



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

REPORT OF EXAMINATION OF THE
NEELA COMPENSATION, INC.

West Springfield, Massachusetts

As of December 31, 2014

EMPLOYER ID NUMBER 04-3092393

NEEIA COMPENSATION, INC.

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COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

1000 Washington Street, Suite 810 • Boston, MA 02118-6200
(617) 521-7794 • Toll free (877) 563-4467
<http://www.mass.gov/doi>

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AND BUSINESS REGULATION

DANIEL R. JUDSON
COMMISSIONER OF INSURANCE

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

NEEIA COMPENSATION, INC.

at its administrative office located at 123 Interstate Drive, West Springfield, Massachusetts 01089.
The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

NEEIA Compensation, Inc. ("Group") was last examined as of December 31, 2010, by the Massachusetts Division of Insurance ("Division"). The current examination of 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 in the course of the 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 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 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.

Fiscal Year

The Group operates on a fund year, each ending on December 31st. According to the Articles of Organization the Group declared the last day of June each year as its fiscal year-end. The Group

NEEIA Compensation, Inc.

should formally amend its Articles of Organization to reflect December 31st of each year as the fiscal year-end, coinciding with the fund year under which the Group currently operates and reports its financial condition.

GROUP HISTORY

General

The Group was organized on June 1, 1990, 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. Consistent with Massachusetts General Laws, Chapter 152, Sections 25E through 25U, the Group was created to provide a self-insured workers' compensation program to support the interest of colleges and schools engaged in the educational industry within the Commonwealth of Massachusetts. The Group commenced business on July 1, 1990.

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 months after the end of the fund year.

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

2014	\$15,691,933
2013	14,821,710
2012	15,180,786
2011	14,618,511

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	\$3,450,342
2013	3,461,788
2012	3,783,251
2011	3,589,449

MANAGEMENT AND CONTROL

Annual Meeting of the Members

The annual meeting of the members shall be held in June of each year. In December of each year, the Group holds an election meeting for the purpose of electing trustees.

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 the 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 Laws in order to support the interest of colleges and schools engaged in the educational industry in Massachusetts. The Group's current bylaws reflect changes and amendments as of December 31, 2011 and were non-substantive. The most significant change was to allow for participation at meetings via electronic media.

Board of Trustees

According to the bylaws, the Group's business shall be managed by a Board of Trustees which may exercise all powers of the Group, except as otherwise provided by the articles of organization, by law, or the bylaws. The Board may be composed of ten members, nine of which shall be elected by and from the membership. The tenth member shall be "trustee emeritus" which shall be filled by the immediate past president of the Group for a term of office until the next immediate past president is seated. The trustee emeritus is a non-voting position. The Group's Board of Trustees consisted of the following individuals:

<u>Name of Trustee</u>	<u>Title</u>
Thomas Pistorino	Vice President of Finance & Business, Regis College Trustee Emeritus
Karen Kruppa	Risk Manager, Suffolk University
Anne Marie Martorana	Vice President & Chief Financial Officer, Wheelock College
Richard Wood	Chief Financial Officer, Northfield Mont Hermon School
Michael Curley	University Compliance Officer, Worcester Polytechnic Institute
Jeannette Angles	Risk Manager, Babson College
Thomas Dybick	Vice President of Finance, American International College
Lynne O'Toole	Vice President of Finance, Endicott College
Keith Sbriscia	Associate Director of Human Resources, Bay Path University
Andrea Nix	Director of Finance & Assistant Treasurer, Philips Academy

NEEIA Compensation, Inc.

Officers

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

<u>Name of Officers</u>	<u>Title</u>
Karen Kruppa	President
Anne Marie Martorana	Vice President
Richard Wood	Treasurer
Jeannette Angles	Secretary

Management Service 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 permitted to transact workers' compensation business only in the Commonwealth of Massachusetts to qualifying members in good standing of New England Educators Insurance Association, Inc. ("NEEIA"). Members must also be a member in good standing of the New England Association of Schools and Colleges or such other bona fide industry, trade or professional organization designated by the Board. Members must also be an organization which is tax-exempt under Section 501(C) (3) of the Internal Revenue Code. Members must have a payroll domiciled in the Commonwealth of Massachusetts. As of the examination date, the Group consisted of 34 active members.

REINSURANCE

Massachusetts General Laws, Chapter 152, Sections 25G and 211 CMR 67.21 requires the Group to have in place reinsurance and 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 the Group's net retention was \$1,000,000 and for 2013, 2012, and 2011 the net retention was set at \$750,000.

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.

NEEIA Compensation, Inc.

The Group's 2014 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. For years 2002 through 2013 coverage was placed with Safety National Casualty Corporation.

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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

NEEIA Compensation Inc.

**NEEIA Compensation, Inc,
Statement of Assets, Liabilities, Surplus and Other Funds
as of December 31, 2014**

	Per Annual Statement
Assets	
Bonds	\$18,002,309
Cash, cash equivalents, and short-term investments	1,145,675
Subtotals, cash and invested assets	19,147,984
Investment income due and accrued	159,099
Reinsurance:	
Amounts recoverable from reinsurer	13,584
 Total Assets	 \$19,320,667
Liabilities	
Losses	\$3,360,596
Loss adjustment expense	158,231
Other expenses	70,302
Taxes, licenses and fees	34,746
Dividends declared and unpaid:	
Policyholders	15,691,933
Ceded reinsurance premiums payable	4,861
Total Liabilities	19,320,668
Surplus as regards policyholders	0
Total liabilities and policyholder surplus	\$19,320,668

NEEIA Compensation Inc.

NEEIA Compensation, Inc, Statement of Income For the Year Ended December 31, 2014


	Per Annual Statement
Underwriting Income	
Premiums earned	\$6,638,793
Deductions	
Losses incurred	1,807,900
Loss adjustment expenses incurred	431,620
Other underwriting expenses incurred	679,176
Total underwriting deductions	2,918,696
Net underwriting gain (loss)	3,720,097
Investment Income	
Net investment income earned	546,023
Net realized capital gains or (losses)	53,704
Net investment gain or (loss)	599,728
Application Fees	739
Net income before dividends to policyholders and before federal income taxes	4,320,565
Dividends to Policyholders	4,320,565
Net income after dividends to policholders and before federal income taxes	0
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