

EXAMINATION REPORT
of
MERCHANTS OF VIRGINIA
GROUP SELF-INSURANCE ASSOCIATION
Richmond, Virginia
as of
December 31, 2016

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA



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

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
1300 E. MAIN STREET
RICHMOND, VIRGINIA 23219
TELEPHONE: (804) 371-9741
www.scc.virginia.gov/boi

I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Merchants of Virginia Group Self-Insurance Association as of December 31, 2016, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 5th day of February 2018

A handwritten signature in black ink, appearing to read 'Scott A. White'.

Scott A. White
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
November 20, 2017

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by authority of Section 38.2-1317 of the Code of Virginia, an examination of the records and affairs of

**MERCHANTS OF VIRGINIA
GROUP SELF-INSURANCE ASSOCIATION**

Richmond, Virginia

hereinafter referred to as the Association, has been completed. The report is hereby submitted for your consideration.

SCOPE OF THE EXAMINATION

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The last examination of the Pool was made by representatives of the State Corporation Commission's Bureau of Insurance (the "Bureau") as of December 31, 2012. This examination covers the period from January 1, 2013 through December 31, 2016.

The Bureau planned and performed the examination to evaluate the Association's financial condition and operational activities. All accounts and activities of the Association were considered generally in accordance with the risk-focused examination process contained in the NAIC Financial Condition Examiners Handbook.

The examination report includes findings of fact and general information about the Association and its financial condition.

DESCRIPTION

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

HISTORY

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

MANAGEMENT AND CONTROL

Control of the Association is vested in a Members' Supervisory Board (the "Board") elected by the members of the Association. The by-laws provide for no less than three nor more than nine Board members, three-fourths of whom shall be officers of members in good standing with the Association. Board members serve until their successors are elected.

The Board and officers were as follows at December 31, 2016:

<u>Representative</u>	<u>Member</u>
Melvin H. Belcher	Progressive Manufacturing Corp. Chester, Virginia
William R. Brewer, Jr.	Dink, Inc. Virginia Beach, Virginia
James L. Harrell, III	Harrell & Harrell, Inc. Norfolk, Virginia
Ronald K. Harrell	Ravensworth Sunoco Springfield, Virginia
Charles L. Reed, III	Woodfin Oil Company Mechanicsville, Virginia

Rachael S. Schultz

Northern Neck Chevrolet, Inc.
Montross, Virginia

David M. Traub

DMT, Inc.
Midlothian, Virginia

Officers

Charles L. Reed, III

Chairman

James L. Harrell, III

Vice-Chairman

David M. Traub

Secretary

Ronald K. Harrell

Treasurer

TERRITORY AND PLAN OF OPERATION

The operation of the Association is confined to Virginia where it is licensed to transact the business of workers' compensation and employers' liability group self-insurance. Membership in the Association is available to employers engaged in a similar type of business, upon the approval of the Board and the Commission.

All members are required to enter into an indemnity agreement in which each member jointly and severally agrees to assume and discharge members' employers' liabilities and any and all members' liabilities covered under the Virginia Workers' Compensation Act. No formal insurance policy is issued to the members.

The Association has a contractual agreement with an administrator who shall administer and manage the affairs of the Association in accordance with the policies established and adopted by the Board. Claims are processed and paid by a service agent pursuant to a contractual agreement with the Association. The Association's operations are conducted on a fiscal year ending April 30.

ADMINISTRATIVE AGREEMENT

Effective May 1, 1996, the Association entered into an administrative agreement with Self-Insurance Services, LLC, ("SIS"). The original term of this agreement was for a period of 12 months and the agreement remains in effect thereafter, subject to termination by either party by written notice at least 90 days in advance of the effective date of termination.

According to this agreement, SIS shall administer the financial affairs of the Association as established and adopted by the Board, maintain necessary records of accounts, advise the Board on policy matters, contract for claims handling and with advisors and consultants, pay all items of expense to the extent funds are available, direct the solicitation and enrollment of new members, file necessary reports, and conduct other managerial duties.

As compensation for its services, SIS shall receive 7% of all members' contributions calculated under the provisions of 14 VAC 5-370-110, without reduction as a result of premium discounts, experience ratings, deviations, or other adjustments. The Association incurred \$456,806 in fees relating to this agreement in calendar year 2016. In addition, SIS retains 100% of the commission received for the placement of excess insurance coverage.

CLAIMS CONSULTING SERVICE AGREEMENT

Effective May 1, 1994, the Association entered into a claims consulting service agreement with SIS. The original term of the agreement was for a period of 12 months and the agreement remains in effect thereafter, subject to termination by either party upon 90 days advance written notice. According to the agreement, SIS shall provide claims consulting services including the review of monthly loss reports, approval of all medical and compensation payments over \$2,000, monthly review of all open claim files, evaluation of members' claim experience and assistance to the service agent in settlement of claims.

As compensation, the Association shall pay SIS ½ of 1% of all members' contributions calculated under the provisions of 14 VAC 5-370-110, without reduction as a result of premium discounts, experience ratings, deviations, or other adjustments. The Association incurred \$32,629 in fees relating to this agreement in calendar year 2016.

CLAIMS SERVICE AGREEMENT

Effective May 1, 1998, the Association entered into a claims service agreement with Trigon Administrators, Inc. ("Trigon") currently known as Sedgwick CMS ("Sedgwick"). Sedgwick serves as the Association's claims service agent pursuant to the same claims service agreement originally entered into with Trigon. The original term of the agreement was for a one-year period and the agreement remains in effect thereafter, subject to termination by either party by written notice 60 days in advance of the effective date of termination.

Pursuant to the terms of the agreement, Sedgwick shall provide full claims handling and adjusting for all claims incurred during the period of the agreement until their

conclusion, unless otherwise transferred, claims counseling, loss control consulting, monthly reports, preparation for all scheduled hearings before regulatory bodies and other claims related duties. As compensation for its services, Sedgwick shall receive 5.6% of the Association's manual premiums. Additionally, Sedgwick will be compensated 25% of the savings generated by inpatient bills, the inpatient utilization review process and any reductions from the application of any fee schedules and negotiations generated from the cost containment program. The Association incurred \$365,445 in fees relating to this agreement in calendar year 2016.

DIVIDENDS TO MEMBERS

Any surplus assets accumulated within a plan year may be declared refundable by the Board. Payments of this surplus in the form of dividends, however, may not be made until the Association has received approval from the Bureau. During the examination period, the Bureau approved the following dividends:

<u>Fiscal Year</u>	<u>Approval Dates</u>			
	<u>March 12, 2013</u>	<u>March 21, 2014</u>	<u>March 18, 2015</u>	<u>March 23, 2016</u>
1988/1989	\$1,889	\$0	\$0	\$0
2000/2001	1,950	0	0	0
2001/2002	5,146	0	0	0
2002/2003	3,270	0	0	0
2003/2004	50,000	50,000	34,513	0
2004/2005	100,000	50,000	50,000	17,860
2005/2006	50,000	50,000	50,000	0
2006/2007	0	10,000	10,000	100,000
2007/2008	100,000	50,000	25,000	50,000
2008/2009	300,000	300,000	100,000	100,000
2009/2010	100,000	50,000	25,000	50,000
2010/2011	400,000	300,000	300,000	300,000
2011/2012	400,000	400,000	300,000	300,000
2012/2013	0	300,000	300,000	200,000
2013/2014	0	0	300,000	500,000
2014/2015	<u>0</u>	<u>0</u>	<u>0</u>	<u>300,000</u>
Total	<u>\$1,512,255</u>	<u>\$1,560,000</u>	<u>\$1,494,513</u>	<u>\$1,917,860</u>

SPECIAL RESERVES AND DEPOSITS

At December 31, 2016, the Association had a United States Treasury Note with a par value of \$260,000 on deposit with the Treasurer of Virginia as required by 14 VAC 5-370-60 A.

EXCESS INSURANCE COVERAGE

The Association had both specific excess and aggregate excess insurance agreements in force at December 31, 2016, with the following limits:

	<u>Association's Retention</u>	<u>Excess Insurer's Limits</u>
Specific Excess	\$1,000,000 for each accident and each employee for disease	Workers' Compensation Statutory Employers' Liability \$1,000,000
Aggregate Excess	100% of normal premium, subject to a minimum retention of \$6,221,378	\$5,000,000

FINANCIAL STATEMENTS

There follows a statement reflecting the financial condition of the Association at December 31, 2016, a statement of income for the year ended December 31, 2016, a reconciliation of members' equity for the period under review, a statement of members' account by fiscal year inception to date and a statement of Examiners' changes in members' equity.

BALANCE SHEET
DECEMBER 31, 2016

ASSETS

Bonds, short term	\$369,992
Bonds, long term	11,911,120
Other invested assets	236,418
Cash on deposit	182,785
Premiums receivable	303,098
Interest due and accrued	36,101
Amounts recoverable on paid losses	25,278
Other itemize - income tax receivable	600,000
Prepaid administrative fees	74,716
Prepaid service agent's fees	55,788
Other prepaids	1,052
	<hr/>
Total assets	<u><u>\$13,796,348</u></u>

LIABILITIES AND MEMBERS' EQUITY

Losses unpaid	\$7,897,122
Loss adjustment expenses unpaid	808,217
Contingency reserve	1,331,173
Unearned premiums	1,387,311
Excess insurance premiums payable	23,035
Premiums refunds payable	161,825
Taxes, licenses and fees payable	242,868
Dividends payable	2,601,552
Payroll audit fees payable	28,080
Professional fees payable	20,000
Investment fees payable	5,278
	<hr/>
Total liabilities	<u>\$14,506,461</u>
Restricted members' equity	\$259,574
Unrestricted members' equity	(969,687)
	<hr/>
Total liabilities and members' equity	<u><u>\$13,796,348</u></u>

STATEMENT OF INCOME
FOR YEAR ENDED DECEMBER 31, 2016

UNDERWRITING INCOME

Premiums earned	<u>\$6,420,328</u>
Deductions:	
Losses incurred	\$1,178,229
Loss expenses incurred	963,892
Other underwriting expenses incurred	1,359,992
Contingency reserve	<u>91,437</u>
Total underwriting deductions	<u>\$3,593,550</u>
Net underwriting gain	<u>\$2,826,778</u>

INVESTMENT INCOME

Net investment income earned	\$168,665
Net realized capital gain	<u>26,304</u>
Net investment gain	<u>\$194,969</u>

OTHER INCOME

Dividend applied to deficit fund years	<u>\$11,795</u>
Total other income	<u>\$11,795</u>
Net income before federal income taxes	3,033,542
Federal income taxes incurred	<u>0</u>
Net income	<u><u>\$3,033,542</u></u>

RECONCILIATION OF MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Members' equity, previous year before undistributed dividends	* \$3,125,751	\$2,143,891	\$2,266,855	\$591,394
Adjustment for previous examination changes	29,826			
Net income (loss)	1,248,618	1,627,088	(162,539)	3,033,542
Net unrealized capital gains (losses)	(166,009)	111,796	(47,591)	66,750
Dividends paid to members	<u>(2,094,295)</u>	<u>(1,615,920)</u>	<u>(1,465,331)</u>	<u>(1,800,247)</u>
Restricted and unrestricted members' equity, end of year	\$2,143,891	\$2,266,855	\$591,394	\$1,891,439
Less: Restricted members' equity, end of year	<u>255,206</u>	<u>258,232</u>	<u>260,192</u>	<u>259,574</u>
Unrestricted members equity, end of year before undistributed dividends	\$1,888,685	\$2,008,623	\$331,202	\$1,631,865
Less: Dividends declared but unpaid	<u>2,510,683</u>	<u>2,454,763</u>	<u>2,483,945</u>	<u>2,601,552</u>
Unrestricted members' equity, end of year	<u><u>(\$621,998)</u></u>	<u><u>(\$446,140)</u></u>	<u><u>(\$2,152,743)</u></u>	<u><u>(\$969,687)</u></u>

* Adjusted members' equity from previous examination.

Members' Account By Fiscal Year Inception to Date December 31, 2016

	All Other Fiscal Years Preceding 1982-2012	Fourth Fiscal Year Preceding 2012/2013	Third Fiscal Year Preceding 2013/2014	Second Fiscal Year Preceding 2014/2015	First Fiscal Year Preceding 2015/2016	Partial Current Fiscal Year 7/1/16-12/31/16	Total Inception to Date (1982-2016)
Income Received							
Premiums written	\$96,907,283	\$5,434,425	\$5,360,749	\$5,679,274	\$5,805,483	\$5,818,089	\$125,005,303
Less: Excess insurance	8,249,269	326,961	271,386	269,766	268,922	236,802	9,623,106
Net premiums written	\$88,658,014	\$5,107,464	\$5,089,363	\$5,409,508	\$5,536,561	\$5,581,287	\$115,382,197
Investment income	10,397,669	125,086	82,500	57,844	29,358	229,647	10,922,104
Allocation between years	74,090	17,744	27,882	22,144	45,712	(187,572)	0
Other	234,454	0	0	0	0	(3,267)	231,187
Total income collected	\$99,364,227	\$5,250,294	\$5,199,745	\$5,489,496	\$5,611,631	\$5,620,095	\$126,535,488
Less: Expenses Paid							
Losses paid	\$44,536,094	\$2,203,492	\$1,719,094	\$2,788,569	\$2,207,716	\$445,782	\$53,900,747
Allocated loss adjustment expenses paid	2,686,349	508,101	434,211	547,008	440,692	90,631	4,706,992
Administrative fees	7,685,172	479,455	478,530	535,730	562,093	489,435	10,230,415
Service agent's fees	6,046,114	357,993	357,302	400,012	419,695	365,445	7,946,561
Taxes, licenses, and fees	1,889,805	198,192	235,401	261,134	246,087	0	2,830,619
Federal income tax	1,856,279	0	0	0	0	600,000	2,456,279
Other expenses	1,822,349	62,532	73,674	83,578	73,224	27,414	2,142,771
Total expenses	\$66,522,162	\$3,809,765	\$3,298,212	\$4,616,031	\$3,949,507	\$2,018,707	\$84,214,384
Net cash income	\$32,842,065	\$1,440,529	\$1,901,533	\$873,465	\$1,662,124	\$3,601,388	\$42,321,104
Add: Receivables							
Premium receivable	\$0	\$0	\$0	\$0	\$0	\$303,098	\$303,098
Interest due and accrued	11,571	2,798	4,397	3,492	7,209	6,634	36,101
Amounts recoverable on paid losses	0	0	0	25,278	0	0	25,278
Other	0	0	0	0	0	731,556	731,556
Total	\$11,571	\$2,798	\$4,397	\$28,770	\$7,209	\$1,041,288	\$1,096,033
Deduct: Liabilities							
Losses unpaid	\$647,024	\$440,500	\$483,245	\$781,007	\$1,986,535	\$3,558,811	\$7,897,122
Loss adjustment expenses	120,606	18,062	9,552	199,051	180,029	280,917	808,217
Contingency reserve	530,658	163,035	160,822	170,378	174,163	132,117	1,331,173
Unearned premiums	0	0	0	0	0	1,387,311	1,387,311
Excess insurance premiums payable	0	0	0	0	23,035	0	23,035
Premium refunds payable	0	0	0	0	0	161,825	161,825
Taxes, licenses and fees payable	0	0	0	0	0	242,868	242,868
Other expenses payable	0	0	0	0	0	53,358	53,358
Total	\$1,298,288	\$621,597	\$653,619	\$1,150,436	\$2,363,762	\$5,817,207	\$11,904,909

Members' Account By Fiscal Year Inception to Date December 31, 2016

	<u>All Other Fiscal Years Preceding 1982-2012</u>	<u>Fourth Fiscal Year Preceding 2012/2013</u>	<u>Third Fiscal Year Preceding 2013/2014</u>	<u>Second Fiscal Year Preceding 2014/2015</u>	<u>First Fiscal Year Preceding 2015/2016</u>	<u>Partial Current Fiscal Year 7/1/16-12/31/16</u>	<u>Total Inception to Date (1982-2016)</u>
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$31,555,348	\$821,730	\$1,252,311	(\$248,201)	(\$694,429)	(\$1,174,531)	\$31,512,228
Less: Dividends paid inception to date by fiscal year	27,905,707	722,519	735,201	257,362	0	0	29,620,789
Less: Restricted Members' Equity by fiscal year	<u>0</u>	<u>51,915</u>	<u>51,915</u>	<u>51,915</u>	<u>51,915</u>	<u>51,914</u>	<u>259,574</u>
Unrestricted Members' Equity undistributed by fiscal year	\$3,649,641	\$47,296	\$465,195	(\$557,478)	(\$746,344)	(\$1,226,445)	\$1,631,865
Less: Dividends declared but unpaid	<u>2,416,634</u>	<u>77,481</u>	<u>64,799</u>	<u>42,638</u>	<u>0</u>	<u>0</u>	<u>2,601,552</u>
Unrestricted Members' Equity 12/31/16	<u>\$1,233,007</u> *	<u>(\$30,185)</u>	<u>\$400,396</u>	<u>(\$600,116)</u>	<u>(\$746,344)</u>	<u>(\$1,226,445)</u>	<u>(\$969,687)</u>

*Although the cumulative unrestricted members' equity for the fiscal years 1982-2012 at December 31, 2016 was \$1,233,007, the 2009/2010 fiscal year had a members' equity deficit of \$116,213.

STATEMENT OF EXAMINERS' CHANGES IN MEMBERS' EQUITY
DECEMBER 31, 2016

	<u>Amount Per Association</u>	<u>Amount Per Examiner</u>	<u>Increase (Decrease) Members' Equity</u>
<u>Assets:</u>			
Premiums receivable	\$0	\$303,098	\$303,098
Prepaid administrative fees	89,796	74,716	(15,080)
Prepaid service agent's fees	67,048	55,788	(11,260)
Other Prepaids	3,157	1,052	(2,105)
<u>Liabilities:</u>			
Losses unpaid	\$7,822,093	\$7,897,122	(\$75,029)
Loss adjustment expenses unpaid	755,868	808,217	(52,349)
Contingency reserve	1,326,522	1,331,173	(4,651)
Unearned premiums	1,569,219	1,387,311	181,908
Premium refunds payable	0	161,825	(161,825)
Taxes, licenses and fees payable	250,000	242,868	7,132
Payroll audit fees payable	32,000	28,080	3,920
Professional fees payable	20,500	20,000	500
Examiners' changes in members' equity			<u>\$174,259</u>
Restricted and unrestricted members' equity per Association			(\$884,372)
Restricted and unrestricted members' equity per Examiners			<u>(710,113)</u>
Decrease in restricted and unrestricted members' equity			<u>\$174,259</u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

- The results of this examination reflected members' equity deficits for the 2009/2010, 2012/2013, 2014/2015, 2015/2016 fiscal year and the 2016/2017 partial current fiscal year of \$116,213, \$30,185, \$ 600,116, \$746,344 and \$1,226,445, respectively. The Board is reminded of its responsibility to assure that the Association is financially sound and able to fulfill its obligations under the Virginia Workers' Compensation Act.

Accounts and Records

- Other Prepays \$1,052

The above asset is \$2,105 less than the amount reported by the Association in its 2016 Annual Statement. The Examiners' decrease refelects prepaid Directors and Officers insurance prorated for the earned policy months in 2016.

- Losses unpaid \$7,897,122

The above liability is \$75,029 more than the amount reported by the Association in its 2016 Annual Statement. The Examiners' increase is exclusively from the fiscal years 1994 and prior, and results from a development of losses paid and reserve changes occurring during the period January 1, 2017 through September 30, 2017. The Association should review its methodologies to ensure sufficient loss reserves are established in future filings with the Bureau.

- Loss adjustment expenses unpaid \$808,217

The above liability is \$52,349 more than the amount reported by the Association in its 2016 Annual Statement. The increase in loss adjustment expenses unpaid by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Association</u>	<u>Examiners</u>	<u>Increase</u>
1994 & Prior	\$11,001	\$33,277	\$22,276
2005/2006	19,564	49,494	29,930
2009/2010	32,013	32,156	<u>143</u>
Total Change			<u>\$52,349</u>

The Examiners' increase results from a development of loss adjustment expenses paid and reserve changes occurring during the period January 1, 2017 through September 30, 2017 on claims incurred December 31, 2016 and prior. The Association should review its methodologies to ensure sufficient loss adjustment expense reserves are established in future filings with the Bureau.

5. Taxes, licenses and fees payable \$242,868

The above liability is \$7,132 less than the amount reported by the Association in its 2016 Annual Statement. The Examiners' amount was based on a review of invoices paid in 2017 for taxes pertaining to 2016.

6. Professional fees payable \$20,000

The above liability is \$500 less than the amount reported by the Association in its 2016 Annual Statement. The Examiner's amount was based on a review of invoices paid in 2017 for other expenses incurred in 2016.

Payroll Audit Changes

The adjustments in the following recommendations were determined by utilizing each member's final 2016/2017 fiscal year payrolls which were not fully completed until after the Association's 2016 Annual Statement filing to the Bureau.

7. Premiums receivable \$303,098
Premium refunds payable \$161,825

The above amounts have been increased \$303,098 and \$161,825, respectively. The Examiners' amounts are based on subsequent 2016/2017 fiscal year member payroll audits and reflect differences between audited contributions and contributions paid prorated for the period May 1, 2016 through December 31, 2016.

8. Prepaid administrative fees \$74,716

The above asset is \$15,080 less than the amount reported by the Association in its 2016 Annual Statement. The Examiners' amount reflects administrative fees paid at December 31, 2016, less the amount owed at December 31, 2016 based on the Examiners' analysis of subsequent 2016/2017 member payroll audits.

9. Prepaid service agent's fees \$55,788

The above asset is \$11,260 less than the amount reported by the Association in its 2016 Annual Statement. The Examiners' amount reflects service agent's fees paid at December 31, 2016, less the amount owed at December 31, 2016 based on the Examiners' analysis of subsequent 2016/2017 member payroll audits.

10. Contingency reserve \$1,331,173

The above liability is \$4,651 more than the amount reported by the Association in its 2016 Annual Statement. The Examiners' change is a result of an increase in earned premium based on a review of subsequent 2016/2017 member payroll audits, which is the basis for the calculation of the contingency reserve.

11. Unearned premiums \$1,387,311

The above liability is \$181,908 less than the amount reported by the Association in its 2016 Annual Statement. The Examiners' amount reflects the estimated premiums received to date at December 31, 2016, which relate to year 2017 based on the final audited payroll report for fiscal year 2016/2017.

12. Payroll audit fees payable \$28,080

The above liability is \$3,920 less than the amount reported by the Association in its 2016 Annual Statement. The Examiners' amount was based on a review of invoices paid in 2017 for member payroll audits pertaining to the 2016/2017 fiscal year.

SUBSEQUENT EVENT

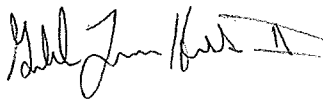
On March 24, 2017, the Bureau approved dividends for the Association totaling \$956,220.

ACKNOWLEDGEMENT

Acknowledgment is hereby made of the courteous cooperation extended by the Association's administrator and service agent during the course of the examination.

In addition to the undersigned, Jennifer Blizzard, CFE, Mario Cuellar, CFE, and Ben MacKercher participated in the work of the examination.

Respectfully submitted,



Gerald T. Hicks II.,
Insurance Examiner

MERCHANTS OF VIRGINIA GROUP SELF INSURANCE ASSOCIATION

Administered By
SELF INSURANCE SERVICES, LLC
COST CONTROL THROUGH SERVICE

January 22, 2018

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

Dear Mr. Smith:

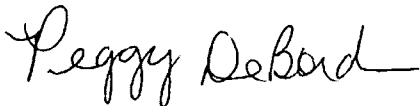
Enclosed are the responses to your recommendations for corrective action for Merchants of Virginia Group Self Insurance Association during the examination period of January 1, 2013 to December 31, 2016.

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

Sincerely,



Charles Reed
Chairman
Members' Supervisory Board
Merchants of Virginia
Group Self Insurance Association



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

Enclosures

Koger Building Suite 217 8001 Franklin Farms Drive
Richmond, Virginia 23229
(804) 285-8100 FAX (804) 285-3248

Merchants of Virginia Group Self Insurance Association

Responses to Recommendations for Corrective Action

Management and Control

1. The Association is aware of and will make every effort to assure that the Association is financially sound and able to fulfill its obligations under the Virginia Workers' Compensation Act.

Accounts and Records

2. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information not available at the time the financial statement was filed.
3. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information not available at the time the financial statement was filed. The IBNR number is unpredictable based on claims that change. The Association makes every effort to set reserves sufficiently.
4. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information not available at the time the financial statement was filed. The IBNR number is unpredictable based on claims that change. The Association makes every effort to set reserves sufficiently.
5. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information not available at the time the financial statement was filed.
6. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information not available at the time the financial statement was filed.
7. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent payroll audit information not available at the time the financial statement was filed.

8. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent payroll audit information not available at the time the financial statement was filed.
9. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent payroll audit information not available at the time the financial statement was filed.
10. The Association establishes a 3% contingency reserve fund each year. We agree with the adjustment since it was prepared with the benefit of subsequent audit information.
11. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent payroll audit information not available at the time the financial statement was filed.
12. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent payroll audit information not available at the time the financial statement was filed.