

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

***REPORT OF EXAMINATION***

**OF THE**

**ABC MASSACHUSETTS WORKERS' COMPENSATION SELF-INSURANCE GROUP, INC.**

**As of DECEMBER 31, 2011**

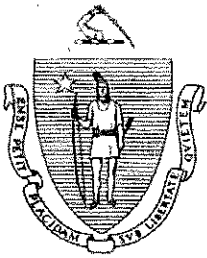
**N.A.I.C. GROUP CODE NONE**

**N.A.I.C. COMPANY CODE NONE**

**EMPLOYER ID NUMBER 04-3209117**

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

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July 26, 2012

The Honorable Joseph G. Murphy  
Commissioner of Insurance  
The Commonwealth of Massachusetts  
Division of Insurance  
1000 Washington Street, Suite 810  
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Commissioner Murphy:

Pursuant to your specific instructions and by authority of Section 25I, of Chapter 152 of Massachusetts General Laws ("MGL"), an examination has been made of the transactions and financial condition as of December 31, 2011, of the

**ABC MASSACHUSETTS WORKERS' COMPENSATION**  
**SELF-INSURANCE GROUP, INC.**

at its main administrative office located at c/o TD Insurance/FutureComp, 123 Interstate Drive, West Springfield, Massachusetts 01090. The following report thereon is respectfully submitted.

## SCOPE OF EXAMINATION

ABC Massachusetts Workers' Compensation Self-Insurance Group, Inc., (herein after referred to as "ABC Mass" or the "Group") was last examined by the Massachusetts Division of Insurance ("Division") as of December 31, 2005. The present examination of the Group was conducted by the Division and covers the transactions of the Group from January 1, 2006 through December 31, 2011, including any material transactions and/or events occurring subsequent to the examination date and noted in the course of the examination.

The examination was conducted in accordance with standards established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee as well as with the procedures prescribed by the NAIC Financial Condition Examiners Handbook, with the requirements of examination standards of the Division, and with the General Laws of Massachusetts. The principal focus of the examination was activity for the period January 1, 2006 to December 31, 2011 however, transactions both prior and subsequent thereto were reviewed as deemed appropriate.

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, available corporate records, reinsurance treaties, fidelity bonds and other insurance, 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 has been audited annually by Feeley & Driscoll, P.C., an independent certified public accounting firm. The firm expressed unqualified opinions on the Group's statutory financial reports for each of the six years under examination. Review and use of the certified public accountants work papers were made to the extent deemed appropriate and effective.

This Report of Examination is written on an exception basis.

### Status of Findings of the Prior Examination

Reportable findings: None

## HISTORY

The Group was organized on October 27, 1993, and commenced business within the Commonwealth of Massachusetts on November 1, 1993, 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. The Group was created consistent with Massachusetts General Law, Chapter 152, and Section 25E through 25U and 211 Commonwealth of Massachusetts Regulation 67.00 to provide workers' compensation coverage for a group of eligible companies which are engaged in the Massachusetts building and contracting industry.

During the operating period under review, the Group, by written administrative service agreements engaged Future Comp, a registered trademark of TD Insurance, Inc., (the Administrator) and Cannon Cochran Management Services, Inc., (the Claims Administrator from January 1, 2006 to December 31, 2010) to perform and manage the day-to-day activities of the

Group. TD Insurance/Future Comp took over the Claims Administration function as of January 1, 2011.

### TERRITORY AND PLAN OF OPERATION

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

### MANAGEMENT

Pursuant to the bylaws, the affairs of the Group shall be managed by the Board of Trustees, who shall have and may exercise all the powers of the Group except those powers reserved to the members by law, the Articles of Organization or the Bylaws. To assist in the management of the Group, the Board of Trustees shall appoint an Administrator to perform and manage the day-to-day activities of the Group. The Board of Trustees shall have the power to adopt and issue rules, regulations, policies and procedures which shall be binding upon the members and the Administrator.

#### Corporate Records

The Articles of Organization and Bylaws were reviewed. The minutes of the Board of Trustees were reviewed for the period under examination. For that period, votes and authorizations were found to be in order and the records indicated that the group appeared to be conducting its affairs in compliance with its Bylaws and the laws of the Commonwealth of Massachusetts.

#### Annual Meeting

According to the Bylaws as amended, the annual meeting of the members shall be held on the third Monday in September each year or such other date as may be determined by the Board of Trustees. The annual meeting may be held at the principal office of the corporation or at such other place within the United States as the President, Members or the Board of Trustees shall determine.

#### Board of Trustees

In accordance with the Group's Bylaws, the number of Board of Trustees shall be no fewer than three (3) and no more than eleven (11); such number to be established by the Board of Trustees. Trustees shall serve for a term of three (3) years. Upon expiration of each Trustee's term, one or more successor Trustee shall be nominated by the Board of Trustees for member's approval at the first Annual Meeting of the Members following such expiration.

# ABC Massachusetts Workers' Compensation Self-Insurance Group Examination Report

The members of the Board of Trustees serving as of December 31, 2011, were as follows:

<u>Name of Trustee</u>	<u>Affiliation</u>
Jay Annarelli	Medford Wellington
Sarah Badway	Plumb House, Inc/Dalton Builders, Inc.
Joseph Bafaro Jr.	J. J. Bafaro
Joe Barbone	Methuen Construction
Tim Barton	DECCO, Inc.
Michael R. Battista	R & R Battista Services, Inc.
Richard Davis	DeAngelis Iron Work, Inc.
Catherine D. Kaplan	Kaplan Corporation
Pauline Lally	Piping Systems, Inc.
Anthony J. Tocco	Tocco Building Systems
Joseph Whitney	North Shore Mechanical Contractors, Inc.

A quorum at a meeting of the Trustees and for the transactions of the business shall be not less than one-half (1/2) of the Trustees then in office, represented in person or by proxy unless otherwise provided by law. The minutes indicated that a quorum was obtained at all of the meetings of the Board of Trustees held during the examination period

In accordance with provisions of 211 CMR 67.07 (1) all Trustees serving are residents of the Commonwealth or officers of corporations authorized to do business in the Commonwealth.

## Officers

Pursuant to the Bylaws, the officers of the Group shall consist of a President, Vice President, Treasurer, Clerk and such other officers, if any, as the Board of Trustees may determine. An officer must be associated with a member. The officers shall be elected annually by the Board of Trustees at their first meeting following the annual meeting of the members. The Clerk shall be a resident of Massachusetts unless the corporation has a resident agent.

## ABC Massachusetts Workers' Compensation Self-Insurance Group Examination Report

The elected officers and their respective titles at December 31, 2011, follow:

<u>Name of Officers</u>	<u>Title</u>
Sarah Badway	President
Pauline Lally	Treasurer
Catherine D. Kaplan	Clerk

Note: The Bylaws state that ABC Mass will have a Vice President. The Group has not had an elected Vice President since 2007.

### Conflict of Interest Procedures

The Group has adopted a policy statement pertaining to conflict of interest in accordance with Question 18 of the General Interrogatories of the Annual Statement. The Group has an established procedure for the disclosure to the Board of Trustees of any material interest or affiliation on the part of any officer or Trustee which is in or is likely to conflict with their official duties.

### DISASTER RECOVERY AND BUSINESS CONTINUITY

The Administrator has a formal disaster plan for the continuity of the Group's business operations in the event of any disaster. The total recovery effort is governed by the TD Bank Insurance Business Continuity Plan. The plan was made available to the examiner for review and determined to have addressed adequately the process in which to resume certain critical business functions of the Group.

### FIDELITY BONDS AND OTHER INSURANCE

In accordance with MGL Chapter 152, Section 25G and 211 CMR 67.10, the Group's Administrator maintains fidelity coverage with an authorized Massachusetts insurer. The aggregate limit of liability provides coverage above the prescribed minimum set forth by the NAIC's schedule of suggested minimum amounts of fidelity insurance.

211 CMR 67.08 (2)(d), states that the Group shall have a security deposit or bond not less than \$100,000 and any securities or certificates of deposit shall have a remaining maturity of one year or less from their time of purchase. At December 31, 2011, the Group has a bond and cash amount that meet the criteria pledged to the Commonwealth of Massachusetts in the total amount of \$124,261.

### EXCESS INSURANCE

The Group follows a general procedure of insuring exposures which exceed specified limits.

## ABC Massachusetts Workers' Compensation Self-Insurance Group Examination Report

The Group maintains specific and aggregate excess workers compensation and employers liability indemnity policies with an unaffiliated excess insurance carrier authorized to transact reinsurance in the Commonwealth of Massachusetts. They are rated (A+) by A.M. Best & Company. Under the policies, the Group initially retained the first \$250,000 of each occurrence and subsequently increased their per occurrence retention limit to \$750,000 at December 31, 2011, on each individual accident. The Group has an aggregate limit of \$5 million.

The Group remains primarily liable for its obligations under its reinsurance contracts. In the event the reinsurer would be unable to pay its portion of any losses incurred, the Group would be liable for such obligations.

### ACCOUNTS AND RECORDS

The trial balances, general ledgers and audited financial statements provided by the Group were reviewed for the years ending December 31, 2006 through December 31, 2011. The financial accounting records are processed and maintained by FutureComp automated administrative system. An independent statutory accounting specialist is utilized to review the financial records and to prepare the quarterly filings to the Division of Insurance. The system supports statutory reporting and accounting requirements as set by the NAIC for the Group's business operations.

General ledger account balances were reconciled and traced to amounts reported in the Annual Statement for 2011. All balance sheet accounts were summarized and traced to the appropriate asset exhibits and liability lines within the Group's Annual Statement. Selected income and expense allocations and postings were sampled and verified for reasonableness.

The internal control structure for the Group and for selected accounting streams was discussed with the Administrator. Reliance upon the controls was utilized as appropriate in the selection of examination procedures.

### FINANCIAL STATEMENTS

The following financial statements comply with Statements of Statutory Accounting Principles promulgated by the NAIC in its Accounting Practices and Procedures Manual and with practices prescribed or permitted by the Massachusetts Division of Insurance which adopted the codification of statutory accounting principles effective January 1, 2001.

These financial statements reflect the Group's assets and liabilities as determined by the examination, which include a review of the following:

- Statement of Admitted Assets and Liabilities as of December 31, 2011
- Statement of Income for the year ended December 31, 2011



Statement of Admitted Assets and Liabilities  
As of December 31, 2011

<b>Assets</b>	<u>Per Statement</u>	<u>Adjustments</u>	<u>Per Examination</u>	<u>Note</u>
Bonds	\$3,245,461		\$3,245,461	
Cash	103,472		103,472	
Investment income due & accrued	33,413		33,413	
Total Assets	<u>\$3,382,346</u>		<u>\$3,382,346</u>	

<b>Liabilities</b>	<u>Per Statement</u>	<u>Adjustments</u>	<u>Per Examination</u>	<u>Note</u>
Losses	\$1,062,150		\$1,062,150	1
Loss adjustment expense	81,886		81,886	1
Other expenses	79,291		79,291	
Taxes, licenses and fees	4,601		4,601	
Dividends unpaid	2,122,894		2,122,894	
Ceded reinsurance premiums payable	25,347		25,347	
Payable to members	6,178		6,178	
Total Liabilities	<u>\$3,382,346</u>		<u>\$3,382,346</u>	

# ABC Massachusetts Workers' Compensation Self-Insurance Group Examination Report

## Statement of Income As of December 31, 2011

	Per <u>Statement</u>	<u>Adjustments</u>	Per <u>Examination</u>	<u>Note</u>
Underwriting Income	\$1,055,708		\$1,055,708	
Losses incurred	1,253,686		1,253,686	
Loss adjustment expenses incurred	89,095		89,095	
Other underwriting expenses incurred	271,191		271,191	
Total underwriting deductions	<u>1,613,972</u>		<u>1,613,972</u>	
Net underwriting gain (loss)	(558,264)		(558,264)	
Net investment income earned	178,106		178,106	
Net realized capital gains (losses)	<u>41,392</u>		<u>41,392</u>	
Net investment gain (loss)	219,498		219,498	
Net income (loss) before dividends to policyholders	(338,766)		(338,766)	
Dividends to policyholders	<u>(338,766)</u>		<u>(338,766)</u>	
Net income (loss) after dividends to policyholders	<u>\$0</u>		<u>\$0</u>	

NOTES TO FINANCIAL STATEMENTS

Note 1

Losses and loss adjustment expenses	<u>\$1,144,036</u>
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The Group establishes reserves based upon the case basis estimates of its claims and an analysis of loss and loss adjustment expense reserves performed on an annual basis by an independent actuarial consulting firm, Milliman, Inc. This review is in turn relied upon by the Group's certified public accountants. The Massachusetts Division of Insurance has reviewed documentation of the Group's loss and loss adjustment expense reserves, and has relied on the opinion of this independent and qualified expert as deemed appropriate.

The reserve for unpaid losses and loss adjustment expenses includes an estimated provision for incurred but not reported losses (IBNR) as well as reported losses. The IBNR provision totaled approximately \$671,774 on an undiscounted basis as of December 31, 2011.

The net loss and loss adjustment expense reserves reported have been discounted using a discount factor not less than the discount factor that would result from use of the interest rate and loss pattern prescribed by and under section 846 of the Internal Revenue Code of 1986, as amended. Such discounting of loss and loss adjustment expense is permitted by Massachusetts' Regulation 211 CMR 67.08 (2).

The unpaid losses and loss adjustment expenses were discounted approximately \$178,979 for a net carried reserve of \$1,144,036 at December 31, 2011.

Note 2

Commitment and Contingencies

The Group has entered into a restated application and indemnity agreement with each member to provide risk management services and workers' compensation insurance. The agreement stipulates, among other things, that each member is jointly and severally liable for the workers' compensation obligations of the Group and its members which were incurred during the member's period of membership in the Group, irrespective of the subsequent termination of the member's membership in the Group, the insolvency or bankruptcy of another member of the Group, or other facts or circumstances. Accordingly, the financial viability of the Group is contingent upon the financial viability of the individual members.

The Group does not have any pending legal proceedings. The Group does not have any material contingent liabilities as of the Annual Statement date.

For Informational Purposes Only

CONCLUSION

We have applied verification procedures to the data contained in this report using substantive statistical sampling techniques as deemed appropriate. While sampling techniques do not give complete assurance that all errors and irregularities will be detected, those that were detected during the course of this examination have been disclosed in this report. We were not informed of, and did not become aware of, any other error or irregularity that could have a material effect on the financial condition of the Group as presented in this report.

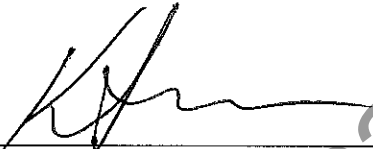
ACKNOWLEDGMENT

The examiners hereby express their appreciation to the Group and its Administrator for their courteous cooperation throughout the examination.

Respectfully submitted,



Brian A. Knowlton  
Examiner In-Charge  
Massachusetts Division of Insurance



Kenneth R. Brenner, CFE, CPA  
Supervising Examiner  
Massachusetts Division of Insurance