



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

REPORT OF EXAMINATION OF THE
MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION
PROPERTY AND CASUALTY GROUP, INC.

Reading, Massachusetts

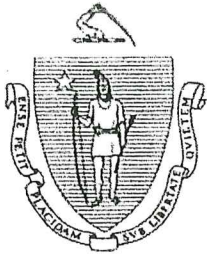
As of June 30, 2018

EMPLOYERS ID NO. 04-3287895

**MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION
PROPERTY AND CASUALTY GROUP, INC.**

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Summary of Significant Findings of Fact	2
Group History	3
General	3
Management and Control	3
Annual Meeting	3
Board of Directors	3
Officers	4
Administrator	5
Territory and Plan of Operation	5
Reinsurance	5
Financial Statements	6
Statement of Assets, Liabilities, Capital and Surplus	7
Statement of Income	8
Statement of Capital and Surplus	9
Reconciliation of Capital and Surplus	10
Analysis of Change in Financial Statements Resulting from the Examination	11
Comments on Financial Statement Items	11
Subsequent Events	12
Summary of Recommendations	12
Signature Page	13



COMMONWEALTH OF MASSACHUSETTS
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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

September 24, 2019

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 specific instructions and by authority of Section 6 of Chapter 40M of Massachusetts General Laws ("MGL"), an examination has been made of the financial condition and affairs of

MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION
PROPERTY AND CASUALTY GROUP, INC.

at its main administrative office located at 55 Walkers Brook Drive, Suite 402, Reading, Massachusetts. The following report thereon is respectfully submitted.

MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION
PROPERTY AND CASUALTY GROUP, INC.

SCOPE OF EXAMINATION

Massachusetts Education and Government Association Property and Casualty Group, Inc., (“MEGA” or “Group”), was last examined by the Massachusetts Division of Insurance (“Division”) as of June 30, 2015. The examination covers the transactions of the Group from July 1, 2015, through June 30, 2018, 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 current and 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 books and records of the Group for the years 2016 and 2017 were audited by BDO USA, LLP, independent certified public accountants. In 2018 the audit was performed by E. J. Callahan & Associates, LLC. 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

The previous report of examination noted Reinsurance Recoverable balances were not properly aged in accordance with Schedule F Part 4 of the Annual Statement. The current examination found the balances to be properly aged in accordance with Schedule F.

The prior examination found the Group’s loss reserves to be below the actuary’s mid-point estimated reserve range. The current examination finds the reserves to be above the actuarial selected mid-point as recommended by the Division.

MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION
PROPERTY AND CASUALTY GROUP, INC.

GROUP HISTORY

General

The Massachusetts Education and Government Association Workers' Compensation Trust ("Trust") was approved for operation on June 30, 1990 by the Commissioner of Insurance and began operation on July 1, 1990 as a workers' compensation self-insurance group. The Trust was originally formed under the self-insurance provisions of MGL Chapter 152.

On October 4, 1995, the Trust was reorganized as a not-for-profit corporation known as Massachusetts Education and Government Association Workers' Compensation Group, Inc. The new corporation assumed all of the assets, liabilities, and obligations as successor-in-interest of the Trust. The Internal Revenue Service granted tax-exempt status to the Group.

On July 1, 2003, the workers' compensation group merged with the newly formed Massachusetts Education and Government Association Property and Casualty Group, Inc. This successor corporation was formed under MGL Chapter 40M, establishing a public entity property casualty group. This change allowed MEGA to offer multi-line insurance coverage in the property and liability area to public sector entities. In response to members demand, on July 1, 2007, MEGA began offering property and liability insurance. Effective July 1, 2011 the Group decided to exit the property and liability business to focus their efforts exclusively on workers compensation insurance.

MANAGEMENT AND CONTROL

According to the bylaws, the affairs of the Group shall be managed by the Board of Directors ("Board"), 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 shall appoint an Administrator to perform and manage the day-to-day activities of the Group. The Board shall have the power to adopt and issue rules, regulations, policies and procedures which shall be binding upon the members and the Administrator.

Annual Meeting

According to the bylaws as amended, the annual meeting of the members shall be held on the fourth Thursday in October of each year or, at such other time as determined by the Board.

Board of Directors

The Board shall consist of not fewer than three or more than eleven directors with the number determined at each annual meeting by resolution of the members. The Board shall be divided as evenly as possible into three groups so that there will be staggered terms of office for each group

MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION
PROPERTY AND CASUALTY GROUP, INC.

of directors. Each director holds office for a term of three years. Upon expiration or resignation, his or her successor is elected at the next annual meeting.

The members of the Board of Directors as of June 30, 2018 were as follows:

<u>Director</u>	<u>Professional Affiliation</u>
Melanie Hagman	Assistant Superintendent Director/Business Manager – Shawsheen Valley RVTSD
Kurtis Johnson	Assistant Superintendent for Finance and Operations – Blackstone Valley RVTHS
Mark Webber	Town Administrator – Town of West Stockbridge
Robert Alconada	Assistant Executive Director – Shore Educational Collaborative
Greg Zammuto	Director of Finance and Operations – Special Educational Educators Mutual Collaborative

The bylaws specify regular meetings of the Board shall be held not less than quarterly. At any meeting of the Board, not less than one-half of the directors then in office shall constitute a quorum. The minutes indicated that a quorum was obtained at all Board meetings held during the examination period and the meetings were held quarterly. All directors shall be individuals who are affiliated with (as employees, directors, trustees, or officers) members in good standing of the Group and shall be a resident of the Commonwealth.

Officers

Pursuant to the bylaws the officers of the Group shall be elected by the Board and there shall be a president, vice president, treasurer, clerk and such other officers, if any as the Board may from time to time designate. The officers shall be elected annually by the directors at their first meeting following the annual meeting of the members. The Group may also have such agents, if any, as the directors may appoint. The president must be a director.

The elected officers and their respective titles at June 30, 2018 follows:

<u>Name of Officer</u>	<u>Title</u>
Melanie Hagman	President
Mark Webber	Vice President
Kurtis Johnson	Treasurer
Greg Zammuto	Clerk

MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION
PROPERTY AND CASUALTY GROUP, INC.

Administrator

During the operating period under review, the Group by a written administrative service agreement engaged Cannon Cochran Management Services, Inc., to perform and manage the day-to-day activities of the Group.

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 workers compensation and employers liability insurance policy with an unaffiliated insurer. Under this policy, the Group's losses at June 30, 2018, in excess of \$1,000,000 for each individual accident or employee will be covered by the policy in accordance with statutory limits.

MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION
PROPERTY AND CASUALTY GROUP, 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 June 30, 2018. The financial statements are the responsibility of the Group's management.

Statement of Assets, Liabilities, Capital and Surplus as of June 30, 2018

Statement of Income for the Year Ended June 30, 2018

Statement of Capital and Surplus for the Year Ended June 30, 2018

Reconciliation of Capital and Surplus for the Three-Year Period Ended June 30, 2018

**Massachusetts Education and Government Association
Property and Casualty Group, Inc.**

Statement of Assets, Liabilities, Capital and Surplus

As of June 30, 2018

	As Reported by the Group
Assets	
Bonds	\$ 26,338,777
Cash and short-term investments	282,237
Subtotals, cash and invested assets	<u>26,621,014</u>
Investment income due and accrued	174,810
Reinsurance: Amounts recoverable from reinsurers	30,931
Aggregate write-ins for invested assets:	
Other Receivables	77
Total Assets	<u><u>\$ 26,826,832</u></u>
 Liabilities	
Losses	\$ 20,785,781
Loss adjustment expenses	3,976,104
Other expenses	1,244
Advance premiums	389,130
Aggregate write-ins for liabilities:	
Time Value of Money Discount	<u>(2,277,098)</u>
Total Liabilities	<u>22,875,161</u>
Unassigned funds (surplus)	<u>3,951,671</u>
Surplus as regards policyholders	<u>3,951,671</u>
Total Liabilities, Capital, and Surplus	<u><u>\$ 26,826,832</u></u>

**Massachusetts Education and Government Association
Property and Casualty Group, Inc.**

Statement of Income
For the Year Ended June 30, 2018

	As Reported by the Group
Premiums earned	\$ 14,233,157
Deductions:	
Losses incurred	8,882,495
Loss expenses incurred	1,404,187
Other underwriting expenses incurred	2,607,052
Aggregate write-ins for underwriting deductions:	
Time Value of Money Discount	184,281
Total underwriting deductions	13,078,015
Net underwriting gain (loss)	1,155,142
 Net investment income earned	 521,503
Net realized capital gains (losses)	(69,921)
Net investment gain (loss)	451,582
 Net gain (loss) from agents' or premium balances charged off	 (1)
Total other income	(1)
 Net income before dividends to policyholders and before federal and foreign income taxes	 1,606,723
Dividends to policyholders	0
 Net income, after dividends to policyholders but before federal and foreign income taxes	 1,606,723
Federal and foreign income taxes incurred	0
 Net Income	 \$ 1,606,723

Massachusetts Education and Government Association
Property and Casualty Group, Inc.
Statement of Capital and Surplus
For the Year Ended June 30, 2018

	<u>As Reported by the Group</u>
Surplus as regards policyholders, June 30, 2017	\$ 2,381,212
Net income	1,606,723
Change in nonadmitted assets	<u>(36,264)</u>
Change in surplus as regards policyholders for the year	<u>1,570,459</u>
Surplus as regards policyholders, June 30, 2018	<u>\$ 3,951,671</u>

Massachusetts Education and Government Association
Property and Casualty Group, Inc.
Reconciliation of Capital and Surplus
For the Three Year Period Ended June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Surplus as regards policyholders, June 30, prior year	\$ 2,381,212	\$ 862,773	\$ 577,875
Net income	1,606,723	1,505,984	277,194
Change in nonadmitted assets	<u>(36,264)</u>	<u>12,455</u>	<u>7,704</u>
Net change in capital and surplus for the year	<u>1,570,459</u>	<u>1,518,439</u>	<u>284,898</u>
Capital and surplus, June 30, current year	<u>\$ 3,951,671</u>	<u>\$ 2,381,212</u>	<u>\$ 862,773</u>

MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION
PROPERTY AND CASUALTY GROUP, INC.

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

There have been no changes to the amounts reported in the Annual Statement.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Losses	\$ 20,785,781
Loss Adjustment Expenses	\$ 3,976,104

The Division has relied on the analysis performed by the Group's actuary, Milliman, to review the reasonableness of the Loss and Loss Adjustment Expense Reserves (the "Reserves") of MEGA as of June 30, 2018. The review was conducted in a manner consistent with the Code of Professional Conduct and the Qualification Standards of the American Academy of Actuaries and the Standards of Practice adopted by the Actuarial Standards Board.

MEGA held net loss and LAE reserves of \$24.8 million as of June 30, 2018. These reserves are gross of anticipated salvage and subrogation and ceded reinsurance. The Group has a write-in liability of \$2,277,098 for loss reserve discounting. The discounting interest rate factors are set in accordance with the Internal Revenue Code of 1986 and reserve discounting is permitted by 211 CMR 67.00.

Milliman's actuarial review utilized various actuarial methodologies to analyze MEGA's accident year paid and incurred loss data at annual valuations through June 30, 2018. Milliman's actuarial central estimate of the net loss and LAE reserves is \$23 million. Milliman also calculated a range of estimates that it considered reasonable and acceptable. The overall reasonable range of estimates extends from \$20.5 million to \$25.7 million.

The table below summarizes a comparison of Milliman's range of reasonable estimates for Loss and LAE Reserves to the Company's net carried Loss and LAE Reserves as of June 30, 2018.

	Low Point of Range	Selected Estimate	High Point of Range
Milliman Estimate	\$20,519,392	\$22,994,439	\$25,650,490
Company Carried	24,761,885	24,761,885	24,761,885
Company Carried Over / (Under) Milliman	4,242,493	1,767,446	(888,605)

SUBSEQUENT EVENTS

Subsequent to June 30, 2018, there were no material items that came to our attention for inclusion in the report of examination.

SUMMARY OF RECOMMENDATIONS

There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in this report.

MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION
PROPERTY AND CASUALTY GROUP, INC.

SIGNATURE PAGE

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Group to the Division's examiner during the examination.

A handwritten signature in cursive script, reading "Kenneth R. Plumb", is written over a horizontal line.

Kenneth R. Plumb, CPA, CFE
Examiner-in-Charge
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance