



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

REPORT OF EXAMINATION OF THE
COMMONWEALTH TRANSPORTATION COMPENSATION
CORPORATION

Andover, Massachusetts

As of December 31, 2014

EMPLOYER ID NUMBER 04-3167517

COMMONWEALTH TRANSPORTATION COMPENSATION CORPORATION

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
Administrator	4
Territory and Plan of Operation	5
Reinsurance	5
Financial Statements	6
Statement of Assets, Liabilities, Surplus and Other Funds	7
Statement of Assets, Liabilities, Surplus and Other Funds (continued)	8
Statement of Income	9
Analysis of Change in Financial Statements Resulting From The Examination	10
Comments on Financial Statement Items	10
Subsequent Events	10
Summary of Recommendations	10
Signature Page	11



COMMONWEALTH OF MASSACHUSETTS
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COMMISSIONER OF INSURANCE

December 14, 2016

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 ("MGL"), Chapter 152, Section 25I, an examination has been made of the financial condition and affairs of

COMMONWEALTH TRANSPORTATION COMPENSATION CORPORATION

at its home office located at 10 New England Business Center, Suite 303, Andover, Massachusetts 01810. The following report thereon is respectfully submitted.

COMMONWEALTH TRANSPORTATION COMPENSATION CORPORATION

SCOPE OF EXAMINATION

Commonwealth Transportation Compensation Corporation ("Group") was last examined by the Massachusetts Division of Insurance ("Division") as of December 31, 2010. The current examination was also conducted by the Division and covers the 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 Shores, Tagman, Butler & Company, P.A. ("STB"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Group's financial statements for the calendar years 2011 through 2014. In addition, Towers Watson ("TW"), the Group's independent consulting actuary, concluded that carried reserves were reasonable as of December 31, 2014. Work papers of STB and TW were made available to the examiners and were utilized to the extent considered appropriate.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings disclosed during the current examination.

COMMONWEALTH TRANSPORTATION COMPENSATION CORPORATION

GROUP HISTORY

General

The Group was organized within the Commonwealth of Massachusetts ("Commonwealth") to constitute a workers' compensation self-insurance group under MGL, Chapter 152, Section 25E through 25U with its initial fiscal year beginning on October 1, 1992 under the name "Movers Compensation Corporation". The articles of organization were amended to change the name of the corporation to "Commonwealth Transportation Compensation Corporation" on October 23, 1992. The Group was created as a not-for-profit association to make available workers' compensation coverage for those engaged in the Massachusetts moving and transportation industry. Throughout the operating period under review, the Group, by a written administrative service agreement, has engaged Meadowbrook/TPA Associates ("Administrator"), to perform and manage the day-to-day activities of the Group.

Dividends

The Board of Directors ("Board") authorized dividends to be paid to the workers' compensation members during the period of examination.

The Group paid the following dividends during the four-year period of the examination:

- The Group paid dividends of \$1,043,652 workers' compensation members in 2011.
- The Group paid dividends of \$959,691 to workers' compensation members in 2012.
- The Group paid dividends of \$574,668 to workers' compensation members in 2013.
- The Group paid no dividends to workers' compensation members in 2014.

MANAGEMENT AND CONTROL

Board of Directors Minutes

The minutes of meetings of the Board and its Committees 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.

Articles 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 articles of organization and bylaws.

COMMONWEALTH TRANSPORTATION COMPENSATION CORPORATION

Board of Directors

Pursuant to Item (1) of MGL, Chapter 152, Section 25J, every workers' compensation self-insurance group shall be operated by a Board which shall consist of not less than three persons whom the members of a Group elect for stated terms of office. At least two of the directors shall be employees, officers, or directors of members of the Group. According to the bylaws, the Group's business shall be managed by a Board which may exercise all the powers of the Group, except as otherwise provided by law, the articles of organization, or the bylaws. The term of office for each director shall be three years or until his or her successor is elected and qualified. A director may serve for an unlimited number of years.

At December 31, 2014, the Group's Board consisted of the following individuals:

<u>Name of Director</u>	<u>Business Affiliation</u>
Paul W. Taylor	Paul W. Taylor Co., Inc.
Norris A. Walecka, Jr.	A. Walecka & Son, Inc.
Thomas Dufault	Sweeney Transportation, Inc.
Craig Palmer, Sr.*	John Palmer Moving and Storage, Inc.
Joseph Connolly	Michael J. Connolly & Sons, Inc.
David Harrison	Conlon Moving & Storage, Inc.
Lisa Rivard**	Gentle Giant Moving Company

*Resigned December 31, 2015\Retired September 30, 2015/**Resigned on December 30, 2015\Richard Giroux joined Board on July 16, 2015.

Officers

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

<u>Name of Officers</u>	<u>Title</u>
Paul W. Taylor	President
Norris A. Walecka, Jr.	Clerk
Thomas Dufault	Treasurer

Administrator

The Board of the Group appointed the Administrator in accordance with its bylaws, MGL Chapter 152 Section 25E, and 211 CMR 67.02. The Administrator is a Michigan corporation with its principal place of business in Andover, Massachusetts. The Administrator provides claims, accounting, underwriting, premium billing and collection and other administrative services to the Group.

COMMONWEALTH TRANSPORTATION COMPENSATION CORPORATION

TERRITORY AND PLAN OF OPERATION

The Group is a self-insurance group permitted to transact business only in the Commonwealth of Massachusetts.

REINSURANCE

The Group maintains an excess insurance policy, the effect of which is to limit the net liability on workers' compensation and employers' liability claims through specific excess and aggregate excess insurance. The specific excess portion provides coverage equal to statutory benefit levels for workers' compensation and \$1,000,000 for employer's liability for each accident or disease (each employee) exceeding the Group's retained limit of \$600,000 per occurrence. The aggregate excess portion provides \$5,000,000 of coverage attaching at \$5.50 per \$100 of annual remuneration subject to a minimum aggregate retention of \$4,225,726.

COMMONWEALTH TRANSPORTATION COMPENSATION CORPORATION

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, 2014. The financial statements are the responsibility of the Group's 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, 2014

Statement of Income for the Year Ended December 31, 2014

COMMONWEALTH TRANSPORTATION COMPENSATION CORPORATION

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

	Per Annual Statement
ASSETS	
Bonds	\$ 3,722,823
Cash, cash equivalents and short-term investments	1,034,144
Subtotals, cash and invested assets	<u>4,756,967</u>
Investment income due and accrued	10,338
Uncollected premiums and agents' balances in the course of collection	(15,283)
Deferred premiums, agents balances and installments bookes but deferred and not yet due	(71,680)
Amounts recoverable from reinsurers	<u>(2,749)</u>
Total Assets	<u>\$ 4,677,593</u>

COMMONWEALTH TRANSPORTATION COMPENSATION CORPORATION

Statement of Assets, Liabilities, Surplus and Other Funds (Continued) As of December 31, 2014

	Per Annual Statement
LIABILITIES	
Losses	\$ 3,024,508
Loss adjustment expenses	729,418
Other expenses	108,154
Taxes, licenses and fees	415,585
Dividends declared and unpaid to policyholders	348,547
Ceded reinsurance premiums payable	51,381
Total Liabilities	<u>4,677,593</u>
 Total Liabilities, Surplus and Other Funds	 <u><u>\$ 4,677,593</u></u>

COMMONWEALTH TRANSPORTATION COMPENSATION CORPORATION

Statement of Income For the Year Ended December 31, 2014

	Per Annual Statement.
Premiums Earned	\$ 3,815,711
Deductions:	
Losses Incurred	1,794,892
Loss adjustment expenses incurred	599,260
Other underwriting expenses incurred	715,515
Total underwriting deductions	3,109,667
Net underwriting gain/(loss)	706,044
Net investment income earned	18,657
Net realized capital gains or (losses) less capital gains tax	1,004
Net investment gain/(loss)	19,661
Net income before dividends to policyholders, after capital gains tax, and before other federal and foreign income taxes	725,705
Dividends to policyholders	725,705
Net income, after dividends to policyholders, after capital gains tax, and before other federal and foreign income taxes	-
Net income/(loss)	\$ 0

COMMONWEALTH TRANSPORTATION COMPENSATION CORPORATION

ANALYSIS OF CHANGE IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

Upon completion of the examination, it was noted that total asset should be \$4,929,142 and total liabilities should be \$4,929,142. See Comments on Financial Statement items for detail.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Advance premiums amounting to \$167,136 were not recorded to reflect premiums collected prior to year-end. In addition, advance premiums amounting to \$71,680 were reported as negative asset in line 15.2 of the annual statement instead of a liability as specified by SSAP 53 and NAIC guidance.

Overpayments of \$15,878 by members were reported as a negative asset in line 15.1 of the annual statement instead of a liability.

Other expenses was adjusted from \$108,154 to \$105,009 to properly reflect accrued expenses at December 31, 2014.

SUBSEQUENT EVENTS

In January 2016, the Board and subsequently the Group's membership made the decision to cease offering coverage to members effective February 1, 2016. The Division was formally notified on March 7, 2016 that the Group extended its 2015 policy term, for those members that needed the extension, to January 31, 2016 and that the Group will continue to operate in a run-off capacity until all claims incurred on or before January 31, 2016 have been resolved.

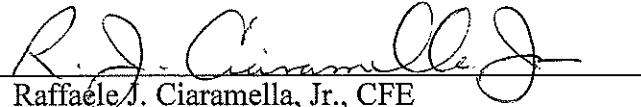
SUMMARY OF RECOMMENDATIONS

Advanced premiums should be reported as a liability as specified by SSAP 53. Also, overpayments made by members should be classified as a liability.

COMMONWEALTH TRANSPORTATION COMPENSATION CORPORATION

SIGNATURE PAGE

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

A handwritten signature in black ink, appearing to read "R. J. Ciaramella, Jr.", is written over a horizontal line.

Raffaele J. Ciaramella, Jr., CFE
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance