

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

REPORT OF EXAMINATION OF THE
MASSACHUSETTS RETAIL MERCHANTS WORKERS'
COMPENSATION GROUP, INC.

Braintree, Massachusetts

As of December 31, 2015

EMPLOYER ID NUMBER 04-6683270

**MASSACHUSETTS RETAIL MERCHANTS WORKERS'
COMPENSATION GROUP, 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>

CHARLES D. BAKER
GOVERNOR

KARYN E. POLITO
LIEUTENANT GOVERNOR

JAY ASH
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

JOHN C. CHAPMAN
UNDERSECRETARY OF CONSUMER AFFAIRS
AND BUSINESS REGULATION

GARY D. ANDERSON
ACTING COMMISSIONER OF INSURANCE

May 1, 2017

The Honorable Gary D. Anderson
Acting 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

MASSACHUSETTS RETAIL MERCHANTS WORKERS' COMPENSATION GROUP, INC.

at its home office located at 35 Braintree Hill Office Park, Suite 206, Braintree, Massachusetts 02184.
The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Massachusetts Retail Merchants Workers' Compensation Group, Inc. ("Group") was last examined by the Massachusetts Division of Insurance ("Division") as of December 31, 2012. The current examination was conducted by the Division and covers the three-year period from January 1, 2013 through December 31, 2015, and 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, fidelity bond and other insurance, business continuity 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.

BDO USA, LLP, an independent certified public accounting firm, audits the Group annually. The firm expressed unqualified opinions on the Group's financial statements for the calendar years 2013 through 2015. A review and use of the certified public accountants' work papers was made to the extent deemed appropriate and effective.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There have not been any significant findings noted during the current examination and there were no significant findings noted during the previous examination.

GROUP HISTORY

General

Massachusetts Retail Merchants Workers' Compensation Group, Inc. was successor-in-interest of the Massachusetts Retail Merchants Workers' Compensation Trust, an unincorporated nonprofit business trust established under an Indenture of Trust dated May 1, 1991. The Group was organized within the Commonwealth of Massachusetts on January 1, 1995, 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. Consistent with Massachusetts General Law, Chapter 152; Section 25E through 25U, the Group was created to make available a self-insured workers' compensation program for a group of retail merchants operating within the Commonwealth of Massachusetts.

The Group, by a written administrative services agreement, engaged Cove Risk Services, LLC ("Cove Risk") a workers' compensation administrator, to perform and manage the day-to-day activities of the Group.

Dividends

The Group annually accrues dividends from a fund year's operating activities during that fund year and makes a dividend distribution to the members in accordance with the formula guidelines provided for by 211CMR 67.08. The following amounts were recorded as dividends during the period covered by this examination:

2015	\$2,123,661
2014	1,015,377
2013	639,491

MANAGEMENT AND CONTROL

Board of Directors Minutes

The minutes of meetings of the Board of Directors and its Committees for the period under examination were read and they indicated that all meetings were held in accordance with the Company's bylaws and the laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at meetings of the Board of Directors.

Articles of Organization and Bylaws

The articles of organization and bylaws of the Group as filed with and approved by the Commonwealth's Secretary of State's office were read and reviewed. As stated, the purpose of the organization is to make available a self-insured workers' compensation program for retail merchants in the Commonwealth.

Massachusetts Retail Merchants Workers' Compensation Group, Inc.

Board of Directors

According to the bylaws, the Group's business shall be managed by a Board of Directors 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 Directors shall consist of not fewer than three and no more than eleven individuals elected by the members. The Group's Board of Directors consisted of the following individuals:

<u>Name of Director</u>	<u>Title</u>
Jon Hurst	Chairman
Robert Boyle	Treasurer
Frank Anzalotti	Vice President
Richard Hinds	Secretary
Jerome Murphy	Director
George Carey	Director
Tina Messina	Director
Thomas Dolan	Director
Armen Derderian	Director

Officers

Officers of the Group as of December 31, 2015 were as follows:

<u>Name of Officers</u>	<u>Title</u>
Jon Hurst	Chairman
Robert Boyle	Treasurer
Frank Anzalotti	Vice President
Richard Hinds	Secretary

TERRITORY AND PLAN OF OPERATION

As of December 31, 2015, the Group was found to be duly organized under the laws of the Commonwealth of Massachusetts, as a self-insurance group authorized under Massachusetts General Law Chapter 152, Section 25E through 25U and 211 CMR 67.00, to provide coverage for workers' compensation and employers' liability in Massachusetts.

REINSURANCE

To minimize exposure to loss, the Group has entered into specific and aggregate loss reinsurance agreements for its workers' compensation coverage. The coverage under these agreements is subject to specific retention limits as defined by the contracts and specifically as required by Massachusetts General Law, Chapter 152, Section 60 and 211 CMR 67.21. The Group remains primarily liable for its obligations under its reinsurance contracts, in the event that the reinsurer becomes unable to meet its obligations under the agreements.

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, 2015. The financial statements are the responsibility of the Group's management.

Statement of Assets and Liabilities as of December 31, 2015

Statement of Income for the Year Ended December 31, 2015

Massachusetts Retail Merchants Workers' Compensation Group, Inc.

**Statement of Assets and Liabilities
as of December 31, 2015**

	Per Annual Statement
Assets	
Bonds	\$27,166,351
Cash, cash equivalents, and short-term investments	2,981,414
Subtotals, cash and invested assets	30,147,765
Investment income due and accrued	227,134
Premiums:	
Uncollected premiums and agents' balances in the course of collection	12,171
Reinsurance:	
Amounts recoverable from reinsurers	50,175
Total Assets	\$30,437,245
Liabilities	
Losses	\$15,278,799
Loss adjustment expenses	1,711,030
Other expenses	685,671
Taxes, licenses and fees	559,885
Advance premium	3,676,918
Dividends declared and unpaid:	
Policyholders	8,524,942
Total Liabilities	\$30,437,245

Massachusetts Retail Merchants Workers' Compensation Group, Inc.

Statement of Income
December 31, 2015

	<u>Per Annual Statement</u>
Underwriting Income	
Premiums earned	\$18,552,168
Deductions	
Losses incurred	10,959,073
Loss adjustment expenses incurred	2,362,116
Other underwriting expenses incurred	<u>3,888,751</u>
Total underwriting deductions	<u>17,209,940</u>
Net underwriting gain (loss)	<u>1,342,228</u>
Investment Income	
Net investment income earned	776,510
Net realized capital gain or (losses)	<u>4,923</u>
Net investment gain (loss)	<u>781,433</u>
Other Income	
Net income before dividends to policyholders	2,123,661
Dividends to Policyholders	<u>2,123,661</u>
Net Income	<u><u>\$0</u></u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There have been no changes to the amounts reported in the Financial Statements.

COMMENTS ON FINANCIAL STATEMENT ITEMS

The Company's Actuarial Opinion is prepared by Milliman, Inc. Milliman's report concluded that the Company's carried reserves make a reasonable provision for all unpaid loss obligations as of December 31, 2015. Milliman's range of reserve estimates is shown in the table below:

COMPARISON OF INDICATED NET RESERVES
TO CARRIED RESERVES AS OF DECEMBER 31, 2015

	Low Point of Range	Point Estimate	High Point of Range
Milliman's Total Net Loss & Loss Adjustment Expense Reserves	\$16.595m	\$18.164m	\$18.949m
Total Company Carried Net Loss & LAE Reserves	18.943m	18.943m	18.943m
Difference	2.348m	0.8m	(0.006m)

After calculating its net loss and loss adjustment expense reserves, the Group applies a non-tabular discount to the reserves utilizing the discount rate promulgated by the Internal Revenue Service. At December 31, 2015, the non-tabular discount was \$1,953,941.

SUBSEQUENT EVENTS

Subsequent to December 31, 2015, there were no material items that came to our attention for inclusion in the report of examination.

SUMMARY OF RECOMMENDATIONS

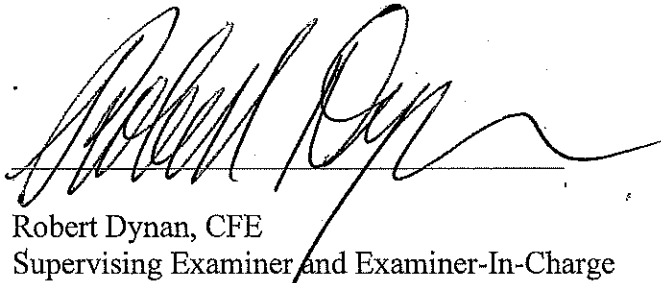
There are no recommendations being made as part of this examination report.

SIGNATURE PAGE

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

The assistance rendered by the following examiner participating on this examination is acknowledged.

Steven Tsimtsos, CFE, Financial Examiner II

A handwritten signature in black ink, appearing to read 'Robert Dynan', is written over a horizontal line.

Robert Dynan, CFE
Supervising Examiner and Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance