



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

REPORT OF EXAMINATION OF THE
SCHOOL TRANSPORTATION ASSOCIATION OF MASSACHUSETTS
SELF-INSURANCE GROUP, INC.

East Bridgewater, Massachusetts

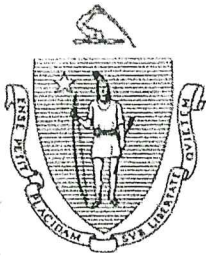
As of December 31, 2017

EMPLOYER ID NUMBER 04-3236715

STAM WORKERS' COMPENSATION SELF-INSURANCE GROUP, INC.

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Summary of Significant Findings of Fact	2
Group History	3
General	3
Dividends	3
Management and Control	3
Board of Directors Minutes	3
Articles of Organization and Bylaws	3
Board of Directors	4
Officers	4
Management Services Agreement	4
Territory and Plan of Operation	4
Reinsurance	5
Ceded Reinsurance	5
Financial Statements	6
Statement of Assets, Liabilities, Surplus and Other Funds	7
Statement of Income	8
Comments on Financial Statement Items	9
Summary of Recommendations	9
Signature Page	10



COMMONWEALTH OF MASSACHUSETTS
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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

May 8, 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

SCHOOL TRANSPORTATION ASSOCIATION OF 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

School Transportation Association of Massachusetts Workers' Compensation Self-Insurance Group, Inc. ("STAM" 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, as mentioned in the Massachusetts General Laws, Chapter 152, Section 25I, and general information about the insurer 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 ("BDO"), 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

There were no significant findings as a result of this examination.

STAM Workers' Compensation Self-Insurance Group, Inc.

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 Law, 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 Law, Chapter 152, and Section 25E through 25U and 211 Commonwealth of Massachusetts Regulation ("CMR") 67.00 to provide workers' compensation coverage for a group of eligible companies which are engaged in the Massachusetts school transportation industry.

During the operating period under review, the Group has engaged FutureComp ("Administrator"), 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 declared as dividends to policyholders (members) during the period covered by this examination:

2017	\$ 716,336
2016	1,245,366
2015	748,676

MANAGEMENT AND CONTROL

Board of Directors Minutes

The minutes of meetings of the Board of Directors for the period under examination were read and they indicated that all meetings were held in accordance with the Group's bylaws, with the exception that the Board of Directors met three times during each year under examination and not each quarter as required. However, this schedule does not appear to have impacted any operations of the Group. If three meetings per year is considered to be the minimum number of scheduled meetings necessary, the Group should amend its bylaws to reflect this as an operating standard. The minutes indicate that all meeting were held in accordance with the Laws of the Commonwealth of Massachusetts.

Article of Organization and Bylaws

The articles of organization and bylaws of the Group were reviewed. The Group was formed under Massachusetts General Laws, Chapter 180 to operate as a workers' compensation self-insurance

STAM Workers' Compensation Self-Insurance Group, Inc.

group as defined by Chapter 152 of the General Law in order to support the activities for a group of eligible companies which are engaged in the Massachusetts school transportation industry.

Board of Directors

According to the bylaws, the Group's business shall be managed by a Board of Directors 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 Directors shall consist of not fewer than three nor more than eleven Directors. The Group's Board of Directors consisted of the following individuals:

<u>Name of Director</u>	<u>Title</u>
Stephen Ingle	Owner, Joseph Ingle Bus Service
Clayton Tellstone	President, Tellstone & Son, Inc.
Eric Amaral	Vice President, Amaral Auto & Truck Driving School
Keith Jenkins	President, Carl B. Liebenow, Inc.
Jose Amaral	President, Amaral Bus Company, Inc.
Kevin Penney	Transportation Coordinator, Vendetti Motors, Inc.
Kristin Binette	Safety Manager, NRT Bus, Inc.
David Strong, Jr.	President, Strong Corporation
Michael Blondin	General Manager, East Coast Transit Services, Inc.
Theresa Lecrenski	Vice President, Five Star Transportation

Officers

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

<u>Name of Officers</u>	<u>Title</u>
Stephen Ingle	President
Clayton Tellstone	Vice President
Frank Underhill	Treasurer/Clerk

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 a workers' compensation self-insurance group permitted to transact workers' compensation business only in the Commonwealth of Massachusetts to qualifying members

STAM Workers' Compensation Self-Insurance Group, Inc.

engaged in the Massachusetts school transportation industry. Members must have a payroll domiciled in the Commonwealth of Massachusetts. As of the examination date, the Group consisted of 51 active members. The Group reported \$3.8 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 \$750,000. The limits of liability per occurrence and in aggregate for each year under examination were \$5,000,000.

STAM Workers' Compensation Self-Insurance Group, Inc.

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.

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

Statement of Income for the Year Ended December 31, 2017

STAM Workers' Compensation Self-Insurance Group, Inc.

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

	Per Annual Statement
ASSETS	
Bonds	\$ 5,006,970
Cash, cash equivalents and short-term investments	2,226,596
Subtotals, cash and invested assets	<u>7,233,566</u>
Investment income due and accrued	33,204
Uncollected premiums and agents' balances	240
Total Assets	<u>\$ 7,267,010</u>
LIABILITIES	
Losses	\$ 2,070,027
Loss adjustment expenses	274,265
Other expenses	70,295
Taxes, licenses and fees	17,699
Dividends declared and unpaid: Policyholders	<u>4,834,724</u>
Total Liabilities	<u>7,267,010</u>
SURPLUS	
Surplus as regards policyholders	<u>-</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 7,267,010</u>

STAM Workers' Compensation Self-Insurance Group, Inc.

Statement of Income
For the Year Ended December 31, 2017

	Per Annual Statement
Premiums earned	\$ 3,456,916
Deductions:	
Losses incurred	1,669,689
Loss adjustment expenses	195,592
Other underwriting expenses	953,921
Total underwriting deductions	2,819,202
Net underwriting gain (loss)	637,714
Net investment income earned	78,541
Net realized capital gains (losses) less capital gains tax	81
Net investment gain (loss)	78,622
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	716,336
Dividends to policyholders	716,336
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

STAM Workers' Compensation Self-Insurance Group, Inc.

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 STAM's historical results supplemented with applicable insurance industry data where deemed appropriated. 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.

<u>School Transportation Association of Massachusetts Workers' Compensation Self-Insurance Group, Inc.</u>			
<u>Milliman's Central Estimate</u>	<u>Group Carried</u>	<u>Discount</u>	<u>Group Carried Discounted</u>
\$2,536,283	\$2,536,282	\$(191,990)	\$2,344,292

SUMMARY OF RECOMMENDATIONS

There are no formal recommendation as a result of this examination.

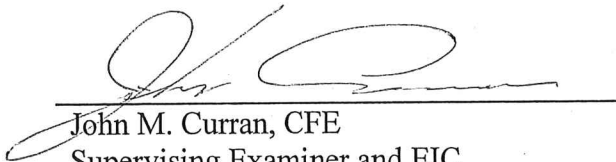
STAM Workers' Compensation Self-Insurance Group, Inc.

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