

EXAMINATION REPORT
of
WCAMC CONTRACTORS
GROUP SELF-INSURANCE ASSOCIATION
RICHMOND, VIRGINIA
as of
DECEMBER 31, 2016

COMMONWEALTH OF VIRGINIA

**SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE**



**P.O. BOX 1157
RICHMOND, VIRGINIA 23218
1300 E. MAIN STREET
RICHMOND, VIRGINIA 23219
TELEPHONE: (804) 371-9741
www.scc.virginia.gov/boi**

I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of WCAMC Contractors Group Self-Insurance Association as of December 31, 2016, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 11th day of January 2018

Scott A. White
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
October 24, 2017

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by authority of Section 38.2-1317 of the Code of Virginia, an examination of the records and affairs of

**WCAMC CONTRACTORS GROUP
SELF-INSURANCE ASSOCIATION**

Richmond, Virginia

hereinafter referred to as the Association, has been completed. The report is hereby submitted for your consideration.

SCOPE OF THE EXAMINATION

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2013 through December 31, 2016. The Association was last examined by representatives of the Commission's Bureau of Insurance (the "Bureau") as of December 31, 2012. This examination covers the period from January 1, 2013 through December 31, 2016.

The Bureau planned and performed the examination to evaluate the Association's financial condition and operational activities. All accounts and activities of the Association were considered generally in accordance with the risk-focused examination process contained in the NAIC Financial Condition Examiners Handbook.

The examination report includes findings of fact and general information about the Association and its financial condition.

HISTORY

The Association was licensed by the Bureau effective February 15, 1985. On July 1, 1990, the Bureau revised the Association's license to authorize employers' liability coverage.

According to its original indemnity agreement, the Association was formed to allow members to self-insure and to pool their separate liabilities arising pursuant to the terms of the Virginia Workers' Compensation Act and for certain other types of employers' liabilities.

Effective February 15, 2010, the Association ceased underwriting business and is currently operating in order to pay existing claims. Once existing claims are closed the Association will cease operations. On July 15, 2011, the Association implemented a member assessment after it was determined that it would be unable to meet all of its obligations without additional contributions from its members.

MANAGEMENT AND CONTROL

Control of the Association is vested in a Members' Supervisory Board (the "Board") elected by the members of the Association. The by-laws provide for no less than four nor more than seven board members, each serving a three-year term. The Board is responsible for holding and managing the assets and directing the affairs of the Association in accordance with the Association's by-laws and the Bureau's regulations.

The Board and officers were as follows at December 31, 2016:

Board

<u>Representative</u>	<u>Member</u>
Richard E. Collier	R.E. Collier, Inc. Richmond, Virginia
Patrick T. McAndrews	McAndrews Restoration Springfield, Virginia
Stephen T. Murphy	Add-A-Deck, Inc. Richmond, Virginia
Eleanor W. Newell	E. Granville Wade, Jr., Inc. Mechanicsville, Virginia
Charles E. Yonce	Conquest, Moncure & Dunn, Inc. Richmond, Virginia

Officers

Richard E. Collier
Stephen T. Murphy

Chairman
Secretary/Treasurer

TERRITORY AND PLAN OF OPERATION

The operation of the Association is confined to Virginia where it is licensed to transact the business of workers' compensation and employers' liability group self-insurance. Membership in the Association is available to employers engaged in a similar type of business, upon the approval of the Board and the Commission.

All members are required to enter into an indemnity agreement in which each member jointly and severally agrees to assume and discharge members' employers' liabilities and any members' liabilities under the Virginia Workers' Compensation Act. No formal insurance policy is issued to the members.

An administrator is responsible for assisting the board in managing the affairs of the Association. Claims are processed and paid by a service agent under a contractual agreement with the Association. The Association's operations are conducted on a fiscal year basis ending February 14.

ADMINISTRATIVE AGREEMENT

Effective February 5, 2010, the Association entered into an administrative agreement with Self-Insurance Services, LLC, ("SIS"). The original term of this agreement was for a period of eleven months and subject to termination by either party with 90 days advance notice.

According to the agreement, SIS shall administer and manage the financial affairs of the Association as established and adopted by the Board, maintain necessary records of accounts, advise the Board on policy matters, contract for claims handling, pay all items of expense to the extent funds are available, prepare and file tax returns and annual statements, invest Association funds, and conduct other managerial duties. As compensation for its services, SIS shall receive \$7,500 per month. In 2015 and 2016, SIS agreed to waive the administrative fee expense pursuant to the agreement.

CLAIMS SERVICE AGREEMENT

Effective February 15, 2000, the Association entered into a claims service agreement with PMA Management Corporation ("PMA"). The original term of this agreement was for a period of three years and the agreement shall remain in full force and effect unless otherwise amended or terminated.

Under the terms of the agreement, the services provided by PMA include full claims handling and adjusting for all claims incurred during the period of the agreement until their conclusion, unless otherwise transferred; assisting the Association in the selection of outside vendors when necessary to professionally defend a claim; and notifying excess insurers of all qualified claims which may exceed the Association's retention.

Effective with the agreement's final amendment for the one-year period, February 15, 2009 to February 14, 2010, PMA shall receive, as compensation for its claims services, 4.5% of billable premium, subject to a minimum annual fee of \$90,000. For managed care services, PMA receives \$95 per hour for medical case management services and \$95 per hour for disability management coordinators. For cost containment services, the Association pays \$8 per bill reviewed and PMA receives 35% of the savings generated. Effective February 15, 2010, the Association ceased underwriting business. The claims service agreement requires that PMA handle and adjust to conclusion any claim or loss incurred during the agreement period. Therefore, PMA does not receive any additional compensation for its services. Currently, PMA is servicing 21 open workers' compensation claims for the Association.

DIVIDENDS TO MEMBERS

Any surplus assets accumulated within a fiscal year may be declared refundable by the Board. Payment of this surplus in the form of dividends, however, may not be made until the Association has received approval from the Bureau. During the examination period, no dividends were approved by the Bureau.

SPECIAL RESERVES AND DEPOSITS

At December 31, 2016, the Association had a U.S. Treasury Note with a market value of \$49,274 on deposit with the Treasurer of Virginia as required by 14 VAC 5-370-60 A.

EXCESS INSURANCE COVERAGE

The Association had both specific excess and aggregate excess insurance agreements in force for any claims incurred prior to February 15, 2010, with the following limits:

	<u>Association's Retention</u>	<u>Excess Insurer's Limits</u>
Specific Excess	\$500,000 maximum for each accident and each employee for disease	Workers' Compensation Statutory Employers' Liability \$2,000,000
Aggregate Excess	114.77% of normal premium subject to a minimum retention of \$2,231,194	\$3,000,000

FINANCIAL STATEMENTS

There follows a statement reflecting the financial condition of the Association at December 31, 2016, a statement of income for the year ended December 31, 2016, a reconciliation of members' equity for the period under review, a statement of members' account by fiscal year inception to date and a statement of Examiners' changes in members' equity.

BALANCE SHEET
DECEMBER 31, 2016

ASSETS

Bonds, long term	\$364,231
Other invested assets	12,031
Cash on deposit	43,922
Deposit with service agent	49,007
Interest due and accrued	1,225
Amounts recoverable on paid losses	90,069
	<hr/>
Total assets	<u><u>\$560,485</u></u>

LIABILITIES AND MEMBERS' EQUITY

Losses unpaid	\$1,226,613
Loss adjustment expenses unpaid	420,140
Contingency reserve	2,490,421
Premium refunds payable	101,228
Professional fees payable	22,000
Investment fees payable	156
	<hr/>
Total liabilities	<u>\$4,260,558</u>
Restricted members' equity	\$49,274
Unrestricted members' equity	<u>(3,749,347)</u>
	<hr/>
Total liabilities and members' equity	<u><u>\$560,485</u></u>

STATEMENT OF INCOME
FOR YEAR ENDED DECEMBER 31, 2016

UNDERWRITING INCOME

Premiums earned	<u>\$0</u>
Deductions:	
Losses incurred	\$26,153
Loss expenses incurred	321,283
Other underwriting expenses incurred	<u>(4,256)</u>
Total underwriting deductions	<u>\$343,180</u>
Net underwriting gain (loss)	<u>(\$343,180)</u>

INVESTMENT INCOME

Net investment income earned	\$4,163
Net realized capital gain	<u>(9,179)</u>
Net investment gain	<u>(\$5,016)</u>

OTHER INCOME

Miscellaneous	<u>\$828</u>
Total other income	<u>\$828</u>
Net income (loss) before federal income taxes	(\$347,368)
Federal income taxes incurred	<u>0</u>
Net loss	<u><u>(\$347,368)</u></u>

RECONCILIATION OF MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Members' equity, previous year before undistributed dividends	* (\$3,274,257)	(\$3,299,998)	(\$3,411,996)	(\$3,358,768)
Adjustment for previous examination changes	111,731			
Net income (loss)	(123,582)	(80,070)	55,847	(347,368)
Net unrealized capital gains or (losses)	<u>(13,890)</u>	<u>(31,928)</u>	<u>(2,619)</u>	<u>6,063</u>
Restricted and unrestricted members' equity, end of year	(\$3,299,998)	(\$3,411,996)	(\$3,358,768)	(\$3,700,073)
Less: Restricted members' equity, end of year	<u>(255,703)</u>	<u>(253,828)</u>	<u>(253,135)</u>	<u>(49,274)</u>
Unrestricted members' equity, end of year before undistributed dividends	(\$3,555,701)	(\$3,665,824)	(\$3,611,903)	(\$3,749,347)
Less: Dividends declared but unpaid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Unrestricted members' equity, end of year	<u><u>(\$3,555,701)</u></u>	<u><u>(\$3,665,824)</u></u>	<u><u>(\$3,611,903)</u></u>	<u><u>(\$3,749,347)</u></u>

* Adjusted members' equity from previous examination.

Members' Account By Fiscal Year Inception to Date December 31, 2016*

	Fiscal Years 1985-2006	Fiscal Year 2006/2007	Fiscal Year 2007/2008	Fiscal Year 2008/2009	Fiscal Year 2009/2010	Total Inception to Date
<u>Income Received</u>						
Premiums written	\$85,490,367	\$8,039,308	\$7,898,000	\$4,560,934	\$1,842,885	\$107,831,494
Less: excess insurance	10,027,381	2,077,017	1,757,002	1,055,356	370,221	15,286,977
Net premiums written	\$75,462,986	\$5,962,291	\$6,140,998	\$3,505,578	\$1,472,664	\$92,544,517
Investment income	6,563,170	218,356	129,497	58,555	5,046	6,974,624
Allocation between years	(3,239)	(290)	(266)	(1)	3,796	0
Other	2,880,622	0	23,110	235	301,645	3,205,612
Total income collected	\$84,903,539	\$6,180,357	\$6,293,339	\$3,564,367	\$1,783,151	\$102,724,753
<u>Less: Expenses Paid</u>						
Losses paid	\$56,659,630	\$3,699,725	\$3,678,170	\$2,195,062	\$1,243,950	\$67,476,537
Allocated loss adjustment expenses paid	4,873,007	469,816	337,736	192,460	154,224	6,027,243
Administrative fees	11,225,314	932,423	1,046,689	636,033	157,287	13,997,746
Service agent's fees	4,855,727	343,735	449,120	205,489	86,430	5,940,501
Taxes, licenses, and fees	1,657,040	220,234	216,591	146,220	68,972	2,309,057
Federal income tax	130,805	0	21,178	0	14,670	166,653
Other expenses	1,987,491	158,268	190,912	220,444	221,017	2,778,132
Total expenses	\$81,389,014	\$5,824,201	\$5,940,396	\$3,595,708	\$1,946,550	\$98,695,869
Net cash income	\$3,514,525	\$356,156	\$352,943	(\$31,341)	(\$163,399)	\$4,028,884
<u>Add: Receivables</u>						
Interest due and accrued	\$1,046	\$94	\$85	\$0	\$0	\$1,225
Recoverable on paid losses	66,427	23,642	0	0	0	90,069
Total	\$67,473	\$23,736	\$85	\$0	\$0	\$91,294
<u>Deduct: Liabilities</u>						
Losses unpaid	\$166,746	\$454,656	\$100,000	\$260,278	\$244,933	\$1,226,613
Loss adjustment expenses	323,798	68,751	0	25,473	2,118	420,140
Contingency reserve	1,815,302	249,776	238,995	134,105	52,243	2,490,421
Premium refunds payable	0	0	0	0	101,228	101,228
Other expenses payable	18,910	1,692	1,554	0	0	22,156
Total	\$2,324,756	\$774,875	\$340,549	\$419,856	\$400,522	\$4,260,558

Members' Account By Fiscal Year Inception to Date December 31, 2016*

	<u>Fiscal Years 1985-2006</u>	<u>Fiscal Year 2006/2007</u>	<u>Fiscal Year 2007/2008</u>	<u>Fiscal Year 2008/2009</u>	<u>Fiscal Year 2009/2010</u>	<u>Total Inception to Date</u>
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$1,257,242	(\$394,983)	\$12,479	(\$451,197)	(\$563,921)	(\$140,380)
Less: Dividends paid inception to date by fiscal year	3,559,693	0	0	0	0	3,559,693
Less: Restricted Members' Equity by fiscal year	<u>9,855</u>	<u>9,855</u>	<u>9,855</u>	<u>9,855</u>	<u>9,854</u>	<u>49,274</u>
Unrestricted Members' Equity undistributed by fiscal year	(\$2,312,306)	(\$404,838)	\$2,624	(\$461,052)	(\$573,775)	(\$3,749,347)
Less: Dividends declared but unpaid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Unrestricted Members' Equity 12/31/16	<u>(\$2,312,306)</u>	<u>(\$404,838)</u>	<u>\$2,624</u>	<u>(\$461,052)</u>	<u>(\$573,775)</u>	<u>(\$3,749,347)</u>

* The Association ceased writing business on February 15, 2010.

STATEMENT OF EXAMINERS' CHANGES IN MEMBERS' EQUITY
DECEMBER 31, 2016

	Amount Per <u>Association</u>	Amount Per <u>Examiner</u>	Increase (Decrease) <u>Members' Equity</u>
<u>Liabilities:</u>			
Losses unpaid	\$1,102,612	\$1,226,613	(\$124,001)
Loss adjustment expenses unpaid	150,296	420,140	<u>(269,844)</u>
Examiners changes in members' equity			<u><u>(\$393,845)</u></u>
Restricted and unrestricted members' equity per Association			(\$3,306,228)
Restricted and unrestricted members' equity per Examiners			<u>(3,700,073)</u>
Decrease in unrestricted and undistributed members' equity			<u><u>(\$393,845)</u></u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

1. The results of this examination reflect members' equity deficits for the 1997/1998, 2000/2001, 2002/2003, 2003/2004, 2004/2005, 2005/2006, 2006/2007, 2008/2009 and 2009/2010 fiscal years of \$62,188, \$455,936, \$1,250,738, \$874,679, \$2,131,527, \$584,037, \$404,838, \$461,052 and \$573,775, respectively as well as an overall deficit of \$3,749,347.

According to 14 VAC 5-370-20, the Board is charged with the responsibility of assuring that the Association is financially sound and able to fulfill its obligation under the Virginia Workers' Compensation Act. The Board must recognize the Association's financial condition and take the necessary steps, which may include additional member assessments, to eliminate deficits.

Accounts and Records

2. Losses unpaid \$1,226,613

The above liability is \$124,001 more than the amount reported by the Association in its 2016 Annual Statement. The increase in losses unpaid by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Association</u>	<u>Examiners</u>	<u>Increase</u>
1995/1996	\$53,821	\$60,118	\$6,297
1996/1997	(2)	218	220
2000/2001	0	17,641	17,641
2003/2004	1,536	6,599	5,063
2006/2007	359,876	454,656	94,780
Total	<u>\$415,231</u>	<u>\$539,232</u>	<u>\$124,001</u>

The Examiners' increase results from a development of losses paid and reserve changes occurring during the period January 1, 2017 through September 30, 2017 on claims incurred December 31, 2016 and prior. The Association should review its methodologies to ensure sufficient loss reserves are established in future filings with the Bureau.

3. Loss adjustment expenses unpaid \$420,140

The above liability is \$269,884 more than the amount reported by the Association in its 2016 Annual Statement. The increase in loss adjustment expenses unpaid by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Association</u>	<u>Examiners</u>	<u>Increase</u>
1997/1998	\$0	\$29,147	\$29,147
1998/1999	0	195,508	195,508
1999/2000	4,944	7,412	2,468
2000/2001	0	13,903	13,903
2003/2004	7,999	8,349	350
2004/2005	0	2,607	2,607
2006/2007	68,363	68,751	388
2008/2009	0	25,473	25,473
Total	<u>\$81,306</u>	<u>\$351,150</u>	<u>\$269,844</u>

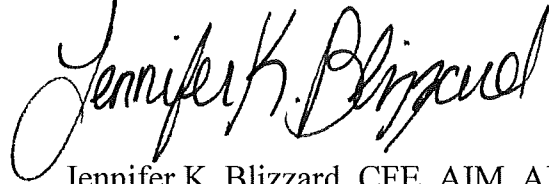
The Examiners' increase results from a development of loss adjustment expenses paid and reserve changes occurring during the period January 1, 2017 through September 30, 2017 on claims incurred December 31, 2016 and prior. The Association should review its methodologies to ensure sufficient loss adjustment expense reserves are established in future filings with the Bureau.

ACKNOWLEDGEMENT

Acknowledgment is hereby made of the courteous cooperation extended by the Association's administrator and service agent during the course of the examination.

In addition to the undersigned, Mario A. Cuellar, CFE, Gerald T. Hicks, and Benjamin B. MacKercher participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Jennifer K. Blizzard". The signature is written in a cursive style with a large, looping initial "J".

Jennifer K. Blizzard, CFE, AIM, AIAF
Senior Insurance Examiner

WCAMC CONTRACTORS GROUP SELF INSURANCE ASSOCIATION
Administered By
SELF INSURANCE SERVICES, LLC
COST CONTROL THROUGH SERVICE

December 28, 2017

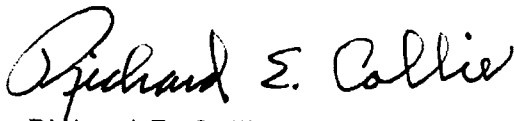
Mr. David H. Smith, CFE, CPCU
Chief Examiner
State Corporation Commission
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218

Dear Mr. Smith:

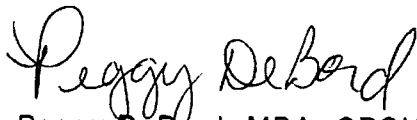
Enclosed are the responses to your recommendations for corrective action for WCAMC Contractors Group Self Insurance Association during the examination period January 1, 2013 through December 31, 2016.

Please let me know if you have any questions concerning our responses.

Sincerely,



Richard E. Collier
Chairman
Members' Supervisory Board
WCAMC Contractors Group Self Insurance Association



Peggy DeBord, MBA, CPCU, CIC
Administrator
WCAMC Contractors Group Self Insurance Association

Enclosures

WCAMC Contractors Group Self Insurance Association

Responses to Recommendations for Corrective Action

Management and Control

1. The Association is aware of and will make every effort to assure that the Association is financially sound and able to fulfill its obligations under the Virginia Workers' Compensation Act.

Accounts and Records

2. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent information not available at the time that the financial statement was filed.
3. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent information not available at the time that the financial statement was filed.