# Kentucky FAIR Plan Reinsurance Association

## Notice of Governing Committee Meeting

Pursuant to Article V.3, Articles of Association, Kentucky FAIR Plan Reinsurance Association, a Governing Committee Meeting will be held at 10:30 A.M. on Thursday, June 2, 2022 at the Plan office located at 327 Townepark Circle, Louisville, KY 40243.

Agenda:

1. Roll Call
2. Anti-Trust Preamble Reminder
3. Approval of Minutes
4. Election of Members of Governing Committee
5. Election of Officers
6. Auditor's Report and Financial Statement
7. Executive Director's Report
8. Other Business
9. Adjournment

If you are unable to participated in this meeting in person, please consider providing a proxy.

Sincerely,

Mark Hillis
Executive Director

Cc: Shawn Boggs, Kentucky Department of Insurance
Governing Committee Members

# KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION
# GOVERNING COMMITTEE

| Governing Committee Member | Affiliation |
|---|---|
| **Rudy Schlich (Chair)**<br>Old Kentucky Insurance<br>915 Lily Creek Road<br>Louisville, KY 40243<br>(502) 451-8800<br>Rudy.Schlich@oldkyins.com | Agent (d) |
| **John Miner (Vice Chair)**<br>Kentucky National Insurance<br>2416 Sir Barton Way<br>Lexington, KY 40509<br>(859) 519-1054<br>jominer@kynat.com | Domiciled (a) |
| **Lisa Pierce**<br>Allstate Insurance Company<br>555 Marriott Drive, Suite 700<br>Nashville, TN 37214<br>(615) 902-7053<br>Lisa.pierce@allstate.com | APCIA –Affiliated (c) |
| **Kristen K.W. Mellinger**<br>Kentucky Farm Bureau Mutual Insurance Co.<br>9201 Bunsen Parkway<br>Louisville, KY 40220<br>(502) 495-5000 x 7499<br>Kristen.Mellinger@kyfb.com | Domiciled (a) |
| **Todd Feltman**<br>State Farm Insurance Co.<br>1 State Farm Plaza, D-1<br>Bloomington, IL 61710<br>(309) 763-5792<br>todd.feltman.c0hu@statefarm.com | Non Affiliated (b) |
| **Keith Howard**<br>Hanover Insurance<br>440 Lincoln Street<br>Worcester, MA 01653<br>W: 859-229-8017<br>khoward@hanover.com | APCIA –Affiliated (c) |
| **Jay Kepperling**<br>Nationwide Mutual Insurance Company<br>1 Nationwide Plaza<br>Columbus, OH 43215<br>502-645-9562<br>jay1@nationwide.com | NAMIC (c) |

**Kentucky Department of Insurance Representative and Kentucky FAIR Plan Staff**

| | |
|---|---|
| **Shawn D. Boggs, APIR**<br>Deputy Commissioner<br>Consumer Protection Division<br>**Kentucky Department of Insurance**<br>500 Mero Street, 2 SE 11<br>Frankfort KY 40601<br>502 564 6034 Phone<br>502 564 6090 Fax<br>shawn.boggs@ky.gov | |
| **Stephen M. Hillis**<br>Executive Director and Secretary Treasurer<br>Kentucky FAIR Plan Reinsurance Association<br>P.O. Box 437249<br>Louisville, KY 40243<br>(502) 425-9998 Ext 2110<br>shillis@kyfairplan.com | |
| **Melissa Chlon**<br>Assistant Director and Plan Manager<br>Kentucky FAIR Plan Reinsurance Association<br>P.O. Box 437249<br>Louisville, KY 40243<br>(502) 425-9998 Ext 2125<br>mchlon@kyfairplan.com | |

**PUBLIC PROTECTION CABINET**
**Department of Insurance**
P.O. Box 517
Frankfort, Kentucky 40602-0517
1-800-595-6053
http://insurance.ky.gov

**Andy Beshear**
Governor

**Kerry B. Harvey**
Secretary

**Sharon P. Clark**
Commissioner

July 23, 2021

Mr. Stephen Mark Hillis
Kentucky FAIR Plan
PO Box437249
Louisville, KY 40243

Re: Todd Feltman, State Farm Fire & Casualty
Appointment to Kentucky FAIR Plan Governing Committee

Dear Mr. Hillis,

Pursuant to your communication of July 20, 2021, Todd Feltman is hereby appointed to the Kentucky FAIR Plan Reinsurance Association Governing Committee.

Sincerely,

Sharon P. Clark, Commissioner

Shawn Boggs
Director, Division of Consumer Protection

Kentucky Department of Insurance
(502) 564 3630
Shawn.Boggs@ky.gov

# Kentucky FAIR Plan Reinsurance Association

## Anti-trust Preamble

We are here to discuss and act on matters relating to the business of the Kentucky FAIR Plan not to discuss or pursue the business interests of our individual companies. We should proceed with caution and alertness towards the requirements and prohibitions of federal and state anti-trust laws. We should not engage in discussions, either at this meeting or in private conversations, of our individual companies' plans or contemplated activities. We should concern ourselves only with the business of the Kentucky FAIR Plan.

# KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION
# GOVERNING COMMITTEE MEETING

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The Governing Committee and Annual meetings of the Kentucky FAIR Plan were held at 10:30 AM on October 28, 2021, at 327 Townepark Circle, Louisville, KY 40243 and via teleconference.

Those present:

**Governing Committee**:

| | | |
|---|---|---|
| Kristen Mellinger | (Chair) | Kentucky Farm Bureau Ins. Co. |
| Rudy Schlich | (Vice Chair) | Old Kentucky Insurance |
| Lisa Pierce, J.D. | | Allstate Insurance Company |
| Todd Feltman | | State Farm Insurance Co. |
| Keith Howard | | Hanover Insurance |
| Jay Kepperling | | Nationwide Insurance |
| John Miner | | Kentucky National Insurance |

**Kentucky Department of Insurance:**

| | |
|---|---|
| Shawn Boggs, Deputy Commissioner | Kentucky Department of Insurance |

**Staff:**

| | |
|---|---|
| Mark Hillis | Executive Director / Sec. Treasurer |
| Melissa Chlon | Assistant Director / Plan Manager |
| Erin Lux | Assistant Plans Manager |

## 1. Call to Order and Roll Call:

Mr. Hillis introduced each of the attendees, as we have new members to this Governing Committee. Mr. Hillis thanked the Governing Committee and Mr. Boggs from the Kentucky Department of Insurance for being able to work and serve the insurance industry and for the ability to provide residual market support through the Plans for the Commonwealth of Kentucky.

Ms. Mellinger called the meeting to order and held roll call for each committee member, staff, and guests and noted that a quorum was present.

## 2. Antitrust Preamble:

Ms. Mellinger reminded everyone that we are bound by the Anti-Trust Preamble that was provided in the meeting documents.

## 3. Approval of Minutes:

The Committee reviewed minutes of the June 3, 2021, Governing Committee Meeting, Underwriting Committee of August 10, 2021, Claims Committee of September 15, 2021, Reinsurance and Equity Committee of September 15, 2021, and Investment Committee of September 16, 2021, which were distributed and included with the meeting documents. Mr. Schlich moved, and Mr. Miner seconded to approve the minutes. Mr. Feltman abstained as he was not present during the June 2021 meeting. The motion carried and the minutes of the June 3, 2021, Governing Committee Meeting were approved as presented.

**4. Committee Reports:**

**Underwriting Audit Committee Report:**

Ms. Lux presented the results of the audit conducted by the members of the Underwriting Committee in August 2021 which indicated that no major deficiencies were identified. She further noted that underwriting files were thoroughly documented and well organized and that underwriting decisions were made in accordance with the Underwriting Manuals.

**Claims Audit Committee Report:**

Ms. Lux presented the results of the audit conducted by members of the Claims Committee in September 2021 in which no major deficiencies were identified. She further noted that the claim files were handled timely, well documented, and overall good quality.

**Reinsurance and Equity Committee Report:**

Mr. Hillis advised that a meeting was held on September 15, 2021, for reviewing the reinsurance renewal and the Plan's equity position. Mr. Hillis reminded the members that the purpose of purchasing a limited reinsurance layer is to protect members against the possibility of catastrophic events. The Governing Committee Policy, Members Equity and Distributions to Members document was discussed and the committee agreed to continue with the position stated in the document.

He noted that the reinsurance position has shifted from $7m xs. $3m to $5m xs. $2m to account for the drop in written premium and policies in force. This also allows members equity to remain protected from an earthquake or other major event and ensures the Plan is not a burden to the industry during catastrophic times.

**Investment Committee Report:**

Ms. Chlon reported on behalf of the Investment Committee and discussed the Investment Committee's oversight of the portfolio held by Merrill Lynch as custodian. She indicated that Ms. Schaaf of Kentucky Farm Bureau led a general discussion noting that the funds were reviewed often, and the portfolio is managed well by Steve Holley.

Full reports for all committee meetings were available in the meeting supporting documents.

**5. Executive Director's Report:**

Ms. Chlon presented a status report for 2021 results indicating:

- New business applications are projected to be approximately 903 at year end.
- Written premium is projected to be $3.1M, a decline of 16% from 2020.
- The loss ratio decreased from 2020 while the LAE ratio remained relatively flat.
- The loss and LAE ratio is 59.27%.
- The operating expense ratio increased slightly to 28.3%.
- Reported claims are projected to end the year at 182, down from 268 in 2020.
- Bank Balances, as of September 30, 2021:

- Operating Account: $769,985
- Sweep Account: $750,750
- Members Equity Account (Disbursement): $267,842

Mr. Miner asked what will happen to the Members Equity funds if the checks remain outstanding and we explained the funds will follow the state required escheatment process.

**6. 2022 Budget:**

Mr. Hillis indicated the Plan is on track to end 2021 under budget. He noted that the budget was impacted by the continued increase in medical benefits costs. The 2022 health insurance rates are not available yet; however, we are expecting no less than a 10% increase. Mr. Hillis further noted that the Plan does not provide a traditional pension but continued to provide for a Defined Contribution Plan.

A budget in the amount of $1,629,245 was proposed for 2022. Mr. Feltman asked about the 'Pension' line item in the budget breakdown and Mr. Hillis explained that the line item represents our defined contribution 401k as we do not have a traditional pension. Mr. Miner asked why the expenses seem higher the second half of the year and Mr. Hillis confirmed it was a matter of timing, specifically citing property & casualty insurance premiums and processing invoices with AIPSO coming later in the year.

Mr. Feltman moved, and Mr. Schlich seconded, and the motion carried to approve the 2022 budget as presented.

**7. Rate Review:**

Mr. Hillis advised that the Plan's rates had been reviewed by AIPSO actuaries and the following proposals were submitted for review:

- Dwelling Fire: the actuaries recommended the adoption of the latest ISO loss cost filing and other changes that will have an overall effect of 0.6%.
- Homeowners: the actuaries recommended the adoption of the latest ISO loss cost filing and other changes that will have an overall effect of 9.5%.
- Commercial and Farm Property: the actuaries recommended the adoption of the latest ISO loss cost filing and other changes that will have an overall effect of 3.3%.

Ms. Chlon advised that the Plan recommends the rate filings be accepted to keep the Plan from being price competitive with the standard market. She further noted that producers have advised that the Plan can be cheaper than the standard market for some applicants and that the Plan continues to advise producers that the intent of the residual market is to not be price competitive.

General discussion took place as to what goes into rate changes with the Plan (system changes, testing, etc.). Ms. Mellinger confirmed that the last rate change was in 2017 (effective 2018) and requested feedback from the group relative to price competitiveness. Mr. Schlich advised that he has gotten feedback that the Plan can be price competitive, and the rates can discourage policy holders from leaving the Plan and reentering the standard market.

Mr. Feltman moved for the Plan to take the 2021 rate changes effective June 1, 2022. Ms. Mellinger seconded, and the motion carried.

**8. FAIR Plan Alliance:**

Mr. Hillis discussed the FAIR Plan Alliance, and that the mission of the Alliance continues to look for efficiencies gained. Currently, the Kentucky FAIR Plan is supporting the following Plans:

- Illinois FAIR Plan
  - 50% of Accounting
  - 50% of Claims
  - 100% Print Processing
  - 15% of their IT work
- Indiana FAIR Plan:
  - Backup of their sole underwriter
- Missouri FAIR Plan:
  - 100% of their claims work
- Wisconsin FAIR Plan
  - In training to take 100% of their claims
- Kansas FAIR Plan:
  - Anticipate joining the Alliance in 2022 (claims)

Mr. Hillis advised that Kentucky bills other states for work completed which directly offsets Kentucky costs. Mr. Miner questioned our exit strategy should the need arise. Mr. Hillis explained that each agreement entered via the Alliance provides the ability to end the arrangement in a relatively short time period, while providing as much support as possible during the transition period. It was noted that prior to any conversation about an agreement with the Alliance, a non-disclosure agreement is secured followed by a statement of work from Kentucky. Mr. Feltman supports the Alliance noting it is a great solution but questioned what the Plan reviews to determine in what capacity Kentucky can support other state without overcommitting. Mr. Hillis advised that metrics are reviewed by the Plan, examples of which include policy counts, claim counts, premium trends, as well as systems.

**9. Other Business:**

**Committee Assignments:**

Ms. Mellinger advised that updated committee assignments were included in the meeting materials. She asked for questions regarding the assignments and there were none.

**PIPSO Report:**

Ms. Mellinger advised that in accordance with the Articles of Association the abbreviated quarterly PIPSO report is provided to the Governing Committee and Department of Insurance.

**Kentucky Department of Insurance Comments**:

Ms. Mellinger thanked Deputy Commissioner Boggs for representing the Department of Insurance and invited any updates or comments. Mr. Boggs expressed his appreciation to the Plan and the

industry indicating he is looking forward to meeting in person. Commissioner Clark and the Department are happy with the work and the staff contributions of the Kentucky FAIR Plan.

**Next meeting:**

Ms. Mellinger noted that the spring meeting will be held in person on Thursday, June 2, 2022.

**10. Adjournment:**

There being no other business, Ms. Pierce moved, Mr. Feltman seconded, and the committee agreed to adjourn the meeting.

Respectfully Submitted,

Melissa Chlon
Assistant Director / Plan Manager

# FAIR PLAN REINSURANCE ASSOCIATION
## FINANCE AND INVESTMENT COMMITTEE MEETING

Pursuant to notice, a meeting was held at 11:00AM on March 9, 2022 via teleconference.

Present for the meeting:

| | |
|---|---|
| Carrie Schaaf | Kentucky Farm Bureau Mutual Ins. |
| Rudy Schlich | Old Kentucky Insurance |
| Lisa Pierce | Allstate Insurance Company |
| Mark Hillis | Kentucky FAIR Plan |
| Melissa Chlon | Kentucky FAIR Plan |
| Tina Faleide, CPA | Kentucky FAIR Plan |

1. **Call to Order:**
   Mr. Hillis called the meeting to order.

2. **Anti-Trust Preamble:**
   Mr. Hillis reminded the committee that they are bound by the anti-trust preamble.

3. **Merrill Lynch History:**
   Mr. Hillis noted that Merrill Lynch and Steve Holley have been with the Plan for many years and did a good job at managing the portfolio and educating employees. With that, on January 20, 2022 the Kentucky FAIR Plan received a letter from Merrill Lynch advising that they would no longer manage the portfolio or employee retirement accounts after April 20, 2022. At the recommendation of Ms. Pierce, the Plan asked for an extension to that date. The Plan has worked with its counsel, Alan Pauw to solicit a response from Merrill Lynch, but multiple calls, emails, and letters to Mr. Holley and Mr. Gardner have yielded no response. Mr. Hillis advised that the RFP process will continue with April 20th as the termination date.

4. **Report of the Executive Director regarding the RFP Process:**
   After receiving notice, a search for a new investment advisor began.

   A formal RFP process began on February 9th with Mr. Hillis inviting five firms to reply by March 1st. The five firms invited to make a proposal were identified as prospective partners by RMS (Retirement Management Services, the Plan's retirement management firm) and/or DMLO (the Plan's audit firm).

   Mr. Hillis noted that each of the five firms returned a timely response. Each firm is qualified to manage the account, but customer service and building a long-term relationship are the most important aspects of this transition.

   Mr. Hillis briefly introduced each of the five firms and opened the floor to the Investment Committee for discussion as to whether the firm should be invited to an in-person meeting for further consideration (Phase II).

5. **Discussion of each Firm's Proposal:**

**Baird** – All committee members agreed that the RFP appeared to be nothing more than marketing material without specifically mentioning investment strategies specific to the Plan, agreeing that no further communication was needed.

**ARGI** – Invited to propose as a referral from Cardinal Pointe (discussed later). All committee members agreed to invite them to Phase II as they shared ideas on how to work with the current investments.

**Cardinal Pointe** – This was a referral from Sharon Howay, Representative from RMS. While the firm was transparent in the opportunity areas, specifically the need to utilize a third-party vendor for the bond ladder, the committee discussed this and ultimately decided this was not a good fit. All committee members agreed no further communication was needed.

**Northwestern Mutual** – This was a referral from Sharon Howay, Representative from RMS. While there are some concerns surrounding the size of this firm regarding the attention the Plan will receive from the local team, their national office may provide good portal access and other things important to the Plan. All committee members agreed to invite them to Phase II.

**Guidance Capital** – This was a referral from Chris Ward, President of DMLO. The proposal included a discussion regarding the Plan's investment strategy. Their interest in customer service appears genuine as a local firm servicing the community. Ms. Schaaf mentioned that given their size, they may have robust trading capabilities. All committee members agreed to invite them to Phase II.

6. **Discussion regarding next steps as we move to Phase II:**

Ms. Schaaf noted that a month end transfer date is recommend. Regardless of the April 20th deadline for Merrill Lynch to service the accounts, it is presumed the transfer could take place on April 30th to account for this month end recommendation. A March 31st transfer date is a possibility as Ms. Schaaf reiterated that this is not a hard move. The account is very clean and can be moved easily.

Ms. Faleide agreed with the comments and recommendations made by the committee. She also added that being able to see a firm's portal would be a good idea, if possible, to include in Phase II. Communication, quality of reports available in the portal and accessibility of investment advisors are very important things to consider in day-to-day activity.

Ms. Chlon agreed with and thanked the committee members for their input. The committee members were very thankful for the visual aspect of the comparison chart Ms. Chlon prepared after receiving the RFPs from the five firms.

Mr. Hillis thanked Ms. Pierce for opening the line of communications with Ms. Lorrie Brouse, former Kentucky FAIR Plan Governing Committee Chair and current Tennessee Insurance Guaranty Association (TIGA) Executive Secretary. TIGA recently went through an investigation brokerage change and was able to share some experience and

feedback.

Mr. Hillis advised that in-person meetings with the three firms selected would be scheduled for the afternoon of March 16, 2022.

**7. <u>Adjournment:</u>**

There being no further business, the meeting was adjourned by unanimous consent.

Respectfully Submitted

Mark Hillis
Executive Director / Secretary Treasurer

# FAIR PLAN REINSURANCE ASSOCIATION
## FINANCE AND INVESTMENT COMMITTEE MEETING

Pursuant to notice, a meeting was held the afternoon of March 16, 2022 beginning at 1pm ET and continuing until 5pm ET. This meeting was held both in person and via teleconference.

Present for the meeting:

| | |
|---|---|
| Carrie Schaaf | Kentucky Farm Bureau Mutual Ins. |
| Rudy Schlich | Old Kentucky Insurance |
| Lisa Pierce (via Zoom) | Allstate Insurance Company |
| Mark Hillis | Kentucky FAIR Plan |
| Melissa Chlon | Kentucky FAIR Plan |
| Tina Faleide, CPA | Kentucky FAIR Plan |

1. **Call to Order:**
   Mr. Hillis called the meeting to order.

2. **Anti-Trust Preamble:**
   Mr. Hillis reminded the committee that they are bound by the anti-trust preamble.

3. **Presentations:**
   As noted in the March 9th Investment meeting, three investment vendors were invited to present in front of the committee and FAIR Plan Team. Documentation from all presentations is attached to the Minutes. These vendors were being interviewed as possible replacements for Merrill Lynch to handle the both the investments of the Kentucky FAIR Plan as well as the 401k accounts held by FAIR Plan employees with John Hancock.

   **Northwestern Mutual** – This was a referral from Sharon Howay, representative from RMS. Presenters were William Yancey, Sr., William Yancey, Jr., Laura Smith, and Gabriel French. During the presentation Mr. Yancey advised that their firm has not worked with a client as unique as the FAIR Plan and that several teams would need to be involved to ensure that all needs were met. Mr. Yancey also advised that he does not want to manage the bond portfolio in his office. The bond management would be given to Private Client Services, another Northwestern Mutual team located out of state.

   The overall feedback from the Committee was that the vendor was lackluster and missing the communication and relational component required to meet the needs of the Plan.

   **ARGI** – Invited to propose as a referral from Cardinal Pointe (initial RFP candidate). Presenters were Chuck McCurdy, Ryan Burch, and Matt Watkins. Mr. McCurdy explained that ARGI was a Louisville based organization that has branched out to other large cities in the Midwest. He also confirmed that the online research that the ARGI team had compiled on the FAIR Plan was correct and asked for clarification on the investment policy. Mr. Burch and Mr. McCurdy noted that they currently handle investment accounts

for another insurance company and were familiar with insurance investment models and concepts.

Mr. McCurdy detailed their proposed strategies for the Plans portfolio, which includes specific ETFs as compared to the current mutual funds. Further discussion went into the employee 401k component and their ability to handle this in partnership with RMS and John Hancock. Initially, it was not apparent that ARGI would be able to handle the John Hancock employee accounts.

The Committee feels this group was approachable, knowledgeable, and capable of handling the Plans portfolio.

**Guidance Capital** – This was a referral from Chris Ward, President of DMLO. Presenters were Stephen Gibson and Holly Thompson. Mr. Gibson gave the history of Guidance Capital and that they are a smaller firm of 15 employees with two financial analysts. He continued by outlining the investor mobile application as well as the reporting investment capabilities. He also recommended the ETF approach as a simplistic and cost-effective approach to managing the portfolio. There seemed to be some confusion between the 401k administered plan and the investment portfolio and the required allocations.

The Committee felt this group was not impressive, missed the mark and did not fully understand the mission nor the investment policy of the Plan.

**4. <u>Next steps as we move to Phase III:</u>**

Mr. Hillis advised that Steve Holley from Merrill Lynch had verbally agreed to the extension request which had been sent to Merrill Lynch by the Plans counsel, Alan Pauw. That request was for 6 months from the date of notice (to July 20th). Mr. Hillis noted that nothing had been received by the Plan officially. And that he believed, that based upon the lack of active management by Steve Holley and Merrill Lynch, that it was in the best interest of the Plan to find a replacement as soon as possible.

The Committee agreed that ARGI and their representatives were the clear standouts, but that they had some additional questions and wished to invite ARGI back for Phase III with a focus on the areas outlined below.

- Overview of 401k handling and John Hancock relationships.
    - Clarification on who would be responsible for this and understanding of whether the individual handling the FAIR Plan investments can also handle the employee 401k component.
- Update on rate/fees related to the 401k portion
- Overview of their online system to better understand ease of use
- Review of an org chart for ARGI based upon their Louisville office to clearly understand who exactly we would be dealing with
- Clarity on in person access, meetings for the FAIR Plan as well as the 401k employee portion and access for employees

Mr. Hillis advised that he would reach out to ARGI to setup some time to discuss the items noted above.

**5. <u>Adjournment:</u>**

There being no further business, the meeting was adjourned by unanimous consent.

Respectfully Submitted

Mark Hillis
Executive Director / Secretary Treasurer

# FAIR PLAN REINSURANCE ASSOCIATION
## FINANCE AND INVESTMENT COMMITTEE MEETING

Pursuant to notice, a meeting was held in the afternoon of March 23, 2022, in person and via teleconference.

Present for the meeting:

| | |
|---|---|
| Carrie Schaaf | Kentucky Farm Bureau Mutual Ins. |
| Lisa Pierce (via Zoom) | Allstate Insurance Company |
| Mark Hillis | Kentucky FAIR Plan |
| Melissa Chlon | Kentucky FAIR Plan |
| Tina Faleide, CPA | Kentucky FAIR Plan |

1. **Call to Order:**
   Mr. Hillis called the meeting to order.

2. **Anti-Trust Preamble:**
   Mr. Hillis reminded the committee that they are bound by the anti-trust preamble.

3. **Presentation Overview:**
   As noted in the March 16th Investment meeting minutes, ARGI Investments was invited to present in front of the Investment Committee and FAIR Plan Team for a second time with a further focus on the employee 401k management. Documentation from this meetings presentation is attached to the Minutes.

   Mr. Hillis introduced the team and advised that Mr. Rudy Schlich, the Vice Chair of the Plan Governing Committee, was unable to attend but fully supported the recommendation of the Committee. He reiterated what the Plan is looking for with a team that is trustworthy, reliable, understands the Plan's mission, is patient and willing to give one-on-one time with employees.

   ARGI Investment attendees were Chuck McCurdy, Ryan Burch, and Nick Jackson. Mr. Jackson was the main presenter as the Retirement Plan Advisor. He led the Committee through an introduction of ARGI's Retirement Team and the various resources that are available. Specifically keying in on education (workshops, training, consultations, videos, etc.), leadership communication, monitoring, and benchmarking.

   Mr. Jackson recommends a deeper analysis of the employee asset classes quarterly. He noted that within the current employee investment selection, that employees have 58 different options, with many overlapping. He noted that this often resulted in confusion and information overload. Mr. Jackson's evaluation included confirming all classes of investments are represented without overwhelming the employee with too many options as well as reviewing average RPAG (Retirement Plan Advisory Group) scores. The RPAG scoring was explained with an emphasis on making sure that employee options were well represented.

Mr. Jackson confirmed that the Plan could stay with current vendors, RMS and John Hancock, and in-kind transfers would be completed if changes were required. He went on to detail the 0.45% advisory fee. With an estimated $3 million asset plan and 10 participants the overall annual fee would be around $30,000 which is comparable to historical costs.

Ms. Schaaf confirmed that while ARGI offered a solution similar to John Hancock, that there would be no need to transition. And further confirmed with Mr. Jackson that he would be the primary point of contact for employees. Mr. Jackson confirmed same, and noted that ARGI might be able to work within the current John Hancock agreement to potentially decrease some fees.

As part of the Investment Committee's requests to review system access and reports, Mr. McCurdy noted that he will be following up with Tina Faleide, Plan CPA and Accounting Manager, once access to the live demo of the Schwab portal for the Plan assets is obtained.

**4. <u>Next Steps and Recommendations:</u>**

Mr. Hillis advised that the Plan received written confirmation of the extension to July 20, 2022, from Merrill Lynch. Even with the extension, the Committee would like to move forward with an April 30, 2022, investment transfer date to ensure that proper attention is given to the Plans funds.

The Committee feels strongly that this group was approachable, knowledgeable, and capable of handling the Plan's investment portfolio and employee 401k accounts and would like to make a recommendation to the fully Governing Committee to transfer the Investment Custodian from Merrill Lynch to ARGI Investments. This will be sent to all Governing Committee members via mail vote after Ms. Faleide has had an opportunity to view the live demo and confirm it has the administrative tools required for accounting entries.

**5. <u>Adjournment:</u>**

Mr. Hillis suggested that the April 20, 2022, Investment Committee Meeting be postponed later in 2022 to allow for a performance review of ARGI Investments to be shared with the group. As such, Mr. Hillis will be cancelling the April 20th meeting and work to reschedule for a date later in 2022.

Respectfully Submitted,

Mark Hillis
Executive Director / Secretary Treasurer

**Kentucky FAIR Plan Reinsurance Association**

**Transition from Merrill Lynch to ARGI Investments**
**Mail Vote**

## INTRODUCTION

On January 26th of 2022, the Plan received written notice from Merrill Lynch stating in part that "Merrill Lynch will no longer be providing investment management services to public entities." They provided the Plan with the date of April 20th to give Merrill Lynch our plan to move our accounts. The Plan involved our counsel, Alan Pauw who immediately discovered a FINRA order (attached) which provided the Plan with additional clarity as to why we received notice from Merrill Lynch. The Plan, through counsel Pauw and with the recommendation of Lisa Pierce, immediately requested an extension to the April 20th deadline. While waiting on a response from Merrill Lynch to our extension request, the Plan, through its Investment Committee, developed an RFP which was then sent to various firms/institutions. Upon receipt of notifications of interest, the Investment Committee sent the formal RFP to 5 firms/institutions. The Investment Committee met to review the 5 responses to the RFP, narrowing down the candidate pool to the top 3 respondents.

## INVESTMENT COMMITTEE RECOMMENDATION

On March 16th 2022, with no response from Merrill Lynch to our request for an extension, the Investment Committee met with the top three respondents to the RFP to interview them in person and via Zoom. Minutes of this meeting are attached. The Investment Committee felt at that time, that ARGI Investments was the top candidate, however the Committee had some follow up questions and invited ARGI to return on March 23rd 2022 for another meeting. Following the meeting on March 23rd, the Investment Committee felt strongly that ARGI Investments was a great match to take over the as the Investment Custodian which manages the full portfolio for the Plan as well as the employees 401k accounts. This recommendation now comes to the full Governing Committee to replace Merrill Lynch with ARGI Investments.

The Plan, after multiple follow ups by the Plan and the Plans counsel to Merrill Lynch, did finally receive notice from Merrill Lynch allowing for an extension through July 20th of 2022. However, the Investment Committee believes it to be prudent to transition away from Merrill Lynch quickly now that a solid replacement has been found.

The Investment Committee Charter includes authority for the Investment Committee members to "Assist the Governing Committee, when needed, in the selection, appointment, and replacement of the Investment Custodian." As such, the Investment Committee now presents their recommendation to move forward in transitioning from Merrill Lynch to ARGI Investments effective April 30th 2022.

**Please indicate your preference below:**

✓ I Concur ____ I Abstain
____ I Do Not Concur

Signed: Kristen Udlinger Date: 3/28/22
Company: Kentucky Farm Bureau Mutual Ins. Co.

**Please return by email to shillis@kyfairplan.com**

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**From:** Rudy Schlich <rudy.schlich@oldkyins.com>
**Sent:** Friday, March 25, 2022 11:40:49 AM
**To:** Stephen M. Hillis <SHillis@kyfairplan.com>
**Subject:** [EX] RE: Kentucky FAIR Plan Mail Vote - Response Needed (Transition from Merrill Lynch)

*** **CAUTION:** This email originated from outside of the KYINS Plans. ***

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"I concur with the recommendation to move the Investment Custodian for the FAIR Plan Investments and employees 401k plans from Merrill Lynch to ARGI Investments effective April 30, 2022"

**Rudy C. Schlich, CPCU, CIC**
**Old Kentucky Insurance**
**(502) 451-8800 (o)**
**(502) 451-8866 (f)**
**Rudy.schlich@oldkyins.com**

**From:** Pierce, Lisa <Lisa.Pierce@allstate.com>
**Sent:** Friday, March 25, 2022 10:59:23 AM
**To:** Stephen M. Hillis <SHillis@kyfairplan.com>
**Subject:** [EX] RE: Kentucky FAIR Plan Mail Vote - Response Needed (Transition from Merrill Lynch)

*** **CAUTION:** This email originated from outside of the KYINS Plans. ***

**Mark,**

**I concur with the recommendation to move the Investment Custodian for the FAIR Plan Investments and employees 401k plans from Merrill Lynch to ARGI Investments effective April 30, 2022.**

**Thank you! Lisa**

**From:** John Miner <jominer@kynat.com>
**Sent:** Monday, March 28, 2022 12:51 PM
**To:** Stephen M. Hillis <SHillis@kyfairplan.com>
**Subject:** [EX] FW: Kentucky FAIR Plan Mail Vote - Response Needed (Transition from Merrill Lynch)

*** **CAUTION:** This email originated from outside of the KYINS Plans. ***

Mark:
I concur with the recommendation to move the Investment Custodian for the FAIR Plan Investments and employees' 401K plans from Merrill Lynch to ARGI Investments, effective April 30, 2022.
John Miner

John R. Miner
President
Kentucky National Insurance Company
jominer@kynat.com
(w) 859.519.1054
(m) 770.990.7500

**From:** Kepperling, Jay D (Jay) <jay1@nationwide.com>
**Sent:** Monday, March 28, 2022 8:04 AM
**To:** Stephen M. Hillis <SHillis@kyfairplan.com>
**Subject:** [EX] RE: Kentucky FAIR Plan Mail Vote - Response Needed (Transition from Merrill Lynch)

*** **CAUTION:** This email originated from outside of the KYINS Plans. ***

I concur with the recommendation to move the Investment Custodian for the FAIR Plan Investments and employees 401k plans from Merrill Lynch to ARGI Investments effective April 30, 2022", or with the completion and return of the first page of the attached mail vote.

Thanks
Jay


**Jay Kepperling**
Claims Manager-Material Damage
Personal Lines Field Auto Claims
502-645-9562
Jay1@nationwide.com



Choose an item.

**Kentucky FAIR Plan Reinsurance Association**

**Transition from Merrill Lynch to ARGI Investments**
**Mail Vote**

## INTRODUCTION

On January 26th of 2022, the Plan received written notice from Merrill Lynch stating in part that "Merrill Lynch will no longer be providing investment management services to public entities." They provided the Plan with the date of April 20th to give Merrill Lynch our plan to move our accounts. The Plan involved our counsel, Alan Pauw who immediately discovered a FINRA order (attached) which provided the Plan with additional clarity as to why we received notice from Merrill Lynch. The Plan, through counsel Pauw and with the recommendation of Lisa Pierce, immediately requested an extension to the April 20th deadline. While waiting on a response from Merrill Lynch to our extension request, the Plan, through its Investment Committee, developed an RFP which was then sent to various firms/institutions. Upon receipt of notifications of interest, the Investment Committee sent the formal RFP to 5 firms/institutions. The Investment Committee met to review the 5 responses to the RFP, narrowing down the candidate pool to the top 3 respondents.

## INVESTMENT COMMITTEE RECOMMENDATION

On March 16th 2022, with no response from Merrill Lynch to our request for an extension, the Investment Committee met with the top three respondents to the RFP to interview them in person and via Zoom. Minutes of this meeting are attached. The Investment Committee felt at that time, that ARGI Investments was the top candidate, however the Committee had some follow up questions and invited ARGI to return on March 23rd 2022 for another meeting. Following the meeting on March 23rd, the Investment Committee felt strongly that ARGI Investments was a great match to take over the as the Investment Custodian which manages the full portfolio for the Plan as well as the employees 401k accounts. This recommendation now comes to the full Governing Committee to replace Merrill Lynch with ARGI Investments.

The Plan, after multiple follow ups by the Plan and the Plans counsel to Merrill Lynch, did finally receive notice from Merrill Lynch allowing for an extension through July 20th of 2022. However, the Investment Committee believes it to be prudent to transition away from Merrill Lynch quickly now that a solid replacement has been found.

The Investment Committee Charter includes authority for the Investment Committee members to "Assist the Governing Committee, when needed, in the selection, appointment, and replacement of the Investment Custodian." As such, the Investment Committee now presents their recommendation to move forward in transitioning from Merrill Lynch to ARGI Investments effective April 30th 2022.

**Please indicate your preference below:**

_X_ I Concur ____ I Abstain
____ I Do Not Concur

Signed: Keith A Howard Date: 03-25-2022

Company: The Hanover Insurance Group

**Please return by email to shillis@kyfairplan.com**

**Kentucky FAIR Plan Reinsurance Association**

**Transition from Merrill Lynch to ARGI Investments**
**Mail Vote**

## INTRODUCTION

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**Please indicate your preference below:**

X I Concur ____ I Abstain

____ I Do Not Concur

Signed: _____ Date: 3/25/2022

Company: State Farm Fire & Casualty

**Please return by email to shillis@kyfairplan.com**

# KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

## PRODUCT AND FORMS COMMITTEE MEETING

Pursuant to notice, a meeting was held at 10:00 AM on April 20, 2022, via teleconference.

Present for the meeting:

| | |
|---|---|
| Kristen Mellinger | Kentucky Farm Bureau |
| Rudy Schlich | Old Kentucky Insurance |
| Jay Kepperling | Nationwide Insurance |
| Mark Hillis | Kentucky FAIR Plan |
| Melissa Chlon | Kentucky FAIR Plan |
| Erin Lux | Kentucky FAIR Plan |

1. **Call to Order:**
   Ms. Chlon called the meeting to order, asked Committee members to introduce themselves.

2. **Anti-Trust Preamble:**
   Ms. Chlon reminded the committee that all members are bound by the anti-trust preamble.

3. **Approval of Minutes:**
   Ms. Chlon confirmed that all Product and Forms Committee members had received a copy of the minutes of the April 14, 2021 meeting. Mr. Schlich made a motion to approve the minutes which was seconded by Mr. Kepperling, the motion carried.

4. **Report of the Plan Manager:**
   Ms. Chlon provided an update pertaining to current policies offered and written premium noting the following:

   - DP1 and DP2 – representing 83.5% of all the FAIR Plan policies
   - HO2, HO4, HO6, HO8 – representing 12.4%
   - Commercial Fire – representing 2.5%
   - Farm Property – representing 1.6%

   She further noted that these products are reflected in the Articles of the Plan.

   Ms. Chlon then shared that the FAIR Plan had 5,077 policies in force at the end of 2021, 13% lower than policies in force at the end of 2020. She further noted that written premium continued to decline and, at $3.1M, is down 16% from 2020. Q1 2022 shows a continuation of the declination trend with policies in force at 4,831.

   She further noted that the Plan had not received any inquiries over the past year from individuals seeking coverage which was not already offered by the Plan. General conversation amongst the group took place concerning the ability of the standard market to address the majority of business that would have historically come to the Plan.

5. **Other Business:**

   Ms. Mellinger asked about any impact to the Plans related to the recent storms in Jefferson

County in April 2022. Ms. Chlon confirmed as of today less than ten storm-related claims had been reported and there was no further impact expected.

Mr. Hillis noted that the recent weather events have not resulted in a change to Plan metrics, partially due to the excellent communication between Plan staff and producers, insureds, and the market in general relative to the Plan being a market of last resort, tasked to provide basic coverage.

Ms. Chlon asked the Committee if there was any other business to discuss. Members of the Committee advised there was none. The committee was reminded of the upcoming virtual Governing Committee meeting scheduled for June 2, 2022.

6. **Adjournment:**
There being no further business, Mr. Kepperling made a motion to adjourn which was seconded by Mr. Schlich. The motion carried and the meeting was adjourned.

Respectfully submitted,

Melissa Chlon

Melissa Chlon
Assistant Director / Plan Manager

# KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION
## AUDIT COMMITTEE MEETING

Pursuant to notice, a meeting was held at 11:00 AM on April 20, 2022, via teleconference.

Present for the meeting:

| | |
|---|---|
| Carrie Schaaf | Kentucky Farm Bureau |
| John Miner | Kentucky National Insurance |
| Todd Feltman | State Farm Insurance |
| Mark Hillis | Kentucky Insurance Plans, Exec. Director |
| Melissa Chlon | Kentucky FAIR Plan, Asst. Director |
| Erin Lux | Kentucky FAIR Plan, Asst Plans Manager |
| Tina Faleide, CPA | Kentucky FAIR Plan, Acct. Manager |

1. **Call to Order:**
   Ms. Faleide called the meeting to order and recognized that all members were present.

2. **Anti-Trust Preamble:**
   Ms. Faleide reminded the committee that all members are bound by the anti-trust preamble.

3. **Approval of Minutes:**
   Ms. Faleide confirmed that all Audit Committee members had received a copy of the minutes of the April 14, 2021 meeting. Ms. Schaaf made a motion to approve the April 14, 2021 Audit Committee Meeting minutes, Mr. Miner seconded, and the motion carried.

4. **Report of the Plan:**

   Ms. Faleide reviewed the audit findings and after general discussion, the committee agreed that the quality of the documentation produced by DMLO was of high standard. Ms. Faleide noted an unmodified opinion on the Statutory Basis of Accounting. Even though an adverse opinion was issued based on Generally Accepted Accounting Principles, this is to be expected since the Plan follows Statutory (non-GAAP) Accounting.

   Ms. Faleide noted that Plan management has been pleased with the quality and attention provided by DMLO in conducting the audits and recommended that the committee agree to re-engage DMLO for services in 2023. Ms. Faleide reminded the Committee of the Plan's intent to remain in compliance with 806 KAR 3:170 6(3) in rotation of the auditing firm's partner every 5 years.

   After further discussion, Mr. Miner made a motion to continue engagement of DMLO for auditing services in 2023. Mr. Feltman seconded, and the motion carried.

   Ms. Faleide then noted that on page 4 of the Statements of Income, that Miscellaneous reflected $71,640 in income and noted that these funds were for work done by the Kentucky FAIR Plan on

behalf of the FAIR Plan Alliance. Mr. Hillis noted that we will continue to operate in a way that is efficient for all Plans involved, to be responsible to our residual markets, and strive for uniformity.

Ms. Schaaf questioned the nearly doubled investment income. Ms. Faleide confirmed that this is likely due to realized gains throughout the year and Ms. Schaaf agreed that was likely correct. Mr. Miner asked if the gains drove cash flow and Ms. Faleide confirmed that there was an increase in cash flow as the FAIR Plan operated with a profit in 2021.

Mr. Miner asked if the December 2021 storms had an impact on the Plan. Mr. Hillis advised that less than 70 claims were reported and under $700,000 paid relative to that weather event. The amount incurred did not warrant involving reinsurance as that policy carries a $2M retained limit.

Mr. Feltman inquired about any specific concentration of policies in force. Mr. Hillis advised that we do have a several policies in West Louisville and Western Kentucky but not dense geographic clusters.

Mr. Hillis reminded the Committee that the Plan is focused on depopulation at every renewal and that new business applications are consistently down 13%-15% month over month.

Mr. Hillis further noted that our investment income outweighed any storm-related impact as we still added to Member Equity in 2021.

**5. <u>Other Business</u>**

Ms. Faleide asked the committee if there was other business to discuss. Hearing none, the committee was reminded that the spring Governing Committee will be held June 2, 2022.

**6. <u>Adjournment:</u>**

There being no further business, Mr. Feltman made a motion to adjourn the meeting. Ms. Schaaf seconded, and the motion carried.

Respectfully Submitted,

Melissa Chlon

Melissa Chlon
Assistant Director / Plan Manager

deming malone livesay + ostroff

**KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION**
**Year Ended December 31, 2021**

| Financial Highlights | 12/31/2021 | 12/31/2020 |
|---|---|---|
| Investments | $ 14,714,548 | $ 14,013,066 |
| Cash and cash equivalents | $ 3,182,216 | $ 3,086,289 |
| Premiums receivable | $ 458,934 | $ 542,016 |
| Property occupied | $ 983,018 | $ 880,542 |
| Total admitted assets | $ 19,863,355 | $ 19,052,823 |
| | | |
| Insurance reserves | $ 2,195,944 | $ 1,924,114 |
| Total liabilities | $ 2,481,722 | $ 2,157,934 |
| | | |
| Members' equity | $ 17,381,633 | $ 16,894,889 |
| | | |
| Premiums earned | $ 3,288,582 | $ 3,895,618 |
| Change in premiums earned | -15.6% | |
| Underwriting expenses | $ 3,741,507 | $ 3,828,739 |
| Change in underwriting expenses | -2.3% | |
| Investment income | $ 1,086,973 | $ 585,128 |
| Income tax expense | $ 137,028 | $ 148,507 |
| Net income | $ 606,244 | $ 600,563 |
| | | |
| Distribution to members | $ - | $ - |
| | | |
| Net cash flow from operations | $ 1,068,653 | $ (105,693) |
| Change in cash | $ 95,927 | $ 1,999,724 |

**Comments**

- Financial statements are prepared on the statutory basis of accounting as prescribed or permitted by the Kentucky Department of Insurance
- No new accounting policies adopted or changed during the year
- Major estimate in the financial statements is the estimate for the loss and loss adjustment expense reserves
- One adjustment made to record annual income tax expense of $133,066
- One adjustment waived to accrue payroll and PTO with would have resulted in a decrease in nest income of $6,514
- No internal control related findings to report

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New Albany, Indiana 47150
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9300 Shelbyville Road
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Louisville, Kentucky 40222
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F: 502.425.0883

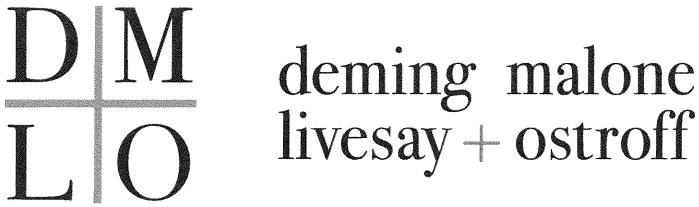
131 E. Chestnut Street
Corydon, Indiana 47112
T: 812.738.3516
F: 812.738.3519

# KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

## FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

**Years Ended December 31, 2021 and 2020**

## Table of Contents




**Independent Auditors' Report**

To the Governing Committee
Kentucky FAIR Plan Reinsurance Association
Louisville, Kentucky

**Opinions**

We have audited the accompanying financial statements of Kentucky FAIR Plan Reinsurance Association (Association), which comprise the balance sheets – statutory basis as of December 31, 2021 and 2020, and the related statements of income – statutory basis, statements of changes in members' equity – statutory basis, and statements of cash flows – statutory basis for the years then ended, and the related notes to the financial statements.

*Unmodified Opinion on Statutory Basis of Accounting*

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the balance sheets of Kentucky FAIR Plan Reinsurance Association as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in accordance with the financial reporting provisions prescribed or permitted by the Commonwealth of Kentucky Department of Insurance as described in Note 1.

*Adverse Opinion on U.S. Generally Accepted Accounting Principles*

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Kentucky FAIR Plan Reinsurance Association as of December 31, 2021 and 2020, or the results of its operations or its cash flows for the years then ended.

**Basis for Opinions**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Kentucky FAIR Plan Reinsurance Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified audit opinion on the statutory basis of accounting and our adverse opinion on U.S. generally accepted accounting principles.

*Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles*

As described in Note 1, the financial statements are prepared by Kentucky FAIR Plan Reinsurance Association on the basis of the financial reporting provisions prescribed or permitted by the Commonwealth of Kentucky Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Commonwealth of Kentucky Department of Insurance. The effects on the financial statements of the variances between the statutory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.



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F: 812.738.3519

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions prescribed or permitted by the Commonwealth of Kentucky Department of Insurance, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Kentucky FAIR Plan Reinsurance Association's ability to continue as a going concern within one year after the date that the financial statement are available to be issued.

**Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Kentucky FAIR Plan Reinsurance Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kentucky FAIR Plan Reinsurance Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Deming, Malone, Lindsay & Ostroff

Louisville, Kentucky
March 3, 2022

# KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

## BALANCE SHEETS - STATUTORY BASIS

December 31, 2021 and 2020

| **Admitted Assets** | 2021 | 2020 |
|---|---|---|
| Investments | $ 14,714,548 | $ 14,013,066 |
| Cash and cash equivalents | 3,182,216 | 3,086,289 |
| Premiums receivable | 458,934 | 542,016 |
| Accrued interest receivable | 115,432 | 126,459 |
| Other assets | 194,993 | 206,171 |
| Refundable income taxes | 214,214 | 198,280 |
| Property occupied not exceeding 10% of admitted assets | 983,018 | 880,542 |
| **Total admitted assets** | $ 19,863,355 | $ 19,052,823 |
| **Liabilities and Members' Equity** | | |
| **Liabilities** | | |
| Insurance reserves: | | |
| Losses | $ 529,273 | $ 43,391 |
| Loss adjustment expenses | 135,001 | 35,035 |
| Unearned premiums | 1,531,670 | 1,845,688 |
| | 2,195,944 | 1,924,114 |
| Commissions payable | | 25,897 |
| Accrued expenses and payables | 116,278 | 15,923 |
| Net deferred tax liability | 169,500 | 192,000 |
| | 285,778 | 233,820 |
| **Total liabilities** | 2,481,722 | 2,157,934 |
| **Members' Equity** | 17,381,633 | 16,894,889 |
| **Total liabilities and members' equity** | $ 19,863,355 | $ 19,052,823 |

See Notes to Financial Statements.

# KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

## STATEMENTS OF INCOME - STATUTORY BASIS

Years Ended December 31, 2021 and 2020

| | 2021 | 2020 |
|---|---|---|
| **Premiums Earned** | $ 3,288,582 | $ 3,895,618 |
| **Underwriting Expenses** | | |
| Losses | 1,641,069 | 1,646,473 |
| Loss adjustment | 796,272 | 730,357 |
| Commissions | 207,917 | 338,226 |
| Operating expenses | 1,096,249 | 1,113,683 |
| **Total expenses** | 3,741,507 | 3,828,739 |
| **Underwriting (loss) gain** | (452,925) | 66,879 |
| **Other Income** | | |
| Investment income | 1,086,973 | 585,128 |
| Service fees | 37,584 | 45,690 |
| Miscellaneous | 71,640 | 51,373 |
| **Income before income tax** | 743,272 | 749,070 |
| Income tax expense | 137,028 | 148,507 |
| **Net income** | $ 606,244 | $ 600,563 |

See Notes to Financial Statements.

# KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

## STATEMENTS OF CHANGES IN MEMBERS' EQUITY - STATUTORY BASIS

Years Ended December 31, 2021 and 2020

| | 2021 | 2020 |
|---|---|---|
| **Members' equity, beginning of year** | $ 16,894,889 | $ 15,834,579 |
| Net income | 606,244 | 600,563 |
| Change in net unrealized gains and losses on investments | (123,381) | 468,986 |
| Change in deferred tax liability | 22,500 | (80,000) |
| Change in nonadmitted assets | (18,619) | 70,761 |
| **Members' equity, end of year** | $ 17,381,633 | $ 16,894,889 |

See Notes to Financial Statements.

# KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

## STATEMENTS OF CASH FLOWS - STATUTORY BASIS

Years Ended December 31, 2021 and 2020

| | 2021 | 2020 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Premiums collected | $ 3,057,646 | $ 3,762,828 |
| Underwriting and other expenses paid | (3,061,512) | (4,100,516) |
| Cash received under service agreements | 1,210,498 | 1,589,029 |
| Cash paid under service agreements | (1,177,058) | (1,563,326) |
| Investment and other income received | 1,197,691 | 456,292 |
| Net income taxes paid | (158,612) | (250,000) |
| **Net cash provided by (used in) operating activities** | 1,068,653 | (105,693) |
| **Cash Flows from Investing Activities** | | |
| Proceeds from sale of investments | 4,575,006 | 1,860,000 |
| Purchases of investments | (5,399,869) | (528,474) |
| Proceeds from sale of property and equipment | | 1,658,000 |
| Purchases of property and equipment | (147,863) | (884,109) |
| **Net cash (used in) provided by investing activities** | (972,726) | 2,105,417 |
| **Net increase in cash and cash equivalents** | 95,927 | 1,999,724 |
| Cash and cash equivalents at beginning of year | 3,086,289 | 1,086,565 |
| Cash and cash equivalents at end of year | $ 3,182,216 | $ 3,086,289 |
| **Reconciliation of Net Income to Net Cash Provided by (Used in) Operating Activities** | | |
| **Net income** | $ 606,244 | $ 600,563 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Gain on sale of property and equipment | | (244,828) |
| Depreciation expense | 26,768 | 76,584 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Premiums receivable | 83,082 | 140,467 |
| Accrued interest receivable | 11,027 | 18,929 |
| Other assets | 11,178 | (8,196) |
| Refundable income taxes | (15,934) | (91,110) |
| Increase (decrease) in: | | |
| Insurance reserves | 271,830 | (591,685) |
| Commissions payable | (25,897) | (13,211) |
| Accrued expenses and payables | 100,355 | 6,794 |
| **Net cash provided by (used in) operating activities** | $ 1,068,653 | $ (105,693) |

See Notes to Financial Statements.

# KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Nature of Operations and Summary of Significant Accounting Policies

**Nature of operations:**

The Kentucky FAIR Plan Reinsurance Association is an unincorporated association of all insurance companies writing certain insurance coverage in Kentucky. It was formed by Kentucky Statute 304.35-010(2) to establish and maintain a mechanism whereby basic property or casualty insurance can be made available to all worthy applicants and to equitably distribute the related costs, losses or profits.

Each member shall participate in the writings, expenses, income, and losses of the Association in any particular calendar year in the same proportions that the member's voluntary direct premiums written during the preceding calendar year bear to the total of such direct premiums written by all members during the preceding calendar year. The participation factors of all members shall be thus determined annually and shall be fixed for each separate calendar year based on the respective member's premium written in the preceding calendar year.

The plan of the Association provides in such form and detail as the plan may determine, reports of operations of the Association, including such reports as may be necessary to permit members to be informed of their proportionate share of results of the plan for inclusion in their own operational reports.

**Summary of significant accounting policies:**

This summary of significant accounting policies of Kentucky FAIR Plan Reinsurance Association is presented to assist in understanding the Association's financial statements. The financial statements and notes are representations of the Association's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles on the statutory basis of accounting and have been consistently applied in the preparation of the financial statements.

**Basis of accounting:**

The Association prepares its financial statements on the statutory basis of accounting as prescribed or permitted by the Commonwealth of Kentucky Department of Insurance for insurance companies. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners (NAIC), as well as state laws, regulations, and general administrative rules.

# NOTES TO FINANCIAL STATEMENTS

Statutory accounting principles is a special purpose framework that varies in some respects from accounting principles generally accepted in the United States of America (GAAP). The more significant differences are as follows:

- Certain costs of acquiring insurance business, principally commissions, are expensed as incurred rather than deferred and amortized as the related premiums are earned.
- Salvage and subrogation recoveries are recognized when received rather than accrued.
- Nonadmitted assets, principally certain deposits, premium receivables greater than 90 days past due, furniture and equipment, and property to be occupied in excess of 10% of admitted assets, are charged directly to members' equity rather than recorded as an asset, net of any valuation allowance.
- Investments in available-for-sale securities having a fixed term, rate and face value are stated at amortized cost rather than fair value.
- Comprehensive income and its components are not presented in the statutory basis financial statements as required by GAAP.

**Use of estimates:**

The preparation of financial statements under statutory accounting practices prescribed or permitted by the Commonwealth of Kentucky Department of Insurance requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Investments:**

Investment securities are classified as available-for-sale. As prescribed by the NAIC, investments in securities having a fixed term, rate and face value are stated at amortized cost, and other investments are stated at fair value. Securities stated at amortized cost are amortized using the straight-line method. See Note 2 for discussion of fair value measurements.

Realized gains and losses, resulting from sales of securities, represent the difference between the net proceeds and the carrying value of investments sold, as determined on a specific identification basis. Unrealized gains and losses on securities are credited or charged to members' equity.

# NOTES TO FINANCIAL STATEMENTS

**Cash equivalents:**

Cash equivalents are short-term, highly liquid investments that are readily convertible to cash with insignificant risk of changes in value due to changing interest rates.

**Premiums receivable:**

Premiums receivable consist of unsecured amounts due from policyholders. Amounts are considered past due based on policy terms. If unpaid per policy terms, the policy is cancelled, and related unearned premium is reversed. Any receivable balances outstanding more than 90 days are considered nonadmitted assets. At December 31, 2021 and 2020, no receivable balances were in excess of 90 days past due.

**Property and equipment:**

Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

| | |
|---|---|
| Buildings and improvements | 5-40 years |
| Furniture and equipment | 5-10 years |

Depreciation expense was $26,768 and $76,584 for the years ended December 31, 2021 and 2020, respectively. Depreciation expense is inclusive of depreciation related to electronic data processing equipment in the amount of $62,271 for the year ended December 31, 2020.

**Nonadmitted assets:**

Assets included in the financial statement are at admitted asset value. Nonadmitted assets, which are specifically designated by statutory accounting principles as assets that cannot be readily realized for the benefit of policyholders, are excluded through a direct charge to members' equity.

**Loss and loss adjustment expense reserves:**

Loss and loss adjustment expense reserves are based on losses reported and adjusted and estimates for loss and loss adjustment expenses incurred but not reported. The Association relies on the actuarial opinion of AIPSO, a management organization and service provider for the residual market, in determining the estimate for loss and loss adjustment expenses incurred but not reported. Loss and loss adjustment expense reserves are based on estimates, and the ultimate liability may vary significantly from such estimates. Changes in estimates are recorded in the statements of income in the year in which the Association becomes aware of the need for revision.

# NOTES TO FINANCIAL STATEMENTS

**Premiums and underwriting expense:**

Insurance premiums are earned ratably over the terms of the underlying policies. Commissions and other costs related to acquiring business are charged to operations as incurred.

**Reinsurance:**

The Association uses reinsurance agreements to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from its reinsurer, although it does not discharge the primary liability of the Association as direct insurer of risks reinsured. The Association does not report reinsured risks ceded to a reinsurer as liabilities unless it is probable that those risks will not be covered by the reinsurer.

**Subsequent events:**

Subsequent events have been evaluated through March 3, 2022, which is the date the financial statements were available to be issued.

## Note 2. Investments and Fair Value Measurements

The NAIC has adopted the framework for measuring fair value provided by accounting principles generally accepted in the United States of America. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to valuation methodology are unadjusted prices for identical assets or liabilities in active markets.

Level 2 – Inputs to valuation methodology include: quoted prices for similar assets or liabilities in active or inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to valuation methodology are unobservable and significant to the fair value measurement.

All equity mutual funds measured at fair value are Level 1 assets and have been valued using a market approach. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2021 and 2020.

## NOTES TO FINANCIAL STATEMENTS

Equity mutual funds – valued at the closing price reported in the active market in which the security is traded.

The following tables summarize investments as of December 31, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Municipal bonds at amortized cost | $ 9,439,792 | $ 8,749,259 |
| Equity mutual funds at fair value | 5,274,756 | 5,263,807 |
| | $14,714,548 | $14,013,066 |
| Municipal bonds: | | |
| Fair value | $ 9,555,115 | $ 8,972,372 |
| Carrying value | 9,439,792 | 8,749,259 |
| Excess fair value | $ 115,323 | $ 223,113 |
| Equity mutual funds (Level 1): | | |
| Fair value | $5,274,756 | $5,263,807 |
| Cost | 4,497,153 | 4,362,823 |
| Unrealized gain | $ 777,603 | $ 900,984 |

The schedule of maturities for municipal bonds at December 31, 2021 is as follows:

| | Book Value | Fair Value |
|---|---|---|
| Due in one year or less | $ 653,219 | $ 657,691 |
| Due after one year through five years | 4,982,988 | 5,066,916 |
| Due after five years through ten years | 3,803,585 | 3,830,508 |
| | $9,439,792 | $9,555,115 |

Proceeds from the sale of securities were $4,575,006 and $1,860,000 for the years ended December 31, 2021 and 2020, respectively. Gains realized from these sales were $576,125 for the year ended December 31, 2021. There was no gain or loss realized from these sales for the year ended December 31, 2020.

## NOTES TO FINANCIAL STATEMENTS

Investments with declines in fair value are evaluated for other-than-temporary impairment. The evaluation includes (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Association to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Other-than-temporary impairment of investments is reported in revenues. For the years ended December 31, 2021 and 2020, the Association did not record any other-than-temporary impairments.

The following table summarizes securities with unrealized losses at December 31, 2021 and 2020, aggregated by major security type and length of time in a continuous unrealized loss position:

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value |
| Municipal bonds: | | | | | | |
| 2021 | $2,169 | $407,607 | $34,571 | $3,647,108 | $36,740 | $4,054,715 |
| 2020 | | | $56,342 | $1,804,090 | $56,342 | $1,804,090 |

### Note 3. Liability for Loss and Loss Adjustment Expenses

Underwriting results are affected by catastrophes and weather related events which may vary year to year. Activity in the liability for loss and loss adjustment expenses as of and for the years ended December 31, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|---|---|---|
| Reserves, beginning of year | $ 78,426 | $ 396,854 |
| Incurred loss and loss adjustment expenses: | | |
| Provision for insured events of current year | 1,105,625 | 871,407 |
| Increase in provision attributable to prior year events | 1,333,187 | 1,505,423 |
| Total incurred | 2,438,812 | 2,376,830 |
| Payments: | | |
| Attributable to current year events | 1,118,632 | 1,358,616 |
| Attributable to prior year events | 734,332 | 1,336,642 |
| Total paid | 1,852,964 | 2,695,258 |
| Reserves, end of year | $ 664,274 | $ 78,426 |

# NOTES TO FINANCIAL STATEMENTS

## Note 4. Retirement Plans

The Association has a money-purchase pension plan and 401(k) defined contribution plan that cover substantially all employees. Contributions to the money-purchase pension plan are determined annually at the discretion of the Governing Committee. Annual expense provisions for the 401(k) defined contribution plan are based upon the Association matching a portion of the employees' contributions. Total expense for these plans for the years ended December 31, 2021 and 2020 was $99,475 and $113,273, respectively.

## Note 5. Related Party Transactions

Kentucky Automobile Insurance Plan (KAIP), Kentucky Insurance Guaranty Association (KIGA), Kentucky Insurance Arbitration Association, and Kentucky Assigned Claims Plan are related organizations under a cost sharing agreement. The Association furnishes personnel and general and administrative support for the above entities and allocates charges to each. Effective March 1, 2021, KIGA was no longer a party to the cost sharing agreement.

Following is a summary of the transactions and balances under the cost sharing agreements for the years ended December 31, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Receivable at beginning of year | $ 169,858 | $ 195,561 |
| Expenses allocated to related parties | 1,057,686 | 1,563,326 |
| Payments received from related parties | (1,110,135) | (1,589,029) |
| Receivable at end of year | $ 117,409 | $ 169,858 |

Receivables are included in other assets on the balance sheets.

## Note 6. Operating Leases

The Association leases office space to the entities in Note 5 under operating leases through December 31, 2022. Some leases have automatic renewal provisions which allow for the lease to automatically renew and extend an additional year unless either party gives written notice of intent not to renew at least 30 days prior to expiration of the term of the lease. Rental income received for the years ended December 31, 2021 and 2020 was $64,000 and $69,680, respectively, and is included in investment income on the statements of income.

# NOTES TO FINANCIAL STATEMENTS

## Note 7. Income Taxes

The provision for income taxes consists of federal income taxes currently due or refundable. The Association is exempt from state income taxes. Income taxes vary from the amount that would be obtained by applying statutory income tax rates to income before income taxes because of large amounts of non-taxable interest income and deductions related to insurance reserves.

As of December 31, 2021 and 2020, the Association did not have any accrued interest or penalties related to income tax liabilities, and no interest or penalties have been charged to operations for the years then ended.

Changes in deferred taxes are related to unrealized gains and losses on investments and differences in federal and book depreciation and are included in change in deferred tax liability on the statements of changes in members' equity.

## Note 8. Contingencies

For the years ended December 31, 2021 and 2020, there were no assessments to members because of the ability of the Association to pay its claims and expenses with funds generated from premiums and net assets. Should claims and related expenses prove greater than anticipated, the Association would assess member insurance companies to cover additional costs.

## Note 9. Concentration of Credit Risk

The Association maintains its cash at various financial institutions. The total balance at each institution is insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At December 31, 2021, the Association's uninsured cash balance totaled approximately $1,423,000.

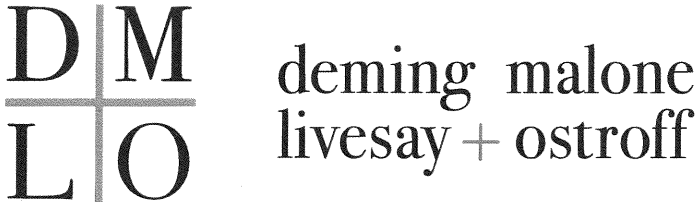
## Note 10. Commitments

The Association has entered into a reinsurance agreement which terminates October 1, 2022. Under the agreement, the reinsurer shall be liable in respect to each loss occurrence, for the ultimate net loss over and above an initial ultimate net loss of $2,000,000 each loss occurrence, subject to a limit of liability to the reinsurer of $5,000,000 each loss occurrence. Amounts paid under reinsurance agreements were $146,438 and $132,083 for the years ended December 31, 2021 and 2020, respectively.

# NOTES TO FINANCIAL STATEMENTS

## Note 11. Contingency

On March 11, 2020, the World Health Organization classified the COVID-19 outbreak as a pandemic, triggering volatility in financial markets and significant impact on the global economy. As of December 31, 2021, economic and public health uncertainties continue to exist which may have negative effect on the Association's future operations and cash flows. The total impact of the COVID-19 outbreak is unknown at the date the financial statements were issued. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.




**Independent Auditors' Report on Supplementary Information**

To the Governing Committee
Kentucky FAIR Plan Reinsurance Association
Louisville, Kentucky

We have audited the financial statements of Kentucky FAIR Plan Reinsurance Association as of and for the years ended December 31, 2021 and 2020, and our report thereon dated March 3, 2022, which expressed an unmodified opinion on those financial statements, appears on page 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedules of Operating Expenses – Statutory Basis are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Deming, Malone, Livesay & Ostroff

Louisville, Kentucky
March 3, 2022



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# KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

## SCHEDULES OF OPERATING EXPENSES - STATUTORY BASIS

Years Ended December 31, 2021 and 2020

| | 2021 | 2020 |
|---|---|---|
| Salaries | $ 779,764 | $ 731,832 |
| Health insurance | 143,144 | 125,558 |
| Information processing fees | 126,965 | 161,520 |
| Retirement | 99,475 | 113,273 |
| Computer | 71,063 | 69,603 |
| Payroll taxes | 52,858 | 52,708 |
| Inspections | 50,521 | 60,864 |
| Membership fees | 46,388 | 33,551 |
| Miscellaneous | 42,433 | 35,855 |
| Insurance | 41,936 | 33,343 |
| PASS contract | 41,203 | 57,474 |
| Bank service fees | 40,664 | 39,086 |
| Professional fees | 36,140 | 22,187 |
| Telephone and utilities | 25,378 | 15,370 |
| Taxes and licenses | 14,678 | 15,908 |
| Actuarial fees | 10,560 | 4,400 |
| Office supplies and expense | 6,646 | 6,919 |
| Repairs and maintenance | 4,580 | 5,562 |
| Travel and entertainment | 3,155 | 4,059 |
| Postage and courier | 2,505 | 14,843 |
| Dues and subscriptions | 2,166 | 2,468 |
| Depreciation | 2,151 | 64,140 |
| | 1,644,373 | 1,670,523 |
| Less one-third attributable to loss adjustment expense | (548,124) | (556,840) |
| | $ 1,096,249 | $ 1,113,683 |

D|M
L|O
deming malone
livesay + ostroff

To the Governing Committee
Kentucky FAIR Plan Reinsurance Association
Louisville, Kentucky

We have audited the financial statements of Kentucky FAIR Plan Reinsurance Association (Association) for the year ended December 31, 2021, and have issued our report thereon dated March 3, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 2, 2021. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Findings**

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Kentucky FAIR Plan Reinsurance Association are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2021. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

> Management's estimate of the loss and loss adjustment expense reserves. This estimate is based on losses reported and adjusted and estimates for loss and loss adjustment expenses incurred but not reported. The Association relies on the actuarial opinion of AIPSO, a management organization and service provider for the residual market, in determining the estimate for loss and loss adjustment expenses incurred but not reported. We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.



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Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of investments in Note 2 to the financial statements. This disclosure is significant due to the materiality of investments to the financial statements.

The disclosure of liability of loss and loss adjustment expenses in Note 3 to the financial statements. This disclosure is significant due to the information provided on the future liability of the Association.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The following adjustment for the Association determined as a result of non-attest services was recorded by management.

| | Decrease in Net Income |
|---|---|
| Record annual income tax expense entry based on final year-end figures | $133,066 |

In addition, the schedule below summarizes an uncorrected adjustment of the financial statements. Management has determined that its effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

| | Decrease in Net Income |
|---|---|
| Accrue PTO and payroll | $6,514 |

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a disagreement on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 3, 2022.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Other Matters*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting provisions prescribed or permitted by the Commonwealth of Kentucky Department of Insurance, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Governing Committee and management of Kentucky FAIR Plan Reinsurance Association and is not intended to be, and should not be, used by anyone other than these specified parties.

Deming, Malone, Livesay & Ostroff

Louisville, Kentucky
March 3, 2022

| KENTUCKY FAIR PLAN | | | | |
|---|---|---|---|---|
| Budget Status | | | | |
| Line | 2019 Budget | 2020 Budget | 2021 Budget | 2021 Final |
| Accounting Fees | $ 17,644 | $ 19,000 | $ 19,000 | $ 17,860 |
| Actuarial Review | $ 17,600 | $ 9,400 | $ 17,600 | $ 10,560 |
| Allocated Wages | $ 114,737 | $ - | $ - | $ - |
| Board Meetings | $ 700 | $ 700 | $ 350 | $ 915 |
| Bldg. Repairs & Main. | $ 35,500 | $ 35,320 | $ 22,616 | $ 30,645 |
| Bldg. Utilities | $ 18,788 | $ 16,647 | $ 10,800 | $ 8,432 |
| Building Taxes | $ 18,662 | $ 19,836 | $ 7,243 | $ 9,503 |
| Computer Expenses | $ 57,406 | $ 59,306 | $ 68,231 | $ 71,063 |
| Dues & Subscriptions | $ 1,284 | $ 1,615 | $ 2,590 | $ 2,166 |
| Education | $ 6,630 | $ 2,953 | $ 5,448 | $ 4,296 |
| Filing Fees | $ 420 | $ 420 | $ 420 | $ - |
| Health Insurance | $ 120,985 | $ 107,312 | $ 127,403 | $ 143,144 |
| Human Resources | $ 6,466 | $ 14,950 | $ 15,075 | $ 29,847 |
| Inspections | $ 54,715 | $ 51,397 | $ 52,000 | $ 50,521 |
| P&C Insurance | $ 23,764 | $ 23,938 | $ 32,772 | $ 41,936 |
| Legal/Professional | $ 7,000 | $ 7,000 | $ 30,750 | $ 18,280 |
| Meals & Entertainment. | $ 1,500 | $ 1,500 | $ 1,350 | $ 972 |
| Memb.Fees - PIPSO/ISO | $ 41,392 | $ 41,132 | $ 40,867 | $ 46,388 |
| Miscellaneous | $ 1,000 | $ 1,200 | $ 1,200 | $ 1,180 |
| Office Equipment | $ 2,400 | $ 2,400 | $ 1,500 | $ 1,420 |
| Office Supplies | $ 5,000 | $ 5,000 | $ 4,000 | $ 4,462 |
| Payroll Fees | $ 5,511 | $ 5,343 | $ 3,640 | $ 1,627 |
| Payroll Tax | $ 74,618 | $ 72,347 | $ 70,071 | $ 52,858 |
| Retirement Savings Plan | $ 104,681 | $ 117,203 | $ 113,513 | $ 99,475 |
| Postage | $ 11,622 | $ 9,475 | $ 8,952 | $ 2,505 |
| Printing | $ 3,420 | $ 2,380 | $ 2,380 | $ 765 |
| Processing | $ 130,222 | $ 171,481 | $ 166,283 | $ 126,965 |
| Repairs and Maintenance | $ 5,268 | $ 4,845 | $ 4,868 | $ 4,580 |
| Systems/PASS | $ 128,969 | $ 80,000 | $ 60,000 | $ 41,203 |
| Telephone | $ 9,140 | $ 10,940 | $ 22,528 | $ 25,378 |
| Travel | $ 8,519 | $ 9,250 | $ 9,250 | $ 2,184 |
| Wages (Non Allocated) | $ 631,443 | $ 723,474 | $ 700,708 | $ 740,205 |
| FAIR Plan Alliance | $ - | $ - | $ - | $ (71,640) |
| **Total** | **$ 1,667,006** | **$ 1,627,764** | **$ 1,623,408** | **$ 1,519,693** |

# Kentucky FAIR Plan Reinsurance Association
# FAIR Plan Cost Sharing Alliance Committee Charter

## Purpose

The FAIR Plan Cost Sharing Alliance Committee is appointed by the Governing Committee to assist Plan Management in their oversight and evaluation of the establishment of an entity to be named the FAIR Plan Cost Sharing Alliance.

The shared services mission of the FAIR Plan Cost Sharing Alliance is to provide high quality services for FAIR Plans at the lowest possible cost. Removing duplications in costs associated with various components of FAIR Plan insurance operations.

The FAIR Plan Cost Sharing Alliance shall act as a service provider for various FAIR Plans striving to reduce operating expenses by combining services for Plans where size and activity level may require the improved efficiencies achieved by centralized operations. The FAIR Plan Cost Sharing Alliance will deliver cost-effective quality services of optimum value to each Plan, while ensuring that the costs of the consolidated services and operations are as low as possible.

## Authority

The FAIR Plan Cost Sharing Alliance Committee has the authority to review all documents of the FAIR Plan Cost Sharing Alliance, proposed structure, and financial structure. The Committee will report their findings to the Governing Committee with recommendations concerning same.

## Composition

The FAIR Plan Cost Sharing Alliance Committee will be comprised of at least two (2), but no more than three (3) or more Governing Committee members and shall include the board Chair, the Plan Manager and Executive Director appointed at the direction of the Governing Committee. Each of the individuals serving on the committee will (i) possess an understanding of the residual markets obligation to its policyholders as well as its obligations to the Commonwealth; (ii) be cognizant of the Plan's ability to impact residual market operations in various states; (iii) be an employee of a member company authorized to do business in the Commonwealth of Kentucky; (iv) be free from any relationship that would interfere in their ability to form an independent evaluation of the Plan's.

## Meetings

The FAIR Plan Cost Sharing Alliance Committee will meet annually or as often as deemed necessary to achieve the goals for which they have been charged. This Committee shall remain in effect until such time as the Kentucky FAIR Plan's Governing Committee seeks to disband it.

## Duties and Responsibilities

1) The FAIR Plan Cost Sharing Alliance Committee will work with Kentucky FAIR Plan Management and its counsel to determine the next course of action in establishing the structure and set up of the FAIR Plan Cost Sharing Alliance to ensure that there is separation of the FAIR Plan Cost Sharing Alliance from the Kentucky FAIR Plan.

2) The Committee shall engage with FAIR Plan Management and its counsel on the development of the Articles of Organization for the FAIR Plan Cost Sharing Alliance.

3) The Committee will engage with FAIR Plan Management and its counsel in determining the best way to financially structure the FAIR Plan Cost Sharing Alliance.

4) Present for consideration the results and findings to the Governing Committee.

5) Review and evaluate this charter and submit any recommended changes to the Governing Committee.

KENTUCKY FAIR PLAN

PIPSO SEMI-ANNUAL REPORT

OF PROPERTY INSURANCE PLAN COVERAGE

| Line # | Description | YEAR-TO-DATE DATA DATES REPORTED 01/01/22 to 03/31/22 |
|---|---|---|
| | **NEW BUSINESS** | |
| 1 | Number of applications accepted | 189 |
| 2 | Number of inspections completed | 189 |
| 3 | Number of new policies issued | 189 |
| | **RENEWAL BUSINESS** | |
| 4 | Number of requests for renewals | 1,293 |
| 5 | Number of renewals inspected | 604 |
| 6 | Number of renewal policies issued | 1,293 |
| | **RESULTS BY CLASS OF BUSINESS** | |
| | **Number of policies issued (new & renewal)** | |
| 7 | Habitational | 1,425 |
| 8 | Commercial | 57 |
| | **Total Premium Written (000)** | |
| 9 | Habitational | 669 |
| 10 | Commercial | 57 |
| | **Total exposure (000)** | |
| 11 | Habitational | 251,879 |
| 12 | Commercial | 12,121 |
| | **LOSSES BY CLASS OF BUSINESS** | |
| | **Number of Losses Reported** | |
| 13 | Habitational | 51 |
| 14 | Commercial | 2 |
| | **Number of Losses Paid** | |
| 15 | Habitational | 55 |
| 16 | Commercial | 1 |
| | **Total Paid Losses (000)** | |
| 17 | Habitational | 647 |
| 18 | Commercial | 1 |
| | **Total Outstanding Losses - Case Basis (000)** | |
| 19 | Habitational | 292 |
| 20 | Commercial | 0 |

# Kentucky FAIR Plan Committee Assignments – 2022

| Committee | Member | Company |
|---|---|---|
| | | |
| **Executive Committee** | Rudy Schlich | Old Kentucky Insurance |
| | John Miner | Kentucky National Insurance Company |
| | Mark Hillis -Executive Director | Kentucky FAIR Plan |
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| **Investment Committee** | Lisa Pierce | Allstate Insurance Co. |
| | Carrie Schaaf | Kentucky Farm Bureau |
| | Rudy Schlich | Old Kentucky Insurance |
| | Chuck McCurdy | ARGI Financial Group |
| | Mark Hillis - Executive Director | Kentucky FAIR Plan |
| | | |
| **Members Equity and Reinsurance Committee** | Kristen Mellinger | Kentucky Farm Bureau |
| | Keith Howard | Hanover Insurance |
| | Todd Feltman | State Farm |
| | Mark Hillis – Executive Director | Kentucky FAIR Plan |
| | | |
| **Audit Committee** | Carrie Schaaf | Kentucky Farm Bureau |
| | Todd Feltman | State Farm |
| | John Miner | Kentucky National Insurance Company |
| | Tina Faleide | Kentucky FAIR Plan |
| | | |
| **Products and Forms Committee** | Kristen Mellinger | Kentucky Farm Bureau |
| | Rudy Schlich | Old Kentucky Insurance |
| | Jay Kepperling | Nationwide |
| | Erin Lux | Kentucky FAIR Plan |
| | | |
| **Underwriting Committee** | Dwayne Taylor | State Farm |
| | Oliver Casey | C.N.A. |
| | Erin Lux | Kentucky FAIR Plan |
| | | |
| **Claims Committee** | Henry Goins | Kentucky Farm Bureau |
| | Dan Pendleton | Kentucky Farm Bureau |
| | Andy Lewis | State Farm |
| | Russ Thornton | Kentucky FAIR Plan |
| | | |
| **KAIP Compensation and Benefits** | Lisa Pierce | Allstate Insurance Co. |