



**COMMONWEALTH OF MASSACHUSETTS**

**OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION**

**DIVISION OF INSURANCE**

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

**Braintree, Massachusetts**

**As of March 31, 2012**

**NAIC COMPANY CODE 00000**

**EMPLOYER ID NUMBER 22-3067707**

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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>

**DEVAL L. PATRICK**  
GOVERNOR

**TIMOTHY P. MURRAY**  
LIEUTENANT GOVERNOR

**GREGORY BIALECKI**  
SECRETARY OF HOUSING AND  
ECONOMIC DEVELOPMENT

**BARBARA ANTHONY**  
UNDERSECRETARY OF CONSUMER AFFAIRS  
AND BUSINESS REGULATION

**JOSEPH G. MURPHY**  
COMMISSIONER OF INSURANCE

April 9, 2013

Honorable Joseph Murphy  
Commissioner of Insurance  
Commonwealth of Massachusetts  
Division of Insurance  
1000 Washington Street, Suite 810  
Boston, Massachusetts 02118-6200

Honorable Commissioner:

Pursuant to the requirements of Massachusetts General Laws ("M.G.L."), Chapter 152, Section 25I, and in conformity with your specific instructions, an examination has been made of the financial condition and affairs of

**MASSACHUSETTS CATHOLIC SELF-INSURANCE GROUP, INC.**

at its home office located at 66 Brooks Drive, Braintree, Massachusetts 02184. The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

The Massachusetts Catholic Self-Insurance Group, Inc. (formerly known as the Archdiocese of Boston Self-Insurance Group, Inc.), hereinafter referred to as (the "Group"), was last examined as of March 31, 2008 by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the four-year period from April 1, 2008 through March 31, 2012, 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 Examiner's Handbook. 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. 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 the risk-focused examination process.

In addition to a review of the financial condition of the Group, the examination included an assessment of the Group's business policies, practices and procedures, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, the treatment of policyholders and claimants and other pertinent matters to provide reasonable assurance that the Group was in compliance with the applicable laws, rules, and regulations of the Commonwealth of Massachusetts. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

Grant Thornton LLP, independent Certified Public Accountants, audited the Group during the examination period. The firm expressed unqualified opinions on the Group's financial statements for the fiscal years 2008 through 2012. A review and use of the Certified Public Accountants' work papers were made to the extent deemed appropriate and effective.

## **GROUP HISTORY**

### **General**

The Massachusetts Catholic Self-Insurance Group, Inc. was initially incorporated as the Archdiocese of Boston Self-Insurance Group, Inc. in November, 1994 under Massachusetts General Law Chapter 180. The corporation was established as a not-for-profit association of employers to provide workers' compensation coverage to member parishes and other Catholic institutions located in the territory of the Archdiocese of Boston in accordance with M.G.L., Chapter 152. The Group was formed to provide workers' compensation coverage and employers' liability coverage solely to religious, charitable, and educational institutions operating within the Commonwealth of Massachusetts which are affiliated with the Roman Catholic Church and are listed in The Official Catholic Directory. The Group is an organization that has been classified as tax exempt within the meaning of Section 501 (c) (3) of the Internal Revenue Code of 1986 (or the corresponding provision of any future United States Internal Revenue Law). Effective March 31, 1990, the Archdiocese of Boston Self-Insurance Group was approved as a workers' compensation self-insurance group authorized to provide workers' compensation benefits pursuant to M.G.L., Chapter 152, Section 25E through 25U. With the introduction of the Catholic Diocese of Springfield in 2004 as a member, the member organizations of the Group voted to change the name of the corporation to the Massachusetts Catholic Self-Insurance Group, Inc.

The Archdiocese of Boston Office of Risk Management administers all operations of the Group except for the handling of claims. Beginning April 1, 2002, the Group retained the services of Associated Insurance Corp. ("AIM Mutual") to provide all claims administrative services. AIM Mutual only provides claim administrative services on claims reported on policy years 1999 and subsequent.

Effective January 1, 2002, the Group entered into a retroactive reinsurance agreement (Loss Portfolio Transfer) with Safety National Casualty Company ("SNCC") wherein all outstanding loss and loss adjustment expense liabilities for policy years 1998 and prior were ceded to SNCC. The Group obtained permission from the Division to account for this transaction as a novation of policy year 1998 and prior insurance policies rather than as reinsurance of outstanding liabilities. Accordingly, the reinsurance contract has not been accounted for as retroactive reinsurance and the Group has no reported outstanding loss reserve liabilities for policy years 1998 and prior.

### **Dividends to Members**

The Massachusetts Catholic Self-Insurance Group, Inc.'s distribution of dividends is based on the current distribution of surplus remaining as of March 31. These policy year dividends are then allocated primarily to each member on a members' policy year incurred loss ratio. The declaration of distributions payable to policyholders is at the discretion of the Group's Board of Directors. In accordance with Massachusetts Self-Insurance Group regulations, distributions of these amounts will not begin until twenty-four months after the end of the related policy year. Then, twenty-five percent of the distribution may be made. Subsequently, thirty-three percent, fifty percent, and one hundred percent of the recalculated distributions can be made in each of the successive years.

## **CORPORATE RECORDS**

For the period covered by this examination, the Group's corporate records were reviewed to include bylaws and Articles of Organization. They were both reviewed for accuracy and compliance with Massachusetts General Law Statutes and regulatory observance. In view of that, the minutes of the meetings of the Board of Trustees/Directors held throughout the examination period were also reviewed for agreement to its bylaws. It was noted that all elections of Trustees/Directors, Officers and any other deemed advisable committee member were found to be in order.

All activity related to the Group's funds, including all material investment activity, was reviewed for proper Board of Trustees/Directors approval, and was found to indicate recorded sales, purchases and exchanges were approved as statutorily required. All records indicate that the Group appears to be conducting its affairs in compliance with its bylaws and the laws of the Commonwealth of Massachusetts.

### **Annual Meeting**

In accordance with the bylaws, the Annual Meeting of the Group shall be held at such location within the Commonwealth of Massachusetts as the Board of Directors may designate, on the third Thursday of September in each year at ten o'clock in the morning, or at such other time as may be designated by the Board of Directors in a notice to Members. Regular and special meetings of the Members of the Group may be held at any time and at any place as the Trustees/Directors may determine, within the Commonwealth of Massachusetts.

### **Conflict of Interest Procedures**

The Group has adopted a policy statement pertaining to conflict of interest in accordance with Question 18 per the General Interrogatories of the Annual Statement, which states that the Group has an established procedure in place. The Group has an established procedure for the disclosure to the Board of Trustees/Directors 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.

Annually, each officer, director and responsible employee completes a questionnaire disclosing any material conflict of interest. The completed questionnaires were reviewed and no discrepancies were noted.

### **Disaster Recovery and Business Continuity**

The Group has a formal disaster recovery plan for the continuity of business operations. The total recovery effort is governed by the Archdiocese of Boston's 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.

### Tax Agreement

In accordance with the Internal Revenue ruling dated March 25, 1946, it was held that agencies and instrumentalities and all educational, charitable and religious institutions operated, supervised, or controlled by or in connection with the Roman Catholic Church in the United States, its territories or possessions appearing in The Official Catholic Directory 1946, are entitled to exemption from federal income tax under the provisions of section 101(6) of the Internal Revenue Code of 1939, which corresponds to section 501(c)(3) of the 1986 code.

## **MANAGEMENT AND CONTROL**

According to the bylaws, management of the Group is entrusted to its Trustees/Directors and its Administrator.

Article 5.3 of the Group's bylaws defines the powers and duties of the Directors:

"The affairs of the Group shall be managed by the Directors, who shall have and may exercise all powers of the Group...The Board of Directors shall have all powers necessary to enable it to carry out its duties, and its decisions upon all matters within the scope of its authority shall be final. Specifically, but not in limitation of the broad powers herein conferred, the Directors shall have the power to:

- Adopt such rules and regulations as it deems necessary or desirable to effect any and all of the purposes for which the Group is formed;
- Accept applicants for membership, including establishment of underwriting and other criteria for qualifications of membership;
- Assess the amount of contributions to be made to the funds, including the determination of the level of premiums, administrative cost, entry fees and fees and other assessments, and the timing and form of payment of such contributions;
- Administer and manage the funds, including the investment and reinvestment of its assets;
- Determine the disposition of money in excess of the amount necessary to fund all obligations of the Group, including but not limited to sufficient contingency reserves;
- Authorize payment of workers' compensation claims and losses incurred by Members, including establishment of reporting obligations and documentation requirements related to such claims, investigation procedures, and settlement guidelines;
- Purchase insurance or reinsurance and surety bonds and Institute Risk Management Programs to be conducted by and in cooperation between the Administrator and the Member."

### Trustees/Directors

The bylaws provide that the business and affairs of the Group shall be managed by the Board of Trustees/Directors, except those powers reserved to the members by law, the Articles of Organization or the bylaws. The Board of Trustees/Directors shall consist of up to seven individuals elected by the members of the Group. At least five of the Directors must be employees, officers, or directors of the Group, and at least four Directors must be employees, officers, designees or directors of the Archdiocese of Boston. All Directors shall be residents of the Commonwealth of Massachusetts or officers of

Massachusetts Catholic Self-Insurance Group, Inc.

corporations authorized to do business in the Commonwealth of Massachusetts. The Administrator shall not serve on the Board of Directors. Each Director holds office for a term of three years and until his or her successor is elected and qualified.

In satisfaction of Massachusetts General Law, Chapter 152, Section 25J and in compliance with the Group's bylaws, duly elected members of the Board of Trustees/Directors as of March 31, 2012 were:

<u>Name of Trustee/Director</u>	<u>Business Affiliation</u>
Mr. James P. McDonough	Archdiocese of Boston
Mr. John Straub	Archdiocese of Boston
Rev. Charles Higgins	St. Joseph Parish, Kingston
Mr. William Labroad	Diocese of Springfield
Mr. John M Riley	Fides Advisors, LLC
Mr. Joseph Welch	John Hancock Financial Services, Inc.
Mr. Neil Buckley	Emmanuel College

Officers

Pursuant to the bylaws, the Officers of the Group are elected by a vote of the Board of Directors at the first meeting of the Board of Trustees/Directors. The elected Senior Officers and their titles at March 31, 2012, were as follows:

<u>Name of Officers</u>	<u>Title</u>
James P. McDonough	President
John Straub	Treasurer
Rev. Charles Higgins	Clerk

On July 9, 2012, John Straub succeeded James P. McDonough as President. Also, on September 14, 2012, Maureen Creedon succeeded John Straub as Treasurer.

**FIDELITY BONDS AND OTHER INSURANCE**

As of March 31, 2012, the Group maintains fidelity coverage with an authorized Massachusetts insurer, consistent with Massachusetts General Law, Chapter 175, Section 60, and 211 CMR 67.06(2)(b)(9). Overall aggregate limits exceed the NAIC suggested minimum. The Roman Catholic Archdiocese of Boston has further protected the Group's interest by providing executive liability, indemnification, and fiduciary liability.



## **TERRITORY AND PLAN OF OPERATION**

As of March 31, 2012, the Group was found to be duly organized under the laws of the Commonwealth of Massachusetts, as a self-insurance group authorized under Massachusetts General Law, Chapter 152, Section 25E through 25U and 211 CMR 67.00, to provide coverage for workers' compensation and employees liability in Massachusetts.

### **Claims Settlement Practices**

Procedures performed in conjunction with the claims testing indicate that the Group investigates and settles claims on a timely and equitable basis.

### **Policyholder Complaints**

During the course of the examination, a general review was made of the manner in which the Group conducts its business practices and fulfills its contractual obligations to policyholders and claimants. The review showed that the Group met all Massachusetts requirements as it relates to policyholders' complaints. The review was limited in nature and was substantially narrower than a full scope market conduct examination.

## **GROWTH OF GROUP**

The growth of the Group for the years 200 through 2012 is shown in the following schedule, which was prepared from the Group's annual reports.

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus</u>	<u>Unpaid Losses &amp; LAE</u>	<u>Gross Premiums Written</u>	<u>Net Income</u>
2008	15,203,831	5,777,436	7,709,617	5,881,443	133,986
2009	16,659,985	5,277,296	8,112,226	5,988,677	276,584
2010	16,316,466	6,013,683	8,431,320	5,801,516	620,979
2011	14,767,599	5,286,256	7,641,799	2,615,958	(729,842)
2012	14,307,423	5,359,300	7,064,168	2,916,328	(201,726)

## **REINSURANCE**

To minimize exposure to loss, the Group has entered into specific and aggregate loss reinsurance agreements for its workers' compensation coverage. The coverage under these agreements is subject to specific retention limits as defined by the contracts and specifically as required by M.G.L., Chapter 152, Section 60 and 211 CMR 67:21. The Group remains primarily liable for its obligations under its reinsurance contracts, in the event that the reinsurer becomes unable to meet its obligations under the agreements.

### **ACCOUNTS AND RECORDS**

The internal control structure was discussed with management through questionnaires and review of the work papers provided by the Group's independent Certified Public Accountants. No material deficiencies were noted.

The trial balance, general ledger, and the annual statement as provided by the Group were reviewed for the examination period ending March 31, 2012. Internal control methods used by the Group in recording income and disbursements, as well as cumulative monthly balances posted to the ledger were evaluated for the examination period. This review disclosed that the Group appears to maintain adequate controls to properly support their general ledger accounts.

For Informational Purposes Only

**FINANCIAL STATEMENTS**

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division of Insurance and by the NAIC as of March 31, 2012.

Statement of Assets, Liabilities, Surplus and Other Funds as of March 31, 2012

Statement of Income for the year ended March 31, 2012

Statement of Surplus for the year ended March 31, 2012

Statement of Changes in Surplus for the four year period ended March 31, 2012

For Informational Purposes Only

Massachusetts Catholic Self-Insurance Group, Inc.

Statement of Assets, Liabilities, Surplus and Other Funds  
As of March 31, 2012

	As Reported By the Group	Examination Changes	Per Statutory Examination	Note(s)
<b><u>Assets</u></b>				
Bonds	\$ 9,701,768	\$ 0	\$ 9,701,768	
Cash and Short Term Investments	4,357,807		4,357,807	
Amounts recoverable from reinsurers	133,142		133,142	
Aggregate Write-Ins for other than Invested Assets	114,706		114,706	
Total assets	<u>14,307,423</u>	<u>0</u>	<u>14,307,423</u>	
<b><u>Liabilities</u></b>				
Losses	6,439,398		6,439,398	(1)
Loss adjustment expenses	624,770		624,770	(1)
Other expenses	76,056		76,056	
Dividends declared and unpaid: Policyholders	752,352		752,352	
Aggregate write-in for liabilities	1,055,547		1,055,547	
Total liabilities	<u>8,948,123</u>	<u>0</u>	<u>8,948,123</u>	
<b><u>Surplus and other Funds</u></b>				
Unassigned funds (surplus)	<u>5,359,300</u>		<u>5,359,300</u>	
Total liabilities, surplus and other funds	<u>\$ 14,307,423</u>	<u>\$ 0</u>	<u>\$ 14,307,423</u>	

Massachusetts Catholic Self-Insurance Group, Inc.

Statement of Income  
For the Year Ended March 31, 2012

	As Reported By the Group	Examination Changes	Per Statutory Examination
Premiums earned	\$ 2,656,611	\$ 0	\$ 2,656,611
Losses incurred	1,480,664		1,480,664
Loss expenses incurred	297,083		297,083
Other underwriting expenses incurred	518,956		518,956
Aggregate write-ins for underwriting deductions	168,537		168,537
Total underwriting deductions	2,465,240		2,465,240
Net underwriting gain (loss)	191,371		191,371
Net investment income earned	193,221		193,221
Net gain (loss) from premium balances charged off	90		90
Aggregate write-ins for miscellaneous income	163,592		163,592
Net Income before dividends to policyholders and federal income taxes	548,274		548,274
Dividend to policyholders	750,000		750,000
Federal Income Taxes	-		-
Net income (loss)	\$ (201,726)	\$ 0	\$ (201,726)

Massachusetts Catholic Self-Insurance Group, Inc.

Statement of Surplus  
For the Year End March 31, 2012

	As Reported By the Group	Examination Changes	Per Statutory Examination
Surplus as regards policyholders, March 31 prior year	\$ 5,286,256	\$ 0	\$ 5,286,256
Net income (loss)	(201,726)		(201,726)
Change in nonadmitted assets	274,770		274,770
Surplus as regards policyholders, March 31 current year	<u>\$ 5,359,300</u>	<u>\$ 0</u>	<u>\$ 5,359,300</u>

Massachusetts Catholic Self-Insurance Group, Inc.

Reconciliation of Surplus  
For the Four Year Period Ended March 31, 2012

	2012	2011	2010	2009
Surplus, March 31 prior year	\$5,286,256	\$6,013,683	\$5,277,296	\$5,777,436
Net Income (loss)	(201,726)	(729,842)	620,979	276,584
Change in nonadmitted assets	274,770	2,415	115,408	(513,042)
Aggregate write-ins for gains and losses in surplus	0	0	0	(263,682)
Surplus, March 31 current year	<u>\$5,359,300</u>	<u>\$5,286,256</u>	<u>\$6,013,683</u>	<u>\$5,277,296</u>

**NOTES TO FINANCIAL STATEMENTS**

<i>NOTE :</i> Losses	\$6,439,398
Loss adjustment expenses	\$624,770

The Group establishes reserves based upon the estimates of its claims professionals and an analysis of loss and loss adjustment expense reserves performed on a quarterly basis by Ernst & Young, LLP, an independent accounting and consulting firm. The Massachusetts Division of Insurance has reviewed all available documentation of the Group's loss and loss adjustment expense reserves and has relied upon the opinion of this independent consultant as deemed appropriate.

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 under Section 846 of the Internal Revenue Code of 1986, as amended. Such discounting of loss and loss adjustment expense reserves is permitted by Massachusetts Regulation 211 CMR 67.08 (2).




**ACKNOWLEDGEMENT**

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Group to all the examiners during the course of the examination.

The following members of the Massachusetts Division of Insurance are hereby acknowledged for their participation in this examination:

Guangping Wei, CFE, CPA  
Lin La, CFE  
Steve Tsimtsos, CFE

Insurance Examiner III  
Insurance Examiner II  
Insurance Examiner II



Robert Dynan, CFE, CPA  
Supervising Examiner and Examiner-In-Charge  
Commonwealth of Massachusetts  
Division of Insurance