



Janet T. Mills  
Governor

STATE OF MAINE  
DEPARTMENT OF PROFESSIONAL & FINANCIAL REGULATION  
BUREAU OF INSURANCE

Anne L. Head  
DPFR Commissioner



Timothy N. Schott  
Acting Superintendent

July 27, 2022

Timothy N. Schott, Acting Superintendent  
Maine Bureau of Insurance  
34 State House Station  
Augusta, ME 04333-0034

Dear Acting Superintendent:

Pursuant to the provisions of 24-A M.R.S. §221 and in conformity with your instructions,  
a financial examination has been made of the

**MAINE EMPLOYERS' MUTUAL INSURANCE COMPANY**

as of December 31, 2020. The following report is respectfully submitted.

Office Location: 76 Northern Avenue, Gardiner, Maine 04345  
Mailing Address: 34 State House Station, Augusta, Maine 04333  
[www.maine.gov/insurance](http://www.maine.gov/insurance)

Phone: (207) 624-8475

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Consumer Assistance: 1-800-300-5000

Fax: (207) 624-8599



**STATE OF MAINE  
BUREAU OF INSURANCE**

**REPORT OF FINANCIAL EXAMINATION**

**MAINE EMPLOYERS' MUTUAL INSURANCE COMPANY  
PORTLAND, ME**

**AS OF DECEMBER 31, 2020**

**NAIC COMPANY CODE: 11149**

**NAIC GROUP CODE: 1332**

**ACCEPTANCE OF REPORT OF EXAMINATION**

WHEREAS a verified Report of Examination of Maine Employers' Mutual Insurance Company dated July 27, 2022, was delivered to that insurer on July 28, 2022; and

WHEREAS Maine Employers' Mutual Insurance Company and Bureau of Insurance staff have agreed to certain modifications with respect to the Report of Examination; and

WHEREAS I find such modifications proper; and

WHEREAS no hearing with respect to the Report of Examination has been requested by Maine Employers' Mutual Insurance Company;

NOW THEREFORE, I accept the Report of Examination and hereby order it placed on file in the Bureau of Insurance as provided for by 24-A M.R.S. §226 (3).

Dated: 7/29/2022

Timothy N. Schott  
Timothy N. Schott, Acting Superintendent

## TABLE OF CONTENTS

<b>SCOPE OF EXAMINATION .....</b>	<b>1</b>
<b>SUMMARY OF SIGNIFICANT FINDINGS .....</b>	<b>1</b>
PRIOR EXAMINATION .....	1
CURRENT EXAMINATION COMMENTS .....	1
<b>THE COMPANY .....</b>	<b>2</b>
HISTORY .....	2
CONTRIBUTED CAPITAL .....	3
MANAGEMENT AND CONTROL .....	3
CORPORATE RECORDS .....	4
CORPORATE GOVERNANCE .....	4
TRANSACTIONS WITH AFFILIATES .....	4
TERRITORY & PLAN OF OPERATION .....	5
REINSURANCE .....	5
<b>FINANCIAL STATEMENTS .....</b>	<b>6</b>
STATEMENT OF ADMITTED ASSETS, LIABILITIES, AND SURPLUS .....	7
STATEMENT OF INCOME .....	8
STATEMENT OF CAPITAL AND SURPLUS .....	9
<b>COMMENTS ON THE FINANCIAL STATEMENTS .....</b>	<b>10</b>
<b>SUBSEQUENT EVENTS .....</b>	<b>10</b>
<b>SUMMARY OF RECOMMENDATIONS .....</b>	<b>11</b>

## **SCOPE OF EXAMINATION**

Maine Employers' Mutual Insurance Company (MEMIC or the "Company") was last examined as of December 31, 2016, by the State of Maine Bureau of Insurance (MBOI). This examination covered the period from January 1, 2017 to December 31, 2020.

This examination was performed pursuant to the risk-focused approach promulgated by the National Association of Insurance Commissioners (NAIC), in conformity with statutory accounting practices, NAIC guidelines, the 2021 Financial Condition Examiners Handbook and the laws, rules, and regulations prescribed or permitted by the State of Maine. The examination consisted of a review of the Company's operations, controls, corporate governance, valuation of assets, and determination of liabilities at December 31, 2020. The examination also included the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated both currently and prospectively.

This examination was coordinated with the State of New Hampshire Insurance Department (NHID), which concurrently examined MEMIC subsidiaries MEMIC Indemnity Company (MIC) and MEMIC Casualty Company (MCC), both New Hampshire domestic insurance companies. Johnson Lambert LLP (JL) performed the 2020 external audit of MEMIC and all insurance affiliates. JL work papers were utilized for this examination to the extent deemed appropriate. The MBOI's examination work papers were shared with the NHID in order to enhance the effectiveness and efficiency of this examination.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examination does not attest to the fair presentation of the financial statements included herein. Comments on various balance sheet items, for purposes of this report, may be limited to matters involving clarification, departures from laws, rules and regulations, and/or significant changes in amounts. To the extent deemed necessary, transactions occurring subsequent to the examination date were reviewed.

This examination report includes significant findings of fact, pursuant to 24-A M.R.S. §225 (1), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature, are not included herein, and are instead separately reported to other regulators and/or the Company.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **PRIOR EXAMINATION**

None noted.

### **CURRENT EXAMINATION COMMENTS**

In 2017 and 2018, MEMIC made capital contributions to its subsidiary, MIC, in the amounts of \$13,000,000 and \$12,000,000, respectively. At the time that the capital contributions were made, the cost of MEMIC's investments in MIC exceeded 10% of MEMIC's admitted assets. Therefore, MEMIC was not in compliance with 24-A M.R.S. §1106 (4), which limits an insurer's investment in the securities of any one person to no more than 10% of the insurer's assets. Upon further review by

the examination team, it was noted for the first time that capital contributions made by MEMIC to MIC since 2013 were also not in compliance with 24-A M.R.S. §1106 (4) at the time of those contributions. A total of \$49,879,933 in capital contributions have been made since 2013 that were not eligible for investment, as determined as of the date of its making or acquisition in accordance with 24-A M.R.S. §1102. Furthermore, as of December 31, 2020, the book value of MEMIC's investment in MIC was \$192,417,623, which represents approximately 19% of MEMIC's admitted assets.

See Note 1 in the Comments on the Financial Statements within this examination report for further discussion of this examination finding. See the Subsequent Events section for a discussion of the permitted practice approved in connection with this examination finding that allows the Company to admit this asset.

## **THE COMPANY**

### **HISTORY**

MEMIC was established through legislative action as an assessable mutual insurance company by the State of Maine on November 13, 1992. MEMIC commenced business effective January 1, 1993. MEMIC was established to replace the State of Maine Workers' Compensation Residual Market Pool and to stabilize the Maine worker's compensation insurance market. MEMIC writes workers' compensation insurance and employers' liability insurance. Employment practices liability insurance (EPLI) is written incidental to and in conjunction with workers' compensation coverage. The three lines of insurance are primarily written for employers in the State of Maine.

In 1996, MEMIC established a wholly owned, non-insurance subsidiary, MEMIC Services, Inc. (MSI). During the examination period, MSI provided agency services to MEMIC, MIC and MCC.

In 1999, MEMIC obtained approval from the New Hampshire Insurance Department to form a New Hampshire domestic subsidiary, MIC, to write workers' compensation insurance in New Hampshire. On May 1, 2000, the State of New Hampshire authorized MIC to write workers' compensation insurance.

In 2009, MEMIC formed Casco View Holdings, LLC (CVH), a Maine limited liability company for the management and ownership of current and future investments in real estate. In 2010, MEMIC transferred its entire interest in certain income producing property to CVH along with a capital contribution. In 2011, MEMIC formed Casco View Holdings II, LLC (CVHII), a subsidiary of CVH. MEMIC's contributed capital was used by CVHII to purchase MEMIC's home office building which had previously been under a long-term lease with an unrelated party. In 2013, MEMIC formed Casco View Holdings III, LLC (CVHIII), a subsidiary of CVH, for the purpose of purchasing commercial real estate property located in Portland, Maine.

Upon receiving approval from the Vermont Department of Financial Regulation, in 2011, MEMIC acquired Granite Manufacturers' Mutual Indemnity Company (GMMIC), domiciled in Vermont. GMMIC was a property/casualty insurance company licensed to write workers' compensation insurance. Subsequent to the acquisition GMMIC was renamed MCC. In 2015, MCC re-domiciled to New Hampshire.

In February 2017, MEMIC formed Casco View Solutions, LLC, a wholly owned subsidiary of MSI, for the purpose of operating a premium financing program. The purpose of this program is to provide loans for self-insured companies who are switching to MEMIC in order to assist with the costs associated with the transition.

**CONTRIBUTED CAPITAL**

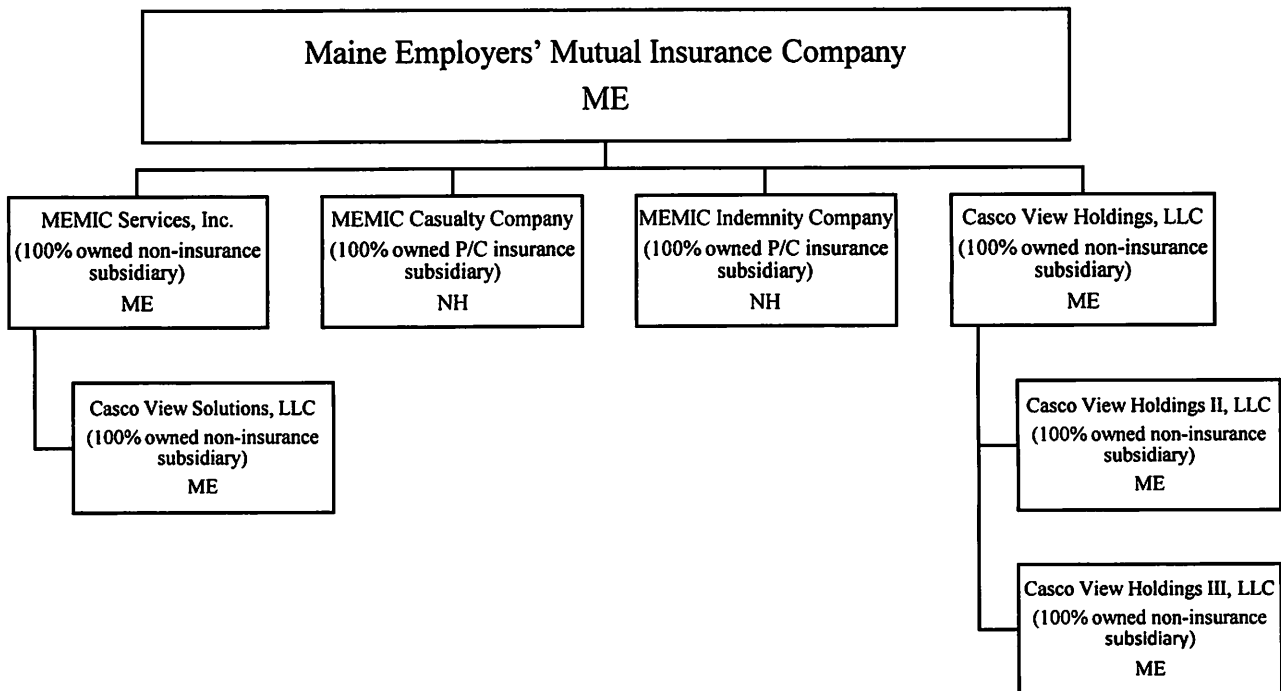
As authorized by state law, MEMIC was formed as a special purpose mono-line workers’ compensation insurer without any initial capital or surplus. To provide capital, each policyholder was required to make a capital contribution equal to a percentage of final audited premium; 15% for policies issued in 1993 and 10% for policies issued in 1994 and 1995. Capital contributions were suspended for policies effective January 1, 1996, and later.

In 1998, MEMIC requested, in accordance with 24-A M.R.S. §3710 (3)(E) (repealed in 2001), that the superintendent of insurance (“superintendent”) review and certify that their surplus reached the levels required by 24-A M.R.S. §410. In response, the superintendent certified that MEMIC possessed an adequate surplus level for a domestic insurance company writing workers’ compensation. Presently, MEMIC is subject to all regulations applicable to a mutual casualty insurer that writes workers’ compensation insurance in Maine.

MEMIC has, since 1998, requested and received approval from the MBOI to return capital contributions to the extent authorized by the board of directors (“board”) and the superintendent. At December 31, 2020, MEMIC had returned all but an immaterial amount of the contributed capital.

**MANAGEMENT AND CONTROL**

The corporate ownership structure follows:



### **CORPORATE RECORDS**

MEMIC's articles of incorporation, bylaws, and minutes of the board of directors meetings held during the period under examination were reviewed.

### **CORPORATE GOVERNANCE**

MEMIC is governed and overseen by its board of directors and management team.

As of December 31, 2020, the MEMIC board of directors consisted of the following members:

<b><u>Name</u></b>	<b><u>Title</u></b>
Lance Avery Smith	Chairperson
Michael Peter Bourque	Director
Gregory William Boulos	Director
Meredith Nancy Strang Burgess	Director
Craig Norman Denekas	Director
Jeanne Anderson Hulit	Director
Laurie Gagnon Lachance	Director
Hilary Ann Rapkin	Director
Jean Patricia Wilson	Director

MEMIC officers, as listed in the December 31, 2020, statutory annual statements, are:

<b><u>Name</u></b>	<b><u>Title</u></b>
Michael Peter Bourque	President & Chief Executive Officer
Daniel Joseph McGarvey*	Senior Vice President, Chief Financial Officer & Treasurer
Anthony Morris Payne	Senior Vice President, External Affairs & Secretary
Catherine Flaherty Lamson	Senior Vice President & Chief Administrative Officer
Gregory Grant Jamison	Senior Vice President, Underwriting
Jeffrey David Funk*	President, Northeast Region
Edward Lucas Austin III*	President, Atlantic Region
Karl Van Siegfried*	Senior Vice President, Loss Control and Safety Services
Matthew Howard Harmon	Senior Vice President, Claims
John Robert Yao	Senior Vice President & Chief Information Officer

\*Subsequent to December 31, 2020, Edward Lucas Austin III left the Company and Jeffrey David Funk's title changed to President, Eastern Region. Effective May 1, 2022, Eileen Moran Fongemie replaced Daniel Joseph McGarvey as Senior Vice President, Chief Financial Officer & Treasurer. Effective July 1, 2022, Karl Van Siegfried left the Company.

### **TRANSACTIONS WITH AFFILIATES**

MEMIC provides certain administrative and management services, including charges for underwriting, claims, loss control, managed care, and investment management services, to MIC and MCC under the terms of written management service agreements. Certain other direct costs are paid by MEMIC, charged back to its subsidiaries and settled within the terms of written management agreements.



MEMIC also provides administrative and management services to CVH. MEMIC leases office space from CVH and CVHII. MEMIC also leases parking from CVH, CVHII, and CVHIII.

MEMIC is a party to a written tax sharing agreement with its subsidiaries. The agreement provides that the portion of the consolidated tax liability allocated to MEMIC is based on its separate tax return liability.

MEMIC is a party to written reinsurance premium and loss allocation agreements with MIC and MCC. These agreements are executed each year and establish a method for allocating the premiums and losses related to the underlying reinsurance agreements.

#### **TERRITORY & PLAN OF OPERATION**

MEMIC writes workers' compensation insurance and employers' liability insurance for businesses located in Maine including businesses located in Maine with operations in other states where MEMIC is licensed. MEMIC is licensed to transact business as a workers' compensation insurer in Maine, Connecticut, Delaware, Georgia, Illinois, Maryland, Massachusetts, Minnesota, Montana, New Hampshire, New Jersey, New York, North Carolina, North Dakota, Ohio, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Vermont, Virginia, Washington, and West Virginia.

As of December 31, 2020, MEMIC reported premiums in Connecticut, Illinois, Maine, Maryland, Massachusetts, Minnesota, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, South Carolina, Vermont, and Virginia. The majority of MEMIC's premiums continue to be written in the state of Maine.

In 2008, MEMIC began writing EPLI as an endorsement to its workers' compensation policies. Products are marketed using the brand name "MEMIC". Distribution is primarily through a network of independent agents.

#### **REINSURANCE**

MEMIC assumes a minimal amount of reinsurance from various state run and national workers' compensation pools.

MEMIC has excess of loss agreements with various reinsurers wherein MEMIC's net retention is \$5,000,000 with coverage up to \$100,000,000. The table below describes the layers of MEMIC's reinsurance agreements in place at December 31, 2020:

#### **Workers' Compensation and Employers' Liability**

<b><u>Description</u></b>	<b><u>Excess Terms</u></b>	<b><u>Notes</u></b>
First Layer	\$5M excess of \$5M	7 year sunset/commutation
Second Layer	\$10M excess of \$10M	7 year sunset/commutation
Third Layer	\$30M excess of \$20M	7 year sunset/commutation, \$15M maximum any one life
Fourth Layer	\$50M excess of \$50M	7 year sunset/commutation, \$15M maximum any one life

During the examination period, MEMIC ceded its EPLI line of business through an 85% quota share reinsurance agreement.

## **FINANCIAL STATEMENTS**

The Statement of Admitted Assets, Liabilities and Surplus, the Statement of Income, and the Statement of Capital and Surplus are as presented by management and audited by the Company's external auditors. It should be noted that these financial statements have not been audited by the MBOI and thus the MBOI does not express an opinion on the financial statements as a whole.

**STATEMENT OF ADMITTED ASSETS, LIABILITIES, AND SURPLUS  
AS OF DECEMBER 31, 2020**

Assets

Bonds	\$ 465,084,887
Common stocks	419,007,460
Cash and cash equivalents	40,261,979
Other invested assets	24,844,403
Investment income due and accrued	3,865,056
Uncollected premiums in the course of collection	5,106,844
Deferred premiums, agents' balances and installments	53,778,620
Amounts recoverable from reinsurers	3,312,999
Current federal income tax recoverable	832,282
Net deferred tax asset	2,022,334
EDP equipment and software	7,194,149
Receivables from parent, subsidiaries and affiliates	973,207
Total assets	<u>\$ 1,026,284,220</u>

Liabilities

Losses	\$ 375,440,384
Loss adjustment expenses	39,350,099
Commissions payable	9,835,718
Other expenses	30,124,970
Taxes, licenses and fees	1,321,835
Unearned premiums	78,555,020
Advance premiums	1,250,382
Ceded reinsurance premiums payable	1,002,890
Amounts withheld or retained for account of others	1,523,184
Aggregate write-ins for liabilities	134,304
Total liabilities	<u>\$ 538,538,786</u>

Capital and Surplus

Aggregate write-ins for other than special surplus funds	\$ 96,614
Gross paid in and contributed surplus	3,118,063
Unassigned funds	484,530,757
Total capital and surplus	<u>487,745,434</u>
Total liabilities, capital and surplus	<u>\$ 1,026,284,220</u>

**STATEMENT OF INCOME**  
**YEAR ENDED DECEMBER 31, 2020**

Premiums earned	\$ 162,615,771
Deductions:	
Losses incurred	110,919,152
Loss adjustment expenses	22,463,564
Other underwriting expenses	41,822,888
Total underwriting deductions	<u>175,205,604</u>
Total underwriting loss	<u>(12,589,833)</u>
Net investment income earned	17,304,323
Net realized capital gains net of capital gains taxes	10,962,424
Net investment income	<u>28,266,747</u>
Net loss from premiums charged off	(229,555)
Finance and service charges not included in premium	160,350
Total other loss	<u>(69,205)</u>
Net income before dividends and federal income taxes	15,607,709
Dividends to policyholders	17,000,000
Net loss before federal income taxes	<u>(1,392,291)</u>
Federal income taxes	<u>(1,424,594)</u>
Net income	<u><u>\$ 32,303</u></u>

**STATEMENT OF CAPITAL AND SURPLUS  
YEAR ENDED DECEMBER 31, 2020**

Capital and surplus, December 31, 2019	\$ 469,950,790
Net income	32,303
Change in net unrealized capital gains (losses), net of capital gains tax	14,752,553
Change in net deferred income tax	1,307,310
Change in nonadmitted assets	1,872,555
Surplus adjustments: Paid in	(62,745)
Aggregate write-ins for gains and losses in surplus	<u>(107,332)</u>
Change in capital and surplus	<u>17,794,644</u>
Capital and surplus, December 31, 2020	<u>\$ 487,745,434</u>

## COMMENTS ON THE FINANCIAL STATEMENTS

### NOTE 1 – INVESTMENT IN SUBSIDIARY (COMMON STOCK)

As noted in the Summary of Significant Findings section of this report, MEMIC’s investment in MIC exceeded the limitations of 24-A M.R.S. §1106 (4). However, as discussed in further detail in the Subsequent Events section of this report, the MBOI has approved a permitted practice that allows MEMIC to record the full book value of its investment in MIC as an admitted asset, retroactive to January 1, 2012. Accordingly, no adjustment to surplus was made as a result of this examination.

### NOTE 2 – RESERVES

Lewis & Ellis, Inc. (“consulting actuary”) was engaged to provide actuarial assistance with the financial examination of the Company as of December 31, 2020. The consulting actuary’s review included: participation in interviews and discussions with key personnel, including the Appointed Actuary, to gain an understanding of the corporate structure, products, services, and reserving and pricing processes, and to assess actuarial risks; review of controls to mitigate certain reserving and pricing risks; and review of the 2020 Statement of Actuarial Opinion and Actuarial Memorandum prepared by the Appointed Actuary. The reserves as reported by the Company were determined to be reasonable based on the review performed by the consulting actuary.

### NOTE 3 – CAPITAL AND SURPLUS

The following table describes the capital and surplus changes for the four-year period since the MBOI’s last examination of the Company, dated December 31, 2016:

Capital and surplus, December 31, 2016	\$ 415,015,069
Net income	17,208,725
Change in net unrealized capital gains or (losses), net of capital gains tax	56,782,661
Change in net deferred income tax	458,819
Change in nonadmitted assets	(815,989)
Surplus adjustments: Paid in	(62,745)
Aggregate write-ins for gains and losses in surplus	<u>(841,106)</u>
Capital and surplus, December 31, 2020	<u>\$ 487,745,434</u>

## SUBSEQUENT EVENTS

In December 2020, the Company reached an agreement with General Reinsurance on the commutation of treaty year 2013 and in February 2021, the agreement was executed. Proceeds from this commutation were \$3,093,747. The outstanding reserve position on this treaty prior to the commutation was \$0. Therefore, the Company had a gain of \$3,093,747 as a result of the commutation.

Effective January 1, 2021, the Company established a parental guaranty for all future obligations of MSI.

On September 24, 2021, the board determined that there are no longer a sufficient number of eligible policyholders to justify continued attempts to refund contributions to capital. On October 14, 2021, the superintendent authorized the Company to wind down the return of capital program. Specifically, the Company may terminate return of capital efforts and retain any remaining capital as part of the Company's permanent capital after publishing a notice in newspapers of general circulation in Portland, Bangor, Augusta, and Lewiston, Maine for two successive calendar years after the board's determination. The Company announced its intent to end the program by running legal notices in broadly circulated daily newspapers in 2021 and 2022. In the event any eligible policyholders are identified during this process, the board shall authorize a refund of their contributed capital. At end of 2022, this program will be terminated and eligible policyholders will no longer be entitled to a refund of capital contributions.

In October 2021, the Company became licensed to transact business in the state of Texas.

In November 2021, the Company issued \$17,000,000 in policyholder dividends for policies issued in 2018.

As discussed in the Summary of Significant Findings and Note 1 to the Comments on the Financial Statements of this report, the Company reports an investment in its subsidiary, MIC, that exceeded the limitations of 24-A M.R.S. §1106 (4). The Company has requested a permitted practice to record the full book value of its investment in MIC as an admitted asset, retroactive to January 1, 2012. The MBOI approved this permitted practice on July 27, 2022 as it relates to investments in MIC made through the date of this report and to include any future investments in MIC that are approved by the MBOI to be included under this permitted practice. The permitted practice continues through December 31, 2023.

### **SUMMARY OF RECOMMENDATIONS**

It is recommended that the Company present a corrective plan of action to the MBOI to address the current examination comment no later than September 30, 2022.

**STATE OF MAINE  
COUNTY OF KENNEBEC, SS**

Vanessa J. Sullivan, being duly sworn according to law deposes and says that, in accordance with authority vested in her by Timothy N. Schott, Acting Superintendent of Insurance, pursuant to the Insurance Laws of the State of Maine, she has made an examination of the condition and affairs of the

**MAINE EMPLOYERS' MUTUAL INSURANCE COMPANY**

located in Portland, Maine as of December 31, 2020, and that the foregoing report of examination subscribed to by her is true to the best of her knowledge and belief. The following examiners from the Bureau of Insurance assisted:

Arias Wan, CPA, CFE  
Audrey L. Wade, CFE, CISA  
Jeremy C. Finch  
Colin J. Greeley

  
\_\_\_\_\_  
Vanessa J. Sullivan, CFE

Subscribed and sworn to before me  
This 29 day of July, 2022

  
\_\_\_\_\_  
Notary Public

My Commission Expires:

**KARMA LOMBARD  
Notary Public, Maine**

**My Commission Expires June 12, 2023**