	4,025,000	4,025,000	4,025,000	4,025,000	4,025,000
Other invested assets	4,748,792	4,748,792	7,075,034	12,801,986	12,801,986
Receivables for securities	500,000	500,000	511,016	35,611	35,611
Total cash and invested assets	<u>\$ 1,083,201,410</u>	<u>\$ 1,087,344,689</u>	<u>\$ 1,087,471,142</u>	<u>\$ 1,106,416,643</u>	<u>\$ 1,106,416,643</u>
Gross Investment Income Earned:					
Net investment income earned	\$ 8,558,187	\$ 8,525,907	\$ 8,717,851	\$ 8,934,505	\$ 34,736,450
Add back interest expense on reinsurance funds withheld	166,421	167,081	167,916	171,694	673,112
Add back investment expenses	528,943	448,944	610,438	496,149	2,084,474
Gross investment income earned	<u>\$ 9,253,551</u>	<u>\$ 9,141,932</u>	<u>\$ 9,496,205</u>	<u>\$ 9,602,348</u>	<u>\$ 37,494,036</u>
Net Realized Investment Gains (Losses):					
Net realized gains (losses) on long-term bonds	\$ 69,741	\$ 94,480	\$ 560,842	\$ (2,359,378)	\$ (1,634,315)
Net realized gains (losses) on common stocks	(678,541)	(469,243)	6,777	2,201,097	1,060,090
Net realized gains (losses) on other invested assets	0	0	1,648,932	0	1,648,932
Total net realized investment gains (losses)	<u>\$ (608,800)</u>	<u>\$ (374,763)</u>	<u>\$ 2,216,551</u>	<u>\$ (158,281)</u>	<u>\$ 1,074,707</u>
Direct Policy Activity:					
Direct premiums written	\$ 40,089,101	\$ 32,274,464	\$ 50,264,193	\$ 39,209,374	\$ 161,837,132
Direct premiums earned	\$ 39,104,713	\$ 37,850,913	\$ 38,696,692	\$ 40,671,507	\$ 156,323,825
Direct commissions paid, excluding contingent	\$ 3,822,148	\$ 2,926,466	\$ 4,939,580	\$ 3,674,103	\$ 15,362,297
Direct commissions paid as a % of direct premiums written	9.53%	9.07%	9.83%	9.37%	9.49%
Direct Active Policy Count	19,885	19,689	19,485	19,149	19,149
Direct Claim Activity:					
Direct losses paid, net of subrogation and deductibles	\$ 17,014,892	\$ 18,137,292	\$ 13,936,939	\$ 16,485,139	\$ 65,574,262
Direct loss adjustment expenses paid, net of subrogation and deductibles	\$ 7,897,204	\$ 6,370,010	\$ 6,238,240	\$ 6,908,181	\$ 27,413,635
Direct reserve for unpaid losses, including IBNR	\$ 634,087,897	\$ 632,360,492	\$ 635,942,248	\$ 641,104,408	\$ 641,104,408
Direct reserve for unpaid loss adjustment expenses, including IBNR	\$ 53,317,324	\$ 52,952,655	\$ 53,163,701	\$ 53,112,943	\$ 53,112,943
Direct Open Claim Count	4,199	3,982	4,224	3,982	3,982