



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

***REPORT OF EXAMINATION OF THE***  
**INDEPENDENT SCHOOLS COMPENSATION CORPORATION**

**Andover, Massachusetts**

**As of December 31, 2014**

**EMPLOYER ID NUMBER 04-3149237**

# INDEPENDENT SCHOOLS COMPENSATION CORPORATION

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**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

**INDEPENDENT SCHOOLS 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.

# INDEPENDENT SCHOOLS COMPENSATION CORPORATION

## **SCOPE OF EXAMINATION**

Independent Schools 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 determined during this examination.

# INDEPENDENT SCHOOLS 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 April 1, 1992. The Group was created as a not-for-profit association to make available workers' compensation coverage for educational institutions in Massachusetts. 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 \$3,903,043 to workers' compensation members in 2011.
- The Group paid dividends of \$3,483,387 to workers' compensation members in 2012.
- The Group paid dividends of \$2,524,659 to workers' compensation members in 2013.
- The Group paid dividends of \$1,743,479 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.

### 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

## INDEPENDENT SCHOOLS COMPENSATION CORPORATION

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>
Bruce T. Amsbary*	Rivers School
John Burns	Pingree School
William Conley**	College of the Holy Cross
Laura A. Gaudette	Belmont Hill School
Edward J. Gotgart	The Learning Center for the Deaf
Thompson T. Greenlaw	Buckingham Browne & Nichols School
Robert D. Meyer	St. Mark's School
Stephen Nigro	Amherst College
Kathleen Sambuco	Boston Symphony Orchestra
Peter Shea	Roxbury Latin School
John Slakey	Boston Museum of Science
Laura Smiarowski***	Smith College
Jodi Williams****	Wellesley College
Paul Wykes	Clark University

\*Retired September 30, 2015/\*\*Replaced with Elizabeth Dionne, College of the Holy Cross on March 2, 2016\\*\*\*Replaced with Rosiane La Rose, Smith College on August 3, 2016\\*\*\*\*Replaced with Melissa Fletcher, Wellesley College on September 9, 2016 on a temporary basis until a permanent successor is selected.

### Officers

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

<u>Name of Officers</u>	<u>Title</u>
Thompson T Greenlaw	President
Edward J. Gotgart	Secretary/Clerk
John Slakey	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.

# INDEPENDENT SCHOOLS 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 \$500,000 per occurrence. The aggregate excess portion provides \$2,000,000 of coverage attaching at 110% of normal premium subject to a minimum aggregate retention of \$8,667,692.

# INDEPENDENT SCHOOLS 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



# INDEPENDENT SCHOOLS COMPENSATION CORPORATION

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

	Per Annual Statement
<b>ASSETS</b>	
Bonds	\$ 12,915,548
Cash, cash equivalents and short-term investments	<u>4,274,075</u>
Subtotals, cash and invested assets	<u>17,189,623</u>
Investment income due and accrued	129,584
Deferred premiums, agents' balances and installments booked but deferred and not yet due	(2,203,435)
Amounts recoverable from reinsurers	16,053
Aggregate write-ins for other than invested assets	<u>218</u>
Total Assets	<u><u>\$ 15,132,043</u></u>

# INDEPENDENT SCHOOLS COMPENSATION CORPORATION

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

	Per Annual Statement
<b>LIABILITIES</b>	
Losses	\$ 5,560,793
Loss adjustment expenses	1,393,597
Other expenses	175,513
Taxes, licenses and fees	277,429
Dividends declared and unpaid to policyholders	7,702,109
Ceded reinsurance premiums payable	23,793
Total Liabilities	<u>15,133,234</u>
Aggregate write-ins for other-than-special surplus funds	<u>(1,191)</u>
Surplus as regards policyholders	<u>(1,191)</u>
Total Liabilities, Surplus and Other Funds	<u><u>\$ 15,132,043</u></u>

# INDEPENDENT SCHOOLS COMPENSATION CORPORATION

## Statement of Income For the Year Ended December 31, 2014

	Per Annual Statement
Premiums Earned	\$ 8,182,616
Deductions:	
Losses Incurred	3,050,066
Loss adjustment expenses incurred	1,065,406
Other underwriting expenses incurred	1,238,433
Total underwriting deductions	<u>5,353,905</u>
Net underwriting gain/(loss)	<u>2,828,711</u>
 Net investment income earned	 431,491
Net realized capital gains or (losses) less capital gains tax	<u>33,886</u>
Net investment gain/(loss)	<u>465,377</u>
 Net income before dividends to policyholders, after capital gains tax, and before other federal and foreign income taxes	  3,294,088
Dividends to policyholders	<u>3,294,088</u>
Net income, after dividends to policyholders, after capital gains tax, and before other federal and foreign income taxes	 -
Net income/(loss)	<u><u>\$ 0</u></u>

## INDEPENDENT SCHOOLS COMPENSATION CORPORATION

### **ANALYSIS OF CHANGE IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION**

Upon completion of the examination, it was determined that total asset should be \$17,335,478 and total liabilities should be \$17,335,478. See Comments on Financial Statement items for detail.

### **COMMENTS ON FINANCIAL STATEMENT ITEMS**

Advance premiums amounting to \$2,203,435 were reported as a negative asset in line 15.2 of the annual statement instead of a liability as specified by SSAP 53 and NAIC guidance. Therefore, advance premiums should be \$2,203,435 on page 3 line 10 of the 2014 annual statement.

### **SUBSEQUENT EVENTS**

The Group is subject to federal income taxes. However, no federal income taxes were incurred at December 31, 2014. During the year ended December 31, 2013, the Internal Revenue Service ("IRS") notified the Group that it would be examined for the years ended December 31, 2012 and 2011. As a result of the examination, the IRS denied certain deductions and was seeking additional taxes of approximately \$2,000,000 plus interest. The Group appealed the examination findings. The Group succeeded in their appeal filed with the IRS with regard to the deductibility of accrued but unpaid policyholder dividends. On June 8, 2015, the IRS informed the Group that there was no deficiency or overassessment; therefore, no other action was required by the Group.

Effective January 1, 2016, the Group requested and the Division allowed the Group to forego aggregate excess insurance coverage. The decision is based in accordance with 211 CMR 67.21 (3) "The aggregate excess insurance or reinsurance requirements may be revisited after groups have been in operation for three years".

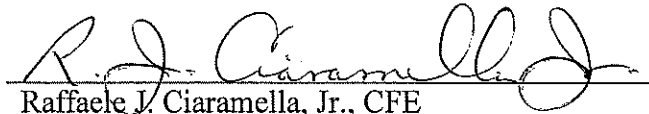
### **SUMMARY OF RECOMMENDATIONS**

Advanced premiums should be reported as a liability as specified by SSAP 53.

INDEPENDENT SCHOOLS 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 cursive script, reading "Raffaele J. Ciaramella, Jr.", written over a horizontal line.

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