



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

***REPORT OF EXAMINATION OF THE***  
**MASSACHUSETTS EMPLOYERS INSURANCE COMPANY**

**Burlington, Massachusetts**

**As of December 31, 2013**

**NAIC GROUP CODE 2498**

**NAIC COMPANY CODE 12886**

**EMPLOYERS ID NUMBER 84-1725054**

# MASSACHUSETTS EMPLOYERS INSURANCE COMPANY

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**COMMONWEALTH OF MASSACHUSETTS**  
**Office of Consumer Affairs and Business Regulation**  
**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

**MASSACHUSETTS 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**

Massachusetts Employers Insurance Company ("Company" or "MEIC") 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 January 26, 2007, Associated Industries of Massachusetts Mutual Insurance Company ("A.I.M. Mutual") contributed \$3 million in capital and surplus to form a wholly owned subsidiary, MEIC. MEIC was issued a Certificate of Authority to write workers' compensation and employers' liability coverages in Massachusetts on February 13, 2007.

### **Capital Stock**

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

### **Dividends to Policyholders**

The Board of Directors ("Board") authorized dividends to be paid to the Company's policyholders during the period of examination amounting to \$60,991. The Company paid the following dividends during the five-year period of the examination:

- The Company paid policyholder dividends of \$5,401 to policyholders in 2009.
- The Company paid policyholder dividends of \$55,590 to policyholders in 2010.
- The Company paid policyholder dividends of \$0 to policyholders in 2011.
- The Company paid policyholder dividends of \$0 to policyholders in 2012.
- The Company paid policyholder dividends of \$0 to policyholders in 2013.

## **CORPORATE RECORDS**

### **Board of Directors Minutes**

The minutes of the 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.

## Massachusetts Employers Insurance Company

### Articles of Organization and Bylaws

The articles of organization and bylaws and amendments thereto were reviewed. There were no changes to the articles of organization or the bylaws during the exam period.

### 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 stockholder's 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 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

## Massachusetts Employers Insurance Company

Gregory R. Shah		Associated Industries of Massachusetts Vice President A.I.M. Mutual Insurance Company
Michael E. Standing	*	President A.I.M. Mutual 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 of Directors 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 and powers 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 such powers and duties 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.

## Massachusetts Employers Insurance Company

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
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.

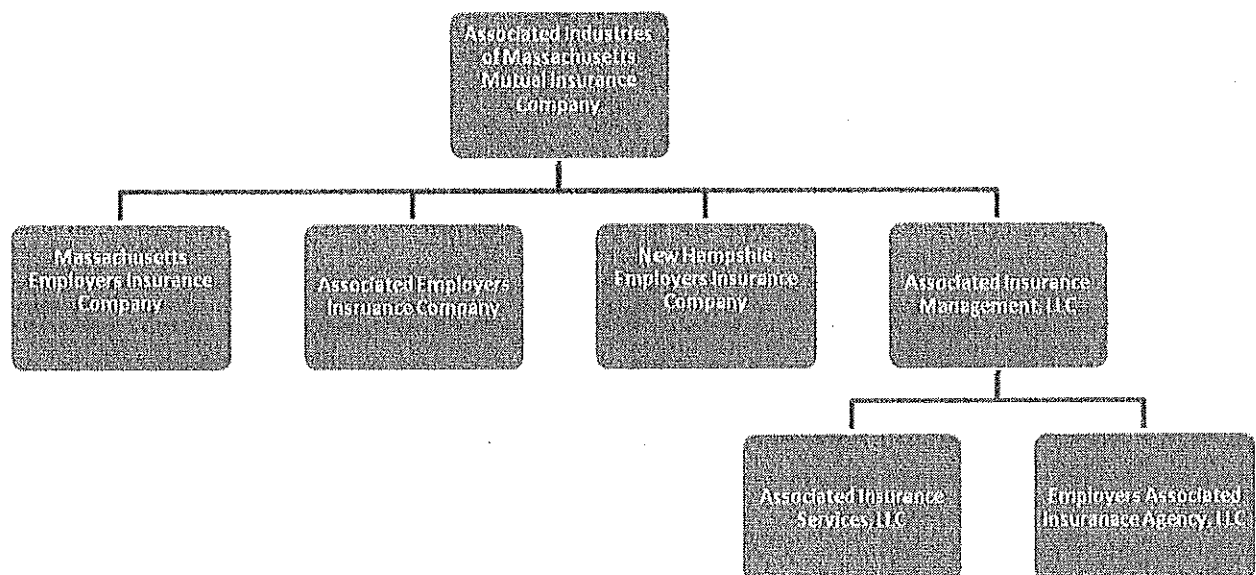
\*\*\*February 2014 Michael Kelley resigned as Vice President Claim.

### 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 February 13, 2007.

### Organization Chart

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





## Massachusetts Employers Insurance Company

### Transactions and Agreements with Subsidiaries and Affiliates

#### *Management Agreement*

In 2007, MEIC 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 MEIC. These services include but are not limited to underwriting, claims and accounting services. MEIC 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.

MEIC also entered into a licensing agreement with Associated Industries of Massachusetts, Inc. ("AIM") in 2007. Under the agreement, MEIC 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, MEIC 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 2007, MEIC 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.

## Massachusetts 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	\$3,827,386	\$ 0	\$3,334,592
2010	4,022,560	0	3,387,261
2011	4,224,341	0	3,456,265
2012	4,140,950	0	3,540,310
2013	4,088,704	0	3,560,950

### REINSURANCE

#### Pooling Agreement

MEIC participates in a Reinsurance Pooling Agreement with its parent, A.I.M. Mutual. The agreement became effective in 2007. Under terms of the agreement, MEIC cedes 100% to A.I.M. Mutual but does not assume from the pool.

#### Ceded Reinsurance

MEIC 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.

**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.

**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 statement 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

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

	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>
<b>Assets</b>			
Bonds	\$ 4,049,134	\$ 0	\$ 4,049,134
Cash and short term investments	29,982		29,982
Subtotals, cash and invested assets	4,079,116	0	4,079,116
Investment income due and accrued	9,588		9,588
Total Assets	<u>\$ 4,088,704</u>	<u>\$ 0</u>	<u>\$ 4,088,704</u>
<b>Liabilities</b>			
Other expenses	\$ 1,598	\$ 0	\$ 1,598
Current federal and foreign income tax	10,339		10,339
Ceded reinsurance premiums payable	84,546		84,546
Amounts withheld on account of others	133,523		133,523
Payable to parent, subsidiaries and affiliates	297,748		297,748
Total liabilities	527,754		527,754
Common capital stock	600,000		600,000
Gross paid in and contributed surplus	2,400,000		2,400,000
Unassigned funds	560,950		560,950
Surplus as regards policyholders	3,560,950	0	3,560,950
Total Liabilities, Surplus and Other Funds	<u>\$ 4,088,704</u>	<u>\$ 0</u>	<u>\$ 4,088,704</u>

Massachusetts 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	31,056		31,056
Net realized capital gains (losses) less capital gains tax of \$0	(2)		(2)
Net investment gain (loss)	31,054	0	31,054
Aggregate write ins for miscellaneous income	(75)		(75)
Total other income	(75)	0	(75)
Net income before dividends to policyholders	30,979		30,979
Net income after dividends to policyholders			
after capital gains tax and before all other federal and foreign income taxes	30,979	0	30,979
Federal and foreign taxes incurred	10,339		10,339
Net Income (loss)	\$ 20,640	\$ 0	\$ 20,640

Massachusetts 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	\$ 3,540,310	\$ 0	\$ 3,540,310
Net income	<u>20,640</u>		<u>20,640</u>
Change in surplus as regards policyholders for the year	<u>20,640</u>	<u>0</u>	<u>20,640</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$ 3,560,950</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 3,560,950</u></u>

Massachusetts 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	\$ 3,540,310	\$ 3,456,265	\$ 3,387,261	\$ 3,334,592	\$ 3,255,331
Net income	<u>20,640</u>	<u>84,045</u>	<u>69,004</u>	<u>52,669</u>	<u>79,261</u>
Net change in capital and surplus for the year	<u>20,640</u>	<u>84,045</u>	<u>69,004</u>	<u>52,669</u>	<u>79,261</u>
Capital and Surplus, December 31, current year	<u>\$ 3,560,950</u>	<u>\$ 3,540,310</u>	<u>\$ 3,456,265</u>	<u>\$ 3,387,261</u>	<u>\$ 3,334,592</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.

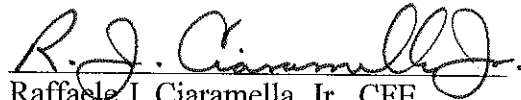
	Low Point of Range	Select Estimate	High Point of Range
AGI Services Estimate	\$24.5 million	\$27.2 million	\$31.3 million
Company Carried	33.4 million	33.4 million	33.4 million
Company Carried over/(under)AGI Services	8.9 million	6.2 million	2.1 million

Massachusetts Employers Insurance Company

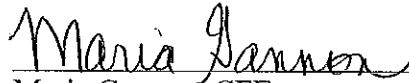
**ACKNOWLEDGEMENT**

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