



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

REPORT OF EXAMINATION OF THE

MASSACHUSETTS McDONALD'S OPERATORS' WORKERS'
COMPENSATION GROUP, INC.

Spencer, Massachusetts

As of December 31, 2012

EMPLOYERS ID NO. 04-3139957

**MASSACHUSETTS McDONALD'S OPERATORS' WORKERS'
COMPENSATION GROUP, INC.**

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Summary of Significant Findings	2
History	2
Corporate Records	3
Articles of Organization and Bylaws	3
Meetings of the Board	3
Annual Meeting	3
Disaster Recovery and Business Continuity	3
Management and Control	3
Members	3
Board of Directors	4
Officers	4
Administrator	4
Conflict of Interest Procedures	5
Fidelity Bonds and Other Insurance	5
Territory and Plan of Operation	5
Growth of the Group	5
Reinsurance	6
Accounts and Records	6
Statutory Deposits	6
Financial Statements	7
Statement of Assets, Liabilities, Surplus and Other Funds	8
Statement of Income	9
Capital and Surplus	10
Notes to Financial Statements	11
Comments and Recommendations	12
Acknowledgement	13



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

1000 Washington Street, Suite 810 • Boston, MA 02118-6200
(617) 521-7794 • Toll-free (877) 563-4467
<http://www.mass.gov/doi>

DEVAL L. PATRICK
GOVERNOR

GREGORY BIALECKI
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

BARBARA ANTHONY
UNDERSECRETARY OF CONSUMER AFFAIRS
AND BUSINESS REGULATION

JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

June 19, 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 McDONALD'S OPERATORS' WORKERS'
COMPENSATION GROUP, INC.

at its main administrative office located at 30150 Telegraph Road, Bingham Farms, Michigan 48025. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Massachusetts McDonald's Operators' Workers' Compensation Group, Inc., hereinafter referred to as the ("Group"), was last examined by the Massachusetts Division of Insurance ("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

The Group was found to be not in compliance with all aspects of 211 CMR 67.00. The Group overpaid dividends for the 2006 and 2007 fund years.

Refer to page 12, Comments and Recommendations section for further discussion of the findings noted above.

HISTORY

The Group was organized on December 31, 1991, as a workers' compensation self-insurance group under Massachusetts General Law Chapter 152, Sections 25E through 25U. The Group was created to make available a self-insured workers' compensation program for independent McDonald restaurant owners/operators within Massachusetts.

Throughout the operating period under review, the Group, by written administrative service agreement, has engaged Arthur J. Gallagher Risk Management Services, Inc. ("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 directors 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 directors shall be held at such places and at such times as the directors may determine. At any meeting of the directors, a majority of the directors then in office shall constitute a quorum. The minutes indicated that a quorum was obtained at all meetings of the board of directors held during the examination period.

Annual Meeting

According to the bylaws, the annual meeting of the members shall be held on the third Thursday of May, or such date as may be designated by the board of directors.

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. 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 directors, 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 directors 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 owner/operator of a McDonald's restaurant in Massachusetts. A potential member must complete and execute an application and indemnity agreement approved by the board of directors and receive written acceptance of membership pursuant to the bylaws.

Board of Directors

The board of directors shall consist of a number of individuals not to exceed the number of members of the corporation at the time, but in no event fewer than three. All directors shall be employees, officers, or directors of members of the Group and shall be residents of the Commonwealth of Massachusetts or officers of corporations authorized to do business in the Commonwealth of Massachusetts. Each trustee holds office for a term of two years. Upon expiration or resignation, his/her successor is elected at any special or regular meeting of the members.

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

<u>Trustee</u>	<u>Professional Affiliation</u>
James Bollivar	JVE Co, Inc.
Robin Boorstein	Canton Mirob, LLC
Linda Crisafi	McJennifer Foods, Inc.
Larry Kimmelman	Kimco of Salem, LP
Wes Powell	William J. Company, LLC
Joe Ruscito	Ruscito Management, LLC
Joe Spadea	Sellia Corporation

Officers

Pursuant to the bylaws the officers of the Group shall be elected annually by the directors and there shall be a president, treasurer, clerk and such other officers, if any as the directors may determine. The officers shall be elected annually by the directors 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 directors, shall have general charge and supervision of the affairs of the corporation.

The elected officers and their respective titles at December 31, 2012 were as follows:

<u>Name of Officer</u>	<u>Title</u>
Joe Spadea	President
Larry Kimmelman	Treasurer
Linda Crisafi	Secretary/Clerk

Administrator

During the operating period review, the Group by a written administrative service agreement engaged Arthur J. Gallagher Risk Management Services, Inc. to perform and manage the day-to-day activities of the Group. The Group also has a service agreement with Cannon Cochran Services, Inc. to handle all aspects of claims administration and settlement.

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 directors 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 Professional Liability Errors and Omissions policy with a limit of \$2 million per claim and a \$2 million policy aggregate with an authorized Massachusetts insurer. The Group has a Crime Policy covering employee theft and forgery with a \$1 million limit. The Administrator has a Crime Policy covering employee dishonesty with a single limit of \$15 million and an aggregate limit of \$30 million.

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	\$ 1,629,744	\$ 3,462,514	\$ 3,462,514	\$ 0
2011	1,393,996	3,286,450	3,286,450	0
2010	1,211,010	3,034,550	3,034,550	0
2009	1,334,662	2,736,133	2,736,133	0
2008	1,068,783	2,437,967	2,437,967	0

REINSURANCE

The Group maintains a specific excess workers' compensation insurance policy with an unaffiliated insurer. Under this policy, the Group's losses at December 31, 2012, in excess of \$350,000 for each individual accident will be covered up to the statutory limits per occurrence, while 211 CMR 67.21 requires a maximum of \$5,000,000. The aggregate excess coverage attaches at loss fund percentage of 110% with a maximum limit for the liability period of \$5,000,000 while 211 CMR 67.21 requires a 105% attachment point.

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 Sallan, Nemes, Lyman & Strakovits Independent Certified Public Accountants, in accordance with in accordance with 211 CMR 23.00 and 211 CMR 26.00

STATUTORY DEPOSITS

The statutory deposits of the Group as of December 31, 2012, were as follows:

<u>Location</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Fair Value</u>
Massachusetts	US Treasury Note 0.125% due 2013	\$ 120,000	\$ 119,893	\$ 119,926
Massachusetts	AIM Premier Gov't Money Market Fund	<u>44,593</u>	<u>44,593</u>	<u>44,593</u>
	Total Deposits	<u>\$ 164,593</u>	<u>\$ 164,486</u>	<u>\$ 164,519</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

Massachusetts McDonald's Operators' Workers' Compensation Group, Inc.
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2012

	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Assets				
Bonds	\$ 3,015,618	\$ 0	\$ 3,015,618	
Cash	421,508		421,508	
Investment income due and accrued	25,388		25,388	
Total Assets	<u>\$ 3,462,514</u>	<u>\$ 0</u>	<u>\$ 3,462,514</u>	
Liabilities				
Losses	\$ 896,010	\$ 0	\$ 896,010	(1)
Other expenses	26,767		26,767	
Advance premium	269,034		269,034	
Dividends declared and unpaid:				
Policyholders	1,883,707		1,883,707	
Aggregate write-ins for liabilities	386,996		386,996	
Total Liabilities	<u>3,462,514</u>		<u>3,462,514</u>	
Surplus				
Unassigned funds (surplus)	<u>0</u>		<u>0</u>	
Surplus as regards policyholders	<u>0</u>		<u>0</u>	
Total Liabilities and Surplus	<u>\$ 3,462,514</u>	<u>\$ 0</u>	<u>\$ 3,462,514</u>	

Massachusetts McDonald's Operators' Workers' Compensation Group, Inc.

Statement of Income

For the Year Ended December 31, 2012

	As Reported by the Company	Examination Changes	Per Statutory Examination
Premiums earned	\$ 1,629,744	\$ 0	\$ 1,629,744
Deductions:			
Losses incurred	741,353		741,353
Other underwriting expenses incurred	321,891		321,891
Total underwriting deductions	<u>1,063,244</u>		<u>1,063,244</u>
Net underwriting gain (loss)	566,500		566,500
Net investment income earned	98,260		98,260
Net realized capital gains	<u>3,218</u>		<u>3,218</u>
Net investment gain	101,478		101,478
Net income before dividends to policyholders and before federal and foreign income taxes	667,978		667,978
Dividends to policyholders	<u>667,978</u>		<u>667,978</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 McDonald's Operators' Workers' Compensation Group, Inc.
Capital and Surplus
For the Year Ended December 31, 2012

	As Reported by the Company	Examination Changes	Per Statutory Examination
Surplus as regards policyholders, December 31, 2011	\$ 0	\$ 0	\$ 0
Net income	0	0	0
	<hr/>	<hr/>	<hr/>
Change in surplus as regards policyholders for the year	0	0	0
	<hr/>	<hr/>	<hr/>
Surplus as regards policyholders, December 31, 2012	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 1:

<u>Losses</u>	\$ 896,010
<u>Loss Adjustment Expenses</u>	\$ 0

The Group establishes their reserves based on the estimates provided by By the Numbers Actuarial Consulting, Inc. ("BYNAC"), an independent actuarial consulting firm. BYNAC 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 BYNAC as to the adequacy of the carried reserves.

The net loss and loss adjustment expense reserves have been discounted using a selected rate of 2.5%. 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 BYNAC 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
BYNAC Estimate	\$770,000	\$900,000	\$1,040,000
Company Carried	896,000	896,000	896,000
Company Carried Over / (Under) BYNAC	126,000	(4,000)	(144,000)

COMMENTS AND RECOMMENDATIONS

It is recommended that the Group properly disclose loss adjustment expenses paid and outstanding in all applicable parts of the Annual Statement.

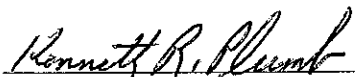
The Group was found to have overpaid dividends for the 2006 and 2007 fund years in the amount of \$99,556. It is recommended that the Administrator obtain independent review and approval of all dividend calculations prior to the issuance of dividend checks to members.

The following areas were found to be not in compliance with 211 CMR 67.00. The Group's reinsurance policy did not have the required limits. The Group did not receive at least 25% of the member's estimated annual net premium prior to year end for all years in the examination period. It is recommended that the Group adhere to all aspects of 211 CMR 67.00.

Review of the 2012 Jurat page of the Annual Statement improperly listed Jorge Gomez as a director; Wes Powell should have been listed instead.

ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and courtesies extended by the Group's Administrator, Arthur J. Gallagher Risk Management Services, Inc.

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