

REPORT ON EXAMINATION

of the

WORKERS' COMPENSATION SELF-INSURANCE GROUP FUND

of the

**TENNESSEE HEALTH CARE ASSOCIATION SELECTIVE WORKERS'
COMPENSATION GROUP**

**1900 WINSTON ROAD, SUITE 100
KNOXVILLE, TENNESSEE**

as of

DECEMBER 31, 2008

RECEIVED

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Dept. of Commerce & Insurance
Company Examinations

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

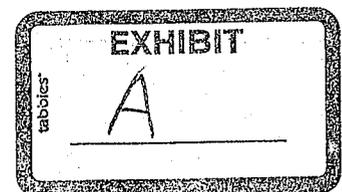


TABLE OF CONTENTS

<u>Item</u>	<u>Page</u>
Salutation.....	1
Introduction.....	1
Scope of Examination.....	1
History and Organization (includes exhibit of growth and financial history)	3
Trust Agreement and Declaration of Trust and Bylaws	4
Indemnity Agreement	6
Management and Control	7
Corporate Records	9
Management Agreements	9
Administrative Agreement	9
Claims Processing Agreement.....	11
Royalty Agreement.....	12
Fidelity Bond and Other Insurance	13
Statutory Deposits	14
Market Conduct Activities	14
Excess of Loss Insurance.....	17
Loss Experience	18
Accounts and Records.....	19
Pecuniary Interest Tenn. Comp. R. & Regs. 0780-1-54-.07(6) and (7).....	19
Dividends/Refunds or Distributions.....	20
Litigation and Contingent Liabilities	22
Subsequent Events	22
Financial Statement.....	23
Balance Sheet	23
Statement of Operations.....	24
Reconciliation of Members' Deposits and Distributions Due Members.....	25
Analysis of Changes in Financial Statement and Comments Resulting from Examination.....	26
Comments and Recommendations	27
Conclusion.....	28
Affidavit.....	29

Nashville, Tennessee
March 24, 2010

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 HEALTH CARE ASSOCIATION SELECTIVE WORKERS'
COMPENSATION GROUP**

1900 WINSTON ROAD, SUITE 100
KNOXVILLE, TENNESSEE 37919

hereinafter and generally referred to as the "Fund" and "Group" 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 March 11, 2009 in accordance with Tenn. Code Ann. § 50-6-405 and Tenn. Comp. R. & Regs. 0780-1-54-.20. On-site examination work commenced on August 18, 2009. The examination was performed by duly authorized representatives of the Department of Commerce and Insurance, State of Tennessee ("TDCI").

With the Group 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, 2004 to the close of business on December 31, 2008, 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, 2008. The financial condition of the Group 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 Group'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, 2003 by authorized representatives of the TDCI. The previous examination resulted in Agreed Order, No. 12.01-087123J between the TDCI and the Group which stated the following:

1. The Group shall comply with Tenn. Comp. R. & Regs. 0780-1-54-.06(3) by not extending credit to individual members for payment of premiums, except pursuant to payment plans approved in writing by the Commissioner prior to the extension of credit;

Corrective Action: The Group has not extended credit for payment of premiums to members since the prior examination. The notes on the Group's books relate to the same notes reviewed during the prior examination.

2. The Group shall comply with Tenn. Comp. R. & Regs. 0780-1-54-.08(2) by requiring

persons applying for membership to submit signed applications to the Group.

Corrective Action: Any persons applying for membership since the prior examination have submitted signed applications.

3. The Group shall comply with Tenn. Comp. R. & Regs. 0780-1-54-.08(7) by notifying the Commissioner of cancellation or termination of a member within ten (10) days of such cancellation or termination.

Corrective Action: Files indicate that the TDCI is notified on a timely basis of member cancellation or termination.

4. The Group shall comply with Tenn. Comp. R. & Regs. 0780-1-54-.05 by filing with the Commissioner all amendments to the organizational documents filed pursuant to Tenn. Comp. R. & Regs. 0780-1-54-.04 within thirty (30) days of the proposed effective date of the amendments along with any fees required by the Rule. All documents filed with the Commissioner shall be fully executed.

Corrective Action: The Group is filing amendments and agreements with the TDCI and paying the proper filing fee. Their letter accompanying the filings indicated that it is impossible to file the effected agreement 30 days prior since the signatures are affixed after legal review of the documents and officially asked for a waiver of the 30 days prior time line. Further discussion is included under the caption, Comments and Recommendations.

5. The Group shall comply with Tenn. Comp. R. & Regs. 0780-1-54-.16(2) by giving each member a written copy of the refund plan at the time of application for membership.

Corrective Action: The Group's New Member Proposal Package includes a copy of the "Refund Policy."

Findings reviewed during the present examination indicated that the Group has complied with the above Order. Further discussion concerning the 30 days prior time line for filing "effected" amendments and agreements is included under the caption, "Comments and Recommendations."

HISTORY AND ORGANIZATION

The Tennessee Health Care Association ("THCA") is a Tennessee non profit trade association of licensed nursing homes and assisted living facilities which was organized in 1947. THCA has been a viable, continuing entity since its inception, and currently includes approximately 300 nursing homes in Tennessee with approximately 28,000 patients. Its goals are:

- To maintain the high standards of licensed long-term care facilities in Tennessee;
- To boost public understanding of long-term care;
- To provide members with educational opportunities that enhance their ability to provide quality care; and
- To seek positive solutions to issues facing long-term care as a liaison with the state and federal governments.

Tennessee Health Care Association Selective Workers' Compensation Group is an unincorporated association that was created by THCA effective April 1, 1992 to act as a self-insured workers' compensation group pursuant to Tenn. Code Ann. § 50-6-405 and Tenn. Comp. R. & Regs. 0780-1-54. The operation of the Group is confined to Tennessee where it is licensed to transact the business of workers' compensation and employers' liability insurance. Membership in the Group is composed of qualifying members of THCA that have pooled their liabilities in accordance with the Tennessee Workers' Compensation Act. The Group at year-end 2008 included 22 Members. A Member of the Group may have more than one (1) facility covered by the Group.

The Group was capitalized with the 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. 0780-1-54-.04.) The Group's primary objectives are to provide sound and economical workers' compensation insurance for its members and to minimize the cost of insurance through specialized claim processing services and loss prevention programs.

At December 31, 2008, the Group was licensed in one state, Tennessee. The current Certificate of Authority issued by the TDCI is dated March 3, 2008.

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

<u>Fund Year</u>	<u>Members</u>	<u>Net Premium Revenue</u>	<u>Total Expenses</u>	<u>Assets</u>	<u>Equity</u>
2004	27	3,265,904	2,511,750	5,157,418	1,706,562
2005	26	2,852,449	1,312,414	6,088,468	2,181,243
2006	25	2,560,547	1,470,351	6,775,815	2,943,552
2007	23	2,183,651	1,419,846	6,814,395	3,064,671
2008	22	1,936,460	1,948,412	6,901,108	2,328,191

TRUST AGREEMENT AND DECLARATION OF TRUST AND BYLAWS

The Group was created through the adoption of the Declaration of Trust and Bylaws

which was executed on April 2, 1992. The Group was formed to act as a workers' compensation self-insurance group as defined by Tenn. Comp. R & Regs., 0780-1-54-.02 and as authorized by Tenn. Code Ann. § 50-6-405. The Trust Agreement and Bylaws state the purpose of the Group as follows:

"For the purpose 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 THCA."

The Group is an association which is owned by its Members. Membership in the Group consists of individuals, corporations and partnerships or other legal entities which are members in good standing with THCA and which contribute to the Group as a participating member. The term "Members" includes those individuals, corporations and partnerships executing, or otherwise being bound by, the Indemnity Agreement and Power of Attorney.

The Bylaws were amended during 1995 to change the fiscal year to end on December 31, 1995.

The Bylaws were again amended during 2003 to clarify the cancellation policy and allow that in the event of cancellation of a member that is initiated by the Group, the Group can apply a pro-rata penalty for cancellation. With the 2003 amendments, the Group also clarified language to allow aged receivables for Members to be offset by any dividend proceeds after such members have been notified in writing.

No changes to the Bylaws have been enacted since the prior examination and the above changes were noted in the previous examination report. The Group also agreed as a result of the previous examination to make official filings of any amendments to organizational documents.

Tenn. Comp. R. & Regs. 0780-1-54-.05 as currently in effect 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."

The principal office of the Group was established as follows:

2809 Foster Avenue

Nashville, Tennessee 37210

The current office of the administrator, TIS Insurance Services, Inc. and business office of the Group is located as follows:

1900 Winston Road, Suite 100
Knoxville, Tennessee 37919

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 Group. 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 Group is the joint responsibility of a Board of Trustees consisting of not more than 15 or 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. ch. 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. Trustees serve for a term of five years. The Board of Trustees shall elect officers from among its members to serve for a term of one year. The officers of the Trust shall consist of a Chairman, a Vice-Chairman, and a Secretary.

At December 31, 2008 the following persons were serving as members of the Board of Trustees:

<u>Name and Address</u>	<u>Business</u>
Craig Laman, Chairman	Bells Nursing Home, Bells, TN
Ron Arrison, Vice Chairman	Kings Daughters and Sons Home, Bartlett, TN
Don Moneyhun, Secreatry/Treasurer	Bristol Nursing Home, Bristol, TN
Linda Austin	Knollwood Manor, Lafayette, TN
William R. Thomas	Presbyterian Homes of Tennessee, Knoxville, TN

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 Group. Thereafter, the Board shall be elected by the members of the Group with one (1) Trustee elected from each of THCA's geographic districts and the district having the Board of Director's chairman, having two (2) Trustees. In the event there is no Member from a district, the Board may appoint an interim Trustee from another district. 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 30 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

Group 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 Group 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 and 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 Trust and the other assets of the Group including designating the administrator and the service agent of the Group.

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:	Faulkner, Mackie and Cochran, P.C. One American Center 3100 West End Avenue, Suite 700 Brentwood, TN 37203-1372
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 758 Lockport, IL 60441-0758

CORPORATE RECORDS

The members of the Board of Trustees shall meet quarterly or as often as required at the principal office of the Group 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 shall meet annually at the offices of the Trust or at such other place and time as may be determined by the Board of Trustees. Special meetings of the Members may be called at any time by the Board of Trustees shall be called upon the written request of not less than twenty percent (20%) of the Members. Written notice of all meetings of the Members shall be delivered not less than ten (10) days or more than thirty (30) days prior to the meeting, either in person or by written proxy. A quorum at any meeting of the Members shall be attendance by the representative of not less than ten percent of the Members of the Trust"

During the period under examination there were 17 regular and special meetings of the Board of Trustees and 5 meetings of the members of the Group. 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 Group members were verified to be in accordance with the Rules of the TDCI.

MANAGEMENT AGREEMENTS

Administrative Agreement:

On June 28, 1995, an administration agreement was reached between TIS Insurance Services, Inc. formerly known as Tennessee Insurance Services Inc. (the Administrator) and the Group. The Board of Trustees of the Group 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 which is Brentwood Services Administrator, Inc. The Administrator shall provide the following services for the Group:

- Maintaining in effect the certificate of approval issued to the Group by the Department of Commerce and Insurance
- Maintaining the accounting books and records
- Preparing all reports
- Soliciting applications for membership and screening prospective members

- 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 Group with the service company.

The Administrator shall furnish to the Board of Trustees of the Group 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 June 28, 1995 and shall continue in force until terminated as hereafter provided. The Group may terminate the agreement without cause upon 90 days written notice or with cause immediately upon written notice to the Administrator. The Administrator may terminate the Agreement without cause upon 90 days written notice or with cause 30 days written notice.

The Administrator shall be paid monthly by the Group. This fee was originally based on a percent of the earned premium, defined the annual amount paid by the members to the Group for workers' compensation coverage subject to adjustment upon completion of the annual audit. The fee was changed to a percent (%) per \$100 of payroll of members retroactive to January 1, 2006. The amount charged by the Administrator shall be approved by the Board of Trustees of the Group.

The referenced agreement was amended October 6, 2006 retroactive to January 1, 2006 to officially note that the Administrator's legal name had changed from Tennessee Insurance Service Inc. to TIS Insurance Services Inc. and to change the formula for the annual fee to .49 per \$100 of payroll for members, adjusted year-end, and based on audited payroll. These amendments were filed with the TDCI on November 9, 2006 and the filing fees were paid. The Group respectfully requested in their letter to the TDCI:

"On behalf of the Group, we ask that the thirty (30) days (prior to the proposed effective date) filing requirement per Rule 0780-1-54-.05 be waived and both documents accepted effective January 1, 2006.

This request was based on the fact that this agreement was negotiated and reviewed by legal counsel prior to signing which did not allow an effected agreement to be filed 30 days prior.

Tenn. Comp. R. & Regs. 0780-1-54-.05 in effect on January 1, 2006 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.”

Claim Processing Agreement:

Effective January 1, 2006, the Trust entered into an agreement with Brentwood Services Administrators, Inc. (“Brentwood”) in order to obtain “Specified Service Company Services” in regards to claims processing and other related services which remained in effect as of the date of this examination.

The copy of the signed agreement on file with the TDCI was signed by the Group on March 30, 2006 and filed with the Department via letter dated April 3, 2006 and included the proper filing fees. The agreement has a formal approval stamp from the TDCI dated August 28, 2006.

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.”

The Group respectfully requested that the 30 days (prior to the proposed effective date) filing requirement per Rule 0780-1-54-.05 be waived due to the fact that the effected contract required legal review prior to signature by the Group’s Administrator.

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

The agreement with “Brentwood” in effect as of the date of this examination was to remain in effect until January 1, 2009. 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 agreement stipulates that Brentwood will provide the following services:

- Providing claims services

- Providing loss control services

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 may 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

The Group agrees to pay to Brentwood an annual service fee equal to a percent per \$100 of the Group's member employers' payroll during the term of the agreement. The current fee calls for forty-seven cents (\$.47) per \$100 of member employers' payroll.

Royalty Agreement:

Since the inception of the Trust up through December 31, 1997, the Group paid royalty fees to the THCA equal to a percentage of earned premium. From 1998 forward the Group paid fees equal to a set amount per \$100 of payroll generated from its policy holders who are members of the THCA. Such fees were approved by the Board of Trustees to be paid to the Association for the use of the THCA trade name in the marketing efforts of the Group.

The Royalty Agreement dated June 17, 2004 was filed with the TDCI on June 24, 2004 exhibiting the compensation rate of ".12 per \$100 of payroll generated from its policyholders." The Agreement has a formal approval of the TDCI dated April 11, 2006.

It is noted that this same agreement/terms have been in place since January 1, 1998.

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 \$500,000. This policy also has coverage for Fiduciary Liability in the amount of \$1,000,000 and Private Company Directors and Officers Liability in the amount of \$1,000,000.

The policy complies with Tenn. Comp. R. & Regs. 0780-1-54-.07(3)(b) and (c) which 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;" (See Statutory Deposits, the Trust has pledged \$200,000 in securities)
- Evidence that the applicant has obtained an errors and omissions insurance policy 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 Group maintains an Errors and Omissions policy with " Certain Underwriters At Lloyd's, London" in the amount of \$2,000,000 each claim with \$2,000,000 policy aggregate and a \$10,000 deductible. This policy's definition of insured would include the Trustees and Officers. 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" effective January 1, 2006. 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 "Certain Underwriters At Lloyd's, London" which operates as a surplus line carrier pursuant to Tennessee insurance statutes.

STATUTORY DEPOSITS

In compliance with statutory requirements, the Group maintained the Surety Bond (#SIB-1870-TN) written by Safety National Casualty Company in the amount of \$250,000.

The current requirement of Tenn. Comp. R. & Regs. 0780-1-54-.04(3)(e) as amended March, 2009 states:

"The pool has deposited with the Commissioner, in a form approved by the Commissioner, one of the following types of security in the amount of one hundred thousand dollars (\$100,000) to be used for the payment of claims in the event the pool becomes insolvent:

1. Negotiable securities;
2. Certificates of deposit;
3. Letters of credit; or
4. Surety bonds."

MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Group as of December 31, 2008, in conjunction with this examination. The following items were addressed:

Policy Forms and Underwriting Practices:

A review was made of the Group's filed underwriting policy and indemnity agreement.

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).

The group offers a payment plan to its members which typically requires ten percent (10%) down by January 1 of the fund year and 9 equal monthly payments in order to pay the total premium by October 31 of the fund year.

The premium is prorated based on days in the Fund if the coverage begins after January 1. The down payment percentage and the payment schedule are modified if coverage begins after May 31. If the member joins after October 31, the entire premium is payable immediately.

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 Group markets on a direct basis to members of the THCA. Under terms of an agreement between the Group and the Administrator, the Administrator is charged with soliciting applications for membership in the Group and generally promoting the Group to its members and other members of THCA.

Tenn. Comp. R. & Regs. 0780-1-54-.17 requires that "any person soliciting membership in a pool must be appropriately licensed as an insurance producer authorized to sell property and casualty lines of insurance." The President for Healthcare Services of TIS Insurance Services, Inc., the Administrator holds an insurance producer license in the State of Tennessee which authorizes the sale of property and casualty lines of insurance. The President for Healthcare Services is the person responsible for soliciting group membership applications.

Information is available on the website of the Administrator at www.tisins.com.

Claims Review:

A sample of paid claim files reviewed during the examination indicated that claims were being paid in accordance with policy 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 than 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. In some cases, the calculation was to the benefit of the beneficiary. One sampled claim was a lump sum settlement which exceeded the time guideline; however, this was a contested settlement in which both parties were represented by legal counsel. The Group also made attempts to correct on future payments when the error was noted. The Group 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.

One sampled claim was a medical payment which did not meet the 45 day time line as required by Tenn. Comp. R. & Regs. 0800-2-14-.07(1). However, it is noted that the payment was of a material amount due to a hospital and the claim required additional medical bill review.

If a claim is considered by a member to be relatively minor, the member sends the claim as "information only" to the Group's third party administrator. Some of the members choose to pay the first \$250 in "medical" expenses on small claims. If the bills exceed \$250, the claim office (Brentwood) assumes handling of the claim which is then classified as active with a reserve worksheet being prepared within 15 days of the change to active status.

Policyholder 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 (policyholders) 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, 2008 to January 1, 2009 an excess of loss agreement for workers compensation and employers liability claims with Safety National Casualty Corporation in accordance with Tenn. Comp. R & Reg. ch. 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 2008 to 118.5% of earned premium which equates to a minimum retention of \$2,367,575. 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 \$5,000,000.

The Trust's excess of loss policies have historically covered the one (1) year period of time commencing January 1 for each year since 1997. The contracts have been with the same carrier and have had slightly different retentions and levels of loss with the aggregate retention.

A summarization by policy year follows:

Policy Year	Specific Retention	Aggregate Retention	Aggregate Limit	Insurer
4/1/92-94	\$250,000	\$ 6,561,014	\$2,000,000	Safety National
4/1/94-12/31/96	250,000	12,019,888	2,000,000	Safety National
1/1-12/31/97	300,000	2,710,362	Statutory	Safety National
1/1-12/31/98	300,000	1,759,912	Statutory	Safety National
1/1-12/31/99	300,000	1,193,132	Statutory	Safety National
1/1-12/31/00	300,000	1,371,334	Statutory	Safety National
1/1-12/31/01	300,000	1,600,544	Statutory	Safety National
1/1-12/31/02	300,000	1,957,367	5,000,000	Safety National
1/1-12/31/03	350,000	2,812,811	5,000,000	Safety National
1/1-12/31/04	400,000	3,005,016	5,000,000	Safety National
1/1-12/31/05	400,000	2,912,033	5,000,000	Safety National
1/1-12/31/06	400,000	2,696,022	5,000,000	Safety National
1/1-12/31/07	400,000	2,404,318	5,000,000	Safety National
1/1-12/31/08	400,000	2,367,575	5,000,000	Safety National

The retentions listed above include allocated loss adjustment expenses.

The policies provide coverage for losses sustained by the Group 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 provisions for the continuation of coverage in the event of plan insolvency. The policies were written by a company authorized to do business in the State of Tennessee.

LOSS EXPERIENCE

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Incurred Losses & LAE</u>	<u>Underwriting Ratio</u>	<u>General & Adm. Exp.</u>	<u>Gen. & Adm. Exp. to Prem.</u>	<u>Combined Ratio</u>
2004	3,265,904	1,614,490	49.4%	897,260	27.5%	76.9%
2005	2,852,449	635,918	22.3%	676,496	23.7%	46%
2006	2,560,547	602,154	23.5%	868,197	33.9%	57.4%
2007	2,183,651	512,416	23.5%	907,430	41.6%	65.1%
2008	1,936,460	1,061,932	54.8%	886,480	45.8%	100.6%

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 2004, 2005, 2006, 2007 and 2008 in order to verify the reasonableness of the financial presentation for the 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, Faulkner, Mackie & Cochran, P.C.

Books and records of the Group are kept at the office location of the Administrator:

1900 Winston Road, Suite 100
Knoxville, TN 37919

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 Group 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 Group 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 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 distributed by the Trust categorized by policy year during its history of operation:

Fund Year	Amount of Refund
4/1/92-4/1/93	\$40,136
4/1/93-4/1/94	1,243,755
4/1/94-4/1/95	1,490,027
4/1/95-12/31/95	1,047,890
1/1/-12/31/96	1,861,969
1/1-12/31/97	1,296,000
1/1-12/31/98	100,000
1/1-12/31/99	0
1/1-12/31/00	0
1/1-12/31/01	0
1/1-12/31/02	0
1/1-12/31/03	100,000
1/1-12/3104	950,000
1/1-12/3105	700,000
1/1-12/31/06	0
1/1-12/31/07	<u>0</u>
 Total	 <u>\$8,829,777</u>

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

<u>Amount</u>	<u>Date of Approval by TDCI</u>
\$ 822,000.00	January 27, 2006
900,000.00	January 23, 2008
1,400,000.00	August 7, 2009

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.

The \$1,400,000 refund approved August 7, 2009 is as follows:

<u>Fund Year</u>	<u>Amount of Refund</u>
1997	\$100,000
2003	100,000
2004	500,000
2005	700,000

The \$900,000 refund approved January 23, 2008 is as follows:

<u>Fund Year</u>	<u>Amount of Refund</u>
1996	\$ 80,000
1997	270,000
1998	100,000
2004	450,000

The \$822,000 refund approved January 27, 2006 is as follows:

<u>Fund Year</u>	<u>Amount of Refund</u>
1995	\$ 78,000
1996	258,000
1997	486,000

Refunds have historically been paid in four annual installments which have been paid as follows: "one-third payable in year 1 and year 2 and one-sixth payable in year 3 and year 4." The Board elected to pay the refund approved on August 7, 2009 in two installments of 50% each payable in year 1 and year 2. As a result of this accounting treatment, the Group records a liability in the amount of \$2,319,589 for "Dividends to policyholders" at December 31, 2009.

LITIGATION AND CONTINGENT LIABILITIES

As of December 31, 2008, 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

The Group 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 October 1, 2009 and filed with the TDCI on November 4, 2009.

The "THCA Selective Workers' Compensation Group 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, 2008, 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	\$ 1,015,506
Investments in debt securities	4,358,170
Accrued investment income	54,561
Premiums receivable from members	104,008
Notes receivable from members	41,459
Excess insurance balances receivable	515,961
Refundable federal income taxes	568,121
Deferred federal income taxes	202,549
Federal income tax deposits under Internal Revenue Code Section 847	<u>40,773</u>
Total Assets	<u>\$6,901,108</u>

Liabilities and Members' Equity

Reserves for losses and loss adjustment expenses	\$ 2,106,679
Dividends to policyholders	2,319,589
Premiums refundable to members	58,649
Accounts payable and other current liabilities	14,000
Administration and association royalty fees payable	21,627
Excess insurance premiums payable	2,771
Premium taxes payable	<u>49,602</u>
Total Liabilities	4,572,917
Minimum regulatory surplus	632,003
Unappropriated retained earnings	1,658,326
Accumulated other comprehensive income	37,862
Total Members' Equity	2,328,191
Total Liabilities and Members' Equity	<u>\$6,901,108</u>

STATEMENT OF OPERATIONS

Revenues

Premiums Earned	
Gross premiums earned	\$ 2,064,451
Less: Excess insurance premiums	<u>(127,991)</u>
Net Premiums Earned	1,936,460
Net investment income	149,187
Interest and finance charges on notes receivable	<u>24,228</u>
Total Revenues	2,109,875

Expenses

Loss and loss adjustment	1,061,932
Administration and association royalty fees	732,017
Premium taxes	50,117
Professional fees	106,128
Provision for uncollectible notes receivable	(18,412)
Other expenses	<u>16,630</u>
Total Expenses	<u>1,948,412</u>
Income Before Policyholder Dividends	161,463
Policyholder Dividends	<u>(1,400,000)</u>
Income (Loss) Before Income Taxes	(1,238,537)
Income Tax Benefit	<u>471,694</u>
Net Income (Loss)	<u>\$ (766,843)</u>

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Total members' equity prior year	\$741,766	\$1,706,562	\$2,181,243	\$2,943,552	\$3,064,671
Net income (loss) for current fiscal year	986,470	508,309	762,179	96,734	(766,843)
Unrealized appreciation (depreciation) of debt securities	(32,089)	(49,489)	131	33,892	46,005
Reclassification adjustment for loss net realized loss (gain) on sale of debt securities	(750)	(1,462)	66	3,055	0
Deferred federal income tax expense on net unrealized change in fair value of investments	<u>11,165</u>	<u>17,323</u>	<u>(67)</u>	<u>(12,562)</u>	<u>(15,642)</u>
Total members equity, December 31	<u>\$1,706,562</u>	<u>\$2,181,243</u>	<u>\$2,943,552</u>	<u>\$3,064,671</u>	<u>\$2,328,191</u>

**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 policyholders, 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 Group 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 November 4, 2009.
- The Group properly established liability for outstanding refundable premium due to two former Members who sold to other business entities. The Group should continue its efforts in order to determine the rightful legal owner of the premium refund due to McKendree Village, Inc. and Reliance Healthcare of Eastland, Inc. in order to fulfill its duties under the certificate of coverage formerly issued to those entities.

Prior to the signing of this report, the examiner was advised by the Group that the refund to McKendree Village had been paid.

Recommendations:

- It is recommended that the Group 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. This recommendation includes working with the TDCI in order to determine if a copy of the unsigned agreement can be filed no later than 30 days prior in order to meet the time line for effective date.

Documents including amendments to the Claims Servicing Agreements were filed with the TDCI and the proper fee was paid; however, the filing was not within the required time line. The Group in their filing respectfully requested that the 30 days (prior to the proposed effective date) filing requirement per Rule 0780-1-54-.05 be waived due to the fact that the effected contract required legal review prior to signature by the Group's Administrator and the Third Party Administrator.

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."

CONCLUSION

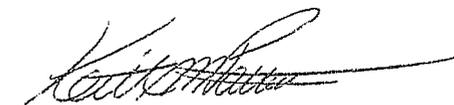
Insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Tennessee Health Care Association Selective Workers' Compensation Group of Knoxville, Tennessee.

In such manner, it was determined that, as of December 31, 2008, the Group had assets of \$6,901,108 and liabilities of \$4,572,917 which includes \$2,319,589 of dividends due to policyholders/members. Thus, there existed for the additional protection of the policyholders, the amount of \$2,328,191 in the form of total members' equity (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.

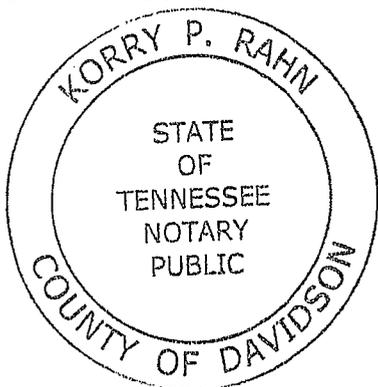
Respectfully submitted,



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 Health Care Association Selective Workers' Compensation Group dated March 24, 2010, and made as of December 31, 2008, 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 24th day of
March, 2010

Notary Korry P. Rahn
County Davidson
State Tennessee
Commission Expires 09/13/2013