



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

REPORT OF EXAMINATION OF THE
Self Insured Lumber Businesses Association, Inc.
Chicopee, Massachusetts
As of December 31, 2017

EMPLOYER ID NUMBER 04-3138069

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

TABLE OF CONTENTS

| | <u>Page</u> |
|--|--------------------|
| Salutation | 1 |
| Scope of Examination | 2 |
| Summary of Significant Findings of Fact | 2 |
| Advance Premium | 2 |
| Special Deposit | 3 |
| Group History | 3 |
| General | 3 |
| Dividends | 3 |
| Management and Control | 3 |
| Board of Trustees Minutes | 3 |
| Articles of Organization and Bylaws | 4 |
| Board of Trustees | 4 |
| Officers | 4 |
| Management Services Agreement | 4 |
| Territory and Plan of Operation | 5 |
| Reinsurance | 5 |
| Ceded Reinsurance | 5 |
| Financial Statements | 6 |
| Statement of Assets, Liabilities, Surplus and Other Funds | 7 |
| Statement of Income | 8 |
| Analysis of Changes in Financial Statements Resulting From Examination | 9 |
| Comments on Financial Statement Items | 9 |
| Subsequent Events | 10 |
| Summary of Recommendations | 10 |
| Signature Page | 11 |



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>

CHARLES D. BAKER
GOVERNOR

KARYN E. POLITO
LIEUTENANT GOVERNOR

MIKE KENNEALY
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

EDWARD A. PALLESCHI
UNDERSECRETARY OF CONSUMER AFFAIRS
AND BUSINESS REGULATION

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

SELF INSURED LUMBER BUSINESSES ASSOCIATION, 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

Self Insured Lumber Businesses Association, Inc. ("SILBA" 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 BDO USA, LLP, 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.

Self Insured Lumber Businesses Association, Inc.

Special Deposit

The special deposit carried by the Group was less than the amount required under 211 CMR 67.08. It is recommended that the Group review for compliance with the regulation annually.

GROUP HISTORY

General

The Group was organized on October 1, 1991 and commenced business within the Commonwealth of Massachusetts on March 1, 1992, 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. The Group was created consistent with Massachusetts General Laws, Chapter 152, Sections 25E through 25U and 211 Commonwealth of Massachusetts Regulation 67.00 to provide workers' compensation coverage for a group of eligible companies which are engaged in the Massachusetts lumber/building materials industry.

During the operating period under review, the Group engaged Meadowbrook/TPA Associates 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 | \$216,632 |
| 2016 | 914,735 |
| 2015 | 913,191 |

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.

Self Insured Lumber Businesses Association, Inc.

Article of Organization and Bylaws

The articles of organization and bylaws of the Group were reviewed. There were no changes to the articles of organization and bylaws during the examination period. Further, the Group has been in compliance with the article of organization and bylaws.

Board of Trustees

According to the bylaws, the Group's business shall be managed by a Board of Trustees which may exercise all of the powers of the Group, except as otherwise provided by the articles of organization, by law, or the bylaws. The Board of Trustees shall consist of not fewer than five nor more than eleven Trustees. The Group's Board of Trustees consisted of the following individuals:

| <u>Name of Trustees</u> | <u>Title</u> |
|-------------------------|---|
| Linda Lyons | Director Human Resources, Brockway-Smith Company |
| Wayne Moriarty | Vice President of Finance, Atlantic Plywood Corporation |
| Tom McManus | Vice President & General Manager, Cape Cod Lumber |
| David Perry | Chief Financial Officer, Concord Lumber Corporation |
| Jason Thacker | Outside Sales Manager & Operations Manager, Howe Lumber |
| Jay Torrisi | Chief Financial Officer, Jackson Lumber & Millwork Company |
| Debra Duff-Torres | Chief Employee Experience Officer, North Atlantic Corporation |
| John Hoell | Sales Operation Manager, Shepley Wood Products |

Officers

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

| <u>Name of Officers</u> | <u>Title</u> |
|-------------------------|--------------|
| Linda Lyons | President |
| David Perry | Clerk |
| Jay Torrisi | Treasurer |

Management Services Agreement

During the period under examination, the Group had in place a management services agreement with Meadowbrook/TPA Associates whereby the management company had the authority and responsibility to conduct, supervise and manage the day-to-day operations of the Group. Included

Self Insured Lumber Businesses Association, Inc.

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 which are engaged in the Massachusetts lumber/building materials industry. The Group reported \$3.89 million of 2017 direct premium written in Massachusetts.

REINSURANCE

Ceded Reinsurance

The Group maintains specific and aggregate excess workers compensation coverage through Safety National Casualty Corporation, 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 \$600,000. The limits of liability per occurrence and in aggregate for each year under examination were \$5,000,000.

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

Self Insured Lumber Businesses Association, Inc.

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

| | Per Annual Statement |
|---|----------------------------|
| ASSETS | |
| Bonds | \$ 5,120,303 |
| Cash, cash equivalents and short-term investments | 1,365,390 |
| Subtotals, cash and invested assets | <u>6,485,693</u> |
| Investment income due and accrued | 33,670 |
| Uncollected premiums and agents' balances | 7,934 |
| Amounts recoverable from reinsurers | 61,139 |
| Aggregate write-ins | 1,224 |
| Total Assets | <u>\$ 6,589,660</u> |
| LIABILITIES | |
| Losses | \$ 3,214,496 |
| Loss adjustment expenses | 491,153 |
| Other expenses | 104,250 |
| Taxes, licenses and fees | 75,594 |
| Advance premium | 16,162 |
| Dividends declared and unpaid: Policyholders | 2,566,038 |
| Ceded reinsurance premiums payable | 80,000 |
| Total Liabilities | <u>6,547,693</u> |
| SURPLUS | |
| Gross paid in and contributed to surplus | \$ 41,967 |
| Surplus as regards policyholders | <u>41,967</u> |
| Total Liabilities, Surplus and Other Funds | <u>\$ 6,589,660</u> |

Self Insured Lumber Businesses Association, Inc.

Statement of Income
For the Year Ended December 31, 2017

| | Per Annual Statement |
|---|----------------------------|
| Premiums earned | \$ 3,420,945 |
| Deductions: | |
| Losses incurred | 2,648,266 |
| Loss adjustment expenses incurred | 207,376 |
| Other underwriting expenses incurred | 524,700 |
| Total underwriting deductions | 3,380,342 |
| Net underwriting gain (loss) | 40,603 |
| Net investment income earned | 108,878 |
| Net realized capital gains (losses) less capital gains tax | 1,002 |
| Net investment gain (loss) | 109,880 |
| Aggregate write-ins for miscellaneous income | 66,149 |
| Net investment gain (loss) | 66,149 |
| Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | 216,632 |
| Dividends to policyholders | 216,632 |
| 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 CHANGE 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 Willis Towers Watson ("Willis") 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 gross and net basis.

Willis' projection of future claim reporting and payment is based on SILBA's historical experience. In cases for which historical data was not sufficiently credible, stable or mature, Willis supplemented the Group's experience with benchmark reporting and payment patterns based on analysis of U.S. industry data.

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.

Examination procedures and subsequent inquiry by the Division resulted in Willis revising the actuarial central estimate. The following chart illustrates the results of Willis' analysis providing the actuarial central estimate. The Group holds reserves for loss and LAE below the central estimate.

| <u>Self Insured Lumber Businesses Association, Inc.</u> (Dollars in thousands) | | | | |
|---|----------------------------------|--------------------------------|-----------------|---------------------------|
| | <u>Gross of Excess Insurance</u> | <u>Net of Excess Insurance</u> | <u>Discount</u> | <u>Discounted Reserve</u> |
| <u>Willis' Initial Central Estimate</u> | \$4,278 | \$4,223 | \$594 | \$3,629 |
| <u>Willis' Revised Central Estimate</u> | \$4,278 | \$4,223 | \$353 | \$3,870 |
| <u>Group Carried</u> | \$4,144 | \$4,090 | \$384 | \$3,706 |

SUBSEQUENT EVENTS

Effective January 1, 2018, SILBA engaged FutureComp, a subsidiary of USI Insurance Services, to perform and manage the day-to-day activities of the Group through a written management services agreement, replacing Meadowbrook/TPA Associates.

SUMMARY OF RECOMMENDATIONS

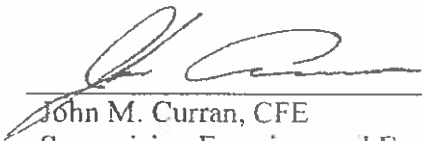
The Division recommends that the Group carry loss and LAE reserves at the actuary's central estimate.

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