



THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION

OF THE

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

Andover, Massachusetts

as of December 31, 2007

NAIC GROUP CODE 0000
NAIC COMPANY CODE 00009
EMPLOYER ID NO. 04-3138069

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June 5, 2009

The Honorable Nonnie S. Burnes
Commissioner of Insurance
Commonwealth of Massachusetts
Office of Consumer Affairs and Business Regulation
Division of Insurance
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Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 152, Section 25I and other applicable statutes, an examination has been made of the financial condition and affairs of

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

at its main office located at 10 New England Business Center, Suite 303, Andover, Massachusetts 01810. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Self Insured Lumber Businesses Association, Inc. (hereinafter referred to as (“Group”) was last examined by the Massachusetts Division of Insurance (“Division”) as of December 31, 2004. The Division made the present examination by authority of Section 25I, Chapter 152 of Massachusetts General Laws (“MGL”) and Section 67.15 of Commonwealth of Massachusetts Regulation 211. The examination covers the period from January 1, 2005 through December 31, 2007 including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

During the examination, the transactions of the Group were reviewed and tested to the extent deemed necessary. 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 2005 through 2007. Work papers of the Group’s independent certified public accounting firm and an actuarial report on unpaid loss and loss adjustment expense reserves prepared by Towers Perrin, the Group’s independent consulting actuary, were made available to the examiners 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 December 31, 2007. In addition, the corporate records were reviewed to ascertain compliance with MGL. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

The report of examination is written on an 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 December 31, 2007.

For a summary of findings contained within this report, refer to the Comments and Recommendations Section on page 10 of this report.

Status of Prior Examination Findings

The examination included a review to verify the current status of any exception conditions commented upon in the previous Report of Examination, and those exceptions are included in this report.

HISTORY

The Group was organized within the Commonwealth of Massachusetts to constitute a workers' compensation self-insurance group under MGL, Chapter 152, Section 25E through 25U with its initial fiscal year beginning on March 1, 1992. The Group was created as a not-for-profit association to make available workers' compensation coverage for those engaged in the Massachusetts construction industry.

Throughout the operating period under review, the Group, by a written administrative service agreement, has engaged Meadowbrook/TPA Associates ("Administrator") to perform and manage the day-to-day activities of the Group.

MANAGEMENT

Pursuant to the bylaws, the affairs of the Group shall be managed by the board of 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. To assist in the management of the Group, the board of trustees 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, the annual meeting of the members shall be held in conjunction with the Massachusetts Retail Lumber Dealer Association meeting in November of each year or on such date as may be designated by the board of trustees.

Board of Trustees

Pursuant to Item (1) of MGL, Chapter 152, Section 25J, every workers' compensation self-insurance group shall be operated by a board of directors which shall consist of not less than three persons whom the members of a group elect for stated terms of office. At least two of the directors shall be employees, officers, or directors of members of the Group. Per MGL Chapter 152, Section 25J and 211 CMR 67.07 (1), all directors shall be residents of Massachusetts or officers of corporations authorized to do business in Massachusetts. Per the bylaws, all trustees shall be employees, officers, or directors of members of the Group. The number of trustees shall be not less than five or greater than eleven. The term of office of each trustee shall be three (3) years or until his or her successor is elected and qualified. A trustee may serve for an unlimited number of years.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

The bylaws do not specify the number of meetings to be held during the year. In satisfaction of the cited statute and in compliance with the bylaws, duly elected members of the board of trustees as of December 31, 2007, were as follows:

| <u>Name of Trustee</u> | <u>Business Affiliation</u> |
|------------------------|-----------------------------|
| John R. Blakeney | Atlantic Plywood Corp. |
| Donald Chace | Chace Building Supply, Inc. |
| Karl I. Gray | Keiver Willard Lumber Corp. |
| Irving D. Humphrey III | North Atlantic Corp. |
| Eric B. Johansen | Brockway-Smith Company |
| Kenneth Kramer | Nickerson Lumber Co. |
| Lona Lamson | R.S. Lamson & Sons |
| Rick Ursch | Concord Lumber Corp. |
| Richard Mackin | F.D. Sterritt Lumber |

Committees of the Board of Trustees

The board of trustees may elect or appoint one or more committees. Any committee, which the powers of the board are delegated, shall consist solely of trustees. The board established a Claim and Loss Control Committee for the purpose of monitoring the claims activity, formulating loss control policies, and identifying cost containment opportunities. The board also established a Finance Committee.

Officers

In accordance with the bylaws, the President, Treasurer and Clerk must be elected annually by the trustees at the first meeting held after the annual meeting. The President and Treasurer must be trustees. As of December 31, 2007 all officers were also directors.

The elected officers and their respective titles at December 31, 2007 are as follows:

| <u>Name</u> | <u>Title</u> |
|-------------------------|--------------|
| Eric B. Johansen | President |
| Karl I. Gray | Treasurer |
| Irving D. Humphrey, III | Clerk |

MGL Chapter 180 section 6A and the by-laws state that the Clerk is to be a resident of Massachusetts or that a resident agent shall be appointed. The Clerk is not a resident of Massachusetts; however, a resident agent has been appointed.

Administrator

The board of trustees of the Group appointed the Administrator in accordance with its bylaws, MGL Chapter 152 Section 25E, and 211 CMR 67.02. The Administrator is a Michigan corporation with its principal place of business in Andover, Massachusetts. The Administrator provides claims, accounting, underwriting, premium billing and collection and other administrative services to the Group.

Conflict of Interest

As noted in Question 16 of the General Interrogatories of the 2007 Annual Statement, the Group does have 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.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The bylaws and articles of organization and amendments thereto were read. The minutes of the board of trustees 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 growth of the Group for the years 2005 through 2007 is shown in the following schedule which was prepared from the Group's Annual Statements, including any changes as a result of examination:

| Year | Gross Written Premium | Admitted Assets | Accumulated Dividends |
|------|--------------------------|-----------------|--------------------------|
| 2007 | \$6,874,349 | \$13,571,547 | \$7,601,927 |
| 2006 | 7,668,208 | 11,988,031 | 5,093,365 |
| 2005 | 6,565,519 | 9,532,952 | 2,508,085 |

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 a disaster. The total recovery effect is governed by the Meadowbrook/TPA Associates' 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 maintains fidelity coverage with an authorized Massachusetts insurer, consistent with MGL Chapter 152 Section 25G. The aggregate limit of liability provides coverage above the prescribed minimum set forth by the National Association of Insurance Commissioner's ("NAIC") schedule of suggested minimum amounts of fidelity insurance.

The Group has further protected its interests and property by policies of insurance covering other insurable risks. Coverage is provided by insurers authorized in the Commonwealth of Massachusetts and was in force as of December 31, 2007. The Group, in compliance with regulatory requirements, had a security deposit pledged to the Commonwealth of Massachusetts in the amount of \$758,935.

EXCESS INSURANCE

The Group maintains an excess insurance policy, the effect of which is to limit the net liability on workers' compensation and workers' and employers' liability claims through specific excess and aggregate excess insurance. The specific excess policy provides coverage equal to statutory benefit levels for workers' compensation and \$1,000,000 for employer's liability for each accident or disease (each employee) exceeding the Group's retained limit of \$450,000. The aggregate excess policy provides \$5,000,000 of coverage attaching at 102.45% of normal premium subject to a minimum aggregate retention of \$6,259,741.

ACCOUNTS AND RECORDS

The trial balance, general ledger and audited financial statements provided by the Group were reviewed for the year ending December 31, 2007. The financial accounting records for the Group are processed and maintained electronically utilizing general accounting and claims management software, with certain supporting documentation maintained manually.

General ledger account balances were reconciled and traced to amounts reported in the Annual Statement for 2007. 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 internal control structure for the Group and for selected accounting streams was discussed with the Administrator through inquiry and through a review of the work performed by the Group's independent certified public accountants. It appears from responses and examination review that the operating environment is conducive to producing reliable accounting information.

The books and records of the Group are audited annually by independent certified public accounting firm, in accordance with 211 CMR 67.08.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division as of December 31, 2007:

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2007

Statement of Income for the Year Ended December 31, 2007

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division as of December 31, 2007.

Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2007

| Assets | Per Company | Examination Changes | Per Statutory Examination | Notes |
|--|----------------------|------------------------|------------------------------|-------|
| Bonds | \$ 10,647,445 | \$ 0 | \$ 10,647,445 | |
| Cash and short term investments | 2,221,880 | | 2,221,880 | |
| Subtotal cash and invested assets | 12,869,325 | 0 | 12,869,325 | |
| Investment income due and accrued | 271,413 | | 271,413 | |
| Amounts recoverable from reinsurers | 424,044 | | 424,044 | |
| Aggregate write-ins for other than invested assets | 6,765 | | 6,765 | |
| TOTAL ASSETS | \$ 13,571,547 | \$ 0 | \$ 13,571,547 | |
| Liabilities | | | | |
| Losses | \$ 5,007,418 | \$ 0 | \$ 5,007,418 | |
| Loss adjustment expenses | 610,758 | | 610,758 | |
| Commissions payable, contingent commissions and other similar charges | (224) | | (224) | |
| Other expenses | 33,941 | | 33,941 | |
| Taxes, licenses and fees | 144,831 | | 144,831 | |
| Dividends declared and unpaid: | | | | |
| Policyholders | 7,601,927 | | 7,601,927 | |
| Ceded reinsurance premiums payable | 130,929 | | 3,301 | |
| Total liabilities | 13,529,580 | | 13,529,580 | |
| Gross paid in and contributed surplus | 41,967 | | 41,967 | |
| Surplus as regards policyholders | 41,967 | 0 | 41,967 | |
| TOTAL LIABILITIES AND SURPLUS | \$ 13,571,547 | \$ 0 | \$ 13,571,547 | |

Statement of Income
For the Year Ended December 31, 2007

| | Per Company | Examination Changes | Per Statutory Examination | Notes |
|---|--------------------|------------------------|------------------------------|-------|
| Premiums earned | \$ 6,205,689 | \$ 0 | \$ 6,205,689 | |
| Deductions: | | | | |
| Losses incurred | 2,149,369 | | 2,149,369 | |
| Loss expenses incurred | 108,253 | | 108,253 | |
| Other underwriting expenses incurred | 1,010,631 | | 1,010,631 | |
| Total underwriting deductions | <u>3,268,253</u> | <u>0</u> | <u>3,268,253</u> | |
| Net underwriting gain (loss) | <u>2,937,436</u> | <u>0</u> | <u>2,937,436</u> | |
| Net investment income earned | 537,562 | | 537,562 | |
| Net realized capital gains (losses) | 15,235 | | 15,235 | |
| Net investment gain (loss) | <u>552,797</u> | <u>0</u> | <u>552,797</u> | |
| Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | 3,490,233 | | 3,490,233 | |
| Dividends to policyholders | <u>3,490,233</u> | | <u>3,490,233</u> | |
| Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | 0 | 0 | 0 | |
| Federal and foreign taxes incurred | <u>0</u> | | <u>0</u> | |
| Net Income | <u><u>\$ 0</u></u> | <u><u>\$ 0</u></u> | <u><u>\$ 0</u></u> | |

COMMENTS AND RECOMMENDATIONS

Investments Transactions

Investment transactions are not approved by the board of directors. It is recommended that the board of directors approve the transactions on a quarterly basis.

For Information Purposes Only

ACKNOWLEDGMENT

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

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

| | |
|----------------|--------------|
| Arthur Hughes | Examiner III |
| Brian Knowlton | Examiner II |
| Linda Dow | Examiner II |

Respectfully submitted,

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