



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

DIVISION OF INSURANCE

***REPORT OF EXAMINATION OF*
MASSACHUSETTS BAY SELF-INSURANCE
GROUP, INC.**

Woburn, Massachusetts

As of December 31, 2007

EMPLOYERS ID NO. 04-3226260

MASSACHUSETTS BAY SELF-INSURANCE GROUP, INC.

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COMMONWEALTH OF MASSACHUSETTS

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NONNIE S. BURNES
COMMISSIONER OF INSURANCE

May 8, 2009

The Honorable Nonnie S. Burnes
Commissioner of Insurance
The Commonwealth of Massachusetts
Office of Consumer Affairs and Business Regulation
Division of Insurance
One South Station
Boston, Massachusetts 02110-2208

Commissioner:

Pursuant to your specific instructions and by authority of Section 25I of Chapter 152 of Massachusetts General Laws ("MGL"), an examination has been made of the transactions and financial condition as of December 31, 2007, of the

MASSACHUSETTS BAY SELF-INSURANCE GROUP, INC.

at its main administrative office located at 12 Gill Street, Woburn, Massachusetts. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Massachusetts Bay Self-Insurance Group, Inc., hereinafter referred to as (the "Group"), was last examined by the Massachusetts Division of Insurance as of December 31, 2003. The Massachusetts Division of Insurance made the present examination by authority of MGL, Section 25I of Chapter 152. The examination covers the transactions of the Group from January 1, 2004, through December 31, 2007 including any material transactions and/or events occurring subsequent to the examination date and noted in the course of this examination.

During the examination, the transactions of the Group were reviewed and tested by methods to the extent deemed necessary. Workpapers of the Group's independent certified public accountant and an actuarial report on unpaid loss and loss adjustment expense reserves prepared by the Group's independent consulting actuary were made available to the examiner and were utilized to the extent considered appropriate. The examination included a review of the general operations of the Group, treatment of its members and claimants, and the financial condition of the Group as of December 31, 2007. In addition, the corporate records were reviewed to ascertain compliance with Massachusetts General Laws.

The report of examination is written on the exception basis. Explanations of and details pertaining to various phases of the examination will be found herein. Unless it is specifically noted otherwise, all references to the Group's accounts, activities, and transactions are as of December 31, 2007.

HISTORY

The Group was organized on April 14, 1994, as a workers' compensation self-insurance group under Massachusetts General Law Chapter 152, Sections 25E through 25U. The Group was created to make available workers' compensation coverage for a group of charitable organizations which receive funding from the United Way of Massachusetts Bay.

Throughout the operating period under review, the Group, by written administrative service agreement, has engaged NetCare Services, Inc. (the "Administrator"), to perform and manage the day-to-day activities of the Group.

MANAGEMENT

Pursuant to the bylaws the affairs of the Group shall be managed by the board of trustees, 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 of trustees 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.

Members

The members of the corporation shall be those entities who are members of the Group; provided that the number of members shall at no time be fewer than five. To be eligible for membership, an entity must be an organization which is engaged in the charitable, human and social services industry whose payroll is domiciled in the Commonwealth of Massachusetts and be a member in good standing of or receive funding from the United Way of Massachusetts Bay, Inc. A potential member must complete and execute an application and indemnity agreement approved by the board of trustees and receive written acceptance of membership pursuant to the bylaws.

Annual Meeting

According to the bylaws, the annual meeting of the members shall be held on the first Monday in June of each year or, if that date is a legal holiday in the place where the meeting is to be held, then to the next succeeding day not a legal holiday.

Board of Trustees

The Board of Trustees shall consist of a minimum of seven (7) trustees to a maximum of eleven (11) trustees. At least two-thirds (2/3) of the trustees shall be employees, officers, directors or trustees of members of the Group. All trustees shall be residents of the Commonwealth of Massachusetts or officers authorized to do business in the Commonwealth of Massachusetts. Each trustee holds office for a term of one year. Upon expiration or resignation, his/her successor is elected at any special or regular meeting of the members.

The members of the board of trustees as of December 31, 2007 were as follows:

<u>Trustee</u>	<u>Professional Affiliation</u>
Gardner Conley, Jr.	CFO, Bay Cove Human Services, Inc.
Terrence Gagne	CFO, Pine Street Inn, Inc.
Kevin Hepner	Executive VP, Judge Baker Children's Center
Lawrence Laspesa	CFO, VNA of Middlesex-East
Ann Tikkanen	CFO, YMCA of Greater Boston
Elaine White	Director of Facilities, Bridgewell
Gerald Riley	CFO, Charles River Arc
Christine Dixon	CEO, Visiting Nurse and Community Health, Inc.
Paul Flanagan	CFO, South Shore YMCA

The bylaws specify regular meetings of the board of the trustees shall be held at such places and at such times as the trustees may determine. At any meeting of the trustees, a majority of the trustees then in office shall constitute a quorum. The minutes indicated that a quorum was obtained at all meetings of the board of trustees held during the examination period.

Officers

Pursuant to the bylaws the officers of the Group shall be elected annually by the trustees and there shall be a president, vice president, treasurer, clerk and such other officers, if any as the trustees may determine. The officers shall be elected annually by the trustees at their first meeting following the annual meeting of the members. The president shall be the chief executive officer of the corporation and, subject to the control of the trustees, shall have general charge and supervision of the affairs of the corporation.

The elected officers and their respective titles at December 31, 2007 follows:

<u>Name of Officer</u>	<u>Title</u>
Elaine White	President
Gardner Conley, Jr.	Vice President
Terrence Gagne	Treasurer
Ann Tikkanen	Clerk

Administrator

During the operating period review, the Group by a written administrative service agreement engaged NetCare Services, Inc., a wholly owned subsidiary of USI Insurance Services of Massachusetts, Inc. to perform and manage the day-to-day activities of the Group. Effective April 1, 2006, the Group consented to NetCare Services, Inc., subcontracting its obligations under the management services agreement to Cabot Risk Strategies, LLC.

Conflict of Interest Procedures

The Group has adopted a corporate business ethics policy for directors and officers policy statement pertaining to conflict of interest in accordance with Question 16 of the General Interrogatories of the Annual Statement. The Group has an established procedure for the disclosure to the board of trustees of any material interest or affiliation on the part of any officer or director which is in or is likely to conflict with his/her official duties.

CORPORATE RECORDS

Articles of Organization and Bylaws

The bylaws and articles of organization and amendments thereto were read. The minutes of the board of trustees were reviewed for the period under examination. For that period, votes and authorizations were found to be in order and the records indicated that the group appeared to be conducting its affairs in compliance with its bylaws and the laws of the Commonwealth of Massachusetts.

GROWTH OF THE GROUP

The following exhibit, compiled from financial statements of the Group for the years ended December 31, 2003 through December 31, 2007, are as follows:

Fund Year	Net Written Premium	Admitted Assets	Liabilities	Member's Surplus
2007	\$ 2,357,931	\$ 3,656,283	\$ 3,212,271	\$ 444,012
2006	1,861,406	3,029,089	2,642,236	386,853
2005	1,625,178	2,670,029	2,318,433	351,596
2004	1,455,167	2,267,154	1,946,080	321,074
2003	1,299,259	2,098,310	1,797,481	300,829

TERRITORY AND PLAN OF OPERATION

The Group is a self-insurance group permitted to transact business only in the Commonwealth of Massachusetts.

DISASTER RECOVERY and BUSINESS CONTINUITY

The Administrator has a formal disaster plan for the continuity of the Group's business operations in the event of any disaster. The total recovery effort is governed by the Cabot Risk Strategies, LLC Disaster Recovery Plan. That plan was made available to the examiner for review and determined to have addressed adequately the process in which to resume certain critical business functions of the Group.

FIDELITY BONDS AND OTHER INSURANCE

The Administrator has an Errors and Omissions policy with a limit of \$10 million per occurrence and \$10 million in the aggregate with an authorized Massachusetts insurer. The Group has coverage for Directors' and Officers' liability with a \$1 million limit.

REINSURANCE

The Group maintains specific excess workers' compensation insurance policy with an unaffiliated insurer. Under this policy, the Group's losses at December 31, 2007, in excess of \$500,000 for each individual accident or employee will be covered by the policy in accordance with statutory limits.

The Group has an aggregate excess of loss policy for workers' compensation exposures that provides coverage in excess of \$2,422,298 with a loss limitation of \$350,000.

ACCOUNTS AND RECORDS

The trial balance, general ledger and audited financial statements provided by the Group were reviewed for the fund year ending December 31, 2007.

General ledger account balances were reconciled and traced to amounts reported in the Annual Statement for the year ended December 31, 2007. All balance sheet accounts with a category class of statutory ledger, non ledger and non-admitted were summarized and traced to the appropriate asset exhibits and liability lines within the Annual Statement. Selected income and expense allocations and postings were sampled and verified for reasonableness. No material exceptions were noted.

The books and records of the Group are audited annually by Shores, Tagman, Butler & Company, P.A., 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 and the National Association of Insurance Commissioners as of December 31, 2007:

- Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2007
- Statement of Income for the Year Ended December 31, 2007
- Statement of Capital and Surplus for the year ended December 31, 2007
- Reconciliation of Capital and Surplus for each year in the Four-Year Period Ended December 31, 2007

For Information Purposes Only

Massachusetts Bay Self-Insurance Group, Inc.
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2007

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination
Bonds	\$ 2,579,584		\$ 2,579,584
Cash	1,046,462		1,046,462
Investment income due and accrued	30,237		30,237
Total Assets	<u>\$ 3,656,283</u>	<u>\$ 0</u>	<u>\$ 3,656,283</u>
Liabilities			
Losses	\$ 1,166,028		\$ 1,166,028
Loss adjustment expenses	260,150		260,150
Other expenses	64,209		64,209
Taxes, licenses and fees	44,781		44,781
Current federal income taxes	21,589		21,589
Dividends declared and unpaid:			
Policyholders	1,468,676		1,468,676
Ceded reinsurance premiums payable	133,233		133,233
Aggregate write-ins for liabilities	53,605		53,605
Total Liabilities	<u>3,212,271</u>		<u>3,212,271</u>
Surplus			
Surplus notes	48,600		48,600
Unassigned funds (surplus)	395,412		395,412
Surplus as regards policyholders	<u>444,012</u>		<u>444,012</u>
Total Liabilities and Surplus	<u>\$ 3,656,283</u>	<u>\$ 0</u>	<u>\$ 3,656,283</u>

Massachusetts Bay Self-Insurance Group, Inc.
Statement of Income
For the Year Ended December 31, 2007

	As Reported by the Company	Examination Changes	Per Statutory Examination
Premiums earned	\$ 2,357,931	\$ 0	\$ 0
Deductions:			
Losses incurred	1,069,433		1,069,433
Loss expenses incurred	172,375		172,375
Other underwriting expenses incurred	671,262		671,262
Aggregate write-ins for underwriting deductions	4,303		4,303
Total underwriting deductions	<u>1,917,373</u>		<u>1,917,373</u>
Net underwriting gain (loss)	440,558		(1,917,373)
Net investment income earned	166,160		166,160
Net realized capital gains	(1,194)		(1,194)
Net investment gain	<u>164,966</u>		<u>164,966</u>
Aggregate write-ins for miscellaneous income	39		39
Net income before dividends to policyholders and before federal and foreign income taxes	605,563		605,563
Dividends to policyholders	<u>461,103</u>		<u>461,103</u>
Net income, after dividends to policyholders but before federal and foreign income taxes	144,460		144,460
Federal and foreign income taxes incurred	<u>39,868</u>		<u>39,868</u>
Net Income	<u>\$ 104,592</u>	<u>\$ 0</u>	<u>\$ 104,592</u>

Massachusetts Bay Self-Insurance Group, Inc.
Capital and Surplus
For the Year Ended December 31, 2007

	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>
Surplus as regards policyholders, December 31, 2006	\$ 386,853	\$ 0	\$ 386,853
Net income	104,592		104,592
Change in nonadmitted assets	1,168		1,168
Change in surplus notes	<u>(48,600)</u>		<u>(48,600)</u>
Change in surplus as regards policyholders for the year	<u>57,160</u>		<u>57,160</u>
Surplus as regards policyholders, December 31, 2007	<u><u>\$ 444,012</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 444,012</u></u>

Massachusetts Bay Self-Insurance Group, Inc.
Reconciliation of Capital and Surplus
For the Four Year Period Ended December 31, 2007

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Surplus as regards policyholders, December 31, prior year	\$ 386,852	\$ 351,595	\$ 321,074	\$ 300,829
Net income	104,592	85,814	78,800	68,840
Change in nonadmitted assets	1,168	(1,957)	321	5
Change in surplus notes	<u>(48,600)</u>	<u>(48,600)</u>	<u>(48,600)</u>	<u>(48,600)</u>
Net change in capital and surplus for the year	<u>57,160</u>	<u>35,257</u>	<u>30,521</u>	<u>20,245</u>
Capital and surplus, December 31, current year	<u><u>\$ 444,012</u></u>	<u><u>\$ 386,852</u></u>	<u><u>\$ 351,595</u></u>	<u><u>\$ 321,074</u></u>

NOTES TO FINANCIAL STATEMENTS

NOTE 1:

<u>Losses</u>	\$ 1,166,028
<u>Loss Adjustment Expenses</u>	\$ 260,150

The Group establishes their reserves based on the estimates provided by Milliman, an independent actuarial consulting firm. Milliman performs an analysis of loss and loss adjustment expense reserves and issues the Actuarial Opinion. The exam has reviewed all available documentation of the Group's reserves and has relied upon the opinion of Milliman as to the adequacy of the carried reserves.

The net loss and loss adjustment expense reserves have been discounted using a discount factor not less than the discount factor that would result from using the interest rates and loss payout patterns prescribed by the Internal Revenue Code. Such discounting of loss and loss adjustment expense reserves is permitted by Massachusetts Regulation 211 CMR 67.08 (2).

For Information Purposes Only

CONCLUSION

Acknowledgment is made of the cooperation and courtesies extended by the Group's Administrator, Cabot Risk Strategies, LLC.

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

For Information Purposes Only