



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

**DIVISION OF INSURANCE**

***REPORT OF EXAMINATION OF THE***  
**ASSOCIATED EMPLOYERS INSURANCE COMPANY**

**Burlington, Massachusetts**

**As of December 31, 2008**

**NAIC GROUP CODE 2498**

**NAIC COMPANY CODE 11104**

**EMPLOYERS ID NO. 04-3553686**

# ASSOCIATED EMPLOYERS INSURANCE COMPANY

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**COMMONWEALTH OF MASSACHUSETTS**  
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JOSEPH G. MURPHY  
COMMISSIONER OF INSURANCE

April 26, 2010

The Honorable Alfred Gross, Chairman  
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Commissioner of Insurance  
Bureau of Insurance  
Commonwealth of Virginia  
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The Honorable Paulette Thabault, Secretary  
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The Honorable Joseph G. Murphy  
Commissioner of Insurance  
Commonwealth of Massachusetts  
Division of Insurance  
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Honorable Commissioners:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

**ASSOCIATED EMPLOYERS INSURANCE COMPANY**

at its home office located at 54 Third Avenue, Burlington, MA, 01803. The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

Associated Employers Insurance Company (hereinafter referred to as “Company” or “AEIC”) was last examined as of December 31, 2003 under the association plan of the *National Association of Insurance Commissioners* (“NAIC”) by the Massachusetts Division of Insurance (“Division”). The current association plan examination was also conducted by the Division and covers the period from January 1, 2004 through December 31, 2008, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

Concurrent with this examination, the following insurance affiliates in the Associated Industries of Massachusetts Mutual Insurance Company (“A.I.M. Mutual”) group were also examined and separate Reports of Examination have been issued:

Associated Industries of Massachusetts Mutual Insurance Company  
Massachusetts Employers Insurance Company  
Employers Security Assurance Company

The examination was conducted in accordance with standards established by the Financial Condition (E) Committee of the NAIC as well as with the requirements of the NAIC Financial Condition Examiner’s Handbook, the examination standards of the Division and consistent with Massachusetts General Laws (“M.G.L.”). The principal focus of the examination was 2008 activity; however, transactions both prior and subsequent thereto were reviewed as deemed appropriate.

In addition to a review of the financial condition of the Company, the examination included a review of the Company’s business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, disaster recovery plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Company 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 Company is audited annually by Ernst & Young LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2004 through 2008. A review and use of the Certified Public Accountants’ work papers was made to the extent deemed appropriate and effective. An independent certified public accounting and actuarial firm, KPMG LLP, was retained by the Division to evaluate the adequacy of the Company’s loss and loss adjustment expense reserves as of December 31, 2008. An evaluation of the adequacy and effectiveness of the Information Technology Systems’ controls was done to determine the level of reliance to be placed on summary information generated by the data processing systems.

### **Status of Prior Exam Findings**

The prior report of examination contained no findings.

## **HISTORY**

### **General**

On March 12, 2001, A.I.M. Mutual contributed \$3,000,000 in capital and surplus to form a wholly owned subsidiary, Associated Employers Insurance Company. AEIC was issued a Certificate of Authority to write workers' compensation and employers' liability coverages in Massachusetts on April 1, 2001.

### **Capital Stock**

AEIC has authorized and issued 30,000 shares of \$20.00 par value common stock, all of which is owned by A.I.M. Mutual.

### **Dividends to Shareholders**

The Company has not declared or paid dividends to stockholders during the examination period.

### **Dividends to Policyholders**

During the examination period the Company has not declared or paid dividends to policyholders.

### **Growth of the Company**

The growth of the Company for the years 2004 through 2008 is shown in the following schedule, which was prepared from the Company's Annual Statements, including any changes as a result of the examination.

<u>Year</u>	<u>Admitted Assets</u>	<u>Net Premiums Written</u>	<u>Surplus</u>
2008	\$4,306,596	\$0	\$3,810,655
2007	4,181,340	0	3,688,721
2006	3,977,090	0	3,574,777
2005	3,981,302	0	3,483,967
2004	3,844,770	0	3,386,024

## Associated Employers Insurance Company

### Management

#### *Annual Meeting*

In accordance with the by-laws, the annual meeting of the Company is held on the first Tuesday in May. Stockholders holding not less than a majority of the then issued and outstanding shares of the common stock shall constitute a quorum. The minutes indicated that a quorum was obtained at each annual meeting held during the examination period.

#### *Board of Directors*

The by-laws provide that the business and affairs of the Company shall be managed by the board of directors except as otherwise provided by the Articles of Incorporation or by a valid shareholder agreement. The board of directors shall consist of not less than three or more than twelve directors with the number of directors determined at each annual meeting coinciding with the expiration of one or more directors' term. Each director holds office until the annual meeting of the stockholders in the years designated by the Incorporators of the Corporation. Upon expiration or resignation, his/her successor is elected at the next annual meeting.

At December 31, 2008, the board was comprised of five directors, which is in compliance with the Company's by-laws. Directors duly elected and serving at December 31, 2008, with business affiliations, follow:

<u>Director</u>	<u>Business Affiliation</u>
John J. Gould, Chairman	Vice Chairman Associated Industries of Massachusetts
Robert R. Cella	Vice President Operations A.I.M. Mutual Insurance Company
Richard C. Lord	President and CEO Associated Industries of Massachusetts
John A. Myers	President and CEO A.I.M. Mutual Insurance Company
Gregory R. Shah	Vice President and Secretary/Treasurer A.I.M. Mutual Insurance Company

The by-laws do not specify the number of meetings of directors to be held during the year. The minutes of the board of directors indicate that meetings were held during the examination period.

## Associated Employers Insurance Company

The by-laws provide that at any meeting of the board a majority of the directors then in office shall constitute a quorum. The minutes indicate that a quorum was present at all meetings of the board of directors held during the examination period.

The board of directors appointed two committees in accordance with the by-laws. The members of each committee at December 31, 2008 follow:

### *Investment Committee*

Michael J. Riley, Chairman  
John J. Gould  
John A. Myers

### *Audit Committee*

Ralph P. Schlenker, Chairman  
John J. Gould  
Michael G. Faucher

### *Officers*

The by-laws of the Company provide that the officers of the Company shall be a president, a secretary, a clerk, a treasurer, a Chairman of the board of directors and other officers as deemed necessary. Pursuant to the by-laws, the officers of the Company are elected by the board of directors. Vacancies among the officers shall be filled by the board of directors.

The elected officers and their respective titles at December 31, 2008 follow:

<u>Name</u>	<u>Title</u>
John J. Gould	Chairman of the Board
John A. Myers	President and Chief Executive Officer
Gregory R. Shah	Vice President and Secretary/Treasurer
Robert R. Cella	Vice President Operations
Thomas J. Crupi	Vice President Loss Control
Michael P. Kelley	Vice President Claim

## Associated Employers Insurance Company

### Conflict of Interest Procedures

The Company has adopted a policy statement pertaining to conflicts of interest in accordance with Question 13 of the General Interrogatories of the Annual Statement. The Company has an established procedure for the disclosure to the board of directors of any material interest or affiliation on the part of any officer or director, which conflicts or is likely to conflict with his or her official duties.

Annually, each officer and director completes a questionnaire disclosing any material conflicts of interest. The completed questionnaires were reviewed, and no discrepancies were noted in the responses to the General Interrogatories regarding conflicts of interest as reflected in the Company's 2008 Annual Statement.

### Corporate Records

#### *Articles of Incorporation and By-laws*

The by-laws and Articles of Incorporation and amendments thereto were read. During the exam period, there were no changes to the by-laws and Articles of Incorporation.

#### *Disaster Recovery and Business Continuity*

The Company does provide for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with M.G.L. c.175 ss.180M-180Q.

#### *Board of Directors Minutes*

The minutes of the board of directors meetings for the period under statutory examination were read. The minutes indicated that all meetings were held in accordance with the Company's by-laws and the laws of the Commonwealth of Massachusetts. The minutes of the board of directors meeting do not note that the prior Report of Examination as of December 31, 2003 was reviewed and accepted by the Board.

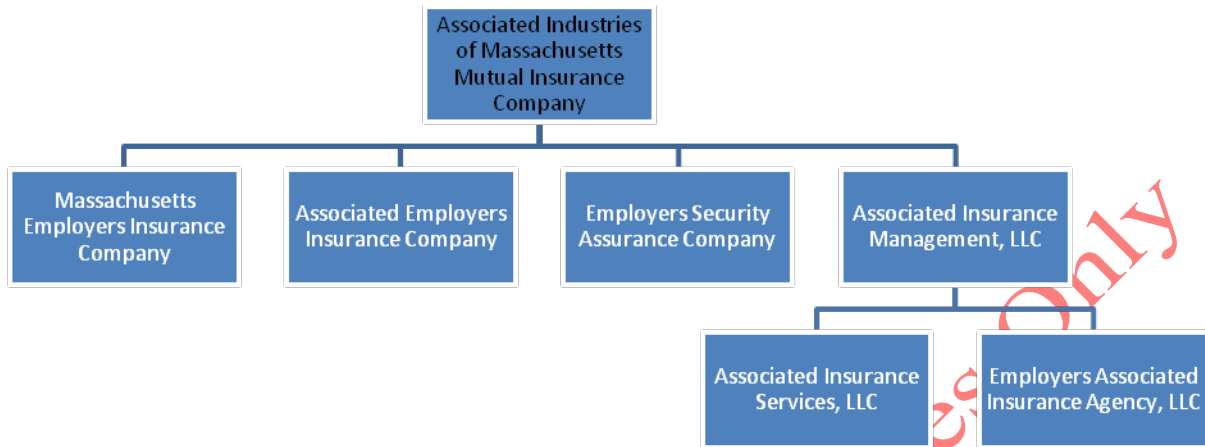
## **AFFILIATED COMPANIES**

Per Form B, as filed with the Massachusetts Division of Insurance, the Company is a member of a holding company system and is subject to the registration requirements of M.G.L. c175, s206C of the Massachusetts General Laws. A.I.M. Mutual is the "ultimate controlling person".



## Associated Employers Insurance Company

### Organization Chart



### Transactions and Agreements with Subsidiaries and Affiliates

#### *Management Agreement*

In 2001, AEIC entered into a management service agreement with Associated Insurance Management, Inc. (“AIM Inc.”), which became Associated Insurance Management, LLC (“AIM, LLC”). Under the terms of the agreement, AIM, LLC will provide all services necessary to run the business operations of AEIC. These services include but are not limited to underwriting, claims and accounting services. AEIC reimburses AIM, LLC 100% for the costs of running the business. In addition, if the Board determines that there are excess funds available for distribution to its policyholders, then AIM, LLC shall be entitled to receive 5% of any distributions paid or credited to the policyholders.

AEIC also entered into a licensing agreement with Associated Industries of Massachusetts, Inc. (“AIM”) in 2001. Under the agreement, AEIC is permitted to use the Licensed Marks of AIM. These marks are “A.I.M.” and “Associated Industries of Massachusetts” and the A.I.M. logo. In return for the use of these marks, AEIC pays to AIM a royalty of 3% of Earned Premiums for each calendar year provided that the maximum annual royalty payable shall be equal to the amount, if any, by which \$1,200,000 exceeds the sum of the royalty payable by A.I.M. Mutual.

## Associated Employers Insurance Company

### *Tax Sharing Agreement*

The Company participates in a tax allocation agreement with its parent, A.I.M. Mutual. The allocation method is based upon the respective tax liability of each member computed as if a separate return were filed, in accordance with the Internal Revenue Code.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company maintains fidelity coverage with an authorized Massachusetts insurer, consistent with M.G.L. c.175 s.60. The aggregate limit of liability exceeds the NAIC suggested minimum.

The Company has further protected its interests and property by purchasing policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts and was in force as of December 31, 2008

### **INSURANCE PRODUCTS AND RELATED PRACTICES**

#### Territory and Plan of Operation

The Company is licensed to write workers' compensation and employers' liability insurance in Massachusetts only. The company writes business through brokers.

#### Treatment of Policyholders

##### *Policyholder Complaints*

During the course of the examination, a general review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. This review was limited in nature and was substantially narrower than a full scope market conduct examination.

During the claims test work, it was noted that the Company investigates and settles claims on a timely and fair basis. There were no complaints against the company for the exam period.

## Associated Employers Insurance Company

### REINSURANCE

#### Pooling Agreement

AEIC participates in a pooling agreement with A.I.M. Mutual. This agreement became effective in 2001. Under the agreement, AEIC cedes 100% of its net retained business to A.I.M. Mutual. They do not assume any business from the pool.

#### Assumed Reinsurance

AEIC's participation in the involuntary pool, Massachusetts Workers' Compensation Assigned Risk Pool, is included with A.I.M. Mutual.

#### Ceded Business

AEIC cedes a small portion of its direct business to outside reinsurers. This is briefly summarized below.

#### American Re

Retention \$250,000

Limit Excess \$250,000 statutory limits

#### Swiss Re Excess of Loss 2003

Layer	Reinsurance	Retention
First \$1,000,000	\$500,000	\$500,000
Next \$4,000,000	\$4,000,000	\$0
Next \$5,000,000	\$4,500,000	\$500,000
Next \$10,000,000	\$9,500,000	\$500,000
Next \$5,000,000	\$4,750,000	\$250,000

#### Guy Carpenter Excess of Loss 2004

Layer	Reinsurance	Retention
First \$2,000,000	\$1,500,000	\$500,000
Next \$3,000,000	\$2,550,000	\$450,000
Next \$5,000,000	\$5,000,000	\$0
Next \$15,000,000	\$15,000,000	\$0

Associated Employers Insurance Company

Guy Carpenter Excess of Loss 2005

Layer	Reinsurance	Retention
First \$2,000,000	\$1,275,000	\$725,000
Next \$3,000,000	\$2,550,000	\$450,000
Next \$5,000,000	\$5,000,000	\$0
Next \$15,000,000	\$15,000,000	\$0

Guy Carpenter Excess of Loss 2006

Layer	Reinsurance	Retention
First \$2,000,000	\$1,275,000	\$725,000
Next \$3,000,000	\$2,550,000	\$450,000
Next \$5,000,000	\$5,000,000	\$0
Next \$15,000,000	\$15,000,000	\$0

Guy Carpenter Excess of Loss 2007

Layer	Reinsurance	Retention
First \$2,000,000	\$1,250,000	\$750,000
Next \$8,000,000	\$8,000,000	\$0
Next \$15,000,000	\$15,000,000	\$0

Guy Carpenter Excess of Loss 2008

Layer	Reinsurance	Retention
First \$2,000,000	\$1,000,000	\$1,000,000
Next \$8,000,000	\$8,000,000	\$0
Next \$15,000,000	\$15,000,000	\$0

## **ACCOUNTS AND RECORDS**

The internal control structure was discussed with management through questionnaires and through a review of the work performed by the Company's independent Certified Public Accountants. No material differences were noted.

The NAIC provides a questionnaire covering the evaluation of the controls in the Information Technology environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the Information Technology controls. No material deficiencies were noted.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2008 annual statement. No material exceptions were noted.

The books and records of the Company are audited annually by Ernst & Young LLP, independent Certified Public Accountants, in accordance with 211 CMR 23.00.

## **FINANCIAL STATEMENTS**

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts and by the *National Association of Insurance Commissioners* as of December 31, 2008:

Statement of Assets, Liabilities and Surplus and Other Funds as of December 31, 2008

Underwriting and Investment Exhibit of Income for the Year Ended December 31, 2008

Reconciliation of Capital and Surplus, For the Five Year Period Ended  
December 31, 2008

# Associated Employers Insurance Company

## Statement of Assets, Liabilities and Other Funds as of December 31, 2008

Assets	Per Company	Examination Changes	Per Statutory Examination	Notes
Bonds	\$ 4,062,599	\$ 0	\$ 4,062,599	
Cash and short term investments	180,172		180,172	
Subtotal cash and invested assets	4,242,771	0	4,242,771	
Investment income due and accrued	43,473		43,473	
Amounts recoverable from reinsurers	20,352		20,352	
TOTAL ASSETS	<u>\$ 4,306,596</u>	<u>\$ 0</u>	<u>\$ 4,306,596</u>	
Liabilities				
Other expenses	\$ 1,367	\$ 0	\$ 1,367	
Current federal and foreign income taxes	55,456		55,456	
Provision for reinsurance	119,208		119,208	
Amounts withheld for account of others	222,589		222,589	
Payable to parent, subsidiaries and affiliates	90,886		90,886	
Aggregate write-ins for liabilities	6,435		6,435	
Total liabilities	495,941	0	495,941	
Common capital stock	600,000		600,000	
Gross paid in and contributed surplus	2,400,000		2,400,000	
Unassigned funds	810,655		810,655	
Total surplus	3,810,655	0	3,810,655	
TOTAL LIABILITIES AND SURPLUS	<u>\$ 4,306,596</u>	<u>\$ 0</u>	<u>\$ 4,306,596</u>	

# Associated Employers Insurance Company

## Underwriting and Investment Exhibit Statement of Income the Year Ended December 31, 2008

	Per Company	Examination Changes	Per Statutory Examination	Notes
Premiums earned	\$ 0	\$ 0	\$ 0	
Deductions				
Losses incurred	0		0	
Total underwriting deductions	0	0	0	
Net underwriting gain (loss)	0	0	0	
Net investment income earned	168,195		168,195	
Net investment gain (loss)	168,195	0	168,195	
Aggregate write-ins for misc income	(43)		(43)	
Net income before dividends to policyholders	168,152		168,152	
Net income before federal taxes	168,152	0	168,152	
Federal and foreign taxes incurred	46,218		46,218	
Net Income	\$ 121,934	\$ 0	\$ 121,934	

# Associated Employers Insurance Company

## Reconciliation of Capital and Surplus For the Five Year Period Ended December 31, 2008

	2008	2007	2006	2005	2004
Capital and Surplus, December 31, prior year	\$ 3,688,721	\$ 3,574,777	\$ 3,483,967	\$ 3,386,024	\$ 3,289,194
Net income	121,934	113,944	90,810	97,943	94,340
Change in non-admitted assets					2,490
Net change in capital and surplus for the year	121,934	113,944	90,810	97,943	96,830
Capital and Surplus, December 31, current year	<u>\$ 3,810,655</u>	<u>\$ 3,688,721</u>	<u>\$ 3,574,777</u>	<u>\$ 3,483,967</u>	<u>\$ 3,386,024</u>



**NOTES TO THE FINANCIAL STATEMENTS**

**Note 1: Loss and Loss Adjustment Expense Reserves**

The Division retained the services of KPMG LLP to provide an actuarial evaluation of the Loss and Loss Adjustment Expense reserves recorded by the company. The table below shows the findings resulting from their actuarial evaluation of the company on a gross of reinsurance basis.

**Loss and Loss Adjustment Expense Reserve as of December 31, 2008**  
(000's omitted)

<u>Low</u>	KPMG Indicated <u>Selected</u>	<u>High</u>	<u>Company Carried</u>
17,683	20,481	23,889	25,723

The reserves carried by the company exceed the high end of the range determined by KPMG LLP by \$1,834,000. These reserves are ceded 100% to A.I.M. Mutual per the pooling agreement.

## ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company to all the examiners during the course of the examination.

The assistance rendered by the following Massachusetts Division of Insurance examiners who participated in this examination is hereby acknowledged:

Linda Dow, Financial Examiner II  
Brian Knowlton, Financial Examiner II

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