

EXAMINATION REPORT
of
WOOD PRODUCTS OF VIRGINIA
GROUP SELF-INSURANCE ASSOCIATION
RICHMOND, VIRGINIA
as of
DECEMBER 31, 2017

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

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



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I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Wood Products of Virginia Group Self-Insurance Association as of December 31, 2017, 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 14th day of March 2019

A handwritten signature in black ink, appearing to read 'Scott A. White', written over a horizontal line.

Scott A. White
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
January 10, 2019

Honorable Scott A. White
Commissioner of Insurance
Richmond, Virginia

Dear Sir:

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:

**WOOD PRODUCTS OF VIRGINIA
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 last examination of the Association was made by representatives of the State Corporation Commission's Bureau of Insurance (the "Bureau") as of December 31, 2013. This examination covers the period from January 1, 2014 through December 31, 2017.

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.

DESCRIPTION

The Association is a group self-insurance association licensed to provide workers' compensation coverage and employers' liability coverage to its members pursuant to Section 65.2-802 of the Code of Virginia and 14 VAC 5-370-10 et seq. (Rules Governing Group Self-Insurers of Liability Under the Virginia Workers' Compensation Act) promulgated by the State Corporation Commission (the "Commission").

HISTORY

The Association was licensed by the Bureau effective March 1, 1982. On July 1, 1990, the Bureau revised the Association's license to authorize employers' liability coverage. According to its 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.

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 three nor more than eleven board members of which three-fourths of whom must be members in good standing of the Association.

The Board and officers were as follows at December 31, 2017:

Board

Representative

Robert P. Ball

William D. Deep, Jr.

Tatum B. Ferguson

Member

Middleburg Millwork, Inc.
Middleburg, Virginia

American Pallet
Richmond, Virginia

Ferguson Land and Lumber Company
Rocky Mount, Virginia

Bobby J. Harris	Old Dominion Wood Products Lynchburg, Virginia
John S. Purcell	J. S. Purcell Lumber Company Louisa, Virginia
Marijo E. Wood	Neff Lumber Mills, Inc. Broadway, Virginia

Officers

Bobby J. Harris	Chairman
John S. Purcell	Vice-Chairman
Marijo E. Wood	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 Bureau.

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 and all members' liabilities covered under the Virginia Workers' Compensation Act. No formal insurance policy is issued to the members.

The Association has a contractual agreement with an administrator who shall administer and manage the affairs of the Association in accordance with the policies adopted and established by the Board. Claims are processed and paid by a service agent under a contractual agreement with the Association. The Association's operations are conducted on a calendar year basis.

ADMINISTRATIVE AGREEMENT

Effective January 1, 1996, the Association entered into an administrative agreement with Self-Insurance Services, LLC, ("SIS"). The original term of this agreement was for a period of eight months and the agreement continued thereafter subject to termination by either party upon 90 days advance written notice.

According to the agreement, SIS shall administer the financial affairs of the Association as established and adopted by the Board; advise the board on policy matters; contract with a service agent, attorneys, accountants and other advisors and consultants; set up policies and maintain a set of books and records; collect all sums due the Association; pay all items of expense; direct the solicitation and enrollment of new members; file necessary reports; and conduct other managerial duties as may be mutually agreed upon.

As compensation for its services, SIS shall receive 7.5% of all members' contributions calculated under provisions of 14 VAC 5-370-110 without reduction as a result of premium discounts, experience ratings, deviations or other adjustments. The Association incurred \$282,654 in fees relating to this agreement in calendar year 2017.

CLAIMS CONSULTING SERVICE AGREEMENT

Effective January 1, 1994, the Association entered into a claims consulting service agreement with SIS. The agreement is subject to termination by either party upon 60 days advance written notice. According to this agreement, SIS shall provide claims consulting services including the review of monthly loss reports, approval of all medical and compensation payments over \$2,000, monthly review of all open claim files, evaluation of members' claim experience and assistance to the service agent in the settlement of claims.

As compensation, the Association shall pay SIS $\frac{1}{2}$ of 1% of all members' contributions calculated under the provisions of 14 VAC 5-370-110 without reduction as a result of premium discounts, experience ratings, deviations, or other adjustments. The Association incurred \$18,844 in fees relating to this agreement in calendar year 2017.

CLAIMS SERVICE AGREEMENT

Effective January 1, 1998, the Association entered into a claims service agreement with Trigon Administrators, Inc., currently known as Sedgwick CMS ("Sedgwick"). The original term of the agreement was for a period of 12 months and the agreement shall automatically renew for additional one-year terms unless either party provides 60 days advance written notice of its intent to non-renew or renegotiate any portion of the agreement.

Under the terms of the agreement, Sedgwick will handle all aspects of the management of claims for the life of the claim including the following: claims counseling; loss control services; furnishing monthly reports; medical cost containment services; and other miscellaneous claims-related services.

As compensation for its services, Sedgwick shall receive 6% of manual premiums. Additionally, Sedgwick will be compensated 25% of the savings generated by inpatient bill audits, the inpatient utilization review process and any reductions from the application of any fee schedules and negotiations generated from the cost containment program. The Association incurred \$226,123 in fees relating to this agreement in calendar year 2017.

DIVIDENDS TO MEMBERS

Any surplus assets accumulated within a plan 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, the Bureau approved the following dividends:

<u>Plan Year</u>	<u>Approval Dates</u>			
	<u>September 29, 2014</u>	<u>October 5, 2015</u>	<u>October 5, 2016</u>	<u>October 13, 2017</u>
1996	\$ 0	\$ 0	\$ 0	\$ 10,000
1998	0	0	17,043	0
2000	1,193	568	1,592	0
2001	2,903	807	2,285	0
2003	1,320	365	694	0
2005	6,115	520	1,663	0
2006	56,914	982	1,000	0
2008	50,000	24,051	1,368	2,276
2009	50,000	75,000	0	10,000
2010	25,000	14,924	0	10,000
2011	200,000	200,000	100,000	100,000
2012	0	0	0	10,000
2013	0	200,000	200,000	100,000
2014	0	150,000	250,000	100,000
2015	<u>0</u>	<u>0</u>	<u>200,000</u>	<u>300,000</u>
Total	<u>\$393,445</u>	<u>\$667,217</u>	<u>\$775,645</u>	<u>\$642,276</u>

SPECIAL RESERVES AND DEPOSITS

At December 31, 2017, the Association had a United States Treasury Note with a par value of \$260,000 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 at December 31, 2017, with the following limits:

	<u>Association's Retention</u>	<u>Excess Insurer's Limit</u>
Specific Excess	\$800,000 maximum for each accident and each employee for disease	Workers' Compensation Statutory Employers' Liability \$1,000,000
Aggregate Excess	193.00% of normal premium subject to a minimum retention of \$5,749,902	\$5,000,000

FINANCIAL STATEMENTS

There follows a statement reflecting the financial condition of the Association at December 31, 2017, a statement of income for the year ended December 31, 2017, 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, 2017

ASSETS

Bonds, long term	\$4,863,938
Other invested assets	203,297
Cash on deposit	102,931
Premiums receivable	196,691
Interest due and accrued	16,818
Amounts recoverable on paid losses	12,937
Prepaid administrative fees	1,800
Prepaid service agent's fees	8,024
Other prepaid expenses	4,443
	<hr/>
Total assets	<u><u>\$5,410,879</u></u>

LIABILITIES AND MEMBERS' EQUITY

Losses unpaid	\$4,087,462
Loss adjustment expenses unpaid	379,090
Contingency reserve	1,010,047
Unearned premiums	1,082,251
Excess insurance premiums payable	3,945
Premium refunds payable	101,165
Taxes, licenses and fees payable	110,689
Dividends payable	671,411
Professional fees payable	15,000
Investment fees payable	2,000
Payroll audit fees payable	9,500
	<hr/>
Total liabilities	<u>\$7,472,560</u>
Restricted members' equity	\$259,654
Unrestricted members' equity	<u>(2,321,335)</u>
	<hr/>
Total liabilities and members' equity	<u><u>\$5,410,879</u></u>

STATEMENT OF INCOME
FOR YEAR ENDED DECEMBER 31, 2017

UNDERWRITING INCOME

Premiums earned	<u>\$2,792,406</u>
Deductions:	
Losses incurred	\$2,035,767
Loss expenses incurred	386,676
Other underwriting expenses incurred	727,444
Contingency reserve	<u>96,559</u>
Total underwriting deductions	<u>\$3,246,446</u>
Net underwriting loss	<u>(\$454,040)</u>

INVESTMENT INCOME

Net investment income earned	\$71,853
Net realized capital losses	<u>(8,510)</u>
Net investment gain	<u>\$63,343</u>
Net income before federal income taxes	(\$390,697)
Federal income taxes incurred	<u>0</u>
Net loss	<u><u>(\$390,697)</u></u>

RECONCILIATION OF MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Members' equity, previous year before undistributed dividends	* \$382,613	\$504,808	\$707,249	(\$414,540)
Adjustment for previous examination changes	(65,096)			
Net income or (loss)	564,233	838,073	(383,541)	(390,697)
Net unrealized capital gains or (losses)	31,189	(15,642)	15,866	4,110
Dividends paid to members	<u>(408,131)</u>	<u>(619,990)</u>	<u>(754,114)</u>	<u>(589,143)</u>
Restricted and unrestricted members' equity, end of year	\$504,808	\$707,249	(\$414,540)	(\$1,390,270)
Less: Restricted members' equity, end of year	<u>260,265</u>	<u>262,783</u>	<u>261,157</u>	<u>259,654</u>
Unrestricted members' equity, end of year before undistributed dividends	\$244,543	\$444,466	(\$675,697)	(\$1,649,924)
Less: Dividends declared but unpaid	<u>549,520</u>	<u>596,747</u>	<u>616,910</u>	<u>671,411</u>
Unrestricted members' equity, end of year	<u><u>(\$304,977)</u></u>	<u><u>(\$152,281)</u></u>	<u><u>(\$1,292,607)</u></u>	<u><u>(\$2,321,335)</u></u>

* Adjusted members' equity from previous examination.

Members' Account By Fiscal Year Inception to Date December 31, 2017

	All Other Fiscal Years Preceding 1982-2013	Third Fiscal Year Preceding 2014	Second Fiscal Year Preceding 2015	First Fiscal Year Preceding 2016	Current Calendar Year 2017	Total Inception to Date (1982-2017)
Income Received						
Premiums written	\$56,733,962	\$2,160,340	\$2,732,464	\$2,892,080	\$4,076,669	\$68,595,515
Less: Excess insurance	7,469,142	238,227	288,002	304,825	391,765	8,691,961
Net premiums written	\$49,264,820	\$1,922,113	\$2,444,462	\$2,587,255	\$3,684,904	\$59,903,554
Investment income	5,222,094	39,990	55,114	19,821	74,309	5,411,328
Allocation between years	21,446	7,690	12,469	13,951	(55,556)	0
Other	2,144,960	0	0	0	(481)	2,144,479
Total income collected	\$56,653,320	\$1,969,793	\$2,512,045	\$2,621,027	\$3,703,176	\$67,459,361
Less: Expenses Paid						
Losses paid	\$29,223,210	\$528,011	\$679,031	\$1,766,825	\$746,848	\$32,943,925
Allocated loss adjustment expenses paid	1,921,967	57,294	138,213	270,101	126,585	2,514,160
Administrative fees	4,943,619	189,608	248,851	269,616	320,667	5,972,360
Service agent's fees	3,776,583	142,205	186,639	200,545	240,499	4,546,471
Taxes, licenses, and fees	1,114,099	91,010	101,690	104,296	0	1,411,095
Federal income tax	188,240	0	0	0	0	188,240
Other expenses	1,493,628	43,562	46,958	53,183	22,883	1,660,214
Total expenses	\$42,661,346	\$1,051,690	\$1,401,382	\$2,664,566	\$1,457,482	\$49,236,465
Net cash income	\$13,991,974	\$918,103	\$1,110,663	(\$43,539)	\$2,245,694	\$18,222,896
Add: Receivables						
Premiums receivable	\$0	\$0	\$0	\$0	\$196,691	\$196,691
Interest due and accrued	4,855	1,740	2,822	3,157	4,244	16,818
Recoverable on paid losses	4,869	0	0	8,068	0	12,937
Other	0	0	0	0	14,267	14,267
Total	\$9,724	\$1,740	\$2,822	\$11,225	\$215,202	\$240,713
Deduct: Liabilities						
Losses unpaid	\$536,505	\$261,839	\$501,309	\$858,281	\$1,929,528	\$4,087,462
Loss adjustment expenses	90,139	875	6,058	88,283	193,735	379,090
Contingency reserve	683,379	64,811	81,974	86,761	93,122	1,010,047
Unearned premiums	0	0	0	0	1,082,251	1,082,251
Excess insurance premiums payable	0	0	0	0	3,945	3,945
Premium refunds payable	0	0	0	0	101,165	101,165
Taxes, licenses and fees payable	0	0	0	0	110,689	110,689
Other expenses payable	0	0	0	0	26,500	26,500
Total	\$1,310,023	\$327,525	\$589,341	\$1,033,325	\$3,540,935	\$6,801,149

Members' Account By Fiscal Year Inception to Date December 31, 2017

	All Other Fiscal Years Preceding 1982-2013	Third Fiscal Year Preceding 2014	Second Fiscal Year Preceding 2015	First Fiscal Year Preceding 2016	Current Calendar Year 2017	Total Inception to Date (1982-2017)
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$12,691,675	\$592,318	\$524,144	(\$1,065,639)	(\$1,080,039)	\$11,662,460
Less: Dividends paid inception to date by fiscal year	12,094,924	485,231	472,575	0	0	13,052,730
Less: Restricted Members' Equity by fiscal year	<u>51,930</u>	<u>51,931</u>	<u>51,931</u>	<u>51,931</u>	<u>51,931</u>	<u>259,654</u>
Unrestricted Members' Equity undistributed by fiscal year	\$544,821	\$55,156	(\$362)	(\$1,117,570)	(\$1,131,970)	(\$1,649,924)
Less: Dividends declared but unpaid	<u>629,217</u>	<u>14,769</u>	<u>27,425</u>	<u>0</u>	<u>0</u>	<u>671,411</u>
Unrestricted Members' Equity 12/31/17	<u>(\$84,396)</u>	<u>\$40,387</u>	<u>(\$27,787)</u>	<u>(\$1,117,570)</u>	<u>(\$1,131,970)</u>	<u>(\$2,321,335)</u>

* Although the cumulative unrestricted members' equity for the fiscal years 1982-2013 at December 31, 2017 was (\$84,396), only the 2007 fiscal year had a members' equity deficit of \$253,090.

STATEMENT OF EXAMINERS' CHANGES IN MEMBERS' EQUITY
DECEMBER 31, 2017

	Amount Per <u>Association</u>	Amount Per <u>Examiner</u>	Increase (Decrease) <u>Members' Equity</u>
<u>Assets:</u>			
Premiums receivable	\$0	\$196,691	\$196,691
Prepaid administrative fees	28,536	1,800	(26,736)
Prepaid service agent's fees	21,402	8,024	(13,378)
<u>Liabilities:</u>			
Contingency reserve	1,006,813	1,010,047	(3,234)
Excess insurance premiums payable	0	3,945	(3,945)
Premium refunds payable	0	101,165	(101,165)
Taxes, licenses and fees payable	100,000	110,689	(10,689)
Examiners changes in members' equity			<u>\$37,544</u>
Restricted and unrestricted members' equity per Association			(\$2,099,225)
Restricted and unrestricted members' equity per Examiners			<u>(2,061,681)</u>
Increase in restricted and unrestricted members' equity			<u>\$37,544</u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

1. The results of this examination reflect an unrestricted members' equity deficit for the 2007, 2015, 2016, and 2017 fiscal years of \$253,090, \$27,787, \$1,117,569, and \$1,131,970, respectively.

The Board is reminded of its responsibility to assure that the Association is financially sound and able to fulfill its obligations under the Virginia Workers' Compensation Act. The Board must recognize the Association's financial condition and take necessary steps, which may include assessments, to eliminate all deficits.

Accounts and Records

2. Taxes, licenses and fees payable \$110,689

The above liability is \$10,689 more than the amount reported by the Association in its 2017 Annual Statement. The Examiners' amount was based on a review of invoices paid in 2018 for taxes pertaining to 2017.

Payroll Audit Changes

The adjustments in the following recommendations were determined by utilizing each member's final 2017 fiscal year payrolls which were not fully completed until after the Association's 2017 Annual Statement filing to the Bureau.

3. Premiums receivable \$196,691
Premium refunds payable \$101,165

The above amounts are \$196,691 and \$101,165 more, respectively, than the amounts reported by the Association in its 2017 Annual Statement. The Examiners' amounts are based on subsequent 2017 member payroll audits and reflect differences between audited contributions and contributions paid at December 31, 2017.

4. <u>Prepaid administrative fees</u>	<u>\$1,800</u>
<u>Prepaid service agent's fees</u>	<u>\$8,024</u>

The above amounts are \$26,736 and \$13,378 less, respectively, than the amounts reported by the Association in its 2017 Annual Statement. The Examiners' amounts are based on the actual fees paid compared to the fees required by the agreements at December 31, 2017.

5. <u>Contingency reserve</u>	<u>\$1,010,047</u>
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The above liability is \$3,234 more than the amount reported by the Association in its 2017 Annual Statement. The Examiners' change is a result of an increase in earned premium based on a review of subsequent 2017 member payroll audits, which is the basis for the calculation of the contingency reserve.

6. <u>Excess insurance premiums payable</u>	<u>\$3,945</u>
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The above liability has been established by the Examiners. The Examiners' amount reflects an increase in the modified normal premium, as defined by the excess insurer, and developed from subsequent 2017 member payroll audits, which is the basis for computing excess insurance premiums.

SUBSEQUENT EVENT

On September 20, 2018, the Bureau approved dividends for the Association totaling \$302,699.

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, Gerald Hicks participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Benjamin MacKercher". The signature is fluid and cursive, with a long horizontal stroke at the end.

Benjamin MacKercher
Insurance Examiner

WOOD PRODUCTS OF VIRGINIA GROUP SELF INSURANCE ASSOCIATION

Administered By
SELF INSURANCE SERVICES, LLC
COST CONTROL THROUGH SERVICE

March 1, 2019

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

Dear Mr. Smith:

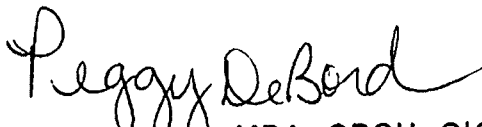
Enclosed are the responses to your recommendations for corrective action for Wood Products of Virginia Group Self Insurance Association during the examination period January 1, 2014 through December 31, 2017.

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

Sincerely,



George R. Harris
Chairman
Members' Supervisory Board
Wood Products of Virginia Group
Self Insurance Association



Peggy DeBord, MBA, CPCU, CIC
Administrator
Wood Products of Virginia Group
Self Insurance Association

Enclosures

Wood Products of Virginia 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 audit information not available at the time the financial statement was filed.

Payroll Audit Changes

3. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent payroll audit information not available at the time the financial statement was filed.
4. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent payroll audit information not available at the time the financial statement was filed.
5. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent payroll audit information not available at the time the financial statement was filed.
6. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent payroll audit information not available at the time the financial statement was filed.