



COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE

MASSACHUSETTS MEDICAL MALPRACTICE REINSURANCE PLAN, INC.

Westborough, Massachusetts

As of December 31, 2012

EMPLOYER ID NUMBER: 04-3290451

Massachusetts Medical Malpractice Reinsurance Plan, Inc.

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COMMONWEALTH OF MASSACHUSETTS
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COMMISSIONER OF INSURANCE

June 27, 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 instructions and in accordance with Section 10 of Chapter 330 of the Acts of 1994 of the Massachusetts Legislature, and as promulgated in Article XV of the Plan of Operation of the Massachusetts Medical Malpractice Reinsurance Plan, Inc, an examination has been made of the financial condition and affairs of the

MASSACHUSETTS MEDICAL MALPRACTICE REINSURANCE PLAN, INC.

at its home office located at 95A Turnpike Road, Westborough, Massachusetts, 01581. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Massachusetts Medical Malpractice Reinsurance Plan ("Plan" or "MMMRP") was last examined as of December 31, 2006 by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the six-year period from January 1, 2007 through December 31, 2012, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current *NAIC Financial Condition Examiners Handbook*. The handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Plan by obtaining information about the Plan, including corporate governance, identifying and assessing inherent risks within the Plan, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, and when applicable to domestic state regulations. All accounts and activities of the Plan were considered in accordance with the risk-focused examination process.

In addition to a review of the financial condition of the Plan, the examination included a review of the Plan's business policies and practices, corporate records, conflict of interest disclosure statements, fidelity bond and other insurance, employees' pension and benefits plans, disaster recovery plan, and other pertinent matters to provide reasonable assurance that the Plan was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

The Plan is audited annually by Saslow, Lufkin & Buggy, LLP, ("SLB") an independent certified public accounting firm. The firm expressed unqualified opinions on the Plan's financial statements for the calendar years 2007 through 2012. A review and use of the Certified Public Accountants' work papers were made to the extent deemed appropriate and effective. In addition Towers Watson performs an independent actuarial analysis of the Plan's loss and allocated loss adjustment expense liabilities each year. This independent report was also reviewed and relied upon.

SUMMARY OF SIGNIFICANT FINDINGS

For a summary of findings contained within this report, refer to the "Summary of Recommendations" section on page 16. The previous report of examination recommended the following: Elect secretaries to serve the Governing Committee and other Committees as required by the Rules of Operation; take appropriate steps to assure compliance with the Conflict of Interest Policy; enhance procedures over segregation of duty issues; enhance controls to assure proper management, administration and oversight of the Plan's 401(k) Plan; review its investment policy,

assessment calculation and reserving methodology; and, review and restructure where applicable its agreement for sub-contracting services.

COMPANY HISTORY

General

MMMRP is a nonprofit entity established January 11, 1995 under Section 10, Chapter 330 of the Acts of 1994, as amended by Chapter 372 of the Acts of 1998, (the "Act") for the purpose of making available reinsurance to the voluntary medical malpractice insurance market in covering certain health care providers in the Commonwealth of Massachusetts. This legislation required the establishment of a "Plan of Operation" which was submitted to the Commissioner of Insurance (the "Commissioner") and approved on August 1, 1996.

The Plan's enabling legislation as amended requires every medical malpractice insurer licensed in Massachusetts (the "Members") to make available to every health care provider the primary medical malpractice insurance coverage as defined. Members may cede direct written primary medical malpractice insurance policies to the Plan. Membership in the Plan is required for all insurers licensed, admitted, authorized or approved to write insurance covering liability risks, other than auto liability insurance, within Massachusetts on a direct basis. The Plan is authorized by its enabling statute to recoup any annual net losses incurred by the Plan by assessment of the Members.

MMMRP has adopted Rules of Operation (the "Rules") in accordance with the Plan of Operation, in order to carry out the provisions of the Plan of Operation. The purpose of the Rules is to provide the detailed instructions needed to operate the Plan. The Rules supplement the Plan of Operation and contain instructions to Members concerning the processing of policies ceded to the Plan. The Rules contain specific guidance designed to regulate the conduct of Members and provide information concerning the responsibilities of Members and their participation in the results of the Plan. The Rules assign necessary responsibility to both the Members and the Plan staff and define those duties.

PLAN RECORDS

The enabling statute, Plan of Operation, Rules, and minutes of the Governing Committee and all subcommittee meetings were reviewed. Provisions of the Plan of Operation require each Committee to elect or appoint a secretary from its membership, and the minutes of all meetings shall be recorded. Although it appears that minutes were kept for all meetings, there does not appear to be an appointed or elected secretary for two committees. This deficiency was noted as a result of the prior exam. Effective May 7, 2014, the Plan corrected this deficiency by appointing secretaries for each sub-committee not previously in compliance with the Rules

Amended Plan of Operation and Rules of Operations

During 2012 the Governing Committee amended and approved certain changes to the Plan of Operation and the Rules, most of which were clerical and administrative in nature. The most significant amendment approved were changes made to "Rule 5 – Cession Rules and Procedures", whereby the Plan now allows Members to cede individual cessions from a multiple risk policy. The amendments also specifically identified physical therapist and physical therapist assistants as health care providers enabled to obtain primary medical malpractice insurance.

Conflict of Interest Procedures

The Plan has a formal conflict of interest policy that requires annual signed disclosure statements by all committee members, officers, and key employees/interested parties. Upon reviewing the 2012 signed annual disclosure statements, it has been noted during this examination that the conflict of interest policy has not been fully complied with. See the "Summary of Recommendations" section of this Report for additional details.

MANAGEMENT AND CONTROL

MMMRP shall perform its functions under the Plan of Operation and in accordance with the enabling Act. Amendments to the Plan of Operation may be suggested by any Member and may be made by a majority vote of the Governing Committee, subject to the approval of the Commissioner.

MMMRP is administered by a Governing Committee appointed by the Massachusetts Governor for terms of three years, and shall consist of five members representing medical malpractice insurers. At least three members of the Governing Committee shall be representatives of any domestic medical malpractice insurer(s), and at least one member shall be a representative of any non-domestic medical malpractice insurer. The Governing Committee shall elect a Chairman and Secretary from among its membership as well as other officers as it deems appropriate.

The Governing Committee shall authorize, review and approve all reports on administration of the Plan including audited financial reports, reports of the subcommittees, and all other material matters; establish and review procedures, including limitations on allowable investments and for the investment of available funds; establish premium rates for coverage reinsured through the Plan; determine the earned premiums, credit allowances, the expenses of the Plan administration, and the incurred losses for each policy year; determine if an assessment is necessary to recoup any net loss for each fiscal year; determine if any technical corrections or amendments to the Act should be recommended to the Legislature, and; review, consider, and act on any matters deemed to be necessary and proper for the administration of the Plan within the powers allowed by the Act. The Governing Committee shall be granted all powers and duties necessary to carry out the operation of the Plan not otherwise listed unless expressly delegated by the Governing Committee. The Governing Committee may delegate or contract for administration of some or all of its duties of the operation of the Plan, however they shall retain all executive powers established by the Act. The Governing Committee is responsible for hiring the employees of the Plan and for appointing

legal, actuarial, and other subcommittees to provide technical assistance for the operation of the Plan.

The Governing Committee shall meet at least quarterly and meetings shall be conducted in accordance with the open meeting laws as found in Massachusetts General Laws, Chapter 30A, Sections, 18 through 25. Minutes of the proceedings of each Governing Committee meeting shall be recorded. Original records shall be retained by the Secretary of the Governing Committee, and a copy shall be provided to the Commissioner. The votes of the Governing Committee shall be on a one person, one vote basis. A majority of the Governing Committee members shall constitute a quorum for the transaction of business.

Governing Committee

The following individuals were members of the Governing Committee as of December 31, 2012:

<u>Name of Member</u>	<u>Affiliation</u>
William T. McGrail	Chairman and President of the Massachusetts Medical Malpractice Reinsurance Plan, Inc.
Richard W. Brewer	Former President & CEO Coverys Group
Peter T. Robertson	Attorney at Law and member of the Board of Directors of Coverys Group
Gerald J. Cassidy	Retired CEO, Healthcare Underwriters Mutual Insurance Company (a non-domestic medical malpractice insurer no longer authorized to write business in Massachusetts)
Jill A. Gold	Former Sr. Vice-president of Frontier Insurance Company (a non-domestic medical malpractice insurer currently in regulatory rehabilitation); Principal, Telemon Insurance Network

Article VIII of the Plan of Operation provides that the Governing Committee may appoint subcommittees and their members as it deems necessary. Each subcommittee shall have at least one Governing Committee member and such other representation of medical malpractice insurers as the Governing Committee shall establish. Minutes of the proceedings of each subcommittee shall be maintained by a secretary appointed from the membership of the subcommittee. The subcommittees and membership as of December 31, 2012 is as follows.

Operations and Audit Committee

The principal purpose of the Operations and Audit Committee is to assist the Governing Committee in fulfilling its responsibility to oversee the Plan's accounting and financial reporting processes and audits of the Plan's financial statements. The Operations and Audit Committee is directly responsible for the appointment, compensation and oversight of the work performed by the external auditors. The Operations and Audit Committee shall be comprised of not less than two

members of the Governing Committee and a least one other member that is not a member of the Governing Committee.

The following were members of the Operations and Audit Committee as of December 31, 2012:

Gerald J. Cassidy, Chairman
James R. Bacon
Michael J. Sabbagh
Richard W. Brewer, Secretary

Compliance Committee

In accordance with the Plan of Operation, the mission of the Compliance Committee is to recommend to the Governing Committee and implement thereafter minimum standards with respect to service, reserving, and overall handling of claims on behalf of the Plan, including such measures as are deemed necessary to assure the earliest and most accurate estimation of the Plan's future liabilities for incurred claims and their associated expenses. The Compliance Committee will advise the Governing Committee with respect to claim and underwriting disputes of any kind, and will establish and implement methods of auditing the claims, risk management and underwriting practices of ceding Members to insure a quality of service equal to the Members own voluntary business, as well as compliance with the Plan and Rules of Operation.

The following were members of the Compliance Committee as of December 31, 2012:

Peter T. Robertson, Chairman
Jill A. Gold
Geraldine M. Foley

Investment Committee

In accordance with the Plan of Operation, the mission of the Investment Committee is to prepare and administer a Statement of Investment Guidelines outlining appropriate investment vehicles for all Plan funds for recommendation to the Governing Committee and fulfill other responsibilities as deemed appropriate by the Governing Committee.

The following were members of the Investment Committee as of December 31, 2012:

James R. Bacon, Chairman
Peter F. Kiely
John W. Tympanick
Gerald J. Cassidy

Officers

The Plan has only two permanent employees that manage and administer the day-to-day operations of the Plan. Mr. William T. McGrail serves as the Plan's President and Chief Executive Officer and holds the title of Chairman of the Governing Committee. The Plan has established and filled the position of Chief Financial Officer under a facilities service agreement with Hospitality Mutual Insurance Company ("HMIC") whereby the Plan and HMIC share the services of HMIC's Chief Financial Officer. The Plan pays 25% of the salary and related benefits of the individual, who is an employee of HMIC. The Plan employs one additional part-time person who holds the title of Director of Administration.

FIDELITY BOND AND OTHER INSURANCE

The Plan maintains insurance coverage's from authorized insurers for the period covered by this examination. The plan has in place a Business Owners Policy covering commercial general liability risks, property coverage, employee dishonesty and forgery, and ERISA Welfare/Pension coverage.

EMPLOYEE WELFARE AND BENEFIT PLANS

As of December 31, 2012, the Plan provided certain benefits to its employees, the associated cost thereof are entirely provided for by the Plan. The benefits include a 401K/Profit Sharing Plan; health and dental programs including supplemental coverage at retirement; and life insurance, accidental death and dismemberment and long-term disability coverage.

TERRITORY AND PLAN OF OPERATION

The Plan does not write direct business. The Plan was established for the purpose of making available reinsurance to the voluntary medical malpractice insurance market in covering certain health care providers in Massachusetts. Massachusetts prohibits licensed insurers from refusing coverage ("take all comers" law) with respect to medical malpractice insurance and as such, the Plan assumes all ceded business from Plan Members. The Plan only assumes business for medical malpractice risks insured in Massachusetts

All Members of the Plan are categorized as either "active or inactive". An "inactive member" is defined as any medical malpractice insurer which did not, in fact, write any medical malpractice insurance policies in Massachusetts during the most recent calendar year and which is not the issuing company of any outstanding Massachusetts medical malpractice insurance policies. An "active member" is defined as a medical malpractice insurer that does not qualify for inactive status.

Massachusetts Medical Malpractice Reinsurance Plan, Inc.

Policy coverage limits assumed by the Plan shall not exceed \$2,000,000 per occurrence and \$6,000,000 in the aggregate for an individual, or \$2,000,000 per occurrence and \$20,000,000 in the aggregate for a facility.

Of those companies writing medical malpractice insurance coverage in Massachusetts only two companies ceded business to the Plan during 2012. The Medical Protective Company, domiciled in the state of Indiana ceded approximately \$1.374 million dollars in premium to the Plan, or approximately 80% of the total amount assumed by the Plan. Medical Professional Mutual Insurance Company, a Massachusetts domestic, was the only other insurer to cede business to the Plan, ceding \$.354 million dollars in premium or approximately 20% of the amount assumed by the Plan.

Obligations of Members

All medical malpractice insurers as a condition of membership in the Plan shall be required to meet standards for treatment of ceded risks, claim practices and other criteria as established by the Governing Committee. Each Member shall pay an annual fee of not more than five hundred dollars which shall be credited to the expense of operating the Plan. Each Member is obligated to remit premiums for risks ceded and to pay assessments levied against it for losses or expenses or any combination thereof incurred under policies reinsured through the Plan. Each Member shall submit in a timely and accurate fashion all statistics, records, and accounting required by the Plan.

All Members shall provide the same level and type of service, and in no event less service than the minimal standard established by the Governing Committee to policies reinsured through the Plan, as they provide to policies issued voluntarily. Every Member shall be bound by the Plan of Operation and all rules adopted pursuant to the Plan of Operation.

GROWTH OF PLAN

The growth of the Plan over the previous six year period ending December 31, 2012 is shown in the following table which was prepared from the Plan's filed statutory annual statements.

<u>Year</u>	<u>Admitted Assets</u>	<u>Total Liabilities</u>	<u>Surplus</u>	<u>Premium Income</u>
2012	\$19,528,834	\$24,202,461	(\$4,673,627)	\$1,727,250
2011	22,070,737	26,812,629	(4,741,892)	2,072,631
2010	28,035,082	34,585,569	(6,550,487)	2,026,634
2009	41,103,738	48,990,070	(7,886,332)	3,897,776
2008	47,671,336	63,458,500	(15,787,164)	2,210,428
2007	66,225,775	83,247,760	(17,021,985)	1,956,983

ACCOUNTS AND RECORDS

The Plan maintains its accounts and records electronically through the use of various integrated software programs and information reporting systems. MMMRP uses an automated general ledger system capable of producing various financial and management reports. The trial balances were reconciled and traced from the general ledger and supporting documents to the 2012 Annual Statement as filed with the Division. No significant exceptions were noted. The internal control structure was discussed with management and through a review of the work performed by the Plan's independent Certified Public Accountants, SLB. The books and records of the Plan have been audited annually by SLB since 2005 in accordance with Section B of Article XVI of the Plan of Operation and an unqualified audit opinion has been issued each year.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts and by 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, Capital and Surplus for the Year Ended December 31, 2012.

Reconciliation of Capital and Surplus for Each Year in the Six Year Period Ended December 31, 2012.

Massachusetts Medical Malpractice Reinsurance Plan, Inc.

**Statement of Assets, Liabilities, Surplus and Other Funds
as of December 31, 2012**

	Per Company	Examination Changes	Per Examination	Notes
Assets				
Bonds	\$13,583,037	\$0	\$13,583,037	
Common Stock	4,186,264		4,186,264	
Cash, cash equivalents and short-term investments	1,603,875		1,603,875	
Subtotals, cash and invested assets	19,373,176		19,373,176	
Investment income due and accrued	123,640		123,640	
Other Receivables	32,017		32,017	
Total Assets	\$19,528,834	\$0	\$19,528,834	
Liabilities, Surplus and Other Funds				
Losses	\$20,624,793		\$20,624,793	(1)
Loss adjustment expense	2,438,207		2,438,207	(1)
Other expenses	100,000		100,000	
Unearned premiums	670,941		670,941	
Premium deficiency reserve	355,599		355,599	
Account payable	12,921		12,921	
Total Liabilities	24,202,461		24,202,461	
			0	
Unassigned funds (surplus)	(4,673,627)		(4,673,627)	
Surplus as regards policyholders	(4,673,627)		(4,673,627)	
Total liabilities and policyholder surplus	\$19,528,834	\$0	\$19,528,834	

Massachusetts Medical Malpractice Reinsurance Plan, Inc.

**Statement of Income, Capital and Surplus
For the Year Ended December 31, 2012**

	Per Company	Examination Changes	Per Examination
Underwriting Income			
Premiums earned	\$1,893,518	\$0	\$1,893,518
Deductions			
Losses incurred	1,164,265		1,164,265
Loss adjustment expenses incurred	1,173,797		1,173,797
Other underwriting expenses incurred	849,519		849,519
Aggregate write-ins for underwriting deductions	(180,215)		(180,215)
Total underwriting deductions	3,007,366	0	3,007,366
Net underwriting gain (loss)	(1,113,848)	0	(1,113,848)
Investment Income			
Net investment income earned	525,419	0	525,419
Net realized capital gains or (losses)	848,315		848,315
Net investment gain or (loss)	1,373,734	0	1,373,734
Other Income			
Aggregate write-ins for miscellaneous income	127,203		127,203
Total other income	127,203	0	127,203
Net income before dividends to policyholders and before federal income taxes	387,089		387,089
Net income	\$387,089	\$0	\$387,089
Capital and Surplus Account			
Surplus as regards policyholders, December 31 prior year	(\$4,741,892)	\$0	(\$4,741,892)
Net income	387,089		387,089
Change in net unrealized capital gains or (losses)	(326,285)		(326,285)
Change in net deferred income tax	(2,414,289)		(2,414,289)
Change in nonadmitted assets	2,421,750		2,421,750
Change in surplus	68,265	0	68,265
Surplus as regards policyholders, December 31 current year	(\$4,673,627)	\$0	(\$4,673,627)

Massachusetts Medical Malpractice Reinsurance Plan, Inc.

Reconciliation of Capital and Surplus
For Each Year in the Six Year Period Ended December 31, 2012

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Surplus as regards policyholders, December 31 previous year	<u>(\$4,741,892)</u>	<u>(\$6,550,487)</u>	<u>(\$7,886,332)</u>
Net income (loss)	387,089	2,227,139	55,657
Change in net unrealized capital gains or (losses)	(326,285)	(280,415)	843,964
Change in net deferred income taxes	(2,414,289)	(953,599)	579,519
Change in nonadmitted assets	<u>2,421,750</u>	<u>815,470</u>	<u>(143,295)</u>
Change in surplus	<u>68,265</u>	<u>1,808,595</u>	<u>1,335,845</u>
Surplus as regards policyholders, December 31 current year	<u><u>(\$4,673,627)</u></u>	<u><u>(\$4,741,892)</u></u>	<u><u>(\$6,550,487)</u></u>
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Surplus as regards policyholders, December 31 previous year	<u>(\$15,787,164)</u>	<u>(\$17,021,985)</u>	<u>(\$22,708,929)</u>
Net income (loss)	4,462,307	5,839,856	5,472,814
Change in net unrealized capital gains or (losses)	2,275,403	(4,609,922)	211,990
Change in net deferred income taxes	(1,365,307)	(412,089)	(1,909,696)
Change in nonadmitted assets	<u>2,528,429</u>	<u>416,976</u>	<u>1,911,836</u>
Change in surplus	<u>7,900,832</u>	<u>1,234,821</u>	<u>5,686,944</u>
Surplus as regards policyholders, December 31 current year	<u><u>(\$7,886,332)</u></u>	<u><u>(\$15,787,164)</u></u>	<u><u>(\$17,021,985)</u></u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1 - Loss and Allocated Loss Adjustment Expenses ("ALAE") Reserves

The Plan retained the services of Towers Watson to prepare an independent actuarial analysis of the Plan's loss and ALAE liabilities as of December 31, 2012. The analysis is performed on a gross basis as to ceded business assumed by the Plan, as the Plan does not write any direct business or retrocede any assumed business.

Towers Watson's projection of future claim reporting and payment is based on the Plan's historical experience and industry benchmark patterns, which are used because the Plan's most recent coverage years' historical data is not sufficiently credible, stable, or mature. Towers Watson believes using the benchmark experience in an appropriate supplement to the analysis of Plan data, as it represents Towers Watson's current judgment as to the typical emergence of loss that can be expected for this class of business.

The following chart illustrates the results of Tower Watson's analysis providing the actuarial central estimate as well as a range of reasonable estimates. The Plan holds reserves for loss and ALAE at the high point of the range of estimates.

<u>Massachusetts Medical Malpractice Reinsurance Plan, Inc.</u>			
<u>Towers Watson's Estimates (000's)</u>			
<u>Low</u>	<u>Central Estimate</u>	<u>High</u>	<u>Plan Carried</u>
\$18,987	\$20,651	\$23,063	\$23,063

Note 2 - Assessment Income Payable

As noted previously in this report, under the Rules of Operation the Plan has the ability and authority to make assessments of the Members when the Governing Committee deems it necessary to fund any reserve deficiencies experienced by the Plan or, return surplus to the Members. The calculation of assessments is provided by Towers Watson and is heavily dependent on its review of the Plan's profitability and its review of indicated ultimate losses and ALAE.

During the period covered by this examination, the Plan returned a total of \$32 million dollars in surplus proportionately to the Members as illustrated below:

2007 distribution based on 2006 policy year and prior	\$8,000,000
2008 distribution based on 2007 policy year and prior	8,000,000
2009 distribution based on 2008 policy year and prior	11,000,000
2010 distribution based on 2009 policy year and prior	5,000,000

Massachusetts Medical Malpractice Reinsurance Plan, Inc.

The return assessment amount each year is based on a number of factors. The principal factors are the estimated reserves for loss and ALAE liabilities and the assessment methodology promulgated under Rule 4 of the Plan's Rules. During 2005, both of these factors were changed. The Plan decided to record and hold reserves at an 85% confidence level as calculated by Towers Watson, and the Governing Committee voted to amend Rule 4, which accelerated the assessment payment stream. The new Rule 4 resulted in increased assessment of Members for projected losses allocated to the most recent policy years, which were essentially undeveloped. As shown above, the 2010 policy year and prior showed positive loss development compared to original projections resulting in a return of surplus to Members.

SUMMARY OF RECOMMENDATIONS

Open Meeting Law

The Plan annually holds an educational retreat out of State at which various subcommittees hold meetings deliberating Plan business. This activity has been determined to be a violation of the open meeting laws as found in Massachusetts General Laws, ("MGL") Chapter 30A, Sections, 18 through 25. The Division recommends the Plan review its policy regarding meetings of all committees to assure compliance with MGL Chapter 30A, Sections 18- 25 as applicable.

Unclaimed Property

During the examination of the Plan, we noted un-cashed checks due to third parties which were outstanding for periods greater than three years. These funds fall under the State's Unclaimed Property Regulations of the Office of State Treasurer. The Plan has never filed any unclaimed property in accordance with the regulations. The Division recommends the Plan file the appropriate unclaimed property report per 960 CMR 4:00 and implement procedures to assure future compliance with these regulations.

Subcommittee Secretaries

Article VIII of the Plan of Operation require that minutes of the proceedings of each subcommittee shall be maintained by a Secretary appointed from the membership of the subcommittee. The Plan had appointed a secretary of the Governing Committee and Operations and Audit Committee however other committees did not have a Secretary appointed in compliance with Article VIII. Based on this finding, the Plan appointed Secretaries to all other committees at its 2014 annual meeting. The Division recommends that each subcommittee appoint a Secretary from its membership to assume the duty of maintaining the minutes of each proceeding of the subcommittee.

This same recommendation was made as a result of the previous examination.

Conflict of Interest

As a result of observations from the previous examination, the Plan was advised by the Division that a formal conflict of interest policy and disclosure statement should be developed and implemented. In September of 2005, the Governing Committee acted upon this recommendation and approved and adopted a new "Conflicts of Interest Policy". This newly adopted policy requires all members of the Governing Committee, subcommittees, officers, and key employees to annually sign a "Conflict of Interest Disclosure Statement". Upon reviewing the completed Conflict of Interest Disclosure Statements we learned that not all possible conflicts were disclosed. The Division recommends the Plan review its conflict of interest procedures to assure all disclosures are documented and reported.

Statement of Investment Policy, Objectives and Guidelines

The Plan has engaged an investment consultant to help manage the investment portfolio and also keep the Statement of Investment Policy, Objectives and Guidelines current reflecting any authorized amendments thereto. We noted the Investment Committee, in consultation with the consultant, approved certain changes to the investment policy however those changes were not updated in the policy. The Division recommends the Plan review the Statement of Investment Policy, Objectives and Guidelines to assure the document is current and accurate. The Plan should take steps necessary to assure the consultant is meeting its obligations under the contract. The Investment Policy should guide investment activity and should be complied with by the investment consultant and advisors.

Investment Committee Meetings

A review of the Investment Committee meeting minutes noted on one occasion that the Investment Committee met without a quorum and voted to approve a change in investment allocation based in part on a recommendation from its investment consultant. The committee should not meet without a quorum nor should action/decisions be voted upon. The Division recommends that all meetings be held only when a quorum is present and that all action be properly voted upon only when a legal meeting can be convened.

Other Than Temporary Impairments ("OTTI")

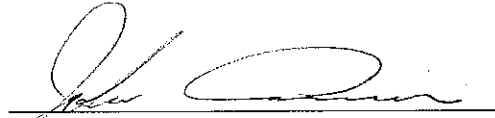
During the 2009 external audit of the Plan, SLB made an adjustment to the financial statements of approximately \$500,000 to reflect an OTTI valuation allowance for several equity investments. The Plan did not recognize these impairments in its 2009 annual statement and did not subsequent to the external auditor's adjustment reconcile the ledger or investment schedules (Schedule D) to reflect this impairment. In addition, the Plan did not make the required financial statement disclosure in Schedule D of the annual statement. These investments remained on the books until eventually disposed of. No impairment was ever recognized. The Division recommends the Plan appropriately reconcile and report the value of invested assets and comply with NAIC valuation and annual statement reporting guidelines.

Audit Management Letter Comments

The Plan's Certified Public Accountants issued a management letter as a result of its 2010 audit finding whereby there existed discrepancies between Plan management's loss data and the bordereau received from the ceding companies. SLB recommended that management prepare a detailed reconciliation of the bordereau data and the loss run each quarter. Although the Plan responded that procedures would be implemented to address the issue, the auditors issued the same management letter as a result of its 2011 audit, indicating management's assertion in its previous respond was not achieved. The Division recommends that all actions plans necessary to address any such audit concerns be executed by Plan management as asserted.

ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the MMMRP and to all the examiners during the course of the examination.

A handwritten signature in dark ink, appearing to read "John M. Curran", is written over a horizontal line.

John M. Curran, CFE
Supervising Examiner and Examiner-in-Charge
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