



COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE

Massachusetts NAHRO Insurance Group, Inc.

Boston, Massachusetts

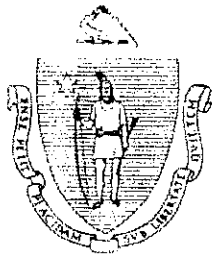
As of December 31, 2012

EMPLOYER'S ID NUMBER: 04-2901190

Massachusetts NAHRO Insurance Group, Inc.

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
History	2
Dividends to Members	3
Corporate Records	3
Board of Directors Minutes	3
Articles of Organization and Bylaws	3
Conflict of Interest Procedures	3
Disaster Recovery and Business Continuity	4
Management and Control	4
Board of Directors	4
Officers	5
Fidelity Bonds and Other Insurance	5
Growth of Group	5
Reinsurance	6
Excess Insurance Coverage	6
Territory and Plan of Operation	6
Accounts and Records	7
Financial Statements	8
Statement of Assets, Liabilities, Surplus & Other Funds	9
Statement of Income, Capital and Surplus	10
Reconciliation of Capital and Surplus	11
Notes to Financial Statements	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

November 1, 2013

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

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws ("MGL"), Chapter 152, Section 25I, an examination has been made of the financial condition and affairs of

MASSACHUSETTS NAHRO INSURANCE GROUP, INC.

at its third party administrator's office located at 510 Front Street Chicopee, Massachusetts, 01013. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Massachusetts NAHRO Insurance Group, Inc., (hereinafter referred to as “the Group” or “SIG”) was last examined by the Massachusetts Division of Insurance (“Division”) as of December 31, 2008. The current examination was conducted by the Division and covers the intervening period from January 1, 2009 through December 31, 2012, and any material transactions and/or events occurring subsequent 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 Group by obtaining information about the Group, including corporate governance, identifying and assessing inherent risks within the Group, 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. All accounts and activities of the Group were considered in accordance with the risk-focused examination process.

In addition to a review of the financial condition of the Group, the examination included a review of the Group’s business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bond and other insurance, disaster recovery plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Group 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 Group is audited annually by Meyers Brothers Kalicka, P.C., an independent certified public accounting firm. The firm expressed unqualified opinions on the Group’s financial statements for the calendar years 2009 through 2012. A review and use of the certified public accountants’ work papers was made to the extent deemed appropriate and effective.

HISTORY

The original MassNAHRO Self Insurance Group was initially established effective June 1, 1992 under the sponsorship of the Massachusetts State Chapter of the National Association of Housing and Redevelopment Officials (“NAHRO”) and has had several different insurance structures over the years. Its earliest structure used a self-insurance group trust providing insurance policies directly to its members and in turn purchased reinsurance to mitigate the risk of large loss. Effective June 1, 1997, MassNAHRO changed their approach to insuring the workers’ compensation exposures and contracted with commercial insurance companies to provide insurance to members directly, relieving the self-insurance group trust of any financial obligations and terminating the trust as a self-insurance group.

The current Group was organized and commenced business within the Commonwealth of Massachusetts on April 1, 2004, pursuant to and in accordance with Massachusetts General Law,

Massachusetts NAHRO Insurance Group, Inc.

Chapter 180, to establish a not-for-profit association of employers to constitute a workers' compensation self-insurance group. The Group was created consistent with Massachusetts General Laws Chapter 152, Section 25E through 25U, to provide a self-insured workers' compensation program for public housing authorities within the Commonwealth of Massachusetts.

Dividends to Members

The following dividends were declared and paid to the Groups members (Housing Authorities) during the period covered by this examination:

2012	\$860,000
2011	625,000
2010	599,616
2009	488,476

CORPORATE RECORDS

Board of Directors Minutes

The minutes of meetings of the Board of Directors for the period under examination were read and indicated that all meetings were held in accordance with the Group's bylaws and the laws of the Commonwealth of Massachusetts.

Articles of Organization and Bylaws

The articles of organization and bylaws of the Group as filed with and approved by the Commonwealth's Secretary of State's office were read and reviewed. As stated the purpose of the organization is to make available a self-insured workers compensation program for public housing authorities in the Commonwealth. The Group has also filed to be a tax-exempt entity under Section 501(c) (3) of the Internal Revenue Code.

Conflict of Interest Procedures

The Group has adopted a conflict of interest policy which includes 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 that is likely to conflict with his/her official duties.

The conflict of interest policy also includes a provision that requires each officer and director to sign an annual Conflict of Interest Declaration. This provision has not been implemented and therefore there is no way to substantiate whether or not the policy is being complied with or to know if any conflicts exist.

Disaster Recovery and Business Continuity

The Group has entered into an Administration Service Contract with CMS Associates, Inc. to serve as the Group's third party administrator ("TPA"). The TPA performs the day-to-day operation of the SIG. The TPA has a disaster recovery plan for the continuity of the Group's business operations in the event of a disaster. The plan was reviewed and appears to adequately address the process to resume critical business functions of the Group if necessary.

MANAGEMENT AND CONTROL

Board of Directors

In accordance with the bylaws the Board of Directors shall consist of seven unpaid individuals elected by the Members. All members of the Board shall also be representatives from Public Agencies that are participants of the Group. Directors shall serve a term of three years. Directors shall be divided into three groups and terms of directors shall be staggered over the three year period. At each annual meeting, the members shall elect approximately one-third of the directors to replace those directors whose terms have expired. Directors may serve for an unlimited number of terms.

Although not provided for in the bylaws, MGL Chapter 152, § 25J (1) and 211 CMR 67.07 (1) set out the requirements to be a member of the Board, and include the provision that directors be residents of the Commonwealth of Massachusetts. We note that the Board currently includes one director whose residency is outside of Massachusetts.

Directors serving on the Board as of December 31, 2012 are as follows:

<u>Name of Director</u>	<u>Affiliation</u>
Eugene Capoccia	Executive Director Leominster Housing Authority
Daniel Ouellete	Executive Director Salisbury Housing Authority
Constance Desbiens	Executive Director Dartmouth Housing Authority
David Hedison	Executive Director Chelmsford Housing Authority
Stephen Merritt	Executive Director Norwood Housing Authority
Rosalie Deane	Executive Director Holyoke Housing Authority
Lisa Audette	Executive Director Franklin Housing Authority

Massachusetts NAHRO Insurance Group, Inc.

Officers

Pursuant to the bylaws, the officers of the Group shall be elected by the Board and shall consist of a Chairman, Treasurer and Clerk. The Chairman shall preside at all meetings of the Group, shall be the Chief Executive Officer, and shall have general charge and supervision of the affairs of the Group. The Treasurer shall be the Chief Financial Officer, shall be in charge of its financial affairs, books of accounts, accounting records, funds, securities and valuable papers, and shall keep full and accurate records thereof. The Clerk shall record and maintain records of all proceedings of the directors and members. The Clerk shall be a resident of Massachusetts.

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

Stephen Merritt	President
Rosalie Deane	Treasurer
Lisa Audette	Clerk

We note that the officer titles as identified in the Group's formal records do not align with the provision of the bylaws, however, the functional roles of the officers do align with the requirements of the bylaws.

FIDELITY BONDS AND OTHER INSURANCE

In accordance with MGL Chapter 152, § 25G and 211 CMR 67:06, the Group's TPA shall maintain fidelity bond coverage in an amount not less than the TPA's total annual compensation or \$1,000,000, whichever is less. The TPA currently has in place fidelity bond coverage in the amount of \$750,000. Due to premium growth, the compensation of the TPA has now exceeded \$750,000, and the fidelity bond coverage will need to be increased to comply with the regulation.

GROWTH OF GROUP

The growth of the Group for the years 2009 through 2012 is shown in the following schedule, which was prepared from the Group's annual statement.

Fund Year	Net Written Premium	Admitted Assets	Liabilities	Member's Surplus
2012	\$4,918,463	\$12,094,190	\$8,545,999	\$3,548,191
2011	4,570,785	10,580,792	7,523,517	3,057,275
2010	3,986,247	9,631,328	7,153,701	2,477,927
2009	3,897,776	8,774,075	5,932,533	2,841,542

REINSURANCE

Excess Insurance Coverage

The Group maintains specific and aggregate excess workers compensation and employers liability coverage with an insurance carrier authorized to transact reinsurance in the Commonwealth of Massachusetts. The insurer is rated (A) by A.M. Best & Company. Under the annual policy, the Group retains the first \$500,000 of each occurrence subject to a limit of liability to the reinsurer meeting all statutory requirements.

The Group remains primarily liable for its obligations under its reinsurance contracts. In the event the insurer would be unable to pay its portion of any losses incurred, the Group would be liable to pay for such obligations.

TERRITORY AND PLAN OF OPERATION

The Group was organized under MGL Chapter 180 to make available a self-funded workers' compensation program for public housing authorities of the Commonwealth of Massachusetts. The goal of the Group is to establish, maintain, promote and enforce safety programs so as to assist public housing authorities in protecting themselves from unwarranted losses while providing a cost effective market in which public housing authorities may obtain workers compensation insurance.

Membership in the Group is restricted to public housing authorities in Massachusetts hence the Groups territory and plan of operation are defined and restricted by statute.

The TPA shall carry out the policies established by the Board of Directors and provide daily management of the Group. The TPA will receive an annual fee for various administrative functions that are categorized as follows:

- General Administration Services
- Claim Administration Services
- Loss Control Administration Services
- Premium Audit Services

The Group has an investment advisor, Opus Investment Management, Inc. ("Opus") which supervises and directs the investments portfolio of the Group. Opus performs its investment management obligations under guidelines established by the Groups Investment Policy Guidelines, which references guidelines included in MGL Chapter 175, Section 63. Opus supplies custodian services through an agreement with Bank of New York/Mellon who is the Qualified Custodian. Opus also provides investment accounting services and Annual Statement Schedule D reporting information.

ACCOUNTS AND RECORDS

The Group's internal control structure was discussed with management and interviews were conducted to gather supplemental information. Included was a review of the work performed by the Group's independent certified public accountants, Meyers Brothers Kalicka, P.C.

The trial balances, general ledgers and audited financial statements provided by the Group were reviewed for the examination period ending December 31, 2012. Trial balances were traced from the general ledger and supporting documents to the 2012 Annual Statement. No material exceptions were noted. The financial accounting records provided are processed and maintained by the TPA, CMS Associates, Inc., Investment accounting is supported by Opus Investment Management. The Group's systems support reporting and accounting requirements as set by the NAIC.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division of Insurance 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 the Four Year Period Ended December 31, 2012

Massachusetts NAHRO Insurance Group, Inc.

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

	Per Company	Examination Changes	Per Examination	Notes
Assets				
Bonds	\$10,626,082	\$0	\$10,626,082	
Cash on hand and on deposit	866,850		866,850	
Cash equivalents	43,255		43,255	
Short-term investments	149,949		149,949	
Subtotals, cash and invested assets	11,686,137		11,686,137	
Investment income due and accrued	91,657		91,657	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	83,674		83,674	
Deferred premiums and installments booked but deferred and not yet due	232,722		232,722	
Total Assets	<u>\$12,094,190</u>	<u>\$0</u>	<u>\$12,094,190</u>	
Liabilities, Surplus and Other Funds				
Losses	\$5,575,160		\$5,575,160	(1)
Loss adjustment expense	186,519		186,519	(1)
Unearned premiums	2,165,988		2,165,988	
Advance premium	618,332		618,332	
Total Liabilities	8,545,999		8,545,999	
Aggregate write-ins for special surplus funds	1,400,000		1,400,000	
Unassigned funds (surplus)	2,148,191		2,148,191	
Surplus as regards policyholders	3,548,191		3,548,191	
Total liabilities and policyholder surplus	<u>\$12,094,190</u>	<u>\$0</u>	<u>12,094,190</u>	

Massachusetts NAHRO Insurance Group, Inc.

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

	Per Company	Examination Changes	Per Examination
Underwriting Income			
Premiums earned	\$4,822,539	\$0	\$4,822,539
Deductions			
Losses incurred	2,338,404		2,338,404
Loss adjustment expenses incurred	221,816		221,816
Other underwriting expenses incurred	1,209,881		1,209,881
Aggregate writ-ins for underwriting deductions	0		0
Total underwriting deductions	3,770,101	0	3,770,101
Net underwriting gain (loss)	1,052,438	0	1,052,438
Investment Income			
Net investment income earned	293,594	0	293,594
Net realized capital gains or (losses)	4,884		4,884
Net investment gain or (loss)	298,478	0	298,478
Other Income			
Net income before dividends to policyholders and before federal income taxes	1,350,916		1,350,916
Dividends to policyholders	860,000		860,000
Net income	\$490,916	\$0	\$490,916
Capital and Surplus Account			
Surplus as regards policyholders, December 31 prior year	\$3,057,275	0	\$3,057,275
Net income	490,916		490,916
Change in surplus	490,916	\$0	490,916
Surplus as regards policyholders, December 31 current year	\$3,548,191	\$0	\$3,548,191

Massachusetts NAHRO Insurance Group, Inc.

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Surplus as regards policyholders, December 31 previous year	<u>\$3,057,275</u>	<u>\$2,477,927</u>	<u>\$2,841,542</u>	<u>\$2,437,457</u>
Net income (loss)	<u>490,916</u>	<u>579,348</u>	<u>(363,615)</u>	<u>404,085</u>
Change in surplus	<u>490,916</u>	<u>579,348</u>	<u>(363,615)</u>	<u>404,085</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$3,548,191</u></u>	<u><u>\$3,057,275</u></u>	<u><u>\$2,477,927</u></u>	<u><u>\$2,841,542</u></u>

NOTES TO FINANCIAL STATEMENTS

Note (1) – Loss and Loss Adjustment Expenses

The Group establishes reserves based upon the case basis estimates of its claims and an analysis of loss and loss adjustment expense reserves performed on an annual basis by an independent actuarial consulting firm, Practical Actuarial Solutions, Inc.. The Group's certified public accountants in turn rely upon this review. The Massachusetts Division of Insurance has received all available documentation of the Group's loss and loss adjustment expense reserves and has relied upon the opinion of this independent and qualified expert as deemed appropriate.

The reserve for unpaid losses and loss adjustment expenses includes an estimated provision for incurred but not reported losses (IBNR) as well as reported losses. The IBNR provision totaled approximately \$3,248,620 on an undiscounted basis as of December 31, 2012.

Note (2) – Special Surplus Funds

Effective February 28, 2006, the Group received permission from the Division to waive requirements under 211 CMR 67:03(4) whereby, at least seventy percent (70%) of the members of the Group be experienced rated. This waiver was granted provided the Group agrees to maintain special surplus funds in the amount of \$1,400,000. Those special funds are not available for any distribution without written permission of the Commissioner.


ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Group and its TPA, CMS Associates, Inc. during the examination. The assistance of Massachusetts Insurance Examiner II Brian A. Knowlton who participated in this examination is hereby acknowledged.

Respectfully submitted,



Daniel R. Dowd
Lead Examiner
Commonwealth of Massachusetts
Division of Insurance



John M. Curran, CFE
Supervising Examiner & Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance