



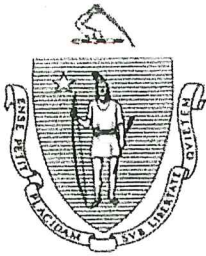
COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE
ABC Massachusetts Workers' Compensation Self-Insurance Group, Inc.
Chicopee, Massachusetts
As of December 31, 2017

EMPLOYER ID NUMBER 04-3209117

ABC MASSACHUSETTS WORKERS' COMPENSATION SELF-INSURANCE GROUP, INC.

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COMMONWEALTH OF MASSACHUSETTS
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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

November 4, 2019

The Honorable Gary D. Anderson
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 152, Section 25I, an examination has been made of the financial condition and affairs of the

ABC MASSACHUSETTS WORKERS' COMPENSATION SELF-INSURANCE GROUP, INC.

at its administrative office located at 711 East Main Street, Suite 201, Chicopee, Massachusetts, 01020. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

ABC Massachusetts Workers' Compensation Self-Insurance Group, Inc. ("ABC" or "Group") was last examined as of December 31, 2014 by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the three-year period from January 1, 2015 through December 31, 2017, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the 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 current and 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.

All accounts and activities of the Group were considered in accordance with a modified risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Group's financial statements.

This examination report includes significant findings of fact, and general information about the Group and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Group.

The Group is audited annually by BDO USA, LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Group's financial statements for the calendar years 2015 through 2017. A review and use of the Certified Public Accountants' work papers were made to the extent deemed appropriate and effective.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

Advance Premium

The Group did not comply with Massachusetts General Laws, Chapter 152, Section 25Q and 211 Commonwealth of Massachusetts Regulation ("CMR") 67.06 requiring that the Group collect at least twenty-five percent of each member's annual premium prior to the start of the Group's fund year. It is recommended that the Group comply with the above noted statute and regulation. In addition, 211 CMR 67.08 require the Group to adhere to NAIC Accounting Practices and Procedures as well as NAIC Annual and Quarterly Financial Statement Reporting Guidelines in reporting these advance premium payments.

ABC Massachusetts Compensation Self-Insurance Group, Inc.

Unclaimed Property

It was noted during the previous examination that the Group had not filed its unclaimed property report in compliance with 960 CMR 4 and Massachusetts General Laws, Chapter 200A, Section 7. Although the Group has since filed the unclaimed property report, the filing was incomplete as all escheatable funds were not remitted. It is recommended that proper controls and procedures be put in place to ensure that all escheatable funds are remitted to the Unclaimed Property Division of the Massachusetts State Treasurer.

GROUP HISTORY

General

The Group was organized on October 27, 1993 and commenced business within the Commonwealth of Massachusetts on November 1, 1993, pursuant to and in accordance with Massachusetts General Laws, 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, Sections 25E through 25U and 211 CMR 67.00 to provide workers' compensation coverage for a group of eligible companies which are engaged in the Massachusetts building and contracting industry.

During the operating period under review, the Group has engaged FutureComp, a subsidiary of USI Insurance Services, to perform and manage the day-to-day activities of the Group through a written management services agreement.

Dividends

The Group may accrue dividends from a fund year's operating results and make a dividend distribution to the members in accordance with the formula guidelines provided for by 211 CMR 67.08. The following amounts were paid as dividends to policyholders (members) during the period covered by this examination:

2017	\$(519,157)
2016	(740,760)
2015	481,894

MANAGEMENT AND CONTROL

Board of Trustees Minutes

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

ABC Massachusetts Compensation Self-Insurance Group, Inc.

Article of Organization and Bylaws

The articles of organization and bylaws of the Group were reviewed. The Group was formed under Massachusetts General Law, Chapter 180 to operate as a workers' compensation self-insurance group as defined by Chapter 152 of the General Laws in order to support the activities for a group of eligible companies which provide construction services as determined by the Board; are a corporation or other business entity in good standing and doing business in the Commonwealth of Massachusetts, or be a subsidiary or affiliate of such an organization or entity, or be another related entity sponsored by such an organization or entity; are a member of the Associated Builders and Contractors of Massachusetts; and meet the established underwriting criteria.

Board of Trustees

According to the bylaws, the Group's business shall be managed by a Board of Trustees which may exercise all of the powers of the Group, except as otherwise provided by the articles of organization, by law, or the bylaws. The Board of Trustees shall consist of not fewer than three nor more than eleven Trustees. The Group's Board of Trustees consisted of the following individuals:

<u>Name of Trustees</u>	<u>Title</u>
Sarah Badway	Vice President, Plumb House, Inc.
Pauline Lally	President, Piping Systems, Inc.
Jane Kaplan Peck	Chief Operating Officer, Kaplan Construction
Rory Moulton	Vice President - Construction, Methuen Construction Company, Inc.
Joseph Whitney	President, North Shore Mechanical Contractors, Inc.
Samuel Tabasky	Chief Financial Officer, Medford Wellington Service Company, Inc.
Anthony J. Tocco	President, Tocco Building Systems
Christopher McCauley	Vice President - Service, Rivers Electrical Corporation
Tim Barton	Vice President, DECCO, Inc.
Tim Hjermstad	Director of Safety, Florence Electric LLC

Officers

Officers of the Group as of December 31, 2017 were as follows:

<u>Name of Officers</u>	<u>Title</u>
Sarah Badway	President
Pauline Lally	Treasurer
Jane Kaplan Peck	Clerk

ABC Massachusetts Compensation Self-Insurance Group, Inc.

Management Services Agreement

The Group has in place a management services agreement with FutureComp whereby the management company has the authority and responsibility to conduct, supervise, and manage the day-to-day operations of the Group. Included in the scope of this agreement are all accounting and reporting functions; premium billing, collection and underwriting; claim administration and case management; and all other administrative functions deemed necessary.

TERRITORY AND PLAN OF OPERATION

The Group is permitted to transact workers' compensation business only in the Commonwealth of Massachusetts to qualifying members which provide construction services. The Group reported \$3.46 million of 2017 direct premium written in Massachusetts.

REINSURANCE

Ceded Reinsurance

The Group maintains specific and aggregate excess workers compensation coverage through Midwest Employers Casualty Company, which is licensed and authorized in the Commonwealth of Massachusetts and rated "A+" by A.M. Best & Company. The Group's specific retention for 2017 was \$850,000. The limits of liability per occurrence and in aggregate for each year under examination were \$5,000,000.

FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Group with the Division and present the financial condition of the Group for the period ending December 31, 2017. The financial statements are the responsibility of Group 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, 2017

Statement of Income for the Year Ended December 31, 2017

ABC Massachusetts Compensation Self-Insurance Group, Inc.

Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2017

	Per Annual Statement
ASSETS	
Bonds	\$ 4,091,339
Cash, cash equivalents and short-term investments	659,220
Subtotals, cash and invested assets	<u>4,750,560</u>
Investment income due and accrued	29,661
Uncollected premiums and agents' balances	90,092
Total Assets	<u>\$ 4,870,313</u>
LIABILITIES	
Losses	\$ 3,830,716
Loss adjustment expenses	346,371
Other expenses	122,958
Taxes, licenses and fees	14,749
Dividends declared and unpaid: Policyholders	470,424
Ceded reinsurance premiums payable	<u>85,095</u>
Total Liabilities	<u>4,870,313</u>
SURPLUS	
Surplus as regards policyholders	<u>-</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 4,870,313</u>

ABC Massachusetts Compensation Self-Insurance Group, Inc.

Statement of Income
For the Year Ended December 31, 2017

	Per Annual Statement
Premiums earned	\$ 2,829,826
Deductions:	
Losses incurred	2,557,600
Loss adjustment expenses	291,710
Other underwriting expenses	622,848
Total underwriting deductions	3,472,158
Net underwriting gain (loss)	(642,332)
Net investment income earned	119,824
Net realized capital gains (losses) less capital gains tax	3,350
Net investment gain (loss)	123,174
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(519,157)
Dividends to policyholders	(519,157)
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	-
Federal and foreign income taxes incurred	-
Net income	\$ 0

ANALYSIS OF CHANGE IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

The Group's annual statement reported the net of amounts receivable from members and payable to members as the balance of uncollected premiums and agents' balances in the course of collection indicated below. The reported amount also includes balances due aged over ninety days. Reporting of the account balances in compliance with Statutory Accounting Principles resulted in the examination adjustments indicated below.

<u>Summary of Reclassifications</u>				
<u>Annual Statement Line Item</u>	<u>Balance per Annual Statement</u>	<u>Increase</u>	<u>Decrease</u>	<u>Adjusted Balance</u>
<i>Uncollected premiums and agents' balances in the course of collection</i>	\$ 90,092	\$ 0	\$ 77,513	\$ 12,579
<i>Dividends declared and unpaid: Policyholders</i>	\$ 470,424	\$ 0	\$ 124,756	\$ 345,669
<i>Aggregate write-ins for liabilities</i>	\$ 0	\$ 47,242	\$ 0	\$ 47,242
<i>Aggregate write-ins for underwriting deductions</i>	\$ 0	\$ 124,756	\$ 0	\$ 124,756

COMMENTS ON FINANCIAL STATEMENT ITEMS

Loss and Loss Adjustment Expenses ("LAE") Reserves

The Group retained the services of Milliman, Inc. ("Milliman") to prepare an independent actuarial analysis of the Group's loss and LAE liabilities as of December 31, 2017. The analysis is performed on a net basis.

Milliman's projection of future claim reporting and payment is based on ABC's historical results supplemented with applicable insurance industry data where deemed appropriate. The use of industry data adds uncertainty to Milliman's estimates.

Milliman evaluated the loss reserves on an undiscounted basis with regard to the time value of money. The net loss reserves reported on Page 3 of the statutory Annual Statement have been discounted using a discount factor that would result from use of the interest rates and loss payment patterns prescribed by and under section 846 of the Internal Revenue code of 1986, as amended. Such discount of loss and LAE reserves is permitted by Massachusetts Regulation 211 CMR 67.00.

The following chart illustrates the results of Milliman's analysis providing the actuarial central estimate. The Group holds reserves for loss and LAE at the central estimate.

ABC Massachusetts Workers' Compensation Self-Insurance Group, Inc.

<u>ABC Massachusetts Workers' Compensation Self-Insurance Group, Inc.</u>			
<u>Milliman's</u> <u>Central Estimate</u>	<u>Group Carried</u>	<u>Discount</u>	<u>Group Carried</u> <u>Discounted</u>
\$4,526,214	\$4,526,216	\$(349,129)	\$4,177,087

SUBSEQUENT EVENTS

The Group and its administrator have revised its policy relating to certain termination provisions contained in the Membership Indemnity Agreement. These changes recognize different scenarios of voluntary termination by members.

SUMMARY OF RECOMMENDATIONS

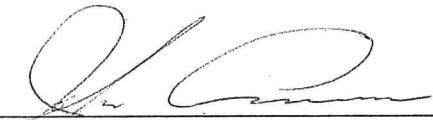
There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in the report.

SIGNATURE PAGE

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

The assistance rendered by the following examiner participating in this examination is acknowledged.

Michael Lewandowski, Financial Examiner II



John M. Curran, CFE
Supervising Examiner and EIC
Commonwealth of Massachusetts
Division of Insurance