



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.

West Springfield, Massachusetts

As of December 31, 2014

EMPLOYER ID NUMBER 04-3209117

ABC MASSACHUSETTS WORKERS' COMPENSATION SIG, INC.

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COMMONWEALTH OF MASSACHUSETTS
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February 1, 2017

The Honorable Daniel R. Judson
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 123 Interstate Drive, West Springfield, Massachusetts 01089.
The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The ABC Workers' Compensation Self-Insurance Group, Inc. ("Group") was last examined as of December 31, 2010, by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the four-year period from January 1, 2011 through December 31, 2014, 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*, 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 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. 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 Group were considered in accordance with a modified risk-focused examination process.

In addition to a review of the financial condition of the Group, the examination included a review of the Group's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bond and other insurance, disaster recovery plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Group 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 Group is audited annually by the firm of Feeley & Driscoll, P.C., an independent certified public accounting firm. The firm expressed unqualified opinions on the Group's financial statements for the calendar years 2011 through 2014. A review and use of the certified public accountants' work papers were made available to the examiners and were utilized to the extent considered appropriate.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

Unclaimed Property

The Group does not file the unclaimed property report in compliance with 960 CMR 4 and Massachusetts General Laws, Chapter 200A, Section 7.

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, to provide workers' compensation coverage for a group of eligible companies which are engaged in the Massachusetts building and contracting industry.

The Group, by a written administrative service agreement, engages FutureComp to perform and manage the day-to-day activities of the Group. FutureComp is a subsidiary of USI Insurance Services, which acquired FutureComp with its purchase of TD Insurance on November 1, 2012.

Dividends

In accordance with 211 CMR 67.08 (4), if actuarially sound, the Group may declare and accrue dividend liabilities from a fund year's operating activity during that fund year, but shall not begin distributions for that fund year until at least 24 month after the end of the fund year.

The following amounts were reported as dividends declared and unpaid each year covered by this examination.

2014	\$1,816,488
2013	1,758,251
2012	1,589,182
2011	2,122,894

Under the distribution formula provided for by 211 CMR 67.08 (4) the following amounts were paid and distributed as dividends to policyholders (members) during the period covered by this examination.

2014	\$ 454,398
2013	766,322
2012	1,048,458
2011	815,415

MANAGEMENT AND CONTROL

Annual Meeting of the Members

Per the Group's bylaws the annual meeting of the members shall be held on the third Monday of September each year or such other date as may be determined by the Board of Trustees. During

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

the period covered by the examination, the annual meetings have been held in September as prescribed by the bylaws.

Board of Trustees Minutes

The minutes of meetings of the Board of Trustees ("Board") for the period under examination were reviewed. Actions taken and approved by the Board at each meeting appear to meet the requirements of the bylaws and laws of the Commonwealth of Massachusetts.

Articles 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 group as defined by Chapter 152 of the General Law in order to support the activities for a group of eligible companies which provide construction services as determined by the Board; be 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; be a member of the Associated Builders and Contractors of Massachusetts; and satisfy 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 Incorporation, by law, or the bylaws. The Board of Trustees shall consist of not fewer than three and no more than eleven, which shall serve for a term of three years. The Group's Board of Trustees consisted of the following individuals:

<u>Name of Trustee</u>	<u>Title</u>
Jay Annarelli	Operations Manager, Medford Wellington
Sarah Badway	Vice President, Plumb House Inc./Dalton Builders, Inc.
Joseph Bafaro, Jr.	Controller, J.J. Bafaro.
Joe Barbone	CEO, Methuen Construction Company, Inc.
Tim Barton	Vice President, DECCO, Inc.
Richard Davis	President, DeAngelis Iron Work, Inc.
Jane Kaplan Peck	Owner, Kaplan Contrustion
Pauline Lally	President, Piping Systems, Inc.
Christopher McCauley	Vice President, Rivers Electrical Corporation
Anthony Tocco	President, Tocco Building Systems
Joseph Whitney	President, North Shore Mechanical Contractors, Inc.

Officers

Officers of the Group as of December 31, 2014 were as follows:

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

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

Note: The position of Vice President as required by the bylaws has not been filled. We recommend the Trustees elect a Vice President in compliance with its bylaws.

Management Services Agreement

The Group has in place a Management Service Agreement with FutureComp whereby the management company ("Third Party Administrator") 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 is 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 engaged in the construction industry in the Commonwealth of Massachusetts. In order to qualify for membership, an applicant must meet certain requirements established by the Board as well as be a member of the Associated Builders and Contractors of Massachusetts. As of the examination date, the Group consisted of 34 active members.

REINSURANCE

Massachusetts General Law, Chapter 152, Section 25G and 211 CMR 67.21 requires the Group to have in place reinsurance or excess insurance coverage. The Group's retention is required to be actuarially sound and shall not be more than 30% of the net premium of the Group up to a maximum of \$500,000. The specific excess coverage shall be at least \$5,000,000 per occurrence. The Regulation allows for these limits to be revisited after a Group has been in operation for three years.

For 2014, 2013 and 2012, the Group's net retention was \$850,000 and for 2011 the retention was \$750,000, which exceeds the maximum allowable retention. The aggregate limit of liability each year has been \$5,000,000, which is consistent with the regulation.

The Group's excess reinsurance coverage is placed with Midwest Employers Casualty Company, which is licensed and authorized in the Commonwealth of Massachusetts and rated "A" by A.M. Best & Company, which meets the guidelines included in the regulation.

FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by the Third Party Administrator and filed by the Group with the Division and present the financial condition of the Group for the period ending December 31, 2014. The financial statements are the responsibility of the Group's management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2014

Statement of Income for the Year Ended December 31, 2014

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

ABC Massachusetts Workers' Compensation Self-Insurance Group, Inc.
Statement of Assets, Liabilities, Surplus and Other Funds
as of December 31, 2014

	Per Annual Statement
Assets	
Bonds	\$3,456,038
Cash, cash equivalents, and short-term investments	667,608
Subtotals, cash and invested assets	4,123,646
Investment income due and accrued	31,199
Total Assets	\$4,154,846
Liabilities	
Losses	\$1,980,050
Loss adjustment expense	177,339
Other expenses	110,892
Taxes, licenses and fees	12,920
Dividends declared and unpaid:	
Policyholders	1,816,488
Ceded reinsurance premiums payable	26,828
Payable to members	30,329
Total Liabilities	4,154,846
Surplus as regards policyholders	0
Total liabilities and policyholder surplus	\$4,154,846

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

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

Statement of Income

For the Year Ended December 31, 2014

	Per Annual Statement
Underwriting Income	
Premiums earned	\$2,671,712
Deductions	
Losses incurred	1,551,430
Loss adjustment expenses incurred	236,025
Other underwriting expenses incurred	491,818
Total underwriting deductions	2,279,273
Net underwriting gain (loss)	392,439
Investment Income	
Net investment income earned	108,709
Net realized capital gains or (losses)	11,486
Net investment gain or (loss)	120,195
Net income before dividends to policyholders and before federal income taxes	512,634
Dividends to Policyholders	512,634
Net Income	\$0

SIGNATURE PAGE

Acknowledgement is made of the cooperation and courtesies extended by the Trustees and employees of the Group's administrator, FutureComp, during the examination.

The assistance rendered by the following Division examiner who participated in the examination is hereby acknowledged.

D. Bob Dowd, Examiner II



John M. Curran, CFE
Supervising Examiner & Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance