REPORT ON EXAMINATION

of the

WORKERS' COMPENSATION SELF-INSURANCE GROUP FUND

of the

TENNESSEE AUTOMOTIVE ASSOCIATION SELF-INSURERS TRUST

2521 WHITE AVENUE
NASHVILLE, TENNESSEE

as of

DECEMBER 31, 2007

RECEIVED
OCT 19 2009
Dept. of Commerce & Insurance
Company Examinations

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

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Nashville, Tennessee
October 16, 2009

Honorable Leslie A. Newman
Commissioner
State of Tennessee
Department of Commerce and Insurance
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tennessee Insurance Laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination and market conduct review was made of the condition and affairs of the

WORKERS' COMPENSATION SELF-INSURANCE GROUP FUND

Of the

TENNESSEE AUTOMOTIVE ASSOCIATION SELF-INSURERS TRUST

2521 WHITE AVENUE
NASHVILLE, TENNESSEE 37204

hereinafter and generally referred to as the "Fund" and "Trust" respectively, and a report thereon is submitted as follows:

INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee on January 28, 2008 in accordance with Tenn. Code Ann. § 50-6-405 and Tenn. Comp. R. & Regs. 0780-1-54-.20. On-site examination work commenced on September 22, 2008. The examination was performed by duly authorized representatives of the Department of Commerce and Insurance, State of Tennessee ("TDCI").

With the Trust having authority to write business only in the State of Tennessee, the examination was not classified as an Association Examination under NAIC Guidelines.

SCOPE OF EXAMINATION

This examination report covers the period from January 1, 1996 to the close of business on December 31, 2007, and includes any material transactions and/or events occurring

subsequent to the examination date and noted during the course of the examination.

The examination of the financial condition was conducted in accordance with guidelines and procedures contained in the NAIC Financial Condition Examiners Handbook. During the course of examination, assets were verified and valued and liabilities were determined and estimated as of December 31, 2007. The financial condition of the Trust and its amount of solvency were thereby established. Test checks were made of income and disbursement items for selected periods, and a general review was made of the Trust's operations, practices, and compliance with applicable statutes and regulations. All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amount and potential impact on solvency.

In addition, the following topics were reviewed:

History and Organization
Trust Agreement and Declaration of Trust and Bylaws
Indemnity Agreement
Management and Control
Corporate Records
Management Agreements
Fidelity Bonds and Other Insurance
Statutory Deposits
Market Conduct Activities
Excess of Loss Insurance
Loss Experience
Accounts and Records
Pecuniary Interest
Dividends/Refunds or Distributions
Litigation and Contingent Liabilities
Subsequent Events
Financial Statement

The previous examination was conducted as of December 31, 1995 by authorized representatives of the TDCI. The previous examination resulted in no recommendations and therefore; no directives were issued by the TDCI.

HISTORY AND ORGANIZATION

The Tennessee Automotive Association ("TAA") is a Tennessee non profit trade association of automobile and truck dealers which was incorporated in 1945. The TAA has been a viable, continuing entity since its inception. The Trust is an unincorporated association that was created by the TAA to act as a self-insurance group. The operation of the Trust is confined to Tennessee where it is licensed to transact the business of workers' compensation and employers' liability group self-insurance.

Membership in the Trust is composed of qualifying members of the TAA that have pooled their liabilities under the Tennessee Workers' Compensation Law.

The Fund was created on December 17, 1990 with contributions from the initial members equal to 25% of their first year estimated annual net premium for workers' compensation coverage (in accordance with Tenn. Comp. R. & Regs. ch. 0780-1-54-.04). The Trust continues to maintain the members' deposits and new members in the Trust are also required to make a contribution equal to 25% of their first year estimated annual net premium.

At December 31, 2007, the Trust was licensed in one state, Tennessee.

The following exhibit depicts certain aspects of the growth and financial history of the Trust since the previous examination, according to financial statements filed with the TDCI.

Fund Year	Members	Net Premium Revenue	Total Expenses	Assets	Equity*
1996	200**	$7,500,188	$3,550,252	$13,423,034	$10,002,959
1997	192	4,891,639	3,007,473	13,137,132	9,816,083
1998	184	4,056,573	2,253,615	9,922,364	7,225,213
1999	187	3,816,833	2,640,879	9,344,989	6,216,539
2000	194	3,926,594	2,045,833	9,402,250	7,029,812
***2001	221	4,701,590	5,257,164	10,499,331	5,913,822
2002	280	6,117,991	4,889,286	11,853,292	6,331,750
2003	311	7,314,443	5,745,647	13,682,298	7,170,554
2004	324	7,876,246	6,600,197	13,802,265	7,216,117
2005	331	8,570,544	6,970,210	14,629,946	7,655,235
2006	346	8,635,205	6,857,132	16,159,535	8,514,447
2007	332	9,032,437	8,017,169	16,954,804	8,630,951

* Includes members' deposits (contributions) and distributions due to members (undistributed earnings)

** Estimated membership for 1996 year

*** The 2001 fund year financials reflected above do not take into account the specific changes in the Internal Revenue Code which resulted in a $530,000 income tax refund to the Trust. The subsequent changes produced an operating

profit on a claim year basis for the 2001 claim year.

TRUST AGREEMENT AND DECLARATION OF TRUST AND BYLAWS

The Trust was created through the adoption of the Declaration of Trust and Bylaws which was executed on December 17, 1990 and formally approved by the TDCI effective January 1, 1991. The Trust was formed to act as a workers compensation self-insurance group as defined by Tenn. Comp. R. & Regs. ch. 0780-1-54-.02 and as authorized by Tenn. Code Ann. § 50-6-405. The Trust Agreement and Bylaws state the purpose of the Trust as follows:

> "of holding and administering the Fund through which its Members can meet and fulfill their obligations and liabilities under the Tennessee Workers' Compensation Act; to form a workers' compensation self-insurance group pursuant to the Act to provide for workers' compensation coverage and for benefits to employees of its Members; to provide the maximum allowable advance discounts or dividends on premium payments made by Members for workers' compensation coverage; and to minimize the cost of providing workers' compensation coverage by developing and refining specialized claim services and a loss prevention program within TAA."

The Trust is an association which is owned by its Members. Membership in the Trust consists of individuals, corporations and partnerships or other legal entities which are members in good standing of the Tennessee Automotive Association (TAA) and which contribute to the Fund as a participating member in the Trust. The term Members includes those individuals, corporations and partnerships executing, or otherwise being bound by, the Indemnity Agreement and Power of Attorney.

The principal office of the Trust was established as follows:

2521 White Avenue
Nashville, Tennessee 37204

INDEMNITY AGREEMENT

In accordance with Tenn. Comp. R. & Regs. 0780-1-54-.04(2)(e)2., each member is required to execute and be bound by an indemnity agreement as a condition of membership in the Trust. Significant terms that each member agrees to include the following:

> To assume, pay and discharge any liability of the self-insurance programs of the Group of any and all members, and each member agrees to pay contributions and such assessments as may be required. Without limiting any other rights of the Group, the TDCI shall have the right to enforce, on behalf of the Group, the

joint and several liability of the members under this agreement and liability in the event of the Group's failure to enforce such obligations of the members. Provided, the Group's Board of Trustees shall use best efforts, in the event assessments require the performance of the members' joint and several obligations hereunder, to impose such assessments in an equitable manner against all members.

The members intend for this agreement as a mutual covenant of assumption of joint and several liability, provided, however, the relationship of the members with each other and the Group shall not be deemed to form or operate as a partnership for any other purpose except that for which the Group is organized and operated.

The Board may admit as members of the Group only acceptable and financially sound entities. Except as otherwise provided by the Regulations, the Board shall, subject to the approval by the State Department of Commerce and Insurance, be the sole judge of whether an applying entity shall be admitted to membership and the eligibility of an entity to remain a member.

The Board will promulgate the rules and regulations for administering the Group, the expulsion of or suspension of members and, subject to the Regulations, the admission of members. Each member of the Group agrees to abide by such rules and regulations.

MANAGEMENT AND CONTROL

The operation and administration of the Trust is the joint responsibility of a Board of Trustees consisting of not more than 15 nor less than five (5) individuals. All Trustees are required to be residents of the State of Tennessee or officers of corporations authorized to do business in the State of Tennessee which is in accordance with Tenn. Comp. R. & Regs. 0780-1-54-.06. At least two-thirds of the Trustees are required to be employees, officers or directors of members of the Trust. No affiliate of the administrator or the service agent shall serve as a Trustee. The Board of Trustees shall elect officers from among its members to serve for terms of one year. The officers of the Trust shall consist of a Chairman, a Vice-Chairman, and a Secretary.

At December 31, 2007 the following persons were serving as members of the Board of Trustees:

Name	Business/Occupation and Address
Herb Adcox Chairman, Board of Trustees	Herb Adcox Chevrolet 5721 Lee Highway Chattanooga, TN 37421
Doug Alley Secretary	Alley's of Kingsport, Inc. 2761 East Stone Drive Kingsport, TN 37660
Russell Gwatney Vice-Chairman	Saturn of Memphis 2420 Covington Pike Memphis, TN 38128
Stan McNabb	Stan McNabb Chev-Olds-Cadillac P.O. Box 730 Tullahoma, TN 37388
John Murrey	Murrey Chevrolet, Inc. P.O. Box 574 Pulaski, TN 38478
Dennis Hansen (ex-officio member)	Hansen Chrysler-Jeep 1030 Charlotte Avenue Nashville, TN 37203

The initial Board of Trustees was empowered by the Declaration of Trust and Bylaws and served until the first meeting of the members of the Trust. Thereafter, the Trustees shall be elected by the members of the Trust. Each Trustee shall serve for a term of five (5) years. A Trustee may resign and be fully discharged from all further duties or responsibilities by giving at least thirty days prior written notice to the Chairman of the Board of Trustees. A Trustee may be removed, with or without cause, by a majority vote of all Trustees. If a Trustee dies, becomes incapacitated, refuses to act, resigns or is removed, his successor shall be appointed by the remaining Trustees to fill the unexpired term of office, such appointment to be subject to confirmation by the Members at their next regularly scheduled meeting. Responsibilities of the Trustees as stated in the Bylaws include the following:

- The Trustees shall be responsible for all monies collected or disbursed by the Trust and for the segregation of all monies into the claims fund account and the administrative fund account.

- The Trustees shall receive applications for membership from prospective new members of the Trust and shall approve or disapprove such applications in

accordance with rules promulgated by the Trustees.

- The Trustees shall be responsible for establishing such trusts, loss funds, or other funds as may be required from time to time by the Rules or as may be established by the Trustees from time to time.

- The Trustees shall be responsible for and shall undertake the posting of such security deposits and/or security bonds as may be required to be posted with the TDCI.

- The Trustees shall be responsible for and shall cause to be filed with the TDCI and elsewhere such annual or other periodic audits, reports, disclosures as may be required from time to time by applicable federal or state statutes or governmental regulations.

- The Trustees shall take all necessary precautions to safeguard the Fund and the other assets of the Trust including designating the administrator and the service agent of the Fund.

Certain services are purchased from outside contractors if needed. Such services include actuarial analysis and independent audit.

Actuarial Services:	J. Edward Costner, ACAS, MAAA Casualty Actuarial Consultants, Inc. 7101 Executive Center Drive Suite 225 Brentwood, TN 37027
Auditing Services:	Lattimore, Black, Morgan & Cain, P.C. LBMC Financial Center 5250 Virginia Way Brentwood, TN 37024-1869
Claims Processing Services:	Brentwood Services Administrators, Inc. P. O. Box 1125 104 Continental Place, Suite 200 Brentwood, TN 37024-1125
Premium Auditing Services:	Tracz & Associates P. O. Box 429 Worth, IL 60482-0429

CORPORATE RECORDS

The members of the Board of Trustees shall meet quarterly or as often as required at the principal office of the Trust or at such other location as may be acceptable to the Trustees. Special meetings of the Trustees may be called at any time and may be by telephone conference calls or other methods of communication by which all Trustees participating may simultaneously hear each other. The Members of the Trust shall meet annually on the first Tuesday in May of each year at the offices of the Trust or at such other place and time as may be determined by the Board of Trustees. During the period under examination there were 48 regular and special meetings of the Board of Trustees and 12 meetings of the members of the Trust. The minutes of the meetings were reviewed and appear to reflect properly the acts of the respective bodies. Membership requirements, powers and duties of board members and Trust members were verified to be in accordance with the Rules of the TDCI.

MANAGEMENT AGREEMENTS

Administrative Agreement:

On December 17, 1990, an administration agreement was reached between Tennessee Automotive Association Service Company (the Administrator) and the Trust. The Board of Trustees of the Trust has engaged the Administrator to act as the administrator of the Trust within the meaning of Tenn. Comp. R. & Regs. 0780-1-54-.02(1), to carry out the policies established by the Board of Trustees and provide day-to-day management of the Trust, to the extent such functions are not performed by the service agent. The Administrator shall provide the following services for the Trust:

- Maintaining in effect the certificate of approval issued to the Trust by the Department of Commerce and Insurance
- Maintaining the accounting books and records
- Preparing all reports
- Providing all clerical, secretarial and administrative support
- Receiving the premiums paid by the members
- Depositing the premiums in the claims fund account
- Administering and investing the claims fund and the administrative fund
- Preparing an annual budget and paying for reasonable expenses
- Negotiating on behalf of the Trust with the service company.

The Administrator shall be paid monthly by the Trust. This fee shall be based on a percent of the earned normal premium, defined as the gross premiums accrued by the Trust, plus or minus experience modifications. The amount charged by the Administrator shall be approved by the Board of Trustees of the Trust.

The Administrator shall furnish to the Board of Trustees of the Trust audited financial statements on or before 120 days after the end of the fiscal year and unaudited financial statements for each quarter on or before 45 days after the end of each fiscal quarter. These reports shall include known claims and expenses, claims incurred but not reported, unearned premiums, and bad debts.

This agreement became effective on the date the Trust received a Certificate of Approval from the Commissioner and shall continue in force until terminated as hereafter provided. The Agreement was filed with the TDCI as part of the license process. The Trust may terminate the agreement without cause upon 60 days written notice or with cause immediately upon written notice to the Administrator. The Administrator may terminate the Agreement without cause upon 120 days written notice or with cause 30 days written notice.

Claim Processing Agreement:

Effective November 1, 1997, the Trust entered into an agreement with Brentwood Services Administrators, Inc. ("Brentwood") in order to obtain "Specified Third Party Administrator Services" in regards to claims processing and other related services. The Trust had contracted with PCA Solutions formerly known as Executive Risk Consultants, Inc. for the same type of services since January 1, 1991 before changing Third Party Administrators.

Tenn. Comp. R. & Regs. 0780-1-54.09(3) in effect on November 1, 1997, required the following:

> "All service companies must file a request for approval by the Commissioner and have a letter or certificate of approval from the commissioner prior to engaging in any service to self-insured pools or groups."

Brentwood Services Administrators, Inc. had been an approved service company for self-insured pools and groups dating back to April 1, 1992. Brentwood is currently licensed as a Third Party Administrator with the TDCI.

The agreement with Brentwood in effect as of the date of this examination was effective October 1, 2007 to remain in effect until October 1, 2010. The agreement shall be automatically renewed for consecutive one (1) month terms at the ending date unless written notice of termination is provided by one party to the other party 30 days prior to the ending date of the agreement or any one (1) month extension thereof, or a new agreement is entered into between the parties. Either party may terminate the agreement during its term by providing 120 days prior written notice of termination to the

other party.

The copy of the signed agreement on file with the TDCI is stamped received January 14, 2008.

Tenn. Comp. R. & Regs. 0780-1-54.05 requires:

> "Any amendments to the organizational documents or written contracts required to be provided to the Commissioner by Rule 0780-1-54-.04 shall be filed with the Commissioner with a non-refundable filing fee of ninety dollars ($90.00) no later than thirty (30) days prior to the proposed effective date of the amendments."

Further discussion is included under the caption, "Comments and Recommendations."

The agreement stipulates that Brentwood will provide the following services:

- Providing claims services
- Providing loss control services
- Providing marketing and marketing assistance services
- Providing account management services
- Hosting and maintaining the website www.taasit.com

Examples of claims services to be provided are:

- Service, review, investigate, adjust, process and/or resist workers' compensation claims presented against the Trust
- Establish claim reserves and provide continuous review and update as necessary
- Prepare loss reports for Trust management no less than 15 days following the last day of the previous calendar month
- Prepare, maintain and file any and all records and reports that my be required by any state regulatory agencies in connection with Brentwood's handling of claims as instructed by the Trust

Examples of loss control services to be provided are:

- Provide qualified loss control consultants to visit member employers
- Confer with management of member employers to review their current loss

control program and assist in modification if needed

- Perform site surveys for hazard identification and assist members by providing information on third party contractors experienced in industrial hygiene and OSHA compliance

Examples of marketing and marketing assistance services to be provided:

- Develop and implement a marketing plan with the Trust's assistance to promote and present to prospective members

Examples of account management services to be provided:

- Develop underwriting rules for member employers to obtain workers' compensation coverage through the Trust in accordance with Trust rules and excess insurance carrier(s)'s rules and guidelines

- Prepare member packets including contribution/payroll self-reporting forms

- Develop appropriate contribution amounts for each member using classification codes, rates, modifiers, etc. consistent with appropriate law

- Prepare a 17 line unaudited loss report and risk intervention program report for each Board of Trustee's meeting

The Trust agrees to pay to Brentwood a percent of earned normal premium on a monthly basis calculated in accordance with the formula exhibited in the Fee Schedule of the agreement. The Fee Schedule does make an allowance in the event that earned normal premium increases due to (a) the loss costs approved by the TDCI or (b) the value of any other component of the Tennessee premium calculation algorithm that is not a function of the Trust's loss cost multiplier or the experience of the participants of the Trust.

Medical Bill Review Services Agreement

Effective October 1, 2007, the Trust entered into an agreement with Brentwood for medical bill review. This agreement had the same renewal and termination terms as the above Claims Processing Agreement. Brentwood is to be paid a percentage of all savings derived from reductions to the medical provider's bill down to the fee schedule or usual and customary charges, as applicable, or resulting from the use of preferred provider organization savings.

The copy of the signed agreement on file with the TDCI is stamped received January 14, 2008.

Tenn. Comp. R. & Regs. 0780-1-54.05 requires:

> "Any amendments to the organizational documents or written contracts required to be provided to the Commissioner by Rule 0780-1-54-.04 shall be filed with the Commissioner with a non-refundable filing fee of ninety dollars ($90.00) no later than thirty (30) days prior to the proposed effective date of the amendments."

Further discussion is included under the caption, "Comments and Recommendations."

Medical Cost Containment Services Agreement

Effective October 1, 2007, the Trust entered into an agreement with Brentwood for medical cost containment services for larger medical expense claims or claims in which applicable law requires such services. This agreement had the same renewal and termination terms as the above Claims Processing Agreement and Medical Bill Review Services Agreement. Brentwood is paid a stated hourly rate depending on the service rendered. Examples of the services covered under this agreement range from Physician Review to On Site Case Management Time.

The copy of the signed agreement on file with the TDCI is stamped received January 14, 2008.

Tenn. Comp. R. & Regs. 0780-1-54.05 requires:

> "Any amendments to the organizational documents or written contracts required to be provided to the Commissioner by Rule 0780-1-54-.04 shall be filed with the Commissioner with a non-refundable filing fee of ninety dollars ($90.00) no later than thirty (30) days prior to the proposed effective date of the amendments."

Further discussion is included under the caption, "Comments and Recommendations."

Royalty Agreement:

Beginning January 1, 1992 and continuing through the period of examination, the Trust paid royalty fees to the TAA equal to a percentage of earned normal premium. Such fees were approved by the Board of Trustees to be paid to the Association for the use of the TAA trade name in the marketing efforts of the Trust.

The Royalty Agreement currently in use was entered into effective January 5, 2006 and was officially approved and signed by the TDCI on February 23, 2006.

Tenn. Comp. R. & Regs. 0780-1-54.16(2) states that:

> "A sponsoring association may require a pool to pay to the sponsoring association a royalty fee or fee for using its name or other services which may be provided by the sponsoring association to the pool. All fees paid to the

sponsoring association shall be approved by the Commissioner no later than thirty (30) days prior to the execution of any contract setting such fees between the pool and the sponsoring association."

Further discussion is under the caption, "Comments and Recommendations."

FIDELITY BOND AND OTHER INSURANCE

The Administrator maintains a fidelity bond with Travelers Casualty and Surety Company of America for employee coverage in the amount of $200,000. The regulation which applies to Self-Insured Workers' Compensation Pools was revised effective November, 2005 and Tenn. Comp. R. & Regs. 0780-1-54-.07(3)(b) and (c) exhibit the following requirements under the heading, Administrators:

- "Evidence that the applicant has obtained a fidelity bond in the amount of $200,000 written by a company licensed to transact business in this state, which may be obtained either by the administrator or the pool on the administrators' behalf;" (Also see Statutory Deposits, the Trust has additionally pledged $200,000 in securities)

- Evidence that the applicant has obtained an errors and omissions insurance for the protection of the pool in the amount of $200,000 written by company licensed to transact business in this state, unless waived by the Commissioner upon a showing of proof that the applicant is unable to obtain such coverage;"

The Trust maintains an Errors and Omissions policy with Indian Harbor Insurance Company in the amount of $1,000,000 each claim with $1,000,000 policy aggregate and a $25,000 deductible. This policy's definition of insured would include the Trustees and Members. The policy complies with Tenn. Comp. R. & Regs. 0780-1-54-04(2)(b)(5.) which requires each applicant for a certificate of authority to have in place an errors and omissions policy "for the board of trustees issued to protect the pool from damages, if any."

Brentwood Services Administrators, Inc. maintains certain insurance coverage as required under its "Agreement to Provide Specified Third Party Services" dated October 1, 2007. These include general liability, auto liability, workers' compensation, contractual liability and crime coverage. The various policies are issued by insurance companies within the Travelers umbrella of companies.

- The crime policy is issued by Fidelity and Deposit Company of Maryland and covers employee theft up to $5,000,000 with a $50,000 deductible.

- The workers compensation policy is issued by The Travelers Casualty and Surety Company with standard limits for both workers compensation and employers liability.

- The auto policy is issued by The Travelers Indemnity Company of America with a $1,000,000 liability limit for one accident or loss and standard limits for medical and uninsured motorist.

- The general liability policy is issued by The Charter Oak Fire Insurance Company with a $2,000,000 general aggregate and $1,000,000 each occurrence limit with a $1000 deductible for businessowners property coverage per occurrence and a $250 deductible for building glass per occurrence.

- The commercial excess liability (umbrella) policy is issued by The Travelers Indemnity Company with a $10,000,000 aggregate limit and a $5,000 retained limit per occurrence.

All of the above insurance companies are licensed in the State of Tennessee with the exception of Indian Harbor Insurance Company which operates as a surplus line carrier pursuant to Tennessee insurance statutes.

STATUTORY DEPOSITS

In compliance with statutory requirements, the Trust maintained the following deposits at December 31, 2007.

Where Deposited and Description	Par Value	Statement Value
Tennessee		
Met Govt Nashville TN Rev 4.7%, due 5/01/2014	$100,000	$107,900
Pleasant View Tn Util Rev MBIA 3.625%, due 9/1/2008	100,000	100,573
Total	**$200,000**	**$208,473**

MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Trust as of December 31, 2007, in conjunction with this examination. The following items were addressed:

Certificate of Compliance for Workers' Compensation Liability Forms and Underwriting Practices:

A review was made of the Trust's filed pooling agreement and underwriting policies. The pooling agreement currently in use has been in effect since October 24, 2005.

Regulatory Rate Exhibits which exhibit the "loss cost multiplier" are filed yearly with the

TDCI in compliance with Tenn. Comp. R & Reg. 0780-1-54-.10(4).

No unusual findings were noted.

Advertising:

The advertising file was reviewed and the advertising material appears to be in compliance with applicable statutes and regulations. The Trust markets on a direct basis to members of the TAA. Under terms of an agreement between the Trust and Brentwood Services Administrators, Inc., Brentwood provides "Specified Third Party Administrator Services" which include providing marketing and marketing assistance services. Brentwood also hosts and maintains the Trust's website www.taasit.com.

Claims Review:

A sample of paid claim files reviewed during the examination indicated that claims were being paid in accordance with certificate provisions and settlements were made properly upon receipt of proper evidence of the Trust's liability.

Tenn. Comp. R. & Regs. 0800-2-14.07(1) requires: "All medical costs owed under the Tennessee Workers' Compensation Law shall be paid within forty-five (45) days of receipt of bill or invoice." The examiners tested a sample of the Trust's claim payments and noted that the payments for medical costs were made within the required time frame.

Tenn. Comp. R. & Regs. 0800-2-14.05(1) requires: "Compensation payments for an injury shall be received by the claimant no later that fifteen (15) days after notice of injury. " The examiners tested a sample of the Trust's claim payments and noted that the payments for the indemnity portion of the claims sampled were made within the required time frame.

Brentwood Services Administrators, Inc. which is the third party administrator processing the Trust's claims also has an internal standard which requires all provider bills to be paid within 15 days of receipt of the bill. If a particular bill is not paid within the referenced time frame, the claims supervisor speaks directly with the claims adjuster or the appropriate Medical Bill Review personnel to determine the cause of the delay, with a view towards preventing any delay in the future.

During the examiners' review of indemnity payments contained in the sample, some calculation errors were noted when calculating the proper weekly benefit. The errors resulted in part from having to use estimates of weekly wages on some claims in order to comply with 15 day rule and/or simple arithmetic errors. The amount was not considered material in the singular and aggregate. The Trust also made attempts to correct on future payments when the error was noted. The Trust Administrator and Brentwood Services Administrators voiced their continued intent to obtain proper documentation of wages from the Member in order to make the correct calculation and

the proper filing with the Department of Labor and Workforce Development.

Participant Complaints:

Inquiries made to the various sections within the Division of Insurance indicated no specific regulatory concerns with the Company during the period under examination. No unusual practices or items warranting criticism of the Company were noted.

Privacy of Non-Public Personal Information

The Trust's members (participants) are commercial businesses. Tenn. Comp. R. & Regs. 0780-1-72, "Privacy of Consumer Information Regulations" includes in the definition of "Scope" the following:

> "These rules do not apply to information about companies or about individuals who obtain products or service for business, commercial or agricultural purposes."

Brentwood Services Administrators, Inc. processes the claims of the beneficiaries of the workers' compensation policies issued by the Trust to its members. In the agreement for "Specified Third Party Administrator Services" with the Trust, Brentwood includes confidentiality and protection language in an Addendum G. "Part 1." of the addendum states the parties hereto agree:

> "all electronically stored information made accessible by Brentwood to TAASIT will not under any circumstance be revealed or released to any person or entity not directly in the decision making process of handling the claim to which the information refers;"

The relationship of a beneficiary is addressed by Tenn. Comp. R. & Regs. 0780-1-72-.04(6)(b)5. A beneficiary in a workers' compensation plan is not solely considered a consumer of the licensee provided that the licensee does not disclose nonpublic information about the individual to a nonaffiliated third party other than as permitted under "rules 0780-1-72-.14, 0780-1-72-.15, and 0780-1-72-.16."

EXCESS OF LOSS INSURANCE

The Trust had in effect for the period January 1, 2007 to January 1, 2008 an excess of loss agreement for workers compensation and employers liability claims with Midwest Employers Casualty Company in accordance with Tenn. Comp. R & Reg. 0780-1-54-.04(3)(c). The agreement contains both specific and aggregate coverage.

Under the agreement's specific coverage, the excess insurer agrees to indemnify the Trust for the amount in excess of the Trust's $400,000 specific retention for each accident or employee disease up to the statutory limit for workers' compensation and up

to $1,000,000 for employers' liability.

The aggregate portion of the agreement limits the Trust's obligation for losses and claim expenses incurred during 2007 to 106% of earned normal premium which equates to a minimum retention of $8,854,780. Under the agreement's aggregate coverage, the excess insurer agrees to indemnify the Trust for the sum of losses and claims expenses in excess of the Trust's limitation subject to a limit of indemnity of $2,000,000.

The Trust's excess of loss polices have historically covered the one (1) year period of time commencing January 1 for each year since inception of the Trust. The contracts have been with different carriers and have had slightly different retentions and levels of loss with the aggregate retention ranging from 80% to 106% of normal earned premium.

A summarization by fund year follows:

Fund Year	Specific Retention	Aggregate Indemnity	Aggregate Retention	Insurer
1/1/91-92	$250,000	$2,000,000	$592,218	National
1/1/92-93	250,000	2,000,000	1,745,621	National
1/1/93-94	250,000	2,000,000	3,269,225	Safety National
1/1/94-95	250,000	2,000,000	5,191,199	Reliance National
1/1/95-96	250,000	2,000,000	6,268,150	Reliance National
1/1/96-97	250,000	2,000,000	8,378,446	Reliance National
1/1/97-98	250,000	2,000,000	6,957,666	Reliance National
1/1/98-99	250,000	2,000,000	4,997,035	Reliance National
1/1/99-00	250,000	2,000,000	2,947,800	Reliance National
1/1/00-01	250,000	2,000,000	3,123,700	Midwest Employers Casualty
1/1/01-02	250,000	2,000,000	3,558,800	Midwest Employers Casualty
1/1/02-03	250,000	2,000,000	4,500,500	Midwest Employers Casualty
1/1/03-04	300,000	2,000,000	6,818,576	Midwest Employers Casualty
1/1/04-05	350,000	2,000,000	6,666,208	Midwest Employers Casualty
1/1/05-06	350,000	2,000,000	7,233,980	Midwest Employers Casualty
1/1/06-07	400,000	2,000,000	8,437,932	Midwest Employers Casualty
1/1/07-08	400,000	2,000,000	8,854,780	Midwest Employers Casualty

The policies provide coverage for losses sustained by the Trust as a result of injury by accident occurring during the policy period or by disease caused or aggravated by

exposure to conditions causing the disease occurring during the policy period. The policies have an aviation endorsement and provisions for the continuation of coverage in the event of plan insolvency. The policies were written by companies authorized to do business in the State of Tennessee.

The Trust's reserves reflect the insolvency of Reliance National and were increased to reflect the unlikely nature of any recoveries for the active excess claim in the 1/98 – 99 fund year. The recoveries from Reliance for prior years were received prior to the insolvency. The Trust does not record any reinsurance recoverable as collectible from Reliance National. The Reliance Companies were placed in liquidation on October 3, 2001 by the Commonwealth Court of Pennsylvania.

LOSS EXPERIENCE

Year	Premiums Earned	Incurred Losses & LAE	Underwriting Ratio	General & Adm. Exp.	Gen. & Adm. Exp. to Prem.	Combined Ratio
1996	$7,500,188	1,694,863	22.6%	1,855,389	24.7%	47.3%
1997	4,891,639	1,751,215	35.8%	1,256,258	25.7%	61.5%
1998	4,056,573	1,202,529	29.6%	1,051,086	25.9%	55.5%
1999	3,816,833	1,860,049	48.7%	780,830	20.5%	69.2%
2000	3,926,594	1,196,901	30.5%	848,932	21.6%	52.1%
2001	4,701,590	4,120,643	87.6%	1,136,521	24.2%	111.80%
2002	6,117,991	3,374,759	55.2%	1,514,527	24.8%	80%
2003	7,314,443	4,149,386	56.7%	1,596,261	21.8%	78.5%
2004	7,876,246	4,569,227	58%	2,030,970	25.8%	83.8%
2005	8,570,544	4,893,625	57.1%	2,076,585	24.2%	81.3%
2006	8,635,205	4,800,266	55.6%	2,056,866	23.8%	79.4%
2007	9,032,437	5,822,587	64.5%	2,194,582	24.3%	88.8%

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including substantial verification of postings, extensions and footings and reconciliation of subsidiary ledgers to control accounts where necessary. General ledger trial balances were reconciled with copies of the Independent Auditors' Financial Statements for the years 2003, 2004, 2005, 2006 and 2007 in order to verify

the reasonableness of the financial presentation for all years since the prior examination.

Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the Trust at the date of examination.

An annual audit of the Company is performed by an independent accounting firm, Lattimore, Black, Morgan & Cain, P.C.

Books and records of the Company are kept at the home office location:

2521 White Avenue
Nashville, Tennessee 37204

Claims records are kept at the office of Brentwood Service Administrators, Inc. (Third Party Administrator) located at:

104 Continental Place
Suite 200
Brentwood, Tennessee 37027

The Trust maintained cash and cash equivalents on deposit at banks in excess of federally insured amounts. No losses have been experienced in such accounts and management believes the Trust is not exposed to any significant credit risk related to cash and cash equivalents.

PECUNIARY INTEREST

Tenn. Comp. R. & Regs. 0780-1-54.07(6) and (7) state:

> "No administrator or its employees or the pool's board of trustees shall accept, or be the beneficiary of, either directly or remotely, any fee, brokerage, commission, gift or other consideration for or on account of any loan, deposit, sale payment, exchange, or reinsurance transaction made by or on behalf of such pool, or be pecuniarily interested in such purchase, sale, loan, either as borrower, principle, coprinciple, agent or beneficiary, except that if a member, such person shall be entitled to all of the benefits accruing under the terms of the membership.
>
> "No administrator or its employees or the pool's board of trustees shall take or receive for their own use any fee, brokerage, commission, gift or other consideration of the pool except for reasonable compensation for services performed or sales or purchases made to or for the pool in accordance with the terms of the administrator contract approved by the Commissioner. No administrator or its employees or the pool's board of trustees shall collect a

commission for the procurement of excess insurance for the pool."

The Administrator certifies and documents that to the best of his knowledge and belief that it is in compliance with the rule.

REFUNDS OR DISTRIBUTIONS

Pursuant to Tenn. Comp. R. & Regs. 0780-1-54.15, self-insured workers' compensation pools are allowed to provide refunds to the members of the pool when there is an excess amount of premium above what is necessary to fund all obligations for that fund year. The Board of Trustees must declare the refund not less than 18 months after the end of the fund year, and after written approval is granted to the pool by the Commissioner. If the refund is declared, 10% of the refundable amount must be retained by the pool for an additional year to cover any obligations that may not yet have been reported.

The following table is a summary of the refunds approved by the Department and distributed by the Trust categorized by fund year:

Fund Year	Amount of Refund
1/1/91-93	$170,890
1/1/93-94	920,929
1/1/94-95	2,223,672
1/1/95-96	3,520,382
1/1/96-97	3,869,181
1/1/97-98	2,041,600
1/1/98-99	1,774,734
1/1/99-00	1,503,769
1/1/00-01	586,681
1/1/01-02	2,007,051
1/1/02-03	882,635
1/1/03-04	1,239,685
1/1/04-05	612,819
1/1/05-06	907,685
Total	$22,261,713

The approval history of distributions categorized by calendar year since the previous examination report follows:

Amount	Date of Approval by Board of Trustees	Date of Approval by TDCI
		June, 1999 exact date
$2,559,787.88	June 4, 1999	unavailable
1,538,985.39	June 30, 2000	July 13, 2000
1,710,853.08	July 9, 2001	July 17, 2001
1,195,908.96	June 7, 2002	June 4, 2002
1,324,453.53	June 4, 2003	June 5, 2003
1,733,827.22	June 3, 2004	June, 2004 exact date unavailable
1,723,680.40	May 20, 2005	June 17, 2005
1,250,986.35	May 5, 2006	June 1, 2006
1,337,220.10	May 4, 2007	May 31, 2007
1,358,032.53	May 18, 2008	May 23, 2008

Payments are typically disbursed at the annual meeting of the Trust members held in June of each year since 2000. Disbursals are only made pursuant to the prior written approval granted by the TDCI. When the Board votes to approve a dividend, it is always contingent upon the approval of the TDCI.

The Trust is not declaring dividends for any given fund year until several years after the end of the fund years making the payments. For example, the $1,358,032.53 refund approved May 23, 2008 is from fund years 2001, 2002, 2003, 2004 and 2005.

LITIGATION

As of December 31, 2007, the Trust has committed no reserves to cover any contingent liability. Various lawsuits against the Trust have arisen in the normal course of business relating to workers' compensation claims' settlements. Contingent liabilities arising from litigation are not considered material in relation to the financial position of the Trust.

SUBSEQUENT EVENTS

At the June 24, 2008 Annual Meeting of the Trust, refunds of $1,358,032.53 were distributed to the Members. The request for this distribution was made to the TDCI on May 18, 2008 and subsequently approved by the TDCI on June 12, 2008.

The Trust and its custodian, First Tennessee Bank National Association, completed a new custodian agreement during the course of the examination to ensure compliance with the technical requirements of Tenn. Comp. R. & Regs. 0780-1-46-.03(2)(a), which

became effective on July 12, 2005. The rule states:

"The custodial agreement required by this rule shall contain the following:

1. A provision stating that the standard of responsibility on the part of the custodian shall not be less than that of the responsibility of a bailee for hire or a fiduciary under statutory or case law of Tennessee;

2. A provision stating that the securities held by the custodian are subject to instructions of the insurance company;

3. A provision stating that the securities may be withdrawn immediately upon demand of the insurance company; and

4. A provision stating that the agreement is between the custodian and the insurance company, and not the parent or affiliate of the insurance company."

The new agreement signed by the custodian on February 18, 2009 and by the Trust on February 19, 2009 exhibited language compliant with Tenn. Comp. R. & Regs. 0780-1-46-03(2)(a).

The Trust also formalized a written anti-fraud plan during the course of the current examination. Fraud detection procedures were in place and the required fraud statement was exhibited on beneficiary claimant forms and applications as required by Tenn. Code Ann. § 56-47-112(b); however, the plan had not been styled into a formal written document. The formalized anti-fraud plan was adopted February 20, 2009 and filed with the TDCI on February 25, 2009.

The "TAASIT Anti-Fraud Plan" language is in compliance with Tenn. Code Ann. § 56-47-112(a).

FINANCIAL STATEMENT

There follows a balance sheet and a statement of operations and fund balance as of December 31, 2007, together with a reconciliation of member deposits and distributions due to members for the period under review, as established by this examination:

BALANCE SHEET

Assets	
Cash and cash equivalents	$ 2,070,301
Investments	13,342,782
Premiums receivable	1,123,766
Other receivables	17,093
Prepaid expenses	16,969
Accrued investment income	128,999
Reinsurance receivable	33,421
Refundable income taxes	13,000
Restricted investments (State Deposit)	208,473
	$ 16,954,804

Liabilities and Fund Balance	
Loss and loss-adjustment expense reserve	$ 7,788,944
Accounts payable to members	194,549
Accounts payable and accrued expenses	310,530
Distributions due to members	6,463,714
Deferred revenue	29,830
Income taxes payable	0
Member deposits	2,167,237
Total Liabilities	16,954,804
Fund balance	0
	$ 16,954,804

STATEMENT OF OPERATIONS AND FUND BALANCE

Revenues	
Net premiums	$ 9,032,437
Investment income	542,544
Total revenue	9,574,981
Expenses	
Loss and loss adjustment	5,822,587
Administrative fees	359,123
Bank charges	70,367
Payroll audit expense	63,761
Premium taxes	219,496
Professional fees	65,997
Reinsurance	517,772
Royalty fees	102,606
Service fees	773,791
Miscellaneous	21,669
Total expenses	8,017,169
Earnings before income taxes and distributions to members	1,557,812
Income tax expense	151,314
Earnings before distributions to members	1,406,498
Distributions to members	1,406,498
Net earnings	0

RECONCILIATION OF MEMBERS DEPOSITS AND DISTRIBUTIONS DUE TO MEMBERS
(Members Equity)

	1996	1997	1998	1999	2000
Members deposits, January 1	1,190,395	1,223,778	1,114,407	1,022,004	1,021,278
Increases (decreases) for the year	33,383	(109,371)	(92,403)	(726)	33,042
Total members deposits, December 31	1,223,778	1,114,407	1,022,004	1,021,278	1,054,320
Distributions due to members, January 1	4,813,510	8,779,181	8,701,676	6,203,209	5,195,261
Increase/(decrease)	3,965,671	(77,505)	(2,498,467)	(1,007,948)	780,231
Distributions due to members, December 31	8,779,181	8,701,676	6,203,209	5,195,261	5,975,492
Total members equity, December 31	**$10,002,959**	**$9,816,083**	**$7,225,213**	**$6,216,539**	**$7,029,812**

	2001	2002	2003	2004	2005
Members deposits, January 1	1,054,320	1,247,895	1,598,763	1,799,409	1,929,386
Increases (decreases) for the year	193,575	350,868	200,646	129,977	162,150
Total members deposits, December 31	1,247,895	1,598,763	1,799,409	1,929,386	2,091,536
Distributions due to members, January 1	5,975,492	4,665,927	4,732,987	5,371,145	5,286,731
Increase/(decrease)	(1,309,565)	67,060	638,158	(84,414)	276,968
Distributions due to members, December 31	4,665,927	4,732,987	5,371,145	5,286,731	5,563,699
Total members equity, December 31	**$5,913,822**	**$6,331,750**	**$7,170,554**	**$7,216,117**	**$7,655,235**

	2006	2007
Members deposits, January 1	$2,091,536	$2,117,310
Increases (decreases) for the year	25,774	49,927
Total members deposits, December 31	2,117,310	2,167,237
Distributions due to members, January 1	5,563,699	6,397,137
Increase/(decrease)	833,438	66,577
Distributions to members, December 31	6,397,137	6,463,714
Total members equity, December 31	**$8,514,447**	**$8,630,951**

The Distribution to members as represented on the GAAP financial statements of the Trust represents retained earnings which have not been approved for payment to the members by the TDCI and remain undeclared for payment by the Board of Trustees.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

Differences in various items were noted during the course of examination; however, none were considered to produce a material effect on surplus funds, as regards participants of the Trust, either singly or in aggregate.

SUMMARY SCHEDULE FOR "ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION" AS THEY AFFECT SURPLUS

All noted differences were within the tolerable error and planning materiality established for examination purposes.

COMMENTS AND RECOMMENDATIONS

Comments:

- The Trust effected a new custodial agreement with First Tennessee Bank, NA during the course of the examination to clarify some technical language pursuant to Tennessee Regulations. These agreements were discussed previously in the report under the caption "Subsequent Events."

- The Trust also formalized an "Anti-Fraud Plan" prior to the completion of this examination. The plan documented the procedures which the Trust already had in place. The written plan is compliant with Tenn. Code Ann. § 56-47-112(a) and is discussed in the report under the caption "Subsequent Events." The plan was filed with the TDCI on February 25, 2009.

Recommendations:

- It is recommended that the Trust put in place controls in order to monitor compliance with Tenn. Comp. R. & Regs. 0780-1-54.05 pertaining to the filing of amendments to agreements and written contracts and Tenn. Comp. R. & Regs. 0780-1-54.16(2) pertaining to Royalty Agreements. Documents including amendments to the Royalty Agreement and Claims Servicing Agreements were filed with the TDCI; however, the filing was not within the required time line. The rule states:

  Tenn. Comp. R. & Regs. 0780-1-54.05 requires:

  "Any amendments to the organizational documents or written contracts required to be provided to the Commissioner by Rule 0780-1-54-.04 shall be filed with the Commissioner with a non-refundable filing fee of ninety dollars ($90.00) no later than thirty (30) days prior to the proposed effective date of the amendments."

  Tenn. Comp. R. & Regs. 0780-1-54.16(2) states that:

  "A sponsoring association may require a pool to pay to the sponsoring association a royalty fee or fee for using its name or other services which may be provided by the sponsoring association to the pool. All fees paid to the sponsoring association shall be approved by the Commissioner no later than thirty (30) days prior to the execution of any contract setting such fees between the pool and the sponsoring association."

CONCLUSION

Insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Tennessee Automotive Association Self-Insurers Trust of Nashville, Tennessee.

In such manner, it was determined that, as of December 31, 2007, the Trust had assets of $16,954,804 and liabilities, exclusive of member deposits and distributions due to members, of $8,323,853. Thus, there existed for the additional protection of the participants of the Trust, the amount of $8,630,951 in the form of member deposits (contributed capital) and distributions due to members (undistributed earnings).

The courteous cooperation of the officers and employees of the Trust extended during the course of the examination is hereby acknowledged.

In addition to the undersigned, James T. Pearce, Insurance Examiner participated in the work of this examination.

Respectfully submitted,

Keith M. Patterson
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Tennessee Automotive Association Self-Insurers Trust dated October 16, 2009, and made as of December 31, 2007, on behalf of the Department of Commerce and Insurance, State of Tennessee. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

Keith M. Patterson
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

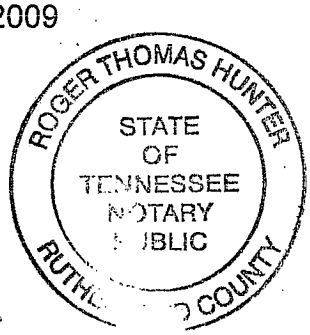
Subscribed and sworn to before me

this 16th day of

October, 2009

Notary Roger Thomas Hunter

County Rutherford

State TN

Commission Expires 6-27-2010