



THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE
MASSACHUSETTS EMPLOYERS INSURANCE COMPANY

Burlington, Massachusetts

As of December 31, 2008

NAIC GROUP CODE 2498

NAIC COMPANY CODE 12886

EMPLOYERS ID NO. 84-1725054

MASSACHUSETTS EMPLOYERS INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS
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COMMISSIONER OF INSURANCE

April 26, 2010

The Honorable Alfred Gross, Chairman
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Commissioner of Insurance
Bureau of Insurance
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The Honorable Paulette Thabault, Secretary
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The Honorable Joseph G. Murphy
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Commonwealth of Massachusetts
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Honorable Commissioners:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

MASSACHUSETTS EMPLOYERS INSURANCE COMPANY

at its home office located at 54 Third Avenue, Burlington, MA, 01803. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Massachusetts Employers Insurance Company (hereinafter referred to as “Company” or “MEIC”) is being examined for the first time under the association plan of the *National Association of Insurance Commissioners* (“NAIC”) by the Massachusetts Division of Insurance (“Division”). The current association plan examination was conducted by the Division and covers the period from January 1, 2007 through December 31, 2008, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

Concurrent with this examination, the following insurance affiliates in the Associated Industries of Massachusetts Mutual Insurance Company (“A.I.M. Mutual”) group were also examined and separate Reports of Examination have been issued:

Associated Industries of Massachusetts Mutual Insurance Company
Associated Employers Insurance Company
Employers Security Assurance Company

The examination was conducted in accordance with standards established by the Financial Condition (E) Committee of the NAIC as well as with the requirements of the NAIC Financial Condition Examiner’s Handbook, the examination standards of the Division and consistent with Massachusetts General Laws (“M.G.L.”). The principal focus of the examination was 2008 activity; however, transactions both prior and subsequent thereto were reviewed as deemed appropriate.

In addition to a review of the financial condition of the Company, the examination included a review of the Company’s business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, disaster recovery plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Company 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 Company is audited annually by Ernst & Young LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2007 and 2008. A review and use of the Certified Public Accountants’ work papers was made to the extent deemed appropriate and effective. An independent certified public accounting and actuarial firm, KPMG LLP, was retained by the Division to evaluate the adequacy of the Company’s loss and loss adjustment expense reserves as of December 31, 2008. An evaluation of the adequacy and effectiveness of the Information Technology Systems’ controls was done to determine the level of reliance to be placed on summary information generated by the data processing systems.

Massachusetts Employers Insurance Company

HISTORY

General

On January 26, 2007, A.I.M. Mutual contributed \$3,000,000 in capital and surplus to form a wholly owned subsidiary, Massachusetts Employers Insurance Company. MEIC was issued a Certificate of Authority to write workers' compensation and employers' liability coverages in Massachusetts on February 13, 2007.

Capital Stock

MEIC has authorized and issued 30,000 shares of \$20.00 par value common stock, all of which is owned by A.I.M. Mutual.

Dividends to Shareholders

The Company has not declared or paid dividends to stockholders during the examination period.

Dividends to Policyholders

During the examination period, the Company has not declared or paid dividends to policyholders.

Growth of the Company

The growth of the Company for the years 2007 through 2008 is shown in the following schedule, which was prepared from the Company's Annual Statements, including any changes as a result of the examination.

<u>Year</u>	<u>Admitted Assets</u>	<u>Net Premiums Written</u>	<u>Surplus</u>
2008	\$3,723,592	\$0	\$3,255,331
2007	3,384,841	0	3,081,234

Management

Annual Meeting

In accordance with the by-laws, the annual meeting of the Company is held on the first Tuesday in May. Stockholders holding not less than a majority of the then issued and outstanding shares

Massachusetts Employers Insurance Company

of the common stock shall constitute a quorum. The minutes indicated that a quorum was obtained at each annual meeting held during the examination period.

Board of Directors

The by-laws provide that the business and affairs of the Company shall be managed by the board of directors except as otherwise provided by the Articles of Incorporation or by a valid shareholder agreement. The board of directors shall consist of not less than three or more than twelve directors with the number of directors determined at each annual meeting coinciding with the expiration of one or more director's term. Each director holds office until the annual meeting of the stockholders in the years designated by the Incorporators of the Corporation. Upon expiration or resignation, his/her successor is elected at the next annual meeting.

At December 31, 2008 the board was comprised of five directors, which is in compliance with the Company's by-laws. Directors duly elected and serving at December 31, 2008, with business affiliations, follow:

<u>Director</u>	<u>Business Affiliation</u>
John J. Gould, Chairman	Vice Chairman Associated Industries of Massachusetts
Robert R. Cella	Vice President Operations A.I.M. Mutual Insurance Company
Richard C. Lord	President and CEO Associated Industries of Massachusetts
John A. Myers	President and CEO A.I.M. Mutual Insurance Company
Gregory R. Shah	Vice President and Secretary/Treasurer A.I.M. Mutual Insurance Company

The by-laws do not specify the number of meetings of directors to be held during the year. The minutes of the board of directors indicate that meetings were held once per year during the examination period. The by-laws provide that at any meeting of the board a majority of the directors then in office shall constitute a quorum. The minutes indicate that a quorum was present at all meetings of the board of directors held during the examination period.

Massachusetts Employers Insurance Company

The board of directors appointed two committees in accordance with the by-laws. The members of each committee at December 31, 2008 follow:

Investment Committee

Michael J. Riley, Chairman
John J. Gould
John A. Myers

Audit Committee

Ralph P. Schlenker, Chairman
John J. Gould
Michael G. Faucher

Officers

The by-laws of the Company provide that the officers of the Company shall be a president, a secretary, a clerk, a treasurer, a Chairman of the board of directors and other officers as deemed necessary. Pursuant to the by-laws, the officers of the Company are elected by the board of directors. Vacancies among the officers shall be filled by the board of directors.

The elected officers and their respective titles at December 31, 2008 follow:

<u>Name</u>	<u>Title</u>
John J. Gould	Chairman of the Board
John A. Myers	President and Chief Executive Officer
Gregory R. Shah	Vice President and Secretary/Treasurer
Robert R. Cella	Vice President Operations
Thomas J. Crupi	Vice President Loss Control
Michael P. Kelley	Vice President Claim

Conflict of Interest Procedures

The Company has adopted a policy statement pertaining to conflicts of interest in accordance with Question 13 of the General Interrogatories of the Annual Statement. The Company has an established procedure for the disclosure to the board of directors of any material interest or affiliation on the part of any officer or director, which conflicts or is likely to conflict with his or her official duties.

Massachusetts Employers Insurance Company

Annually, each officer and director completes a questionnaire disclosing any material conflicts of interest. The completed questionnaires were reviewed, and no discrepancies were noted in the responses to the General Interrogatories regarding conflicts of interest as reflected in the Company's 2008 Annual Statement.

Corporate Records

Articles of Incorporation and By-laws

The by-laws and Articles of Incorporation thereto were read. During the exam period, there were no changes to the by-laws and Articles of Incorporation.

Disaster Recovery and Business Continuity

The Company does provide for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with M.G.L. c.175 ss.180M-180Q.

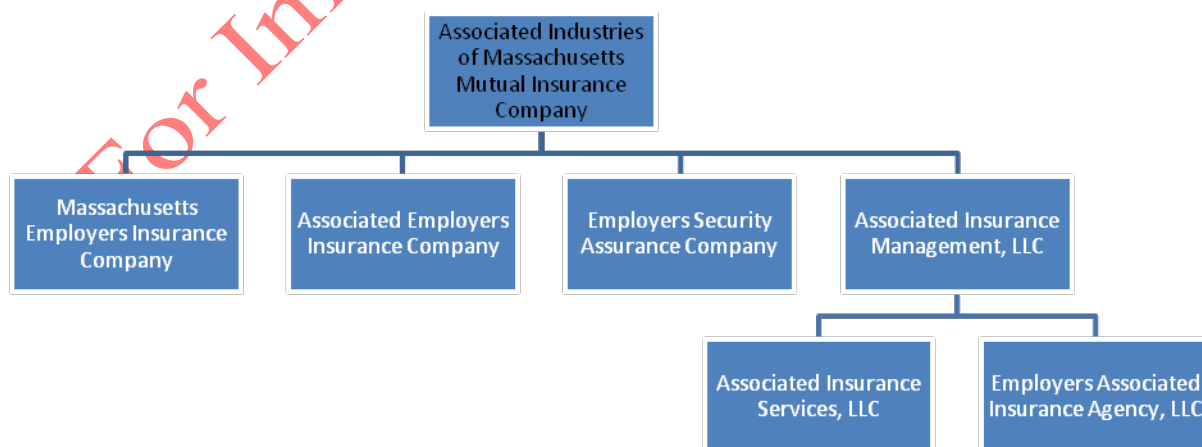
Board of Directors Minutes

The minutes of the board of directors meetings for the period under statutory examination were read. The minutes indicated that all meetings were held in accordance with the Company's by-laws and the laws of the Commonwealth of Massachusetts.

AFFILIATED COMPANIES

Per Form B, as filed with the Massachusetts Division of Insurance, the Company is a member of a holding company system and is subject to the registration requirements of M.G.L. c175, s206C of the Massachusetts General Laws. A.I.M. Mutual is the "ultimate controlling person".

Organization Chart



Transactions and Agreements with Subsidiaries and Affiliates

Management Agreement

In 2007, MEIC entered into a management service agreement with Associated Insurance Management, LLC ("AIM, LLC"). Under the terms of the agreement, AIM, LLC will provide all services necessary to run the business operations of MEIC. These services include but are not limited to underwriting, claims and accounting services. MEIC reimburses AIM, LLC 100% for the costs of running the business. In addition, if the board determines that there are excess funds available for distribution to its policyholders, then AIM, LLC shall be entitled to receive 5% of any distributions paid or credited to the policyholders.

MEIC also entered into a licensing agreement with Associated Industries of Massachusetts, Inc. ("AIM") in 2007. Under the agreement, MEIC is permitted to use the Licensed Marks of AIM. These marks are "A.I.M." and "Associated Industries of Massachusetts" and the A.I.M. logo. In return for the use of these marks, MEIC pays to AIM a royalty of 3% of Earned Premiums for each calendar year provided that the maximum annual royalty payable shall be equal to the amount, if any, by which \$1,200,000 exceeds the sum of the royalty payable by A.I.M. Mutual and AEIC.

Tax Sharing Agreement

The Company participates in a tax allocation agreement with its parent, A.I.M. Mutual. The allocation method is based upon the respective tax liability of each member computed as if a separate return were filed, in accordance with the Internal Revenue Code.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer, consistent with M.G.L. c.175 s.60. The aggregate limit of liability exceeds the NAIC suggested minimum.

The Company has further protected its interests and property by purchasing policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts and was in force as of December 31, 2008

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed to write workers' compensation and employers' liability insurance in Massachusetts only. The company writes business through brokers.

Treatment of Policyholders

Policyholder Complaints

During the course of the examination, a general review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. This review was limited in nature and was substantially narrower than a full scope market conduct examination.

During the claims test work, it was noted that the Company investigates and settles claims on a timely and fair basis. There were no complaints against the company for the exam period.

REINSURANCE

Pooling Agreement

MEIC participates in a pooling agreement with A.I.M. Mutual. This agreement became effective 2007. Under the agreement, MEIC cedes 100% of its net retained business to A.I.M. Mutual. They do not assume any business from the pool.

Assumed Reinsurance

MEIC's participation in the involuntary pool, Massachusetts Workers' Compensation Assigned Risk Pool, is included with A.I.M. Mutual.

Ceded Business

MEIC cedes a small portion of its direct business to outside reinsurers. This is briefly summarized below.

Massachusetts Employers Insurance Company

Guy Carpenter Excess of Loss 2007

Layer	Reinsurance	Retention
First \$2,000,000	\$1,250,000	\$750,000
Next \$8,000,000	\$8,000,000	\$0
Next \$15,000,000	\$15,000,000	\$0

Guy Carpenter Excess of Loss 2008

Layer	Reinsurance	Retention
First \$2,000,000	\$1,000,000	\$1,000,000
Next \$8,000,000	\$8,000,000	\$0
Next \$15,000,000	\$15,000,000	\$0

ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires and through a review of the work performed by the Company's independent Certified Public Accountants. No material differences were noted.

The NAIC provides a questionnaire covering the evaluation of the controls in the Information Technology environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the Information Technology controls. No material deficiencies were noted.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2008 annual statement. No material exceptions were noted.

The books and records of the Company are audited annually by Ernst & Young LLP, 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 of Insurance of the Commonwealth of Massachusetts and by the *National Association of Insurance Commissioners* as of December 31, 2008:

Statement of Assets, Liabilities and Surplus and Other Funds as of December 31, 2008

Underwriting and Investment Exhibit of Income for the Year Ended December 31, 2008

Reconciliation of Capital and Surplus, For the Two Year Period Ended
December 31, 2008

For Information Purposes Only

Massachusetts Employers Insurance Company

Statement of Assets, Liabilities and Other Funds as of December 31, 2008

Assets	Per Company	Examination Changes	Per Statutory Examination	Notes
Bonds	\$ 3,593,037	\$ 0	\$ 3,593,037	
Cash and short term investments	37,178		37,178	
Subtotal cash and invested assets	3,630,215	0	3,630,215	
Investment income due and accrued	38,564		38,564	
Receivables from parent, subsidiaries and affiliates	54,757		54,757	
Aggregate write-ins for other than invested assets	56		56	
TOTAL ASSETS	\$ 3,723,592	\$ 0	\$ 3,723,592	
Liabilities				
Other expenses	\$ 1,352	\$ 0	\$ 1,352	
Current federal and foreign income taxes	85,507		85,507	
Provision for reinsurance	162,937		162,937	
Amounts withheld for account of others	218,465		218,465	
Total liabilities	468,261	0	468,261	
Common capital stock	600,000		600,000	
Gross paid in and contributed surplus	2,400,000		2,400,000	
Unassigned funds	255,331		255,331	
Total surplus	3,255,331	0	3,255,331	
TOTAL LIABILITIES AND SURPLUS	\$ 3,723,592	\$ 0	\$ 3,723,592	

Massachusetts Employers Insurance Company

Underwriting and Investment Exhibit Statement of Income the Year Ended December 31, 2008

	Per Company	Examination Changes	Per Statutory Examination	Notes
Premiums earned	\$ 0	\$ 0	\$ 0	
Deductions				
Losses incurred	0		0	
Total underwriting deductions	0	0	0	
Net underwriting gain (loss)	0	0	0	
Net investment income earned	130,290		130,290	
Net realized capital gains (losses)	80,089		80,089	
Net investment gain (loss)	210,379	0	210,379	
Aggregate write-ins for misc income	(2)		(2)	
Net income before dividends to policyholders	210,377	0	210,377	
Net income before federal taxes	210,377		210,377	
Federal and foreign taxes incurred	36,280		36,280	
Net Income	\$ 174,097	\$ 0	\$ 174,097	

Massachusetts Employers Insurance Company

Reconciliation of Capital and Surplus
For the Two Year Period Ended December 31, 2008

	<u>2008</u>	<u>2007</u>
Capital and Surplus, December 31, prior year	\$ 3,081,234	\$ 0
Net income	174,097	81,234
Capital changes:		
Paid in		600,000
Surplus adjustments:		
Paid in		2,400,000
	<u>174,097</u>	<u>3,081,234</u>
Net change in capital and surplus for the year	<u>174,097</u>	<u>3,081,234</u>
Capital and Surplus, December 31, current year	<u>\$ 3,255,331</u>	<u>\$ 3,081,234</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Loss and Loss Adjustment Expense Reserves

The Division retained the services of KPMG LLP to provide an actuarial evaluation of the Loss and Loss Adjustment Expense reserves recorded by the company. The table below shows the findings from their actuarial evaluation of the company on a gross of reinsurance basis.

**Loss & Loss Adjustment Expense Reserve as of December 31, 2008
(000's omitted)**

KPMG Indicated			
<u>Low</u>	<u>Selected</u>	<u>High</u>	<u>Company Carried</u>
7,677	9,112	10,911	9,112

The reserves carried by the company agree with the selected amount determined by KPMG LLP. These reserves are ceded 100% to A.I.M. Mutual Insurance Company per the pooling agreement.

ACKNOWLEDGEMENT

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

The assistance rendered by the following Massachusetts Division of Insurance examiners who participated in this examination is hereby acknowledged:

Linda Dow, Financial Examiner II
Brian Knowlton, Financial Examiner II

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Division of Insurance

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