



COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE

Massachusetts Retail Merchants Workers' Compensation Group, Inc.

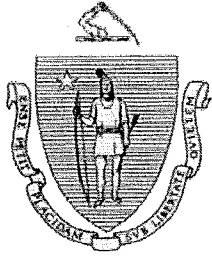
Braintree, Massachusetts

As of December 31, 2012

EMPLOYER'S ID NUMBER: 04-6683270

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COMMONWEALTH OF MASSACHUSETTS
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JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

March 24, 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 Massachusetts General Laws ("MGL"), Chapter 152, Section 25I, an examination has been made of the financial condition and affairs of

MASSACHUSETTS RETAIL MERCHANTS' WORKERS' COMPENSATION GROUP, INC.

at its administrative office located at 35 Braintree Hill Office Park, Suite 206, Braintree, Massachusetts 02184. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Massachusetts Retail Merchants Workers' Compensation Group, Inc., ("Group") was last examined by the Massachusetts Division of Insurance ("Division") as of December 31, 2006. The current examination was conducted by the Division and covers the intervening period from January 1, 2007 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. The Committee 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.

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, fidelity bond and other insurance, business continuity 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.

Feeley & Driscoll P.C., an independent certified public accounting firm, audits the Group annually. The firm expressed unqualified opinions on the Group's financial statements for the calendar years 2007 through 2012. A review and use of the certified public accountants' work papers was made to the extent deemed appropriate and effective.

HISTORY

The Group was successor-in-interest of the Massachusetts Retail Merchants Workers' Compensation Trust, an unincorporated nonprofit business trust established under an Indenture of Trust dated May 1, 1991. The Group was organized within the Commonwealth of Massachusetts on January 1, 1995, pursuant to and in accordance with Massachusetts General Law, Chapter 180, to establish a not-for profit association of employers to constitute a workers' compensation self-insurance group. Consistent with Massachusetts General Law, Chapter 152; Section 25E through 25U, the Group was created to make available a self-insured workers' compensation program for a group of retail merchants operating within the Commonwealth of Massachusetts.

The Group, by a written administrative service agreement engaged Cove Risk Services, LLC, ("Cove Risk") a workers' compensation administrator, to perform and manage the day-to-day activities of the Group. Cove Risk assumed administration of the Group in October 2011. At the time of the last exam, up to October 2011, First Cardinal LLC administered the Group.

Massachusetts Retail Merchants Workers' Compensation Group, Inc.

Dividends to Members

The Group's distribution of dividends is based on the Group's incurred loss ratio as a percentage of each Member's earned premium. The declaration of distributions payable to Members is at the discretion of the Group's Board of Directors. In accordance with Massachusetts Self-Insurance Group regulations, distributions of these amounts will not begin until twenty-four months after the end of the related policy year. Then, twenty-five percent of the distributions may be made. Subsequently, thirty-three percent, fifty percent, and one hundred percent of the recalculated distributions can be made in each of the successive years.

GROWTH OF THE GROUP

The growth of the Group was compiled from Annual Statements. The following schedule includes any changes as a result of the examination for the years 2007 through 2012.

Year	Admitted Assets	Surplus	Unpaid Losses & LAE	Gross Premiums Written	Net Income
2007	34,965,292	-0-	11,745,080	18,799,306	-0-
2008	33,604,928	-0-	14,626,580	16,515,866	-0-
2009	32,130,384	-0-	15,648,276	15,575,369	-0-
2010	30,393,692	-0-	14,653,264	15,263,955	-0-
2011	29,405,551	-0-	15,791,403	16,327,986	-0-
2012	\$27,675,165	-0-	\$15,359,884	\$17,193,009	-0-

CORPORATE RECORDS

Board of Directors Minutes

The minutes of meetings 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 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 retail merchants in the Commonwealth.

Massachusetts Retail Merchants Workers' Compensation Group, Inc.

Annual Meeting

As outlined with the amended and restated bylaws, the annual meeting of the Members is held on such date and time as determined by the Trustees each year. The annual meeting was held at the principal office of the Group or at such other place within the United States as the Board of Directors determined.

The member annual meeting quorum requirement is the majority of members (3,463 at December 31, 2012). The requirement was changed to 10% of the Members with the amended and restated bylaws effective April 9, 2009. The first member annual meeting with a quorum by proxy was held on June 23, 2011.

Conflict of Interest Procedures

The Group has not adopted a conflict of interest policy that would include 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 should also include 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 know if any conflicts exist.

Disaster Recovery and Business Continuity

Cove Risk is working to update their business continuity plan. They have been working with an IT consultant looking at options for back-ups on their AS-400. The AS-400 is the IBM server that runs the PDS system (which is premium and claims). Cove Risk is in the process of pricing an option to lease a second AS-400 for their corporate office in Latham, New York. This second server would replicate the work done in the Braintree, Massachusetts office. Cove Risk is also researching emergency office space in the greater Boston area.

MANAGEMENT AND CONTROL

Board of Directors

In accordance with the amended and restated bylaws, the Board of Directors shall be no less than three and no more than eleven individuals elected by the Members. At least two-thirds of the Directors shall be individuals who are affiliated with (as employees, directors, or officers) Members in good standing of the Group. The Board of Directors shall be divided as evenly as possible into three groups so that there will be staggered terms of office for each group of Directors. Directors shall serve a term of three years. At the annual meeting, the Members shall elect Directors, in accordance with the Director Nomination Policy, to replace those directors whose terms have expired.

The bylaws state that each Director shall be a resident of the Commonwealth of Massachusetts or an officer of a corporation authorized to do business in the Commonwealth of Massachusetts. This follows the requirements set out within MGL Chapter 152, Section 25J (1) and 211 CMR 67.07(1).

Massachusetts Retail Merchants Workers' Compensation Group, Inc.

We note that the Board currently includes one officer and director that does not meet these criteria. The Division provided the Group with approval allowing them to waive this requirement. This individual is on the Board of the Retailers Association of Massachusetts.

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

<u>Name of Director</u>	<u>Affiliation</u>
Frank Anzalotti	Executive Director, Massachusetts Package Stores Association
Robert Boyle	Stickley & Audi Co. (1)
Armen Derderian	President, A & B Package Store
Thomas Dolan	Dolan & Maloney Insurance Agency, LLC (1)
Richard Hinds	Chief Financial Officer, Foodmaster Super Markets, Inc.
Howard Honigbaum	President & Chief Financial Officer, Auto Sound Co., Inc.
Jon Hurst	Executive Director, Retailers Association of Massachusetts
Tina Messina	Business Manager, Wine Connexion

Note: (1) not affiliated with current member

Officers

Pursuant to the bylaws, the officers of the Group shall be elected by the Board and shall consist of a President, Vice President, Treasurer and Clerk. The President shall be a Director and Chief Executive Officer of the Group, and shall have general charge and supervision of the affairs of the Group. The Treasurer shall be the Chief Financial Officer and Chief Accounting Officer of the Group. He or she shall be in charge of its financial affairs, 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 Members and Directors. The Clerk shall be a resident of Massachusetts.

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

Jon Hurst	Chairman
Frank Anzalotti	Vice President
Robert Boyle	Treasurer
Richard Hinds	Secretary

Massachusetts Retail Merchants Workers' Compensation Group, Inc.

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.

Management Services Agreements

The Group has entered into an Administration Service Contract with Cove Risk Services Inc. to serve as the Group's third party administrator ("TPA").

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 is categorized as follows:

- General Administration Services
- Accounting Services
- Claim Processing Services
- Loss Control Administration 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 Group's 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.

FIDELITY BOND AND OTHER INSURANCE

In accordance with MGL Chapter 152, Section 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 had in place fidelity bond coverage in the amount of \$500,000. Due to premium growth, the compensation of the TPA has exceeded \$1,000,000, and the fidelity bond coverage was increased to comply with the regulation in 2012.

TERRITORY AND PLAN OF OPERATION

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

Massachusetts Retail Merchants Workers' Compensation Group, Inc.

STATUTORY DEPOSITS

The Company's statutory deposits as of December 31, 2012 are as follows:

Jurisdiction	Description of Deposit	Par Value	Statement Value	Market Value
Massachusetts	Freddie Mac Discount Notes .170% Due 10/01/13	\$125,000	\$124,839	\$124,859
Massachusetts	Fannie Mae Discount Notes .180% Due 01/07/13	165,000	164,995	164,997
Massachusetts	FHLB Notes 4.750% Due 12/16/16	425,000	426,153	494,585
Massachusetts	U.S Treasury Bonds 8.875% Due 2/15/19	385,000	463,911	567,273
Massachusetts	U.S Treasury Notes 3.750% Due 11/15/18	900,000	923,853	1,047,656
		<u>\$2,000,000</u>	<u>\$2,103,751</u>	<u>\$2,399,370</u>

The Security Deposits do not meet 211 CMR 67.08 (2) (d) (3) that states "Any securities or certificates of deposit shall have a remaining maturity of one year or less from their time of purchase". The amount that is pledged to the Division as a security deposit is \$2,103,751. The portion of this amount that is short-term is \$289,834. The remaining amount is with long term Bonds. The Division provided the Group with approval to allow the group to use U.S. Government securities with maturities longer than one year as part of the group's security deposits. It is noted that the amount complies with 211 CMR 67.08 (02) (d) (1), as the amount is more than ten percent of the Group's current annual standard premium.

REINSURANCE

The Group maintains specific and aggregate excess workers compensation and employers liability coverage with insurance carriers authorized to transact reinsurance in the Commonwealth of Massachusetts. Under the annual policy, the Group retains the first \$500,000 of each occurrence subject to a limit of liability to the reinsurer of \$5,000,000 for each occurrence. The reinsurer is rated (A) by A.M. Best & Company rather than an (A+) rated as required by 211 CMR 67.21 (5) (b). This reinsurer is only rated by this one entity and it has a minimum acceptable rating. However, this rating was not in the top two categories. In years 2012 to 2014, the Division provided the Group with approval allowing them to use this company.

In years 2007 to 2012, the Division provided the Group with approval to permit the purchase of aggregate reinsurance with an attachment point up to 150% of the Group's standard premium rather than the 105% as required by the regulation.

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.

ACCOUNTS AND RECORDS

The trial balances, general ledgers, and audited financial statements provided by the Group were reviewed for the examination period 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.

The financial accounting records provided are processed and maintained by the TPA, Cove Risk Services, LLC. Investment accounting is supported by Opus Investment Management. The systems support reporting and accounting requirements as set by the NAIC for the Group's business operations.

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 NAIC as of December 31, 2012:

Statement of Assets and Liabilities as of December 31, 2012

Statement of Income for the Year Ended December 31, 2012

Massachusetts Retail Merchants Workers' Compensation Group, Inc.

**Statement of Assets and Liabilities
as of December 31, 2012**

	Per Company	Examination Changes	Per Examination	Notes
Assets				
Bonds	\$26,517,670	\$0	\$26,517,670	
Cash on hand and on deposit	299,044		299,044	
Cash equivalents	39,520		39,520	
Short-term investments	289,834		289,834	
Subtotals, cash and invested assets	27,146,068		27,146,068	
Investment income due and accrued	278,701		278,701	
Premiums and considerations:				
Deferred premiums and installments booked but deferred and not yet due	10,124		10,124	(1)
Reinsurance:				
Amounts recoverable from reinsurers	212,821		212,821	
Other amounts receivable under reinsurance contracts	0	4,043	4,043	(3)
Aggregate write-ins for other than invested assets:				
Prepaid expenses	23,408	(23,408)	0	(2)
Reinsurance Receivable	4,043	(4,043)	0	(3)
Total Assets	<u>\$27,675,165</u>	<u>(\$23,408)</u>	<u>\$27,651,757</u>	
Liabilities				
Losses	\$13,934,392		\$13,934,392	(4)
Loss adjustment expense	1,425,492		1,425,492	(4)
Other expenses	777,327		777,327	
Taxes, licenses and fees	152,067		152,067	
Advance premium	685,826	40,000	725,826	(5)
Policyholders - unpaid dividends	10,700,061	(63,408)	10,636,653	(2) (5)
Total Liabilities	<u>\$27,675,165</u>	<u>(\$23,408)</u>	<u>\$27,651,757</u>	

Massachusetts Retail Merchants Workers' Compensation Group, Inc.

Statement of Income
For the Year Ended December 31, 2012

	<u>Per Company</u>	<u>Examination Changes</u>	<u>Per Examination</u>
Underwriting Income			
Premiums earned	\$15,864,818	\$0	\$15,864,818
Deductions			
Losses incurred	7,584,901		7,584,901
Loss adjustment expenses incurred	2,407,448		2,407,448
Other underwriting expenses incurred	3,496,671		3,496,671
Total underwriting deductions	<u>13,489,020</u>	<u>0</u>	<u>13,489,020</u>
Net underwriting gain (loss)	<u>2,375,798</u>	<u>0</u>	<u>2,375,798</u>
Investment Income			
Net investment income earned	914,441	0	914,441
Net realized capital gains or (losses)	<u>94,295</u>		<u>94,295</u>
Net investment gain or (loss)	<u>1,008,736</u>	<u>0</u>	<u>1,008,736</u>
Other Income	<u>170,844</u>	<u>0</u>	<u>170,844</u>
Net income before dividends to policyholders	3,555,378		3,555,378
Dividends to policyholders	3,555,378		3,555,378
Net income	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

NOTES TO FINANCIAL STATEMENTS

Note (1) Deferred Premiums **\$10,124**

The net amount of \$10,124 for deferred premiums of \$78,847 minus the over 90 days amount of \$68,723 was listed on page 2, line 15.2, (columns 1 and 3) of the 2012 Annual Statement. Per the NAIC annual statement instructions, the \$78,847 should be listed in column 1 and the \$68,723 should have been listed in column 2 as non-admitted.

Note (2) Prepaid expenses **\$0**

Per the NAIC annual statement instructions, the total amount of \$23,408 for prepaid expenses on page 2, line 25.01 of the 2012 Annual Statement should be listed in column 2 as non-admitted.

Note (3) Aggregate write-ins for other than invested assets **\$4,043**

The amount of \$4,043 for Reinsurance receivable on page 2, line 25.02 of the 2012 Annual Statement should be listed with Other amounts receivable under reinsurance contracts on page 2, line 16.3.

Note (4) Loss and Loss Adjustment Expenses **\$15,359,884**

The Group establishes reserves based upon the case basis estimates of its claims and an analysis of loss and loss adjustment expenses reserves performed on an annual basis by an independent actuarial consulting firm, Milliman, 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 expenses reserves and has relied upon the opinion of this independent actuarial firm as 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 \$7,880,891 on an undiscounted basis as of December 31, 2012.

The net loss and loss adjustment expenses reserves reported have been discounted using a discount factor not in excess of the discount factor that would result from use of the interest rate and loss payment prescribed by and under section 846 of the Internal Revenue Code of 1986, as amended. Such discounting of loss and loss adjustment expenses is permitted by Massachusetts Regulation, 211 CMR 67.08 (2).

The unpaid losses and loss adjustment expenses were discounted approximately \$2,518,619 for a net carried reserve of \$15,359,884 at December 31, 2012.

Massachusetts Retail Merchants Workers' Compensation Group, Inc.

Note (5) Advance Premium

\$40,000

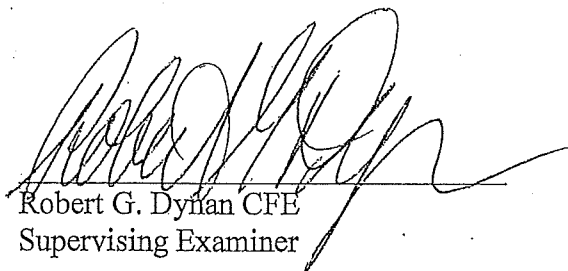
There was a transposition error of \$40,000 with the administrator's calculation of the Advance Premium amount. The amount listed on page 3, line 10 of the 2012 annual statement was \$685,826. The amount should be \$725,826. The report total for the 2013 Credits of \$487,881 was listed on the TPA's reconciliation as \$447,881.

ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Group and its TPA, Cove Risk Services, LLC during the examination.



Brian A. Knowlton
Examiner-In-Charge



Robert G. Dyhan CFE
Supervising Examiner