



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

***REPORT OF EXAMINATION OF***  
**ASSOCIATED EMPLOYERS INSURANCE COMPANY**  
**Burlington, Massachusetts**  
**As of December 31, 2018**

**NAIC GROUP CODE 2498**  
**NAIC COMPANY CODE 11104**  
**EMPLOYER ID NUMBER 04-3553686**

Associated Employers Insurance Company

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

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May 29, 2020

The Honorable Gary D. Anderson  
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 175, Section 4, and other applicable statutes, 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, Massachusetts, 01803. The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

Associated Employers Insurance Company (“AEIC” or “Company”) was last examined as of December 31, 2013 by the Massachusetts Division of Insurance (“Division”). The current examination was also conducted by the Division and covers the five-year period from January 1, 2014 through December 31, 2018, 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 AIM Insurance Group were also examined and separate Reports of Examination have been issued:

Associated Industries of Massachusetts Mutual Insurance Company  
Massachusetts Employers Insurance Company

The 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 current and prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws (“M.G.L.”), Chapter 175, Section 4, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company is audited annually by Ernst & Young LLP (“E&Y”), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for calendar years 2014 through 2018. A review and use of the Certified Public Accountants’ work papers were made to the extent deemed appropriate and effective.

BakerTilly Virchow Krause, LLP (“BakerTilly”), was engaged by the Division to evaluate the adequacy of the Company’s loss and loss adjustment expense reserves as of December 31, 2018 and to perform a review of IT.

## **SUMMARY OF SIGNIFICANT FINDINGS OF FACT**

Massachusetts General Laws Chapter 175 Section 64 requires that investment transactions ratified by the Board of Directors be recorded in the minutes. A review of the minutes showed that the investment transactions were not recorded in the minutes. No recommendations were noted in the prior report.

## **COMPANY HISTORY**

### **General**

On March 12, 2001, Associated Industries of Massachusetts Mutual Insurance Company (“A.I.M. Mutual”) contributed \$3 million in capital and surplus to form a wholly owned subsidiary, AEIC. AEIC was issued a Certificate of Authority to write workers’ compensation and employers’ liability coverages in Massachusetts on April 1, 2001. In 2013, they became licensed in Connecticut to write workers’ compensation and employers’ liability coverages. AEIC became licensed to write workers’ compensation and employers’ liability coverage in New Hampshire in 2015, Vermont in 2017 and Maine in 2018.

### **Capital Stock**

AEIC has authorized 250,000 shares of \$20.00 par value common stock, of which 100,000 shares are issued. All shares are owned by A.I.M. Mutual.

## **MANAGEMENT AND CONTROL**

### **Board of Directors Minutes**

The minutes of the Board of Directors (“Board”) 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.

### **Articles of Organization and Bylaws**

The articles of organization and bylaws and amendments thereto were reviewed. In 2017, the articles of organization were amended to increase the shares authorized from 30,000 at \$20 par value to 250,000 at \$20 par value. The amendment was approved by the Division.

## Associated Employers Insurance Company

### Board of Directors

According to the bylaws, the Board shall have supervision and control of the business, property, affairs and management of the Company. The Board shall consist of not less than three or more than twelve directors with the number of directors determined at each annual stockholders meeting coinciding with the expiration of one or more director's term. Each director holds office until the annual meeting of the stockholders in the years designated by the Incorporators of the Corporation and until his or her successor is duly elected and qualified. At December 31, 2018, the Company's Board was composed of four persons, which is in compliance with the Company's bylaws and the General Laws of Massachusetts.

The members of the Board at December 31, 2018 are as follows:

<u>Director</u>	<u>Business Affiliation</u>
John A. Myers	Chairman A.I.M. Mutual Insurance Company
Paul Kehoe	Vice President and Chief Financial Officer A.I.M. Mutual Insurance Company
Richard C. Lord	* President and Chief Executive Officer Associated Industries of Massachusetts
Michael E. Standing	President and Chief Executive Officer A.I.M. Mutual Insurance Company

\*In 2019 Mr. Lord retired from AIM, Inc.

In 2015, the Board was reduced from six to five with the retirement of John Gould; in 2018, it was reduced to four members with the retirement of Robert Cella.

### Officers

According to the Company's bylaws, the officers of the Board shall include a chairperson and also the Board shall elect the officers of the Company. The officers of the Company shall be the President, the Secretary, the Clerk, the Treasurer, and such other officers as deemed necessary. The officers shall hold their respective office for one year and thereafter until their successors are elected and qualified. The persons elected by the Board to serve as officers shall be the same person(s) who hold(s) the corresponding office of the Company's majority stockholder. No officer need be a stockholder or director.

## Associated Employers Insurance Company

The bylaws state that the President shall be the Chief Executive Officer of the Company. The President shall perform such duties as are required by law or which usually pertain to such office and shall exercise such other powers and perform such other duties as may be assigned by the Board. In addition to what is defined explicitly in the bylaws, the Company's officers shall have and may exercise such duties and powers as are prescribed by law, are commonly incident to his or her office and as the Board may from time to time prescribe. Except as otherwise required or prohibited by law, any one or more offices may be held by the same person.

The officers of the Company at December 31, 2018 are as follows:

<u>Name</u>	<u>Title</u>
Michael E. Standing	President and CEO
Paul M. Kehoe	Vice President and Treasurer
Glenn S. MacDonald	Secretary

### Committees of the Board of Directors

The Company's bylaws allow that the Board shall authorize such committees as it deems necessary, including a Nominating Committee, to conduct the business of the Board and shall appoint persons to serve thereon. In accord therewith, the Board appointed an Investment Committee to monitor the performance of the Company's investments and authorize the purchase and/or sale of securities, an Audit Committee to provide assistance to the Board in fulfilling their oversight responsibility relating to the integrity of the Company's financial reporting process and a Nominating Committee to present to the Board nominations for any vacancies on the Board. All members of the Audit Committee are independent directors. The Audit Committee for the period 2014 to 2015 was composed of directors Ralph P. Schlenker, Chairman, John J. Gould, and Michael G. Faucher; for the period 2016 to 2018 John Myers replaced John Gould who resigned in 2015. The Investment Committee for the period of 2014 to 2015 was composed of Gregory Shah, Chairman, directors John J. Gould, John A. Myers, and Wells Sampson. In 2016, Leslie Greis joined the Committee and Michael Faucher joined in 2017. Ms. Greis became Chairman in June 2018 with the retirement of Gregory Shah. The Nominating Committee is composed of directors William C. Blanker, John J. Gould, John A. Myers and Ralph P. Schlenker.

Minutes of the Investment Committee documented regular meetings of the Investment Committee members with representatives of the Company's investment advisors/managers, Conning, Inc. who replaced GR-NEAM in 2016. Minutes of the Audit Committee documented regular meetings of the Audit Committee with the Company's independent auditors, E & Y. Minutes of the Nominating Committee documented regular meetings of the Nominating Committee at which the members discussed nominations to the Board.

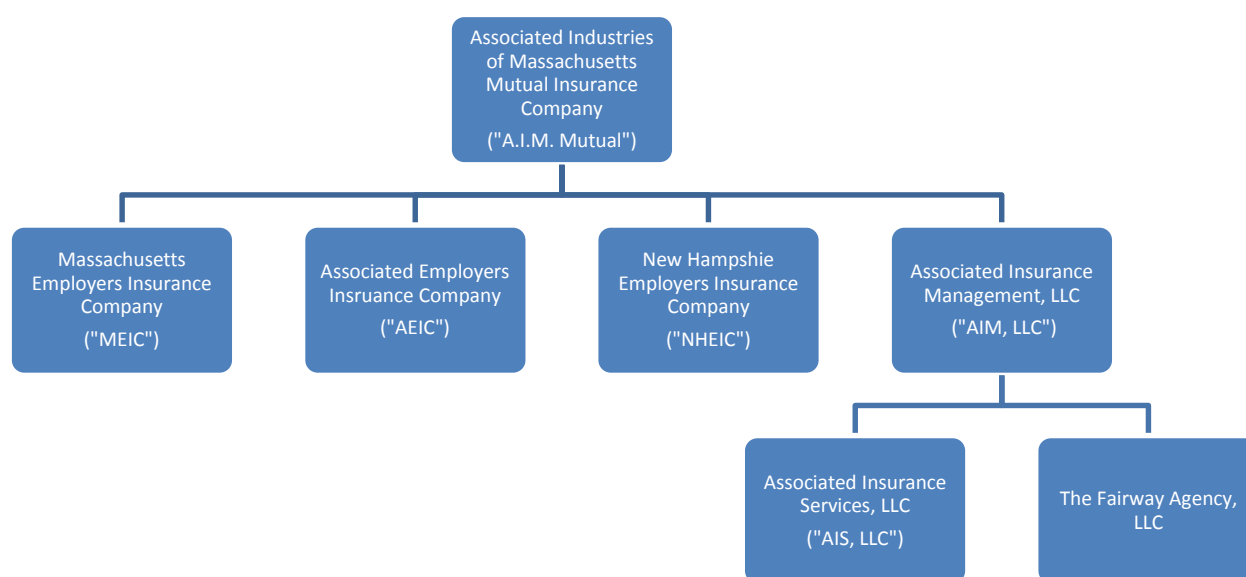
## Associated Employers Insurance Company

### Affiliated Companies

As stated in the Insurance Company Holding Company System Form B and C as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of M.G.L., Chapter 175, Section 206C and Regulation 211 CMR 7.00. Ultimate control of the holding company system is held by A.I.M. Mutual. The Company became part of the holding company system on March 12, 2001.

### Organization Chart

At December 31, 2018, the following companies were part of the following organizational structure:



### 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.



## Associated Employers Insurance Company

### *Licensing Agreement*

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. 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.

### *Pooling Agreement*

The Company participates in an intercompany pooling arrangement with its parent company, A.I.M. Mutual.

## **TERRITORY AND PLAN OF OPERATION**

The Company is licensed to write workers' compensation and employers' liability in Massachusetts. In 2013, the Company became licensed in Connecticut; it then became licensed in New Hampshire in 2016, Vermont in 2017 and Maine in 2018.

### Treatment of Policyholders- Market Conduct

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.

## Associated Employers Insurance Company

### **REINSURANCE**

#### Pooling Agreement

AEIC participates in a Reinsurance Pooling Agreement with its parent, A.I.M. Mutual and its subsidiaries, MEIC and NHEIC. The agreements became effective April 4, 2001. Under terms of the agreement, AEIC cedes 100% to A.I.M. Mutual but does not assume from the pool.

#### Ceded Reinsurance

A.I.M. Mutual has four layers of per occurrence excess of loss reinsurance; which also includes AEIC, MEIC and NHEIC. Coverage was purchased using the reinsurance intermediary Guy Carpenter.

For the exam period the retention and limits are as follows:

2014

Loss Exceeding	Limit
\$1,250,000	\$2,750,000
\$4,000,000	\$6,000,000
\$10,000,000	\$15,000,000
\$25,000,000	\$25,000,000

2015

Loss Exceeding	Limit
\$1,250,000	\$2,750,000
\$4,000,000	\$6,000,000
\$10,000,000	\$15,000,000
\$25,000,000	\$50,000,000

2016 to 2018

Loss Exceeding	Limit
\$1,500,000	\$2,750,000
\$4,000,000	\$6,000,000
\$10,000,000	\$15,000,000
\$25,000,000	\$75,000,000

The Company also purchased through Guy Carpenter a per claimant treaty for \$15,000,000 xs \$10,000,000. All reinsurer are rated A- or better by A.M. Best.

## Associated Employers Insurance Company

### Joint Marketing Agreement

In late 2010, the Commercial Solutions Underwriting Alliance was introduced, which is a joint marketing program with Quincy Mutual Insurance Company (“Quincy Mutual”). This program provided policyholders with a complete multi line commercial program of insurance; the workers’ compensation policy written by AEIC and the property, liability and commercial auto policies written by Quincy Mutual. Also, A.I.M. Mutual serviced Quincy Mutual’s new and existing workers’ compensation business for a fee. This program was ended July 1, 2016; the cancellation was on a policies attaching basis. A.I.M. Mutual continues to service the workers’ compensation business.

**FINANCIAL STATEMENTS**

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2018. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2018

Statement of Income for the Year Ended December 31, 2018

Reconciliation of Capital and Surplus for Each Year in the Five Year Period Ended December 31, 2018

# Associated Employers Insurance Company

## Statement of Assets, Liabilities, Capital and Surplus As of December 31, 2018

	Per Annual Statement
<b>Assets</b>	
Bonds	\$ 5,332,670
Cash, cash equivalents and short-term investments	243,410
Subtotals, cash and invested assets	5,576,080
Investment income due and accrued	30,080
Reinsurance:	
Amounts recoverable from reinsurers	46,544
Receivable from parent, subsidiaries and affiliates	1,133,829
Aggregate write-ins for other-than-invested assets:	
Miscellaneous Accounts Receivable	19,700
Total assets	<u>\$ 6,806,233</u>
 <b>Liabilities</b>	
Other expenses	\$ 2,500
Current federal and foreign income taxes	18,616
Ceded reinsurance premiums payable	336,987
Amounts withheld or retained by company for account of others	386,350
Total Liabilities	<u>744,453</u>
Common capital stock	2,000,000
Gross paid in and contributed surplus	2,400,000
Unassigned funds	1,661,780
Surplus as regards policyholders	<u>6,061,780</u>
Total Liabilities and Policyholders Surplus	<u>\$ 6,806,233</u>

Associated Employers Insurance Company

Statement of Income  
For the Year Ended December 31, 2018

	Per Annual Statement
Premium earned	\$ -
<b>Deductions:</b>	
Losses incurred	0
Loss adjustment expenses	0
Other underwriting expenses incurred	0
Total underwriting deductions	0
Net underwriting gain (loss)	0
Net investment income earned	109,499
Net realized capital gains (losses)	(10,995)
Net investment gain (loss)	98,504
Net gain (loss) from agents' or premium balances charged off	-
Aggregate write ins for miscellaneous income	-
Total other income	-
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	98,504
Dividends to policyholders	-
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	98,504
Federal and foreign income taxes incurred	18,616
Net Income	\$ 79,888

# Associated Employers Insurance Company

## Reconciliation of Capital and Surplus For Each Year in the Five-Year Period Ended December 31, 2018

	2018	2017	2016	2015	2014
Surplus as regards policyholders, December 31 prior year	\$5,981,891	\$4,520,171	\$4,482,847	\$4,451,085	\$4,404,587
Net income	79,888	61,720	37,324	31,762	46,498
Capital Changes:					
Paid in	0	1,400,000	0	0	0
Change in surplus as regards policyholders for the year	79,888	1,461,720	37,324	31,762	46,498
Surplus as regards policyholders, December 31 current year	<u>\$6,061,779</u>	<u>\$5,981,891</u>	<u>\$4,520,171</u>	<u>\$4,482,847</u>	<u>\$4,451,085</u>

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

There have been no changes made to the financial statements as a result of the examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

All losses and loss adjustment expenses are ceded 100% to A.I.M. Mutual per the intercompany pooling agreement. Therefore, a separate analysis of loss reserves and loss adjustment expenses was not performed for AEIC.

**SUBSEQUENT EVENTS**

In March 2020 the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there was significant uncertainty on the effect that the pandemic would have on the insurance industry, economy, and society at large. Any impact to the Company will take time to assess and will be specific to the class and mix of business they underwrite. The Division will continue to monitor how the pandemic might impact the Company.

**SUMMARY OF RECOMMENDATIONS**

Massachusetts General Laws Chapter 175 Section 64 requires that investment transactions ratified by the Board be recorded in the minutes. The Board minutes do not include a recording of the investment transactions. Accordingly, the Company shall complete the required action to have the Secretary ensure that the investment transactions are recorded in the Board minutes.

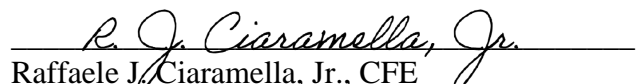


**SIGNATURE PAGE**

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

The assistance rendered by BakerTilly and the following Division examiners participating in this examination is acknowledged.

Maria Gannon, CFE, Examiner-in-Charge  
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Supervising Examiner  
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