



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

REPORT OF EXAMINATION

OF THE

STAM WORKERS' COMPENSATION SELF-INSURANCE GROUP, INC.

As of DECEMBER 31, 2011

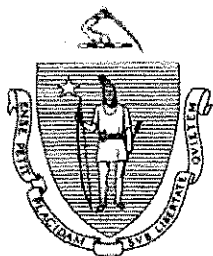
N.A.I.C. GROUP CODE NONE

N.A.I.C. COMPANY CODE NONE

EMPLOYER ID NUMBER 04-3236715

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COMMONWEALTH OF MASSACHUSETTS
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COMMISSIONER OF INSURANCE

September 5, 2012

The Honorable Joseph G. Murphy
Commissioner of Insurance
The Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Commissioner Murphy:

Pursuant to your specific instructions and by authority of Section 25I, of Chapter 152 of Massachusetts General Laws ("MGL"), an examination has been made of the transactions and financial condition as of December 31, 2011, of the

STAM WORKERS' COMPENSATION SELF-INSURANCE GROUP, INC.

at its main administrative office located at c/o TD Insurance/FutureComp, 123 Interstate Drive, West Springfield, Massachusetts 01090. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

STAM Workers' Compensation Self-Insurance Group, Inc., (herein after referred to as "STAM" or the "Group") was last examined by the Massachusetts Division of Insurance ("Division") as of December 31, 2005. The present examination of the Group was conducted by the Division and covers the transactions of the Group from January 1, 2006 through December 31, 2011, including any material transactions and/or events occurring subsequent to the examination date and noted in the course of the examination.

The examination was conducted in accordance with standards established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee as well as with the procedures prescribed by the NAIC Financial Condition Examiners Handbook, with the requirements of examination standards of the Division, and with the General Laws of Massachusetts. The principal focus of the examination was activity for the period January 1, 2006 to December 31, 2011 however, transactions both prior and subsequent thereto were reviewed as deemed appropriate.

In addition to a review of the financial condition of the Group, the examination included a review of the Group's business policies and practices, available corporate records, reinsurance treaties, fidelity bonds and other insurance, and other pertinent matters to provide reasonable assurance that the Group 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 Group has been audited annually by Feeley & Driscoll, P.C., an independent certified public accounting firm. The firm expressed unqualified opinions on the Group's statutory financial reports for each of the six years under examination. Review and use of the certified public accountants work papers were made to the extent deemed appropriate and effective.

This Report of Examination is written on an exception basis.

Status of Findings of the Prior Examination

Reportable findings: None

HISTORY

The Group was organized on December 1, 1993, and commenced business within the Commonwealth of Massachusetts on May 12, 1994, pursuant to and in accordance with Massachusetts General Law, 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 Law, Chapter 152, and Section 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 school transportation industry.

During the operating period under review, the Group, by a written administrative service agreement engaged Future Comp, a registered trademark of TD Insurance, Inc., (the Administrator) to perform and manage the day-to-day activities of the Group.

TERRITORY AND PLAN OF OPERATION

The Group is a self-insurance group permitted to transact workers' compensation business only in the Commonwealth of Massachusetts.

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 of Directors shall have the power to adopt and issue rules, regulations, policies and procedures which shall be binding upon the members and the Administrator.

Corporate Records

The Articles of Organization and Bylaws were reviewed. 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.

Annual Meeting

According to the Bylaws as amended, the annual meeting of the members shall be held on the third Thursday in June each year or such other date as may be determined by the Board of Directors. The annual meeting may be held at the principal office of the corporation or at such other place within the United States as the President, Members or the Board of Directors shall determine.

Board of Directors

In accordance with the Group's Bylaws, the number of Board of Directors shall be no fewer than three (3) and no more than eleven (11); such number to be established by the Board of Directors. Directors shall serve for a term of three (3) years. Upon expiration of each Director's term, one or more successor Director shall be nominated by the Board of Directors for member's approval at the first Annual Meeting of the Members following such expiration.

STAM Workers' Compensation Self-Insurance Group Examination Report

The members of the Board of Directors serving as of December 31, 2011, were as follows:

<u>Name of Director</u>	<u>Affiliation</u>
Eric Amaral	Amaral Auto & Truck Driving School
Joseph Amaral	Amaral Bus Company, Inc.
Stephen Ingle	Joseph Ingle Bus Service
Keith Jenkins	Carl Liebenow, Inc.
John McCarthy	North Reading Transportation Bus, Inc.
David Strong Jr.	Strong Corporation
Clayton Tellstone	Tellstone & Son, Inc.
Robert Trainque *	Heritage Truck & Transit, Inc.
David Tremblay	Tremblay Bus Company, LLC
Richard Unda	East Coast Transit Services, Inc.
Eugene Varney	Varney's Garage

*Robert Trainque is President of the sponsoring organization School Transportation Association of Massachusetts, Inc.; therefore, he is an ex-officio member of the Board. He is also an elected Board member.

A quorum at a meeting of the Directors and for the transactions of the business shall be not less than one-half (1/2) of the Directors then in office, represented in person or by proxy unless otherwise provided by law. The minutes indicated that a quorum was obtained at all of the meetings of the Board of Directors held during the examination period

In accordance with provisions of 211 CMR 67.07 (1) all Directors serving are residents of the Commonwealth or officers of corporations authorized to do business in the Commonwealth.

Officers

Pursuant to the Bylaws, the officers of the Group shall consist of a President, Vice President, Treasurer, Clerk and such other officers, if any, as the Board of Directors may determine. The officers shall be elected annually by the Board of Directors at their first meeting following the annual meeting of the members. The Clerk shall be a resident of Massachusetts unless the corporation has a resident agent duly appointed for the purpose of service of process.

STAM Workers' Compensation Self-Insurance Group Examination Report

The elected officers and their respective titles at December 31, 2011, follow:

<u>Name of Officers</u>	<u>Title</u>
David Tremblay	President
Stephen Ingle	Vice President
David Strong Jr.	Vice President
Richard Unda	Vice President
Eugene Varney	Vice President
Frank Underhill	Treasurer
Frank Underhill	Clerk

Conflict of Interest Procedures

The Group has adopted a policy statement pertaining to conflict of interest in accordance with Question 18 of the General Interrogatories of the Annual Statement. The Group 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 is in or is likely to conflict with their official duties.

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 TD Bank Insurance Business Continuity Plan. The 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

In accordance with MGL Chapter 152, Section 25G and 211 CMR 67.10, the Group's Administrator maintains fidelity coverage with an authorized Massachusetts insurer. The aggregate limit of liability provides coverage above the prescribed minimum set forth by the NAIC's schedule of suggested minimum amounts of fidelity insurance.

211 CMR 67.08 (2)(d), states that the Group shall have a security deposit or bond not less than \$100,000 and any securities or certificates of deposit shall have a remaining maturity of one year or less from their time of purchase. At December 31, 2011, the Group has a certificate of deposit with a Massachusetts bank pledged to the Commonwealth of Massachusetts in the amount of \$287,966.

EXCESS INSURANCE

The Group follows a general procedure of insuring exposures which exceed specified limits.

The Group maintains specific and aggregate excess workers compensation and employers liability indemnity policies with an unaffiliated excess insurance carrier authorized to transact reinsurance in the Commonwealth of Massachusetts. They are rated (A+) by A.M. Best & Company. Under the policies, the Group initially retained the first \$250,000 of each occurrence and subsequently increased their per occurrence retention limit to \$450,000 at December 31, 2011, on each individual accident. The Group has an aggregate limit of \$5 million.

The Group remains primarily liable for its obligations under its reinsurance contracts. In the event the reinsurer would be unable to pay its portion of any losses incurred, the Group would be liable for such obligations.

ACCOUNTS AND RECORDS

The trial balances, general ledgers and audited financial statements provided by the Group were reviewed for the years ending December 31, 2006, through December 31, 2011. The financial accounting records are processed and maintained by FutureComp automated administrative system. An independent statutory accounting specialist is utilized to review the financial records and to prepare the quarterly filings to the Division of Insurance.

General ledger account balances were reconciled and traced to amounts reported in the Annual Statement for 2011. All balance sheet accounts were summarized and traced to the appropriate asset exhibits and liability lines within the Group's Annual Statement. Selected income and expense allocations and postings were sampled and verified for reasonableness.

The internal control structure for the Group and for selected accounting streams was discussed with the Administrator. Reliance upon the controls was utilized as appropriate in the selection of examination procedures.

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 December 31, 2011:

- Statement of Admitted Assets and Liabilities as of December 31, 2011
- Statement of Income for the year ended December 31, 2011

STAM Workers' Compensation Self-Insurance Group Examination Report

Statement of Admitted Assets and Liabilities As of December 31, 2011

Assets	<u>Per Statement</u>	<u>Adjustments</u>	<u>Per Examination</u>	<u>Note</u>
Bonds	\$3,841,984		\$3,841,984	
Cash and short-term investments	950,205		950,205	
Investment income due & accrued	33,370		33,370	
Uncollected Premiums	977		977	
Federal income tax recoverable	5,969	(5,969)	0	1
Total Admitted Assets	\$4,832,505	(\$5,969)	\$4,826,536	

Liabilities	<u>Per Statement</u>	<u>Adjustments</u>	<u>Per Examination</u>	<u>Note</u>
Losses	\$1,265,077		\$1,265,077	2
Loss adjustment expenses	158,260		158,260	2
Other expenses	49,094		49,094	
Taxes, licenses and fees	7,267		7,267	
Dividends unpaid	3,352,807	(5,969)	3,346,838	1
Total Liabilities	\$4,832,505	(\$5,969)	\$4,826,536	

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Statement of Income As of December 31, 2011

	<u>Per Statement</u>	<u>Adjustments</u>	<u>Per Examination</u>	<u>Note</u>
Underwriting Income	\$2,375,752		\$2,375,752	
Losses Incurred	1,073,867		1,073,867	
Loss adjustment expenses incurred	129,768		129,768	
Other underwriting expenses incurred	555,152		555,152	
Total underwriting deductions	1,758,787		1,758,787	
Net underwriting gain	616,965		616,965	
Net investment Income earned	113,511		113,511	
Net investment gain	113,511		113,511	
Net income before dividends to policyholders	730,476		730,476	
Dividends to policyholders	730,176		730,176	
Net income (loss) after dividends to policyholders	300		300	
Federal income taxes incurred	300		300	
Net income	\$0		\$0	

STAM Workers' Compensation Self-Insurance Group Examination Report

NOTES TO FINANCIAL STATEMENTS

Note 1

Federal income tax recoverable

\$0

The amount of \$5,969 is for a pending refund from 2004 that was on the books since 12/31/2005 and subsequently denied by the IRS on 12/30/2010. The adjustment is a decrease to the recoverable and a decrease to retained earnings (which decreases the amount of Dividends Payable). The journal entry was processed on August 21, 2012.

Note 2

Losses and loss adjustment expenses

\$1,423,337

The Group establishes reserves based upon the case basis estimates of its claims and an analysis of loss and loss adjustment expense reserves performed on an annual basis by an independent actuarial consulting firm, Milliman, Inc. This review is in turn relied upon by the Group's certified public accountants. The Massachusetts Division of Insurance has reviewed documentation of the Group's loss and loss adjustment expense reserves, and has relied on the opinion of this independent and qualified expert as deemed appropriate.

The reserve for unpaid losses and loss adjustment expenses includes an estimated provision for incurred but not reported losses (IBNR) as well as reported losses. The IBNR provision totaled approximately \$929,800 on an undiscounted basis as of December 31, 2011.

The net loss and loss adjustment expense reserves reported have been discounted using a discount factor not less than the discount factor that would result from use of the interest rate and loss pattern prescribed by and under section 846 of the Internal Revenue Code of 1986, as amended. Such discounting of loss and loss adjustment expense is permitted by Massachusetts' Regulation 211 CMR 67.08 (2).

The unpaid losses and loss adjustment expenses were discounted approximately \$210,107 for a net carried reserve of \$1,423,337 at December 31, 2011.

Note 3

Commitment and Contingencies

The Group has entered into a restated application and indemnity agreement with each member to provide risk management services and workers' compensation insurance. The agreement stipulates, among other things, that each member is jointly and severally liable for the workers' compensation obligations of the Group and its members which were incurred during the member's period of membership in the Group, irrespective of the subsequent termination of the member's membership in the Group, the insolvency or bankruptcy of another member of the Group, or other facts or circumstances. Accordingly, the financial viability of the Group is contingent upon the financial viability of the individual members.

The Group does not have any pending legal proceedings. The Group does not have any material contingent liabilities as of the Annual Statement date.


CONCLUSION

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.

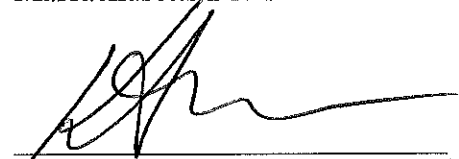
ACKNOWLEDGMENT

The examiners hereby express their appreciation to the Group and its Administrator for their courteous cooperation throughout the examination.

Respectfully submitted,



Brian A. Knowlton
Examiner In-Charge
Massachusetts Division of Insurance



Kenneth R. Brenner, CFE, CPA
Supervising Examiner
Massachusetts Division of Insurance