



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

REPORT OF EXAMINATION OF THE
ASSOCIATED EMPLOYERS INSURANCE COMPANY

Burlington, Massachusetts

As of December 31, 2013

NAIC GROUP CODE 2498

NAIC COMPANY CODE 11104

EMPLOYERS ID NUMBER 04-3553686

ASSOCIATED EMPLOYERS INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS
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DIVISION OF INSURANCE

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GARY D. ANDERSON
ACTING COMMISSIONER OF INSURANCE

April 21, 2015

Honorable Gary D. Anderson
Acting 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, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

ASSOCIATED EMPLOYERS INSURANCE COMPANY

at its home office located at 54 Third Avenue, Burlington, MA, 01803. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Associated Employers Insurance Company ("Company" or "AEIC") was last examined as of December 31, 2008 by the Massachusetts Division of Insurance ("Division"). The current examination was conducted by the Division and covers the five-year period from January 1, 2009 through December 31, 2013, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The current 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* ("Handbook"), the examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, 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, when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, disaster recovery plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Company 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 Company is audited annually by Ernst & Young LLP ("E&Y"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2009 through 2013. A review and use of the Certified Public Accountants' work papers was made to the extent deemed appropriate and effective. An independent actuarial firm, AGI Services, was retained by the Division to evaluate the adequacy of the Company's loss and loss adjustment expense reserves as of December 31, 2013. Additionally, the Division engaged AGI Services to review the adequacy and effectiveness of the IT systems controls to determine the level of reliance to be placed on the information generated by the data processing systems.

SUBSEQUENT EVENTS

Effective January 1, 2015, the Company increased its catastrophe coverage by \$25 million. The 2015 reinsurance program provides a per occurrence limit of \$75 million with a \$25 million maximum any one life ("MAOL"). The catastrophe layers provide full terror and nuclear, biological, chemical and radiological coverage. Capacity and pricing for these layers has been secured for two years through December 31, 2016.

COMPANY HISTORY

General

On March 12, 2001, Associated Industries of Massachusetts Mutual Insurance Company ("A.I.M. Mutual") contributed \$3 million in capital and surplus to form a wholly owned subsidiary, AEIC. AEIC was issued a Certificate of Authority to write workers' compensation and employers' liability coverages in Massachusetts on April 1, 2001. In 2013, they became licensed in Connecticut to write workers' compensation and employers' liability coverages.

Capital Stock

AEIC has authorized and issued 30,000 shares of \$20.00 par value common stock, all of which is owned by A.I.M. Mutual.

CORPORATE RECORDS

Board of Directors Minutes

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

Articles of Organization and Bylaws

The articles of organization and bylaws and amendments thereto were reviewed. In 2011, the Company amended its articles of organization to allow them to do business in other states. The amendment to the articles of organization has been approved by the Division.

Associated Employers Insurance Company

Conflict of Interest Procedures

The Company has a policy statement pertaining to conflict of interest. In support of its answer to Question 14 of Part 1 General Interrogatories of the Annual Statement, the Company has an established procedure for the disclosure to the Board of any material interest or affiliation on the part of any officer or director which is in or is likely to conflict with his official duties. Annually, each officer and director completes a questionnaire disclosing any material conflicts of interest. The completed questionnaires were reviewed and no discrepancies were noted to contradict the Company's response to the General Interrogatory regarding conflicts of interest as reported in the Company's 2013 Annual Statement.

Disaster Recovery and Business Continuity

The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with Massachusetts General Laws ("M.G.L.") Chapter 175, Sections 180M through 180Q.

MANAGEMENT AND CONTROL

Board of Directors

According to the bylaws, the Board shall have supervision and control of the business, property, affairs and management of the Company. The Board shall consist of not less than three or more than twelve Directors with the number of Directors determined at each annual stockholders meeting coinciding with the expiration of one or more Director's term. Each Director holds office until the annual meeting of the stockholders in the years designated by the Incorporators of the Corporation and until his or her successor is duly elected and qualified.

At December 31, 2013, the Company's Board was composed of six persons, which is in compliance with the Company's bylaws and the General Laws of Massachusetts. The members of the Board are as follows:

<u>Director</u>	<u>Business Affiliation</u>
John A. Myers	Executive Chairman and CEO A.I.M. Mutual Insurance Company
Robert R. Cella	Vice President A.I.M. Mutual Insurance Company
John J. Gould	Vice Chairman A.I.M. Mutual Insurance Company
Richard C. Lord	President and CEO Associated Industries of Massachusetts
Gregory R. Shah	Vice President A.I.M. Mutual Insurance Company
Michael E. Standing	* President A.I.M. Mutual Insurance Company

Associated Employers Insurance Company

* In May 2013, the Board was expanded to six and Michael Standing was elected as a Director.

Committees of the Board of Directors

The Company's bylaws allow that the Board shall authorize such committees as it deems necessary, including a Nominating Committee, to conduct the business of the Board and shall appoint persons to serve thereon. In accord therewith, the Board appointed an Investment Committee to monitor the performance of the Company's investments and authorize the purchase and/or sale of securities and an Audit Committee to provide assistance to the Board in fulfilling their oversight responsibility relating to the integrity of the Company's financial reporting process. All members of the Audit Committee are independent Directors. The Audit Committee is composed of Directors Ralph P. Schlenker, Chairman, John J. Gould, and Michael G. Faucher. The Investment Committee is composed of Directors Gregory Shah, Chairman, John J. Gould, John A. Myers, and Wells Sampson.

Minutes of the Investment Committee documented regular meetings of the Investment Committee members with representatives of the Company's investment advisors/managers, GR-NEAM. Minutes of the Audit Committee documented regular meetings of the Audit Committee with the Company's independent auditors, E & Y.

Officers

According to the Company's bylaws, the officers of the Board shall include a Chairperson and also the Board shall elect the officers of the Company. The officers of the Company shall be the President, the Secretary, the Clerk, the Treasurer, and such other officers as deemed necessary. The officers shall hold their respective office for one year and thereafter until their successors are elected and qualified. The persons elected by the Board to serve as officers shall be the same person(s) who hold(s) the corresponding office of the Company's majority stockholder. No officer need be a stockholder or Director.

The bylaws state that the President shall be the Chief Executive Officer of the Company. The President shall perform such duties as are required by law or which usually pertain to such office and shall exercise such other powers and perform such other duties as may be assigned by the Board. In addition to what is defined explicitly in the bylaws, the Company's officers shall have and may exercise such duties and powers as are prescribed by law, are commonly incident to his or her office and as the Board may from time to time prescribe. Except as otherwise required or prohibited by law, any one or more offices may be held by the same person.

The officers of the Company at December 31, 2013 are as follows:

<u>Name</u>	<u>Title</u>
John A. Myers	Executive Chairman of the Board and Chief Executive Officer
Michael E. Standing	* President
Gregory R. Shah	Vice President and Secretary/Treasurer

Associated Employers Insurance Company

Robert R. Cella	Vice President
Michael P. Kelley	*** Vice President
Paul M. Kehoe	** Controller

*January 1, 2015 Michael Standing became Chief Executive Officer.

**January 1, 2015 Paul Kehoe, Controller became Vice President and Treasurer.

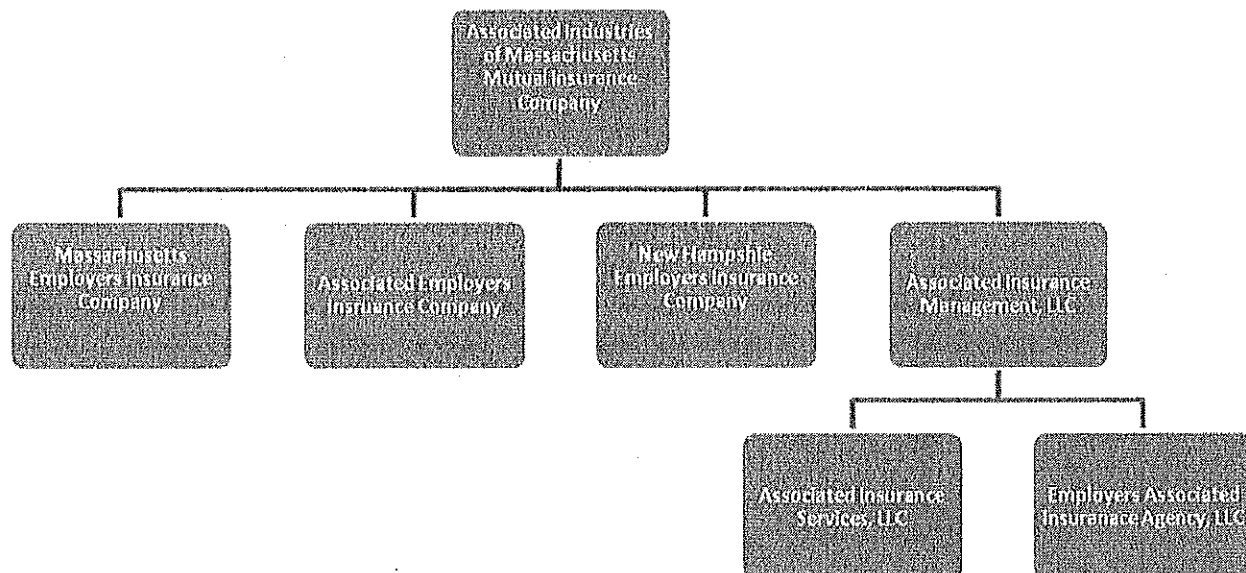
***February 2014 Michael Kelley resigned as Vice President Claim.

Affiliated Companies

As stated in the Insurance Company Holding Company System Form B and C as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of M.G.L., Chapter 175, Section 206C and Regulation 211 CMR 7.00. Ultimate control of the holding company system is held by A.I.M. Mutual. The Company became part of the holding company system on March 12, 2001.

Organization Chart

At December 31, 2013, the following companies were part of the following organizational structure:



Associated Employers Insurance Company

Transactions and Agreements with Subsidiaries and Affiliates

Management Agreement

In 2001, AEIC entered into a management service agreement with Associated Insurance Management, Inc. ("AIM Inc."), which became Associated Insurance Management, LLC ("AIM, LLC"). Under the terms of the agreement, AIM, LLC will provide all services necessary to run the business operations of AEIC. These services include but are not limited to underwriting, claims and accounting services. AEIC reimburses AIM, LLC 100% for the costs of running the business. In addition, if the Board determines that there are excess funds available for distribution to its policyholders, then AIM, LLC shall be entitled to receive 5% of any distributions paid or credited to the policyholders.

AEIC also entered into a licensing agreement with Associated Industries of Massachusetts, Inc. ("AIM") in 2001. Under the agreement, AEIC is permitted to use the Licensed Marks of AIM. These marks are "A.I.M." and "Associated Industries of Massachusetts" and the A.I.M. logo. In return for the use of these marks, AEIC pays to AIM a royalty of 3% of Earned Premiums for each calendar year provided that the maximum annual royalty payable shall be equal to the amount, if any, by which \$1,200,000 exceeds the sum of the royalty payable by A.I.M. Mutual.

Tax Sharing Agreement

The Company participates in a tax allocation agreement with its parent, A.I.M. Mutual. The allocation method is based upon the respective tax liability of each member computed as if a separate return were filed, in accordance with the Internal Revenue Code.

Pooling Agreement

Effective in 2001, AEIC entered into a pooling agreement with A.I.M. Mutual.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer, consistent with M.G.L. Chapter 175, Section 60. The aggregate limit of liability exceeds the NAIC suggested minimum.

The Company has further protected its interests and property by purchasing policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts and was in force as of December 31, 2013.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write workers' compensation and employers' liability in Massachusetts. In 2013, the Company became licensed in Connecticut.

Associated Employers Insurance Company

Treatment of Policyholders

During the course of the examination, a general review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. This review was limited in nature and was substantially narrower than a full scope market conduct examination. During the claims test work, it was noted that the Company investigates and settles claims on a timely and fair basis.

GROWTH OF THE COMPANY

The growth of the Company for the years 2009 through 2013 is shown in the following schedule, which was prepared with data from the Company's annual statements.

<u>Year</u>	<u>Admitted Assets</u>	<u>Net Premiums Written</u>	<u>Surplus</u>
2009	\$4,502,667	\$ 0	\$3,930,182
2010	4,657,474	0	4,053,201
2011	4,828,802	0	4,156,837
2012	5,091,849	0	4,308,957
2013	5,185,834	0	4,404,587

REINSURANCE

Pooling Agreement

AEIC participates in a Reinsurance Pooling Agreement with its parent, A.I.M. Mutual. The agreements became effective in 2001. Under terms of the agreement, AEIC cedes 100% to A.I.M. Mutual but does not assume from the pool.

Ceded Reinsurance

AEIC participates in the A.I.M. Mutual reinsurance treaties. There are three layers of per occurrence excess of loss reinsurance. The retention and limits are as follows: \$1,750,000 xs \$1,250,000; \$7,000,000 xs \$3,000,000 and \$15,000,000 xs \$10,000,000. Most of the coverage was purchased using the reinsurance intermediary Guy Carpenter. However, part of the third layer was purchased directly by the Company. All reinsurers are rated A or better.

They also have purchased through Guy Carpenter a per claimant treaty for \$15,000,000 xs \$10,000,000. The reinsurer is rated A or better.

Associated Employers Insurance Company

Joint Marketing Agreement

In late 2010, A.I.M. Mutual introduced the Commercial Solutions Underwriting Alliance which is a joint marketing program with Quincy Mutual Insurance Company ("Quincy Mutual"). This program provides policyholders with a complete multiline commercial program of insurance; the workers compensation policy written by AEIC and the property, liability and commercial auto policies written by Quincy Mutual. Also, A.I.M. Mutual will service Quincy Mutual's new and existing workers compensation business for a fee.

A.I.M. Mutual entered into a Pooling Agreement with Quincy Mutual. The initial pool would be made up of customers for whom A.I.M. Mutual currently writes the workers compensation policy and Quincy Mutual writes a companion piece of business. For the first 2 years the split is 50/50. In subsequent years the proportionate shares will be trued up based on how much premium each company writes in the pool; however, Quincy Mutual's workers compensation will always be split 50/50.

ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires, interviews and through review of the work performed by the Company's independent certified public accounting firm. Testing of the following key activities was performed: investments; premiums and underwriting; reserves and claims; reinsurance ceded; taxes and related parties. No material deficiencies were noted. The Company's claim inventory was tested on a sample basis for completeness and accuracy. No material errors or exceptions were detected.

The NAIC provides a questionnaire covering the evaluation of the controls in the IT systems environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the IT controls. In addition to the questionnaire, interviews with Company staff were conducted to gather supplemental information and corroborate the Company's responses to the questionnaire. A review was also made of the documentation supporting Management and Organization Controls, Application Systems Development and Maintenance Controls, Operating and Processing Controls, Logical and Physical Security Controls, Contingency Controls, Personal Computer, Local Area Network ("LAN"), Wide Area Network ("WAN") and Internet Controls. No material deficiencies were noted.

The Company maintains its accounts and records on an electronic data processing basis. All entries are input to this data processing system, which then generates general ledger and supporting reports, as well as other reports common to the insurance industry. No material exceptions were noted.

The books and records of the Company are audited annually by E & Y, independent certified public accountants, in accordance with 211 CMR 23.00 and 211 CMR 26.00.

Associated Employers Insurance Company

STATUTORY DEPOSITS

<u>Jurisdiction</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Connecticut	U.S. Treasury Note .625% Due 8/31/17	\$ 50,000	\$ 49,903	\$ 49,067
		<u>\$ 50,000</u>	<u>\$ 49,903</u>	<u>\$ 49,067</u>

FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2013. The financial statements are the responsibility of Company management. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2013

Statement of Income for the Year Ended December 31, 2013

Statement of Capital and Surplus as of December 31, 2013

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2013

Associated Employers Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2013

	As Reported by the Company	Examination Changes	Per Statutory Examination
Assets			
Bonds	\$ 5,084,399	\$ 0	\$ 5,084,399
Cash and short term investments	70,386		70,386
Subtotals, cash and invested assets	5,154,785	0	5,154,785
Investment income due and accrued	20,517		20,517
Reinsurance:			
Amounts recoverable from reinsurers	9,561		9,561
Aggregate write-ins for other than invested assets	971		971
 Total Assets	 <u>\$ 5,185,834</u>	 <u>\$ 0</u>	 <u>\$ 5,185,834</u>
 Liabilities			
Other expenses	\$ 1,687	\$ 0	\$ 1,687
Current federal and foreign income tax (including \$18,550 on realized capital gains (losses))	55,041		55,041
Ceded reinsurance premiums payable	310,952		310,952
Amounts withheld on account of others	186,511		186,511
Payable to parent, subsidiaries and affiliates	227,056		227,056
Total liabilities	781,247		781,247
Common capital stock	600,000		600,000
Gross paid in and contributed surplus	2,400,000		2,400,000
Unassigned funds	1,404,587		1,404,587
Surplus as regards policyholders	4,404,587	0	4,404,587
 Total Liabilities, Surplus and Other Funds	 <u>\$ 5,185,834</u>	 <u>\$ 0</u>	 <u>\$ 5,185,834</u>

Associated Employers Insurance Company
Statement of Income
For the Year Ended December 31, 2013

	As Reported by the Company	Examination Changes	Per Statutory Examination
Premiums earned	\$ 0	\$ 0	\$ 0
Deductions			
Losses incurred	0		0
Total underwriting deductions	0	0	0
Net underwriting gain (loss)	0	0	0
Net investment income earned	98,112		98,112
Net realized capital gains (losses) less capital gains tax of \$18,551	36,011		36,011
Net investment gain (loss)	134,123	0	134,123
Aggregate write ins for miscellaneous income	(2,003)		(2,003)
Total other income	(2,003)	0	(2,003)
Net income before dividends to policyholders	132,120		132,120
Net income after dividends to policyholders after capital gains tax and before all other federal and foreign income taxes	132,120	0	132,120
Federal and foreign taxes incurred	36,490		36,490
Net Income (loss)	\$ 95,630	\$ 0	\$ 95,630

Associated Employers Insurance Company
Statement of Capital and Surplus
As of December 31, 2013

	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>
Surplus as regards policyholders, December 31, 2012	\$ 4,308,957	\$ 0	\$ 4,308,957
Net income	<u>95,630</u>		<u>95,630</u>
Change in surplus as regards policyholders for the year	<u>95,630</u>	<u>0</u>	<u>95,630</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$ 4,404,587</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 4,404,587</u></u>

Associated Employers Insurance Company
Reconciliation of Capital and Surplus
For Each Year in the Five Year Period Ended December 31, 2013

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital and Surplus, December 31, prior year	\$ 4,308,957	\$ 4,156,837	\$ 4,053,201	\$ 3,930,182	\$ 3,810,655
Net income	<u>95,630</u>	<u>152,120</u>	<u>103,636</u>	<u>123,019</u>	<u>119,527</u>
Net change in capital and surplus for the year	<u>95,630</u>	<u>152,120</u>	<u>103,636</u>	<u>123,019</u>	<u>119,527</u>
Capital and Surplus, December 31, current year	<u><u>\$ 4,404,587</u></u>	<u><u>\$ 4,308,957</u></u>	<u><u>\$ 4,156,837</u></u>	<u><u>\$ 4,053,201</u></u>	<u><u>\$ 3,930,182</u></u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

Summary of Loss and Loss Adjustment Expense Reserves (“Loss and LAE Reserves”)

The Division engaged AGI Services to review the reasonableness of the loss and LAE reserves of the Company as of December 31, 2013. The review was conducted in a manner consistent with the Code of Professional Conduct and the Qualification Standards of the American Academy of Actuaries and the Standard of Practice adopted by the Actuarial Standards Board.


The table below shows the findings resulting from their actuarial evaluation of the company on a gross of reinsurance basis.

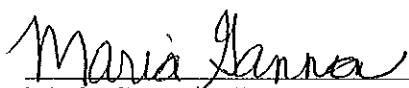
	Low Point of Range	Select Estimate	High Point of Range
AGI Services Estimate	\$23.1 million	\$25.7 million	\$29.6 million
Company Carried	30.4 million	30.4 million	30.4 million
Company Carried over/(under)AGI Services	7.3 million	4.7 million	.8 million

ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the course of the examination.

The assistance rendered by AGI Services who participated in this examination is hereby acknowledged:


Raffaele J. Ciaramella, Jr., CFE
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance


Maria Gannon, CFE
Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance