



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

DIVISION OF INSURANCE

***REPORT OF EXAMINATION OF*
MASSACHUSETTS EDUCATION AND GOVERNMENT
PROPERTY AND CASUALTY GROUP, INC.**

Wakefield, Massachusetts

As of June 30, 2008

EMPLOYERS ID NO. 04-3287895

MASSACHUSETTS EDUCATION AND GOVERNMENT
PROPERTY AND CASUALTY GROUP, INC.

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COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation

DIVISION OF INSURANCE

One South Station • Boston, MA 02110-2208

(617) 521-7794 • FAX (617) 521-7758

<http://www.mass.gov/doi>

DEVAL L. PATRICK
GOVERNOR

TIMOTHY P. MURRAY
LIEUTENANT GOVERNOR

GREGORY BIALECKI
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

NONNIE S. BURNES
COMMISSIONER OF INSURANCE

April 9, 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 6 of Chapter 40M of Massachusetts General Laws ("MGL"), an examination has been made of the transactions and financial condition as of June 30, 2008, of the

MASSACHUSETTS EDUCATION and GOVERNMENT ASSOCIATION PROPERTY and CASUALTY GROUP, INC.

at its main administrative office located at 100 Quannapowitt Parkway, Wakefield, Massachusetts. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Massachusetts Education and Government Association Property and Casualty Group, Inc., hereinafter referred to as the "Group", was last examined by the Massachusetts Division of Insurance as of June 30, 2003. The Massachusetts Division of Insurance made the present examination by authority of Section 6 of Chapter 40M of MGL. The examination covers the transactions of the Group from July 01, 2003, through June 30, 2008.

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 June 30, 2008. 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 June 30, 2008.

HISTORY

The Massachusetts Education and Government Association Workers' Compensation Trust was approved for operation on June 30, 1990 by the Commissioner of Insurance and began operation on July 1, 1990 as a workers' compensation self-insurance group. The trust was originally formed under the self-insurance provisions of MGL c 152.

On October 4, 1995, the trust was reorganized as a not-for-profit corporation known as Massachusetts Education and Government Association Workers' Compensation Group, Inc. The new corporation assumed all of the assets, liabilities, and obligations as successor-in-interest of the trust. The Internal Revenue Service granted tax-exempt status to the Group.

On July 1, 2003, the workers' compensation group merged with the newly formed Massachusetts Education and Government Association Property & Casualty Group, Inc. This successor corporation was formed under MGL c 40M, establishing a public entity property casualty group. This change allows MEGA to offer multi-line insurance coverage in the property and liability area to public sector entities. In response to members demand, on July 1, 2007, MEGA began offering property and liability insurance.

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

MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION
PROPERTY AND CASUALTY GROUP, INC.

MANAGEMENT

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

Annual Meeting

According to the bylaws as amended, the annual meeting of the members shall be held on the fourth Thursday in October of each year or, at such other time as determined by the board of directors.

Board of Directors

The board of directors shall consist of not fewer than three or more than eleven directors with the number determined at each annual meeting by resolution of the members. The board of directors shall be divided as evenly as possible into three groups so that there will be staggered terms of office for each group of directors. Each director holds office for a term of three years. Upon expiration or resignation, his/her successor is elected at the next Annual Meeting.

The members of the board of directors as of June 30, 2008 were as follows:

<u>Director</u>	<u>Professional Affiliation</u>
Sharon M. Andrew	Business Manager – Whitman-Hanson RSD
Ernest Zucco	Business Manager – Northeast Metropolitan Regional Vocational High School
Joseph E. Fernandes	Executive Secretary – Town of Plainville
Leslies Lesperance	Business Manager – South Middlesex Reg. Tech. School District
Mark Webber	Town Administrator - Town of West Stockbridge
Melanie Hagman	Business Manager - Shawsheen Valley Regional VTSD
Jeffery M. Hull	Assistant Town Manager - Town of Wilmington
John W. Tympanick	President – The Liquor Liability JUA of MA

The bylaws specify regular meetings of the board of directors shall be held not less than quarterly. At any meeting of the board, not less than one-half of the directors then in office shall constitute a quorum. The minutes indicated that a quorum was obtained at all meetings of the board of directors held during the examination period and the meetings were held quarterly. All

MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION
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directors shall be individuals who are affiliated with (as employees, directors, trustees, or officers) Members in good standing of the Group and shall be a resident of the Commonwealth.

Officers

Pursuant to the bylaws the officers of the Group shall be elected by the board and there shall be a president, vice president, treasurer, clerk and such other officers, if any as the board may from time to time designate. The officers shall be elected annually by the directors at their first meeting following the annual meeting of the members however, due to an oversight the officer elections in 2007 and 2008 were not noted within the board minutes. The Group may also have such agents, if any, as the directors may appoint. The president must be a director.

The elected officers and their respective titles at June 30, 2008 follows:

<u>Name of Officer</u>	<u>Title</u>
Leslie Lesperance	President
Joseph Fernandes	Vice President
Sharon Andrew	Treasurer
Todd R. Johnson, Esq.	Clerk

Administrator

During the operating period under review, the Group by a written administrative service agreement engaged Cannon Cochran Management Services, Inc. (the Administrator), to perform and manage the day-to-day activities of the Group.

Conflict of Interest Procedures

The Group has adopted a corporate business ethics policy for directors and officers 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.

MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION
PROPERTY AND CASUALTY GROUP, INC.

CORPORATE RECORDS

Articles of Organization and Bylaws

The by-laws, and articles of organization and amendments thereto were read. The minutes of the board of directors 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 June 30, 2004 through June 30, 2008, are as follows:

Fund Year	Net Written Premium	Admitted Assets	Liabilities	Member's Surplus
2008	\$ 16,319,385	\$ 28,538,508	\$ 17,439,400	\$ 11,099,108
2007	15,189,222	27,956,273	16,703,603	11,252,670
2006	11,388,766	25,621,003	14,996,097	10,624,906
2005	10,429,241	26,400,697	13,302,584	13,098,113
2004	9,865,722	27,286,682	13,646,769	13,639,913

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 Cannon Cochran Management Services, Inc. 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.

MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION
PROPERTY AND CASUALTY GROUP, INC.

REINSURANCE

The Group maintains an excess workers compensation and employers liability insurance policy with an unaffiliated insurer. Under this policy, the Group's losses at June 30, 2008, in excess of \$1,000,000 for each individual accident or employee will be covered by the policy in accordance with statutory limits.

The Group has an excess of loss policy for property exposures that provides coverage in excess of \$100,000 up to \$25 million. The Group has further coverage with another excess of loss policy for property coverage up to \$75 million in excess of \$25 million.

The Group has casualty excess of loss reinsurance which provides coverage of \$750,000 in excess of \$250,000 of ultimate net loss, subject to a loss cap of the lesser of two reinstatements or 450% of the deposit premium of \$500,000.

ACCOUNTS AND RECORDS

The trial balance, general ledger and audited financial statements provided by the Group were reviewed for the fund year ending June 30, 2008. The administrator received a SAS 70 report on the Toolbar Claims System and Internet Claims Edge system for the period from June 30, 2007 to January 18, 2008. The report's conclusion found the Administrator's claim systems are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily. The same controls and systems were in place at June 30, 2008.

General ledger account balances were reconciled and traced to amounts reported in the Annual Statement for the year ended June 30, 2008. 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.

MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION
PROPERTY AND CASUALTY GROUP, INC.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division and the NAIC as of June 30, 2008:

- Statement of Assets, Liabilities, Capital and Surplus as of June 30, 2008
- Statement of Revenue and Expenses for the Year Ended June 30, 2008
- Statement of Surplus for the year ended June 30, 2008
- Reconciliation of Capital and Surplus for each year in the Five-Year Period Ended June 30, 2008

For Information Purposes Only

Massachusetts Education and Government Association Property and Casualty Group, Inc.
Statement of Assets, Liabilities, Capital and Surplus
As of June 30, 2008

	Per Company	Examination Changes	Per Examination
Assets			
Bonds	\$ 24,138,384	\$ 0	\$ 24,138,384
Common stocks	1,828,937		1,828,937
Cash and short-term investments	2,044,202		2,044,202
Aggregate write-ins for invested assets:			
Annuity	191,376		191,376
Subtotals, cash and invested assets	28,202,899		28,202,899
Investment income due and accrued	286,755		286,755
Premiums and considerations:			
Uncollected premiums and agents' balances			
in course of collection	20,110		20,110
Reinsurance: Amounts recoverable from reinsurers	28,744		28,744
Total Assets	<u>\$ 28,538,508</u>	<u>\$ 0</u>	<u>\$ 28,538,508</u>
Liabilities			
Losses	\$ 14,695,378	\$ 0	\$ 14,695,378
Loss adjustment expenses	2,450,510		2,450,510
Other expenses	175,348		175,348
Unearned premiums	11,542		11,542
Advance premiums	106,622		106,622
Total Liabilities	<u>17,439,400</u>	<u>0</u>	<u>17,439,400</u>
Unassigned funds (surplus)	<u>11,099,108</u>		<u>11,099,108</u>
Surplus as regards policyholders	<u>11,099,108</u>		<u>11,099,108</u>
Total Liabilities, Capital, and Surplus	<u>\$ 28,538,508</u>	<u>\$ 0</u>	<u>\$ 28,538,508</u>

Massachusetts Education and Government Association Property and Casualty Group, Inc.
Statement of Income
For the Year Ended June 30, 2008

	As Reported by the Company	Examination Changes	Per Statutory Examination
Premiums earned	\$ 16,307,843	\$ 0	\$ 16,307,843
Deductions:			
Losses incurred	11,482,483		11,482,483
Loss expenses incurred	1,557,356		1,557,356
Other underwriting expenses incurred	4,241,564		4,241,564
Total underwriting deductions	<u>17,281,403</u>		<u>17,281,403</u>
Net underwriting gain (loss)	<u>(973,560)</u>		<u>(973,560)</u>
Net investment income earned	1,264,217		1,264,217
Net realized capital gains (losses)	<u>(33,790)</u>		<u>(33,790)</u>
Net investment gain (loss)	<u>1,230,427</u>		<u>1,230,427</u>
Net gain (loss) from agents' or premium balances charged off	<u>(235)</u>		<u>(235)</u>
Total other income	<u>(235)</u>		<u>(235)</u>
Net income before dividends to policyholders and before federal and foreign income taxes	256,632		256,632
Dividends to policyholders	<u>0</u>		<u>0</u>
Net income, after dividends to policyholders but before federal and foreign income taxes	256,632		256,632
Federal and foreign income taxes incurred	<u>0</u>		<u>0</u>
Net Income	<u><u>\$ 256,632</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 256,632</u></u>

Massachusetts Education and Government Association Property and Casualty Group, Inc.
 Capital and Surplus
 For the Year Ended June 30, 2008

	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>
Surplus as regards policyholders, June 30, 2007	\$ 11,252,670	\$ 0	\$ 11,252,670
Net income	256,632		256,632
Change in net unrealized capital gains or (losses)	(174,968)		(174,968)
Change in nonadmitted assets	<u>(235,226)</u>		<u>(235,226)</u>
Change in surplus as regards policyholders for the year	<u>(153,562)</u>		<u>(153,562)</u>
Surplus as regards policyholders, June 30, 2008	<u><u>\$ 11,099,108</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 11,099,108</u></u>

Massachusetts Education and Government Association Property and Casualty Group, Inc.

Reconciliation of Capital and Surplus

For the Five Year Period Ended June 30, 2008

	2008	2007	2006	2005	2004
Surplus as regards policyholders, June 30, prior year	\$11,252,670	\$10,624,906	\$13,098,113	\$13,639,913	\$14,692,936
Net income	256,632	625,790	(2,513,294)	(533,567)	(998,933)
Change in net unrealized capital gains or (losses)	(174,968)				
Change in nonadmitted assets	(235,226)	1,974	40,087	(8,233)	(19,114)
Aggregate write-ins for gains and losses in surplus					(34,976)
Net change in capital and surplus for the year	(153,562)	627,764	(2,473,207)	(541,800)	(1,053,023)
Capital and surplus, June 30, current year	<u>\$11,099,108</u>	<u>\$11,252,670</u>	<u>\$10,624,906</u>	<u>\$13,098,113</u>	<u>\$13,639,913</u>

COMMENTS AND RECOMMENDATIONS

The examiners performed a random sampling of the Group's underwriting files. A total of nine underwriting files for Property and Casualty policies were selected with the sample representing approximately 55% of the total premiums written. Detail supporting worksheets for the final premium charged were not in any of the files selected. It is recommended that supporting detail calculations be dated and retained to document the final premium amounts charged. This was the Group's first year for underwriting Property and Casualty business and the Group has been implementing system corrections for future underwriting years. Review of the workers compensation premiums for the same members found all of the files to have the final supporting detail worksheets.

Review of the by-laws found the Group to be not in compliance with the current by-laws. No evidence was in the board of directors' minutes indicating an application for membership or a vote of acceptance of a new member. The by-laws state that a prospective member must meet criteria as to financial qualification and expected loss ratio as determined by an actuary or designated by the board of directors must be within parameters established by the board of directors. It is recommended the Group follow the current by-laws or amend the by-laws to reflect the current operating procedures of the Group.

For Information Purposes Only

MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION
PROPERTY AND CASUALTY GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1:

<u>Losses</u>	\$ 14,695,378
<u>Loss Adjustment Expenses</u>	\$ 2,450,510

The Group retained the services of CAI Casualty Actuaries, Inc., to develop the Group's year-end reserves and to provide the Actuarial Opinion on the reasonableness of the reserves carried by the Group as of June 30, 2008.

The actuarial firm of CAI Casualty Actuaries, Inc. performed an independent actuarial review of the Company's reserves and the table below summarizes the reserve range estimates as of June 30, 2008:

Group's – Loss & Loss Adjustment Expenses	CAI Actuaries - Low Range	CAI Actuaries - High Range
\$17,145,888	\$16,983,332	\$19,957,121

As part of the examination, the Examiners reviewed the reports and the Statement of Actuarial Opinion issued by CAI Casualty Actuaries, Inc. and performed, as they deemed appropriate, their own testwork and evaluation of the Group's reserve liabilities as of June 30, 2008.

SUBSEQUENT EVENTS

Review of the Group's most recent quarterly statement for the period ended December 31, 2008 indicates a significant decline in surplus as regards policyholders. The Group's surplus as of the date of examination of June 30, 2008 was \$11,099,108, as of December 31, 2008 surplus was \$7,600,595 a decline of \$3,498,513. The following is the Group's Statement of Income and the Capital and Surplus Account for the period ended December 31, 2008.

CONCLUSION

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

The assistance rendered by Linda Dow, Insurance Examiner II with the Commonwealth of Massachusetts Division of Insurance who participated in this examination is hereby acknowledged.

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

For Information Purposes Only