



# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

### ORDER ADOPTING REPORT OF EXAMINATION

I, Andrew N. Mais, Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of Workers' Compensation Trust, (the Trust) as of December 31, 2018, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions.

#### **TO WIT:**

1. I, Andrew N. Mais, Insurance Commissioner of the State of Connecticut, and as such is charged with the duty of administering and enforcing the provisions of Title 38a of the Connecticut General Statutes ("C.G.S.").
2. The Trust is a domestic insurer authorized to transact the business of insurance in the State of Connecticut.
3. On February 13, 2020, the verified Report of the Trust was filed with the Connecticut Insurance Department (the "Department").
4. In accordance with C.G.S. §38a-14(e)(3), the Trust was afforded a period of thirty (30) days within which to submit to the Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On March 17, 2020, the Trust filed a written submission indicating that they were in agreement with all of the recommendations contained in the Report. A copy of the Report is attached hereto and incorporated herein as Exhibit A.

**NOW, THEREFORE,** it is ordered as follows:

1. That the Report of the Trust hereby is adopted as filed with the Department.
2. That the Trust shall comply with the recommendations set forth in the Report, and that failure by the Trust to so comply shall result in sanctions or administrative action as provided by Title 38a of the C.G.S.
3. Section 38a-14(e)(4)(A) of the CGS requires that:

"The secretary of the Board of Directors or similar governing body of the entity shall provide a copy of the report or summary to each director and shall certify to the Commissioner, in writing, that a copy of the report or summary has been provided to each director. "

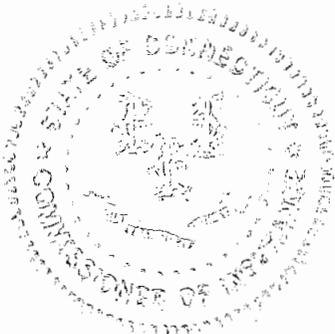
Please address the certification to the Commissioner, but send said certification to the care/attention of Mark Murphy, Supervising Examiner, of the Financial Regulation Division.

4. Section 38a-14(e)(4)(B) of the CGS requires that:

"Not later than one hundred twenty days after receiving the report or summary the chief executive officer or the chief financial officer of the entity examined shall present the report of summary to the entity's Board of Directors or similar governing body at a regular or special meeting. "

This will be verified by the Insurance Department either through analysis or examination follow-up.

Dated at Hartford, Connecticut, this 17<sup>th</sup> day of March, 2020.



A handwritten signature in black ink, appearing to read "A. N. Mais".

Andrew N. Mais  
Insurance Commissioner

EXHIBIT A

EXAMINATION REPORT OF

WORKERS' COMPENSATION TRUST

AS OF

DECEMBER 31, 2018

BY THE

CONNECTICUT INSURANCE DEPARTMENT



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February 7, 2020

The Honorable Andrew M. Mais  
Commissioner of Insurance  
State of Connecticut Insurance Department  
153 Market Street  
Hartford, Connecticut 06103

Dear Commissioner Mais:

In compliance with your instructions and pursuant to the requirements of Section 38a-14 of the General Statutes of the State of Connecticut (CGS), the undersigned has made a financial examination of the condition and affairs of

### **WORKERS' COMPENSATION TRUST**

(hereinafter referred to as the Company or the Trust ), organized under the laws of the State of Connecticut and having its statutory home office and administrative office located at 47 Barnes Industrial Road South, Wallingford, Connecticut. The report on such examination is submitted herewith.

### **SCOPE OF EXAMINATION**

The previous examination of the Trust was conducted as of December 31, 2013. The current examination which covers the subsequent five-year period was conducted at the home office of the Trust.

As part of the examination planning procedures, the Financial Regulation Division of the Connecticut Insurance Department (the Department) reviewed the following materials submitted by the Trust:

- Board of Trustees (Board) and committee minutes from 2014 through the latest 2019 meetings;
- Statutory Audit reports from 2014 through 2018, completed by the Company's independent certified public accountants, Crowe LLP (Crowe) (formerly Saslow Lufkin & Buggy, LLP);
- Generally Accepted Accounting Principles (GAAP) audited financial statements with GAAP to statutory reconciliations from 2014 through 2018 completed by Crowe;
- Statements of Actuarial Opinion from 2014 through 2018; and
- Annual Reports from 2014 through 2018.

A comprehensive review was made of the financial analysis files and documents submitted to the Financial Analysis Unit of the Department. There were no Examination Jumpstart or Solvency Tracking System reports from the National Association of Insurance Commissioners (NAIC) database since the Trust does not submit an electronic filing to the NAIC.

Work papers prepared by Crowe in connection with its annual audit of the Trust for the year ended December 31, 2018, were reviewed and relied upon to the extent deemed appropriate.

## WORKERS' COMPENSATION TRUST

The examination was conducted on a full scope, comprehensive basis in accordance with the procedures outlined in the NAIC Financial Condition Examiners Handbook (the Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Trust by obtaining information about the Trust, including corporate governance, identifying inherent risks within the Trust and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management compliance with the NAIC Accounting Practices & Procedures Manual and the NAIC Property and Casualty Annual Statement Instructions.

All accounts and activities of the Trust were considered in accordance with the risk focused examination process.

Comments in this report are generally limited to exceptions noted or to items considered to be of a material nature.

Failure of items in this report to add to totals or for totals to agree with captioned amounts is due to rounding.

### HISTORY

The Trust (formerly known as Connecticut Hospital Association Workers' Compensation Trust and Connecticut Healthcare Workers' Compensation Trust) was established in 1981 to provide workers' compensation coverage to healthcare employers, as an alternative to the traditional insurance marketplace. The Trust was formed as an Employers' Mutual Insurance Association under CGS. § 31-328 of the Workers' Compensation Act and is subject to authorization by the Department and the Workers' Compensation Commission. The Trust writes only workers' compensation insurance within the State of Connecticut.

In 2002, the Trust formed Workers' Compensation Trust Services, LLC (LLC). The LLC provides claims and other insurance services to the Trust and third party administrative services to other entities on a fee for service basis.

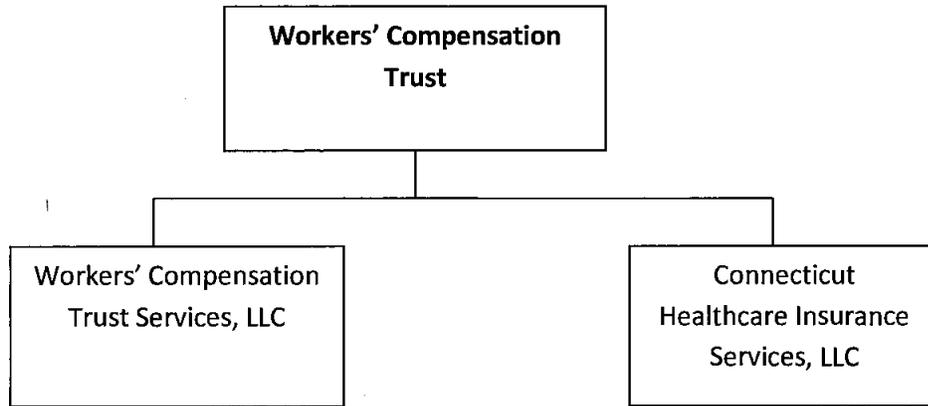
In 2003, the Trust formed Connecticut Healthcare Insurance Services, LLC (CHIS), to operate as an insurance agency. The LLC and CHIS are wholly owned subsidiaries of the Trust with their financial statements consolidated into the Trust's financial statements.

In 2006, the Trust successfully sought a legislative change which resulted in the passage of Public Act No. 07-27, "An Act Requiring the Use of GAAP for Certain Audits". The Act repealed Section 1 of Section 31-331 of the general statutes to allow the use of GAAP accounting for financial reporting. The reporting requirement became effective with the December 31, 2007, Annual Statement filing. Annually, the Trust prepares a GAAP audited financial statement with a GAAP to statutory accounting reconciliation for the Department.

## WORKERS' COMPENSATION TRUST

### ORGANIZATIONAL CHART

The following is an organizational chart as of December 31, 2018, of the Trust and its affiliated companies:



### MANAGEMENT AND CONTROL

The Declaration of Trust (Declaration) provides for a Board to govern the Trust with full authority on behalf of the members with respect to all affairs and business of the Trust. The Board may appoint standing or special committees of the Trust and delegate its duties to such committees. The Declaration states the following:

1. The Board shall consist of up to twelve (12) directors.
2. At the last or annual meeting of each fiscal year, the directors shall elect a Chairman, Vice-Chairman, Treasurer and Secretary from among their number to serve as officers for the next year.
3. At any meetings of the members, the presence of representatives of one-fourth (1/4) of the members shall constitute a quorum for the transaction of business.
4. At any meetings of the directors, the presence of the majority of the directors shall constitute a quorum for the transaction of business.

The Declaration allows for an Executive Committee which is comprised of the immediate past Chairman and the officers of the Board, which consists of a Chair, Vice-Chair, Secretary, and Treasurer. The Declaration does not require the existence of any other committees. During the period under examination, the Trust did have the following additional committees:

Audit and Finance Committee – oversees the general financial status of the Trust, including oversight of all financial operations of the Trust, including premium collection, financial transactions, financial statements, budget, reserves, and the investment portfolio.

## WORKERS' COMPENSATION TRUST

Nominating Committee – recommends to the Board, all director and officer nominations, appointments and re-appointments.

Retreat Program Committee – develops the annual retreat program and determines the venue of such meeting.

Safety & Health Committee – meets quarterly in compliance with the workers' compensation statutes for employers with over 25 employees. The Committee consists of various staff members representing different areas of the building.

Underwriting Committee - (now called the Sales meeting) - meets weekly as long as there is new business to discuss. The group consists of the chief executive officer, Vice President Finance, Vice President Sales, Vice President Loss Control, Underwriter, Account Executive and the Marketing Consultant. The purpose of the meeting is to review new business submissions to determine if the Trust should pre-underwrite or price it. No minutes are kept but rather accounts are discussed until they have either written the business or closed out the potential.

401K Committee – Meets twice a year in compliance with statutory requirements. Reviews program, investment platforms, investment results, educational offerings, etc.

The purpose of the Trust is to provide workers' compensation benefits to members' injured employees. The liability of the Trust to members' employees is specifically limited to such obligations as imposed by Connecticut law or regulation against the member for workers' compensation and/or employers' liability. Payments of these obligations provided through an arrangement whereby the members shall pay appropriate premiums to the Trust, as determined by the directors, shall be sufficient to pay such obligations and expenses of administration and other expenses incurred by the Trust.

The Trust members participate in the Company's operational results. If the operation of the Trust produces income, premium returns are paid to the policyholders. If the operation of the Trust produces a deficit, policyholders may be assessed a retroactive premium.

The Trust consists of members who are each defined as a healthcare employer which agrees to or adopts and subscribes to the Declaration, provided such employer satisfies the requirements for enrollment and abides by the Declaration.

The members shall be individually and jointly responsible and liable for all benefits and related expenses that are to be paid by the Trust for the year(s) that the member participates. Should the member's collective aggregate losses during any policy year exceed the member's premium and investment income, the additional payments shall be made first from the retained earnings funds and then from the Premium Return Reserves and finally, from the members in accordance with the recommendation of the Board. This responsibility continues until the policy year is closed in accordance with procedures, regardless of the status of the membership at that time.

## WORKERS' COMPENSATION TRUST

### Directors

The following Directors served on the Board as of December 31, 2018:

<u>Director</u>	<u>Title and Principal Business Affiliation</u>
William R. Horrigan	Retired, Ambulance Professional
Heather LaTorra	President and Chief Executive Officer Marrakech, Inc.
Keith E. Lavalette Vice Chairman	Vice President, Programs Goodwill Industries of Southern Connecticut
Joseph M. Milke Treasurer	Vice President, Finance and Administration Klingberg Family Centers
Christine Murray	Chief Financial Officer New Horizons, Inc.
Diane M. Ritucci Secretary	President and Chief Executive Officer Workers' Compensation Trust
Russell C. Schwartz	Vice President and Director of Operations Brookview Corporation
Charles F. Shelton, Jr.	President Branford Hills Healthcare Center
David H. Tompkins Chairman	Vice President, Program Services Klingberg Family Centers
W. Rennard Wieland	President Connecticut In-Home Assistance, LLC

### RELATED PARTIES

Effective October 2013, the Trust declared that it would operate CHIS as a limited liability company organized to engage in any lawful act or activity as decided by the Trust. Services include but are not limited to agency and marketing services.

Effective October 2013, the Trust declared that it would operate LLC as a limited liability company organized to engage in any lawful act or activity as decided by the Trust. Services include but are not limited to administration, claims administration, loss control, underwriting and managed care services.

## WORKERS' COMPENSATION TRUST

### INSURANCE COVERAGE

The Trust is insured by a fiduciary liability and bond policy issued by the Travelers and Surety Company of America. The coverage includes both a fiduciary liability coverage of \$2 million for all claims and bond coverage for \$2 million single loss limit of liability, with a single loss deductible of \$10,000. These policy limits exceed the suggested minimum limits of insurance pursuant to the Handbook.

### TERRITORY AND PLAN OF OPERATION

The Trust transacts business in the state of Connecticut only. Business is primarily written by external agents although some of the older policies were written on a direct basis.

### REINSURANCE

The Trust entered into an excess of loss reinsurance contract to control its exposure to large losses.

As of December 31, 2018, the excess of loss insurance contract provided coverage for workers' compensation losses and employers' liability losses in excess of the Trust's retention of \$750,000. The policy year determines which carrier and the amount of the retention before the claim is reimbursed by the excess carrier. The limits for workers' compensation losses are limited to the benefits which would be available under the workers' compensation laws of the state where the injured employee is normally employed. The limits for employers' liability are \$2.5 million per occurrence.

### INFORMATION TECHNOLOGY CONTROLS

An evaluation of information technology (IT) controls was conducted in accordance with NAIC requirements as outlined in the Handbook's Exhibit C Part One - Information Technology Planning Questionnaire (ITPQ), Part Two - Information Technology Work Program (Work Program) and the 6 step process contained in the Handbook. The NAIC's guidance for conducting an IT review for a small company or a company with a non-complex IT environment influenced the decision to perform a reduced scope examination, limiting reliance on controls.

The Trust's responses to the ITPQ provided familiarity with the existing controls, policies and procedures established by the Trust's IT area provided direction in the development of the work program and the subsequent review of the Trust's IT general controls.

The primary objective of this review was to determine if the general controls for the Trust's current and prospective environment were designed effectively and working as intended. Although the review was limited in scope, consideration was given to procedures in effect during 2018, as well as any control procedures implemented since the previous examination. The review was conducted to evaluate the reasonableness of the existing IT controls, policies and procedures, as well as maintenance and enforcement of said policies.

The Company's financially significant systems considered during the examination included the claim processing system (Pyramid) and the Policy Administration System (CDS). Since the prior exam, the claims system was converted to CDS. The underlying application for both

## WORKERS' COMPENSATION TRUST

claims processing and policy administration, disaster recovery processes, vendors and off site facilities have remained unchanged since the prior review.

No significant findings were noted during the review that would represent a substantial increase in risk surrounding the IT control structure.

### ACCOUNTS AND RECORDS

The Company utilizes the Microsoft Dynamics SL system (formerly known as Solomon) to produce its monthly trial balance and general ledger. The 2018 year-end trial balance was reconciled to the 2018 Annual Statement without exception. Further detail analyses were performed on individual general ledger accounts, as well as on the GAAP to statutory reconciliation and adjustments throughout the examination.

### FINANCIAL STATEMENTS

The following statements represent the Company's financial position, as filed by the Company, as of December 31, 2018. As a result of the examination, there were no adjustments made to the fund balance.

### ASSETS

	Ledger Assets	Non admitted Assets	Net Admitted Assets
Investments, available for sale, at fair value	\$165,427,035		\$165,427,035
Cash and cash equivalents	16,887,519		16,887,519
Premiums due from members, net	16,141,062	\$123,814	16,017,248
Paid loss recoverables	598,494		598,494
Property, equipment, and leasehold improvements, net	3,327,192	209,490	3,117,702
Deferred tax asset	4,029,033	1,969,577	2,059,456
Other assets	920,488	189,691	730,797
Total assets	<u>\$207,330,823</u>	<u>\$2,492,572</u>	<u>\$204,838,251</u>

WORKERS' COMPENSATION TRUST

LIABILITIES AND FUND BALANCE

Unpaid losses and loss adjustment expenses	\$126,166,979
Unearned premiums	16,303,602
Premium returns, net	21,876,924
Advanced premiums and deferred income	799,085
Federal income taxes payable	1,979,134
Advanced premiums and deferred income	799,085
Accounts payable and accrued liabilities	6,051,747
Total liabilities	<u>173,177,471</u>
Fund balance:	
Retained earnings	<u>31,660,780</u>
Total fund balance	31,660,780
Total liabilities and fund balance	<u>\$204,838,251</u>

STATEMENT OF INCOME

Revenues:	
Net earned premium	\$45,901,090
Realized gain/(loss) on sale of investments	120,359
Investment income	8,202,949
Other income	1,188,853
Total revenues	<u>55,413,251</u>
Losses and expenses:	
Losses and loss adjustment expenses incurred	28,915,521
Second injury fund assessments	1,331,848
Salaries and benefit expenses	6,228,980
Commission to brokers and agents	2,860,105
Professional fees	423,231
General and administrative expense	<u>2,638,292</u>
Total losses and expenses	<u>42,397,977</u>
Net income before provision for federal income taxes	<u>13,015,274</u>
Provision for federal income taxes	3,192,397
Net income	<u>\$9,822,877</u>

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UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES (LAE) \$126,166,979

The following items were included in the captioned account (statutory accounting basis, net of excess insurance, discounted where permitted by the Department):

Case Loss and DCCE Reserve	\$26,677,830
IBNR Loss and DCCE Reserve	87,786,301
State Assessment Reserve	3,690,908
Unallocated Loss Reserve	<u>8,011,940</u>
Total	<u>\$126,166,979</u>

The Department's actuaries performed a review of reserving, pricing and underwriting risk. No material issues were noted during the review of reserving and pricing and underwriting risks.

RETAINED EARNINGS \$31,660,780

During the period under examination, the Trust's retained earnings increased by \$18 million. The majority of the increase was attributed to the Trust's investment return and the reduction in paid loss and loss adjustment expenses over the examination period.

CONCLUSION

The results of this examination disclosed that as of December 31, 2018, the Trust had admitted assets of \$204,838,251, liabilities of \$173,177,471, and a fund balance of \$31,660,780. During the period under examination, admitted assets increased \$51,785,095, liabilities increased \$32,507,664, and the fund balance increased \$19,277,431.

WORKERS' COMPENSATION TRUST

SIGNATURE

In addition to the undersigned, the following members of the Department participated in the examination: Cecilia Arnold, CFE; Edna Bosley; Michael Daniels, CFE; Amy Waldhauer, FCAS, MAAA; Wanchin Chou, FCAS, MAAA, CPCU, CSPA; Joseph Marcantonio, AFE, CISA, AES; and Mark Murphy, CFE.

I, Wayne Shepherd, CFE, do solemnly swear that the foregoing report on examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2018, to the best of my information, knowledge and belief.

Respectfully submitted,

Wayne Shepherd.  
Wayne Shepherd, CFE  
Examiner-In-Charge  
State of Connecticut  
Insurance Department

State of Connecticut

ss. Hartford

County of Hartford

Subscribed and sworn to before me, Nancy M. Mercier  
Notary Public on this 13<sup>th</sup> day of February, 2020.

Nancy M. Mercier  
Notary Public  
My commission expires June 30, 2020