



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

REPORT OF EXAMINATION OF THE
SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

Andover, Massachusetts

As of December 31, 2014

EMPLOYER ID NUMBER 04-3138069

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

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COMMONWEALTH OF MASSACHUSETTS
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DANIEL R. JUDSON
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

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

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

SELF INSURED LUMBER BUSINESSES ASSOCIATIONS, INC.

SCOPE OF EXAMINATION

Self Insured Lumber Businesses Association, Inc. ("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 Feeley & Driscoll, P.C. ("FD"), 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 course of this examination.

SELF INSURED LUMBER BUSINESSES ASSOCIATIONS, INC.

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 March 1, 1992. The Group was created as a not-for-profit association to make available workers' compensation coverage for those engaged in the Massachusetts lumber\building materials 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 Trustees ("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 \$1,738,500 to workers' compensation members in 2011.
- The Group paid dividends of \$1,964,592 to workers' compensation members in 2012.
- The Group paid dividends of \$728,218 to workers' compensation members in 2013.
- The Group paid dividends of \$421,579 to workers' compensation members in 2014.

MANAGEMENT AND CONTROL

Board of Trustees 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 Trustees

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,

SELF INSURED LUMBER BUSINESSES ASSOCIATIONS, INC.

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 Trustee</u>	<u>Business Affiliation</u>
Thomas A. Dennison, Jr.*	Shepley Wood Products
Linda Lyons	Brockway-Smith Company
Jason Thacker	Howe Lumber Co. Inc.
Lona Lamson	R.S.Lamsom & Sons
Wayne Moriarty	Atlantic Plywood Corp.
David Perry	Concord Lumber Corp.
Robert Naughton	Curtis-Newton Lumber
Jay Torrisi	Jackson Lumber & Millwork Co.
Debra Duff-Torres	North Atlantic Corp.

*Replaced by John Hoell, Shepley Wood Products, on February 5, 2015/Tom McManus was added to Board on February 5, 2015.

Officers

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

<u>Name of Officers</u>	<u>Title</u>
Thomas A. Dennison, Jr.*	President
David Perry	Clerk
Lona Lamson**	Treasurer

*Replaced by Linda Lyons on February 5, 2015/**Replaced by Jay Torrisi on February 5, 2015.

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.

SELF INSURED LUMBER BUSINESSES ASSOCIATIONS, INC.

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 120% of fund premium subject to a minimum aggregate retention of \$3,758,197.

SELF INSURED LUMBER BUSINESSES ASSOCIATIONS, INC.

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

SELF INSURED LUMBER BUSINESSES ASSOCIATIONS, INC.

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

	Per Annual Statement
ASSETS	
Bonds	\$ 5,504,079
Cash, cash equivalents and short-term investments	651,909
Subtotals, cash and invested assets	<u>6,155,988</u>
Investment income due and accrued	44,305
Uncollected premiums and agents' balances in the course of collection	3,771
Amounts recoverable from reinsurers	39,449
Aggregate write-ins for other than invested assets	<u>6,798</u>
Total Assets	<u>\$ 6,250,311</u>

SELF INSURED LUMBER BUSINESSES ASSOCIATIONS, INC.

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

	Per Annual Statement
LIABILITIES	
Losses	\$ 2,841,644
Loss adjustment expenses	558,404
Other expenses	162,575
Taxes, licenses and fees	80,874
Dividends declared and unpaid to policyholders	2,537,239
Ceded reinsurance premiums payable	29,634
Total Liabilities	<u>6,210,370</u>
Aggregate write-ins for other-than-special surplus funds	(2,026)
Gross paid in and contributed surplus	<u>41,967</u>
Surplus as regards policyholders	<u>39,941</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 6,250,311</u>

SELF INSURED LUMBER BUSINESSES ASSOCIATIONS, INC.

Statement of Income For the Year Ended December 31, 2014

	Per Annual Statement
Premiums Earned	\$ 3,142,638
Deductions:	
Losses Incurred	1,661,080
Loss adjustment expenses incurred	349,699
Other underwriting expenses incurred	618,888
Total underwriting deductions	2,629,667
Net underwriting gain/(loss)	512,971
Net investment income earned	130,664
Net realized capital gains or (losses) less capital gains tax	17,626
Net investment gain/(loss)	148,290
Net income before dividends to policyholders, after capital gains tax, and before other federal and foreign income taxes	661,261
Dividends to policyholders	661,261
Net income, after dividends to policyholders, after capital gains tax, and before other federal and foreign income taxes	-
Net income/(loss)	\$ 0

SELF INSURED LUMBER BUSINESSES ASSOCIATIONS, INC.

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

There were no changes to the financial statements as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

The financial statements were completed under statutory accounting standards with no issues noted.

SUBSEQUENT EVENTS

Pursuant to Section 211 CMR 67.08 (3) (9), the Group was required to provide security of \$319,000 at December 31, 2014 in an escrow account pledged to the Division. At December 31, 2014, the Group was not in compliance due to its security deposit amounting to \$300,000. However, on June 25, 2015, the Group increased the amount held in escrow to be in compliance with the statutory requirement.

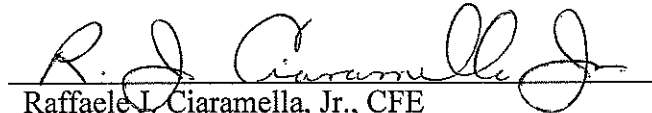
SUMMARY OF RECOMMENDATIONS

The results of this examination disclosed no material adverse findings, significant non-compliance or material changes to the financial statements.

SELF INSURED LUMBER BUSINESSES ASSOCIATIONS, INC.

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 "R. L. Ciaramella, Jr.", is written over a horizontal line.

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