



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

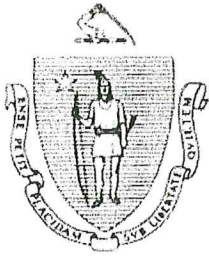
REPORT OF EXAMINATION OF THE
Independent Schools Compensation Corporation
Chicopee, Massachusetts
As of December 31, 2017

EMPLOYER ID NUMBER 04-3149237

INDEPENDENT SCHOOLS COMPENSATION CORPORATION

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Summary of Significant Findings of Fact	2
Advance Premium	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	3
Officers	4
Management Services Agreement	4
Territory and Plan of Operation	5
Reinsurance	5
Ceded Reinsurance	5
Financial Statements	5
Statement of Assets, Liabilities, Surplus and Other Funds	6
Statement of Income	7
Analysis of Change in Financial Statements Resulting From Examination	8
Comments on Financial Statement Items	8
Subsequent Events	8
Summary of Recommendations	9
Signature Page	10



COMMONWEALTH OF MASSACHUSETTS
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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

September 26, 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

INDEPENDENT SCHOOLS COMPENSATION CORPORATION

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

Independent Schools Compensation Corporation (“ISCC” 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 Shores, Tagman, Butler & Company, P.A., 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 requires 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.

GROUP HISTORY

General

The Group was organized within the Commonwealth of Massachusetts and commenced business within the Commonwealth of Massachusetts on April 1, 1992, 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 educational institutions in Massachusetts.

During the operating period under review, the Group engaged Meadowbrook/TPA Associates 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	\$2,759,580
2016	3,673,484
2015	3,539,100

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 and the laws of the Commonwealth of Massachusetts.

Article of Organization and Bylaws

The articles of organization and bylaws of the Group were reviewed. There were no changes to the articles of organization and bylaws during the examination period. Further, the Group has been in compliance with the article of organization and bylaws.

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

Independent Schools Compensation Corporation

organization, by law, or the bylaws. There are two classes of members: Class A members shall consist of those members who at the time first accepted into membership had an annual manual Massachusetts workers' compensation premium less than \$350,000; Class B shall consist of those members who at the time first accepted into membership had an annual manual Massachusetts workers' compensation premium equal to or greater than \$350,000. The number of Class A Directors shall be no fewer than nine and are elected by the members to serve a term of three years. Five Class B Members listed in the bylaws may nominate one Director for membership, and the Board may elect the nominee as a Director who will serve at the discretion of the nominator. The Group's Board of Directors consisted of the following individuals:

<u>Name of Directors</u>	<u>Title</u>
Thompson T. Greenlaw	Chief Operating Officer and Assistant Head for Strategic Initiatives, The Ethel Walker School
Melissa Fletcher	AVP for Finance and Controller, Wellesley College
Rosiane LaRose	Associate Controller, Trustees of The Smith College
Edward J. Gotgart	Director of Business Administration, Framingham Public Schools
Paul Wykes	Business Manager, Clark University
John Burns	Director of Finance and Operations, The Pingree School
Laura A. Gaudette	Budget Manager, Belmont Hill School, Inc.
Elizabeth R. Dionne	Director of Finance and Assistant Treasurer, College of the Holy Cross
Stephen Nigro	Controller, Amherst College
Kathleen Sambuco	Associate Director of Human Services, Boston Symphony Orchestra
Bruce T. Amsbary	Director of Finance & Operations, The Rivers School Corporation
Peter Shea	Director of Finance, Roxbury Latin School

Officers

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

<u>Name of Officers</u>	<u>Title</u>
Thompson T. Greenlaw	President
Edward J. Gotgart	Secretary/Clerk
Bruce T. Amsbary	Treasurer

Management Services Agreement

During the period under examination, the Group had in place a management services agreement with Meadowbrook/TPA Associates whereby the management company had the authority and responsibility to conduct, supervise and manage the day-to-day operations of the Group. Included

Independent Schools Compensation Corporation

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 are educational institutions. The Group reported \$9.5 million of 2017 direct premium written in Massachusetts.

REINSURANCE

Ceded Reinsurance

The Group maintains specific and aggregate excess workers compensation coverage through Arch Insurance 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 \$600,000. The reinsurer's limit of liability per occurrence for each year under examination was \$5,000,000. The Group does not have aggregate excess coverage in place but instead maintains a \$1,000,000 fund restricted within the assets of the Group.

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

Independent Schools Compensation Corporation

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

	Per Annual Statement
ASSETS	
Bonds	\$ 14,680,721
Cash, cash equivalents and short-term investments	4,680,029
Subtotals, cash and invested assets	<u>19,360,750</u>
Investment income due and accrued	128,349
Uncollected premiums and agents' balances	(80,009)
Deferred premiums	141,586
Amounts recoverable from reinsurers	311,079
Total Assets	<u>\$ 19,861,755</u>
LIABILITIES	
Losses	\$ 6,570,666
Loss adjustment expenses	1,461,082
Other expenses	75,998
Taxes, licenses and fees	249,861
Dividends declared and unpaid: Policyholders	11,480,419
Ceded reinsurance premiums payable	22,493
Total Liabilities	<u>19,860,519</u>
SURPLUS	
Aggregate write-ins for other-than-special surplus funds	\$ 1,236
Surplus as regards policyholders	<u>1,236</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 19,861,755</u>

Independent Schools Compensation Corporation

Statement of Income For the Year Ended December 31, 2017

	Per Annual Statement
Premiums earned	\$ 9,088,167
Deductions:	
Losses incurred	4,761,173
Loss adjustment expenses	951,298
Other underwriting expenses	1,147,594
Total underwriting deductions	6,860,065
Net underwriting gain (loss)	2,228,102
Net investment income earned	428,467
Net realized capital gains (losses) less capital gains tax	40,156
Net investment gain (loss)	468,623
Aggregate write-ins for miscellaneous income	62,855
Net investment gain (loss)	62,855
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	2,759,580
Dividends to policyholders	2,759,580
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

Independent Schools Compensation Corporation

ANALYSIS OF CHANGE IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There have been no changes made to the financial statements as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Loss and Loss Adjustment Expenses ("LAE") Reserves

The Group retained the services of Willis Towers Watson ("Willis") 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 gross and net basis.

Willis' projection of future claim reporting and payment is based on the compilation of Meadowbrook/TPA Associates self-insured groups experience. In cases for which historical data was not sufficiently credible, stable or mature, Willis supplemented Meadowbrook/TPA Associates self-insured groups experience with benchmark reporting and payment patterns based on analysis of U.S. industry data.

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 Willis' analysis providing the actuarial central estimate and the reserves for loss and LAE and the reserves carried by the Group. The Group's carried reserves are within Willis' range of reasonable estimates.

<u>Independent Schools Compensation Corporation</u> (Dollars in thousands)			
	<u>Gross of Excess Insurance</u>	<u>Net of Excess Insurance</u>	<u>Discounted Reserve</u>
<u>Willis' Central Estimate</u>	\$9,504	\$8,782	\$8,052
<u>Group Carried</u>	\$9,527	\$8,805	\$8,032

SUBSEQUENT EVENTS

Effective January 1, 2018, ISCC 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, replacing Meadowbrook/TPA Associates.

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 this report.

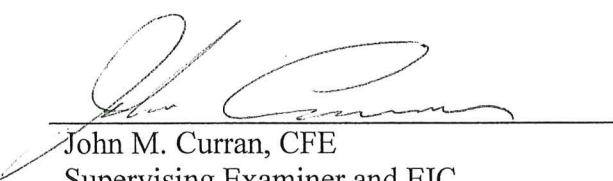
Independent Schools Compensation Corporation

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