



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, 2017

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
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JOHN C. CHAPMAN
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AND BUSINESS REGULATION

GARY D. ANDERSON
COMMISSIONER OF INSURANCE

January 18, 2019

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 administrative office located at 30150 Telegraph Road, Bingham Farms, Michigan 48025.
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, 2012 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, 2013 through December 31, 2017, 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 Sallan, Nemes, Lyman & Strakovits, Certified Public Accountants, Professional Corporation expressed unqualified opinions on the Group's financial statements for the fiscal years ended December 31, 2013, December 31, 2014 and December 31, 2015; the firm of Pew & Associates, PLLC expressed an unqualified opinion on the Group's financial statements for the fiscal year ended December 31, 2016; and the firm of Doyle & Associates, PLLC expressed an unqualified opinion on the Group's financial statements for the fiscal year ended December 31, 2017. 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

The Group was not in compliance with all aspects of the Code of Massachusetts Regulation ("CMR") 211 67.00. The Group did not receive at least 25% of the member's estimated annual net premium prior to year end as required by the above legislature. The same finding was noted during the last financial examination.

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:

2013	\$2,456,149
2014	2,600,527
2015	2,315,428
2016	1,794,278
2017	1,413,909

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

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:

2013	\$279,057
2014	327,124
2015	442,154
2016	603,919
2017	593,183

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, 2017 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
Dan Ashburn	Ash-Gage, LLC
Vern Chin	Chin Management

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

Officers

Officers and management of the Group as of December 31, 2017 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, 2017, 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, 2017. The financial statements are the responsibility of Group management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2017

Statement of Income for the Year Ended December 31, 2017

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

Statement of Assets, Liabilities, Surplus and other Funds
As of December 31, 2017

	Per Annual Statement
ASSETS	
Bonds	\$ 2,901,586
Cash, cash equivalents and short-term investments	638,724
Investment income due and accrued	20,394
Total Assets	<u>\$ 3,560,704</u>
 LIABILITIES	
Losses	\$1,211,852
Advance premium	378,360
Dividends declared and unpaid	1,413,909
Aggregate write-ins for liabilities	556,583
Total Liabilities	<u>3,560,704</u>
 Surplus	
Unassigned funds (surplus)	<u>0</u>
Surplus as regards policyholders	<u>0</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 3,560,704</u>

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

Statement of Income
For the Year Ended December 31, 2017

	Per Annual Statement
Net Premiums Earned	\$ 1,761,055
Deductions:	
Net Losses Incurred	1,263,982
Net Loss adjustment expenses incurred	205,205
Net Other underwriting expenses incurred	137,684
Total underwriting deductions	1,606,871
Net underwriting gain/(loss)	154,184
Net investment income earned	81,599
Net realized capital gains or (losses) less capital gains tax	643
Net investment gain/(loss)	82,242
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	236,426
Dividends to policyholders	236,426
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

No subsequent events or transactions that occurred after the December 31, 2017 examination date were noted that would have had a material effect on the Group's financial statements.

SUMMARY OF RECOMMENDATIONS

The Group was not in compliance with all aspects of the Code of Massachusetts Regulation 211 CMR 67.00. The Group did not receive at least 25% of the member's estimated annual net premium prior to year end as required by the above legislature. The same finding was noted during the last financial examination. It is recommended that the Group comply with the regulation.

SIGNATURE PAGE

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

A handwritten signature in blue ink, reading "R. J. Ciaramella, Jr.", written over a horizontal line.

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