

COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE
NEEIA COMPENSATION, INC.

Chicopee, Massachusetts

As of December 31, 2017

EMPLOYER ID NUMBER 04-3092393

NEEIA COMPENSATION, INC.

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COMMONWEALTH OF MASSACHUSETTS
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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

November 4, 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 the

NEEIA COMPENSATION, INC.

at its administrative office located at 711 East Main Street, Suite 201, Chicopee, Massachusetts, 01020. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

NEEIA Compensation, Inc. ("NCI" or "Group") was last examined as of December 31, 2014 by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the three-year period from January 1, 2015 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 current and 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, and general information about the Group 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 Shores, Tagman, Butler & Company, P.A, an independent certified public accounting firm. The firm expressed unqualified opinions on the Group's financial statements for the calendar years 2015 through 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

Advance Premium

The Group did not comply with Massachusetts General Laws, Chapter 152, Section 25Q and 211 Commonwealth of Massachusetts Regulation ("CMR") 67.06 requiring that the Group collect at least twenty-five percent of each member's annual premium prior to the start of the Group's fund year. It is recommended that the Group comply with the above noted statute and regulation. In addition, 211 CMR 67.08 requires the Group to adhere to NAIC Accounting Practices and Procedures as well as NAIC Annual and Quarterly Financial Statement Reporting Guidelines in reporting these advance premium payments.

GROUP HISTORY

General

The Group was organized on June 1, 1990, pursuant to and in accordance with Massachusetts General Laws, Chapter 180, to establish a not-for-profit association of employers to constitute a workers' compensation self-insurance group. Consistent with Massachusetts General Laws, Chapter 152, Sections 25E through 25U, the Group was created to provide a self-insured workers' compensation program to support the interest of colleges and schools engaged in the educational industry within the Commonwealth of Massachusetts. The Group commenced business on July 1, 1990.

During the operating period under review, the Group has engaged FutureComp ("Administrator"), a subsidiary of USI Insurance Services, to perform and manage the day-to-day activities of the Group through a written management services agreement.

Dividends

The Group may accrue dividends from a fund year's operating results and make a dividend distribution to the members in accordance with the formula guidelines provided for by 211 CMR 67.08. The following amounts were paid as dividends to policyholders (members) during the period covered by this examination:

2017	\$2,805,185
2016	3,723,741
2015	3,455,403

MANAGEMENT AND CONTROL

Board of Trustees Minutes

The minutes of meetings of the Board of Trustees for the period under examination were read and they indicated that all meetings were held in accordance with the Group's bylaws and the laws of the Commonwealth of Massachusetts.

Article of Organization and Bylaws

The articles of organization and bylaws of the Group were reviewed. The Group was formed under Massachusetts General Laws, Chapter 180 to operate as a workers' compensation self-insurance group as defined by Chapter 152 of the General Law in order to support the interest of colleges and schools engaged in the educational industry in Massachusetts.

NEEIA Compensation, Inc.

Board of Trustees

According to the bylaws, the affairs of the NCI shall be managed by the 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. The Board of Trustees may be composed of ten members, nine of which shall be elected by and from the membership. The tenth member shall be "trustee emeritus" which shall be filled by the immediate past President of the Group for a term of office until the next immediate past President is seated. The trustee emeritus is a non-voting position. The Group's Board of Trustees consisted of the following individuals:

<u>Name of Trustees</u>	<u>Title</u>
Karen Kruppa	Director of Risk Management, Suffolk University
Jeanne Finlayson	Vice President for Finance, Stonehill College
Jeannette Angles	Risk Manager, Babson College
Anthony Ferullo	Vice President of Finance, Endicott College
Alan Bowers	Director of Treasury Services, Emerson College
Anne Marie Martorana	Vice President for Finance & Operations, Wheelock College
Eileen Katz	Director of Human Resources, MCPHS University
Andrea T. H. Nix	Director of Finance & Assistant Treasurer, Phillips Academy
Thomas Pistorino	Vice President Finance & Business, Regis College
Scott Kuhnly	Risk Manager, Springfield College

Officers

Officers of the Group as of December 31, 2017 were as follows:

<u>Name of Officers</u>	<u>Title</u>
Karen Kruppa	President
Jeanne Finlayson	Vice-President
Anthony Ferullo	Treasurer
Jeannette Angles	Secretary/Clerk

Management Services Agreement

The Group has in place a management services agreement with FutureComp whereby the management company has the authority and responsibility to conduct, supervise and manage the day-to-day operations of the Group. Included in the scope of this agreement are all accounting and reporting functions; premium billing, collection and underwriting; claim administration and case management; and all other administrative functions deemed necessary.

TERRITORY AND PLAN OF OPERATION

The Group is permitted to transact workers' compensation business only in the Commonwealth of Massachusetts to qualifying members in good standing of New England Educators Insurance Association, Inc. Members must also be a member in good standing of the New England Association of Schools and Colleges or such other bona fide industry, trade or professional organization designated by the Board of Trustees. Members must also be an organization which is tax-exempt under Section 501(C) (3) of the Internal Revenue Code. Members must have a payroll domiciled in the Commonwealth of Massachusetts. As of the examination date, the Group consisted of 36 active members. The Group reported \$8.6 million of 2017 direct premium written in Massachusetts.

REINSURANCE

Ceded Reinsurance

The Group maintains specific and aggregate excess workers' compensation coverage through Midwest Employers Casualty Company, which is licensed and authorized in the Commonwealth of Massachusetts and rated "A+" by A.M. Best & Company. The Group's specific retention for 2017 was \$1,000,000. The limit of liability per occurrence for each year under examination was \$5,000,000. The Group does not have aggregate excess coverage in place but instead maintains a \$1,000,000 fund restricted within the assets of the Group.

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

NEEIA Compensation, Inc.

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

	Per Annual Statement
ASSETS	
Bonds	\$ 21,522,076
Cash, cash equivalents and short-term investments	1,819,906
Subtotals, cash and invested assets	<u>23,341,982</u>
Investment income due and accrued	183,195
Total Assets	<u>\$ 23,525,177</u>
LIABILITIES	
Losses	\$ 7,539,674
Loss adjustment expenses	292,259
Other expenses	66,390
Taxes, licenses and fees	34,022
Dividends declared and unpaid: Policyholders	15,443,692
Coded reinsurance premiums payable	7,933
Aggregate write-ins for liabilities	<u>141,207</u>
Total Liabilities	<u>23,525,177</u>
SURPLUS	
Surplus as regards policyholders	<u>-</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 23,525,177</u>

NEEIA Compensation, Inc.

Statement of Income For the Year Ended December 31, 2017

	Per Annual Statement
Premiums earned	\$ 8,277,449
Deductions:	
Losses incurred	4,800,003
Loss adjustment expenses	594,869
Other underwriting expenses	735,116
Total underwriting deductions	6,129,988
Net underwriting gain (loss)	2,147,461
Net investment income earned	631,047
Net realized capital gains (losses) less capital gains tax	25,532
Net investment gain (loss)	656,579
Aggregate write-ins for miscellaneous income	1,145
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	2,805,185
Dividends to policyholders	2,805,185
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	-
Federal and foreign income taxes incurred	-
Net income	\$ 0

ANALYSIS OF CHANGES 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

Loss and Loss Adjustment Expenses ("LAE") Reserves

The Group retained the services of Milliman, Inc. ("Milliman") to prepare an independent actuarial analysis of the Group's loss and LAE liabilities as of December 31, 2017. The analysis is performed on a net basis.

Milliman's projection of future claim reporting and payment is based on NCI's historical results supplemented with applicable insurance industry data where deemed appropriate. The use of industry data adds uncertainty to Milliman's estimates.

Milliman evaluated the loss reserves on an undiscounted basis with regard to the time value of money. The net loss reserves reported on Page 3 of the statutory Annual Statement have been discounted using a discount factor that would result from use of the interest rates and loss payment patterns prescribed by and under section 846 of the Internal Revenue code of 1986, as amended. Such discount of loss and LAE reserves is permitted by Massachusetts Regulation 211 CMR 67.00.

The following chart illustrates the results of Milliman's analysis providing the actuarial central estimate. The Group holds reserves for loss and LAE at the central estimate.

<u>NEEIA Compensation, Inc.</u>			
<u>Milliman's Central Estimate</u>	<u>Group Carried</u>	<u>Discount</u>	<u>Group Carried Discounted</u>
\$8,636,932	\$8,636,936	\$(805,002)	\$7,831,934

SUMMARY OF RECOMMENDATIONS


There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in this report.

SIGNATURE PAGE

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

The assistance rendered by the following examiner participating in this examination is acknowledged.

Michael Lewandowski, Financial Examiner II



John M. Curran, CFE
Supervising Examiner and Examiner-in-Charge
Commonwealth of Massachusetts
Division of Insurance