



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

***REPORT OF EXAMINATION OF THE***

**MASSACHUSETTS McDONALD'S OPERATORS' WORKERS'  
COMPENSATION GROUP, INC.**

**Spencer, Massachusetts**

**As of December 31, 2020**

**EMPLOYER ID NUMBER 04-3139957**

**MASSACHUSETTS McDONALD'S OPERATORS' 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

**MIKE KENNEALY**  
SECRETARY OF HOUSING AND  
ECONOMIC DEVELOPMENT

**EDWARD A. PALLESCHI**  
UNDERSECRETARY OF CONSUMER AFFAIRS  
AND BUSINESS REGULATION

**GARY D. ANDERSON**  
COMMISSIONER OF INSURANCE

December 28, 2021

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 152, Section 25I, an examination has been made of the financial condition and affairs of

**MASSACHUSETTS McDONALD'S OPERATORS' WORKERS' COMPENSATION  
GROUP, INC.**

at its main office located at 8 Lake Street, Spencer, MA 01562. Due to the COVID-19 pandemic, the examination was conducted remotely. The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

Massachusetts McDonald's Operators' Workers' Compensation Group, Inc. ("Group") was last examined as of December 31, 2017, by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the three-year period from January 1, 2018, through December 31, 2020, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

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 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.

All accounts and activities of the Group were considered in accordance with a modified 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 Group's financial statements.

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws, Chapter 152, Section 25I, 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 Group.

The Group is audited annually by an independent certified public accounting firm. The firm of Doyle & Associates, PLLC expressed an unqualified opinion on the Group's financial statements for the fiscal years 2018 through 2020. A review and use of the Certified Public Accountants' work papers were made to the extent deemed appropriate and effective.

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

During the previous examination, the Group was not in compliance with the Code of Massachusetts Regulation ("CMR") 211 67.00, since the Group did not receive at least 25% of the member's estimated annual net premium prior to year-end. For the three years under examination, the Group did receive 25% of the member's estimated annual premium requirement prior to year-end.

## **GROUP HISTORY**

### **General**

The Group was organized on December 31, 1991 as a workers' compensation self-insurance group under Massachusetts General Law ("MGL") Chapter 152, Sections 25 E through 25U. The purpose of the Group is to provide workers' compensation coverage to independent McDonald's restaurant franchise owners/operators within the Commonwealth of Massachusetts.

During the period under examination, the Group, by written administrative service agreement, engaged Arthur J. Gallagher Risk Management Services, Inc. ("Arthur Gallagher" or "Administrator") to perform and manage the day-to-day activities of the Group.

### **Dividends**

In accordance with 211 CMR 67.08 (4), if actuarially sound, the Group may declare and accrue dividend liabilities from a fund year's operating activities during that fund year, but shall not begin distributions for that fund year until at least 24 months after the end of the fund year.

The following amounts were reported as dividends declared and unpaid each year covered by this examination:

2018	\$1,037,747
2019	869,174
2020	1,120,361

Under the distribution formula provided for by 211 CMR 67.08 (4), the following amounts were paid and distributed as dividends to policyholders (members) during the period covered by this examination:

2018	\$ 3,622
2019	248,595
2020	506,046

## **MANAGEMENT AND CONTROL**

### **Board of Directors Minutes**

The minutes of meetings of the Board of Directors ("Board") for the period under examination were read and the Group appeared to be conducting its affairs in compliance with its bylaws and the Laws of the Commonwealth of Massachusetts.

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

The articles of organization and bylaws of the Group were reviewed. There were no amendments since the last examination.

### **Board of Directors**

According to the bylaws, the Group's business shall be managed by a Board which may exercise all of the powers of the Group, except as otherwise provided by the Articles of Organization, by law, or the bylaws. The Board shall consist of not fewer than five Directors. The Group's Board as of December 31, 2020 consisted of the following individuals:

<u>Name of Director</u>	<u>Professional Affiliation</u>
Joseph Spadea	Sellia Corporation
Dave Balducci	Sellia Corporation
Joseph Ruscito	Ruscito Management, LLC
David Yee	MDC Management Co, LLC
Katie Hurley	Hurley Organization, LLC
Jeff Brewster	The Brewster Company
Vern Chin	Chin Management

### **Officers**

Officers and management of the Group as of December 31, 2020 were as follows:

<u>Name of Officers</u>	<u>Title</u>
Joseph Spadea	President
Joseph Ruscito	Treasurer
Dave Balducci	Secretary

Management Service Agreements

The Group has retained Arthur Gallagher as the Administrator of the Group. In addition, the Group has a service agreement with Cannon Cochran Management Services, Inc. to handle all aspects of claim management and administration. The Group also has an Investment Advisory Agreement with Opus Investment Management, Inc. to oversee the Group's investment portfolio.

**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 a specific excess workers' compensation insurance policy with an unaffiliated insurer. Under this policy, the Group's losses at December 31, 2020, in excess of \$400,000 for each individual accident will be covered up to the statutory limits per occurrence, while 211 CMR 67.21 requires a maximum of \$500,000 retention. The aggregate excess coverage attaches at loss fund percentage 125% with a maximum limit for the liability period of \$5,000,000 while 211 CMR 67.21 requires a 105% attachment point.

## **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, 2020. The financial statements are the responsibility of Group management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2020

Statement of Income for the Year Ended December 31, 2020



Massachusetts McDonald's Operators' Workers' Compensation Group, Inc.

Statement of Assets, Liabilities, Surplus and other Funds  
As of December 31, 2020

	Per Annual Statement
<b>ASSETS</b>	
Bonds	\$ 2,998,081
Cash, cash equivalents and short-term investments	896,008
Investment income due and accrued	18,502
Premiums and considerations	24,566
Total Assets	<u>\$ 3,937,157</u>
<b>LIABILITIES</b>	
Losses	\$1,749,772
Advance premium	425,374
Dividends declared and unpaid	1,120,361
Aggregate write-ins for liabilities	641,650
Total Liabilities	<u>3,937,157</u>
Surplus	
Unassigned funds (surplus)	<u>0</u>
Surplus as regards policyholders	<u>0</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 3,937,157</u>

Massachusetts McDonald's Operators' Workers' Compensation Group, Inc.

Statement of Income  
For the Year Ended December 31, 2020

	Annual Statement
Net Premiums Earned	\$ 1,784,176
Deductions:	
Net Losses Incurred	1,036,058
Net Loss adjustment expenses incurred	205,179
Net Other underwriting expenses incurred	114,521
Total underwriting deductions	1,355,758
Net underwriting gain/(loss)	428,418
Net investment income earned	77,034
Net realized capital gains or (losses) less capital gains tax	594
Net investment gain/(loss)	77,628
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	506,046
Dividends to policyholders	506,046
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	0
Federal and foreign income taxes incurred	0
Net income/(loss)	\$ 0

**ANALYSIS OF CHANGE 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**

There are no comments made as a result of the examination.

**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 Group 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 Group.

**SUMMARY OF RECOMMENDATIONS**

It is recommended that the Group comply with all aspects of 211 CMR 67.00.

**SIGNATURE PAGE**

Acknowledgement is made of the cooperation and courtesies extended by the Group and its Administrator during the examination.

R. J. Ciaramella, Jr.  
Raffaele J. Ciaramella, Jr., CFE  
Supervising Examiner  
Commonwealth of Massachusetts  
Division of Insurance

Carla Mallqui  
Carla Mallqui, CFE  
Examiner-in-Charge  
Commonwealth of Massachusetts  
Division of Insurance