



**COMMONWEALTH OF MASSACHUSETTS**  
**OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION**  
**DIVISION OF INSURANCE**

***REPORT OF EXAMINATION OF THE***  
**MASSACHUSETTS BAY SELF-INSURANCE**  
**GROUP, INC.**

**Woburn, Massachusetts**

**As of December 31, 2012**

**EMPLOYERS ID NO. 04-3226260**

# MASSACHUSETTS BAY SELF-INSURANCE GROUP, INC.

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**COMMONWEALTH OF MASSACHUSETTS**  
**Office of Consumer Affairs and Business Regulation**  
**DIVISION OF INSURANCE**

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February 12, 2014

Honorable Joseph G. Murphy  
Commissioner of Insurance  
Commonwealth of Massachusetts  
Division of Insurance  
1000 Washington Street, Suite 810  
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your specific instructions and by authority of Section 25I of Chapter 152 of Massachusetts General Laws ("MGL"), an examination has been made of the transactions and financial condition as of December 31, 2012, of the

**MASSACHUSETTS BAY SELF-INSURANCE GROUP, INC.**

at its main administrative office located at 15 Cabot Road, Woburn, Massachusetts 01801-1003.  
The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

The Massachusetts Bay Self-Insurance Group, Inc., hereinafter referred to as the ("Group"), was last examined by the Massachusetts Division of Insurance (the "Division") as of December 31, 2007. The Massachusetts Division of Insurance made the present examination by authority of MGL, Section 25I of Chapter 152. The examination covers the transactions of the Group from January 1, 2008, through December 31, 2012 including any material transactions and/or events occurring subsequent to the examination date and noted in the course of this examination.

During the examination, the transactions of the Group were reviewed and tested by methods to the extent deemed necessary. Workpapers of the Group's independent certified public accountant and an actuarial report on unpaid loss and loss adjustment expense reserves prepared by the Group's independent consulting actuary were made available to the examiner and were utilized to the extent considered appropriate. The examination included a review of the general operations of the Group, treatment of its members and claimants, and the financial condition of the Group as of December 31, 2012. In addition, the corporate records were reviewed to ascertain compliance with Massachusetts General Laws.

The report of examination is written on the exception basis. Explanations of and details pertaining to various phases of the examination will be found herein. Unless it is specifically noted otherwise, all references to the Group's accounts, activities, and transactions are as of December 31, 2012.

## **SUMMARY OF SIGNIFICANT FINDINGS**

Currently the reserves are carried \$314,000 below the point/central estimate provided by Milliman, however the reserves are within Milliman's recommended reserve range.

The discount rate being used by the Group in discounting its reserves is too high based upon the current interest rate environment, resulting in a higher discount than can be reasonably expected.

Refer to page 12, Note 1 for further discussion of the findings noted above.

## **HISTORY**

The Group was organized on April 14, 1994, as a workers' compensation self-insurance group under Massachusetts General Law Chapter 152, Sections 25E through 25U. The Group was created to make available workers' compensation coverage for a group of charitable organizations which receive funding from the United Way of Massachusetts Bay.

Throughout the operating period under review, the Group, by written administrative service agreement, has engaged Cabot Risk Strategies, LLC (the "Administrator"), to perform and manage the day-to-day activities of the Group.

## **CORPORATE RECORDS**

### **Articles of Organization and Bylaws**

The bylaws and articles of organization and amendments thereto were read. The minutes of the board of trustees were reviewed for the period under examination. For that period, votes and authorizations were found to be in order and the records indicated that the group appeared to be conducting its affairs in compliance with its bylaws and the laws of the Commonwealth of Massachusetts.

### **Meetings of the Board**

The bylaws specify regular meetings of the board of the trustees shall be held at such places and at such times as the trustees may determine. At any meeting of the trustees, a majority of the trustees then in office shall constitute a quorum. The minutes indicated that a quorum was obtained at all meetings of the board of trustees held during the examination period.

### **Annual Meeting**

According to the bylaws, the annual meeting of the members shall be held on the first Monday in June of each year or, if that date is a legal holiday in the place where the meeting is to be held, then to the next succeeding day not a legal holiday.

### **Disaster Recovery and Business Continuity**

The Administrator has a formal disaster plan for the continuity of the Group's business operations in the event of any disaster. The total recovery effort is governed by the Cabot Risk Strategies, LLC Disaster Recovery Plan. That plan was made available to the examiner for review and determined to have addressed adequately the process in which to resume certain critical business functions of the Group.

## **MANAGEMENT AND CONTROL**

Pursuant to the bylaws the affairs of the Group shall be managed by the board of trustees, who shall have and may exercise all the powers of the Group except those powers reserved to the members by law, the articles of organization or the bylaws. To assist in the management of the Group, the board of trustees shall appoint an Administrator to perform and manage the day-to-day activities of the Group. The board shall have the power to adopt and issue rules, regulations, policies and procedures which shall be binding upon the members and the Administrator.

### **Members**

The members of the corporation shall be those entities who are members of the Group; provided that the number of members shall at no time be fewer than five. To be eligible for membership, an entity must be an organization which is engaged in the charitable, human and social services

## MASSACHUSETTS BAY SELF-INSURANCE GROUP, INC.

industry whose payroll is domiciled in the Commonwealth of Massachusetts and be a member in good standing of or receive funding from the United Way of Massachusetts Bay, Inc. A potential member must complete and execute an application and indemnity agreement approved by the board of trustees and receive written acceptance of membership pursuant to the bylaws.

### Board of Trustees

The Board of Trustees shall consist of a minimum of seven (7) trustees to a maximum of eleven (11) trustees. At least two-thirds (2/3) of the trustees shall be employees, officers, directors or trustees of members of the Group. All trustees shall be residents of the Commonwealth of Massachusetts or officers authorized to do business in the Commonwealth of Massachusetts. Each trustee holds office for a term of one year. Upon expiration or resignation, his/her successor is elected at any special or regular meeting of the members.

The members of the board of trustees as of December 31, 2012 were as follows:

<u>Trustee</u>	<u>Professional Affiliation</u>
Robert Rutherford	Director of Human Resources, Bay Cove Human Services, Inc.
Terrence B. Gagne	CFO, Pine Street Inn, Inc.
Kevin Lee Hepner	CEO, United South End Settlements, Inc.
Lawrence A. Laspesa	CFO, VNA of Middlesex-East, Inc.
Ann Tikkanen	CFO, YMCA of Greater Boston, Inc.
Cecile Durham	Director of Human Resources, Victory Programs, Inc.
Jeffery Lieberman	Vice President, Fenway Community Health Center, Inc.

### Officers

Pursuant to the bylaws the officers of the Group shall be elected annually by the trustees and there shall be a president, vice president, treasurer, clerk and such other officers, if any as the trustees may determine. The officers shall be elected annually by the trustees at their first meeting following the annual meeting of the members. The president shall be the chief executive officer of the corporation and, subject to the control of the trustees, shall have general charge and supervision of the affairs of the corporation.

The elected officers and their respective titles at December 31, 2012 follow:

<u>Name of Officer</u>	<u>Title</u>
Keven Lee Hepner	President
Jeffery Lieberman	Vice President
Terrence B. Gagne	Treasurer
Lawrence A. Laspesa	Clerk

## MASSACHUSETTS BAY SELF-INSURANCE GROUP, INC.

### Administrator

During the operating period review, the Group by a written administrative service agreement engaged Cabot Risk Strategies, LLC to perform and manage the day-to-day activities of the Group.

### Conflict of Interest Procedures

The Group has adopted a corporate business ethics policy for directors and officers policy statement pertaining to conflict of interest in accordance with Question 18 of the General Interrogatories of the Annual Statement. The Group has an established procedure for the disclosure to the board of trustees of any material interest or affiliation on the part of any officer or director which is in or is likely to conflict with his/her official duties.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Group has a Trustees Errors and Omissions policy with a limit of \$2 million per claim and a \$2 million policy aggregate with an authorized Massachusetts insurer. The Administrator has a Crime Policy covering employee theft and forgery with a \$1 million limit. The Administrator maintains a third party administrator bond in the amount of \$450,000 as required under 211 CMR 67.00.

## **TERRITORY AND PLAN OF OPERATION**

The Group is a self-insurance group permitted to transact business only in the Commonwealth of Massachusetts.

## **GROWTH OF THE GROUP**

The following exhibit, compiled from financial statements of the Group for the years ended December 31, 2008 through December 31, 2012, are as follows:

Fund Year	Net Written Premium	Admitted Assets	Liabilities	Member's Surplus
2012	\$ 3,374,809	\$ 5,198,544	\$ 4,958,682	\$ 239,862
2011	3,191,968	5,549,251	5,549,251	0
2010	2,821,218	5,549,251	3,348,543	393,824
2009	2,821,218	5,549,251	3,038,699	393,824
2008	2,282,312	3,273,364	2,877,952	395,412

### **REINSURANCE**

The Group maintains specific excess workers' compensation insurance policy with an unaffiliated insurer. Under this policy, the Group's losses at December 31, 2012, in excess of \$750,000 for each individual accident or employee will be covered by the policy in accordance with statutory limits. Due to difficulties in the current reinsurance market, the Group has been unable to obtain coverage with \$500,000 maximum retention and aggregate excess coverage in accordance with 211 CMR 67.21.

### **ACCOUNTS AND RECORDS**

The trial balance, general ledger and audited financial statements provided by the Group were reviewed for the fund year ending December 31, 2012.

General ledger account balances were reconciled and traced to amounts reported in the Annual Statement for the year ended December 31, 2012. All balance sheet accounts with a category class of statutory ledger, non ledger and non-admitted were summarized and traced to the appropriate asset exhibits and liability lines within the Annual Statement. Selected income and expense allocations and postings were sampled and verified for reasonableness. No material exceptions were noted.

The books and records of the Group are audited annually by Shores, Tagman, Butler & Company, P.A., independent certified public accountants, in accordance with 211 CMR 23.00.



MASSACHUSETTS BAY SELF-INSURANCE GROUP, INC.

**STATUTORY DEPOSITS**

The Group had the following Statutory Deposits with the Commonwealth of Massachusetts as of the examination date of December 31, 2012.

<u>Location</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Massachusetts	CD Discover Bank 0.5% Due July 2013	\$ 105,000	\$ 105,000	\$ 104,714
Massachusetts	CD GE Capital Bank 0.5% Due July 2013	100,000	100,000	99,745
Massachusetts	CD Goldman Sachs Bank 0.45% Due August 2013	51,000	51,000	50,823
Massachusetts	CD BMW North America 0.35% Due October 2013	52,000	52,000	51,816
Massachusetts	CD Bank of China 0.45% Due November 2013	76,000	76,000	75,700
Massachusetts	Merrill Lynch Money Market Fund	<u>653</u>	<u>653</u>	<u>653</u>
	Total Deposits	<u>\$ 384,653</u>	<u>\$ 384,653</u>	<u>\$ 383,451</u>

**FINANCIAL STATEMENTS**

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division and the National Association of Insurance Commissioners as of December 31, 2012:

- Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2012
- Statement of Income for the Year Ended December 31, 2012
- Statement of Capital and Surplus for the year ended December 31, 2012
- Reconciliation of Capital and Surplus for each year in the Five-Year Period Ended December 31, 2012

Massachusetts Bay Self-Insurance Group, Inc.  
Statement of Assets, Liabilities, Surplus and Other Funds  
As of December 31, 2012

<b>Assets</b>	<b>As Reported by the Company</b>	<b>Examination Changes</b>	<b>Per Statutory Examination</b>
Bonds	\$ 2,421,293	\$ 0	\$ 2,421,293
Cash	1,634,979		1,634,979
Investment income due and accrued	21,437		21,437
Uncollected premiums in course of collection	95,000		95,000
Member contributions receivable	995,932		995,932
Other receivables	29,903		29,903
Total Assets	<u>\$ 5,198,544</u>	<u>\$ 0</u>	<u>\$ 5,198,544</u>
<b>Liabilities</b>			
Losses	\$ 3,894,052	\$ 0	\$ 3,894,052
Loss adjustment expenses	531,239		531,239
Other expenses	43,000		43,000
Taxes, licenses and fees	16,529		16,529
Dividends declared and unpaid:			
Policyholders	109,107		109,107
Aggregate write-ins for liabilities	<u>364,755</u>		<u>364,755</u>
Total Liabilities	4,958,682		4,958,682
<b>Surplus</b>			
Aggregate write-ins for other than special funds:			
Member Contributions	1,400,000		1,400,000
Unassigned funds (surplus)	<u>(1,160,138)</u>		<u>(1,160,138)</u>
Surplus as regards policyholders	<u>239,862</u>		<u>239,862</u>
Total Liabilities and Surplus	<u>\$ 5,198,544</u>	<u>\$ 0</u>	<u>\$ 5,198,544</u>

Massachusetts Bay Self-Insurance Group, Inc.  
Statement of Income  
For the Year Ended December 31, 2012

	As Reported by the Company	Examination Changes	Per Statutory Examination
Premiums earned	\$ 3,374,809	\$ 0	\$ 3,374,809
Deductions:			
Losses incurred	2,355,749		2,355,749
Loss expenses incurred	379,436		379,436
Other underwriting expenses incurred	648,391		648,391
Total underwriting deductions	<u>3,383,576</u>		<u>3,383,576</u>
Net underwriting gain (loss)	(8,767)		(8,767)
Net investment income earned	114,199		114,199
Net realized capital gains	<u>3,677</u>		<u>3,677</u>
Net investment gain	117,876		117,876
Aggregate write-ins for miscellaneous income	(2)		(2)
Net income before dividends to policyholders and before federal and foreign income taxes	109,107		109,107
Dividends to policyholders	<u>109,107</u>		<u>109,107</u>
Net income, after dividends to policyholders but before federal and foreign income taxes	0		0
Federal and foreign income taxes incurred	<u>0</u>		<u>0</u>
Net Income	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Massachusetts Bay Self-Insurance Group, Inc.  
Capital and Surplus  
For the Year Ended December 31, 2012

	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>
Surplus as regards policyholders, December 31, 2011	\$ 0	\$ 0	\$ 0
Net income	0		0
Change in nonadmitted assets	165		165
Aggregate write-ins for gains in surplus:			
Member Contributions	<u>239,698</u>		<u>239,698</u>
Change in surplus as regards policyholders for the year	<u>239,862</u>		<u>239,863</u>
Surplus as regards policyholders, December 31, 2012	<u>\$ 239,862</u>	<u>\$ 0</u>	<u>\$ 239,862</u>

Massachusetts Bay Self-Insurance Group, Inc.  
Reconciliation of Capital and Surplus  
For the Five Year Period Ended December 31, 2012

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Surplus as regards policyholders, December 31, prior year	\$ 0	\$ 393,824	\$ 393,824	\$ 395,412	\$ 444,012
Net income		(1,553,920)		(1,663)	(223)
Change in nonadmitted assets	165	(207)		74	223
Change in surplus notes					(48,600)
Aggregate write-ins for gains in surplus:					
Member Contributions	<u>239,698</u>	<u>1,160,303</u>			
Net change in capital and surplus for the year	<u>239,862</u>	<u>(393,824)</u>	<u>0</u>	<u>(1,588)</u>	<u>(48,600)</u>
Capital and surplus, December 31, current year	<u>\$ 239,862</u>	<u>\$ 0</u>	<u>\$ 393,824</u>	<u>\$ 393,824</u>	<u>\$ 395,412</u>

**NOTES TO FINANCIAL STATEMENTS**

## NOTE 1:

<u>Losses</u>	\$ 3,894,052
<u>Loss Adjustment Expenses</u>	\$ 531,239

The Group establishes their reserves based on the estimates provided by Milliman, an independent actuarial consulting firm. Milliman performs an analysis of loss and loss adjustment expense reserves and issues the Actuarial Opinion. The exam has reviewed all available documentation of the Group's reserves and has relied upon the opinion of Milliman as to the adequacy of the carried reserves.

The net loss and loss adjustment expense reserves have been discounted using a discount factor not less than the discount factor that would result from using the interest rates and loss payout patterns prescribed by the Internal Revenue Code. Such discounting of loss and loss adjustment expense reserves is permitted by Massachusetts Regulation 211 CMR 67.08 (2).

The table below summarizes a comparison of Milliman's range of reasonable estimates for Loss and LAE Reserves to the Company's net carried Loss and LAE Reserves as of December 31, 2012.

	Low Point of Range	Selected Estimate	High Point of Range
Milliman's Estimate	\$4,190,000	\$4,739,000	\$5,563,000
Company Carried	4,425,000	4,425,000	4,425,000
Company Carried Over / (Under) Milliman	235,000	(314,000)	(1,138,000)

**COMMENTS AND RECOMMENDATIONS**

The Division recommends that the Group continue to improve their financial position in order to carry loss reserves at the actuaries' recommended point/central estimate. Currently the reserves are carried \$314,000 below the point/central estimate provided by Milliman. The Group should continue to monitor their financial position to ensure the financial soundness of the Group for the benefit of policyholders and claimants.

The Group should review the discount rate used to calculate the discount on loss reserves. For accident years 2005 and subsequent, the discount factors are based on interest rates for each accident year of at least 2.89%, and approximately 3.4% on a weighted basis resulting in a total discount of the reserves of approximately \$754,000. In today's interest rate environment, it is unlikely that the Group's investment yield will meet or exceed 3.4%. The Group should consider lowering the discount rate to reflect current interest rates that the Group can obtain in the current investment environment.

**ACKNOWLEDGEMENT**

Acknowledgement is made of the cooperation and courtesies extended by the Group's Administrator, Cabot Risk Strategies, LLC.

A handwritten signature in cursive script, reading "Kenneth R. Plumb", is written over a horizontal line.

Kenneth R. Plumb, CPA, CFE  
Examiner-in-Charge  
Supervising Examiner  
Commonwealth of Massachusetts  
Division of Insurance