

EXAMINATION REPORT
of
WOOD PRODUCTS OF VIRGINIA
GROUP SELF-INSURANCE ASSOCIATION
RICHMOND, VIRGINIA
as of
DECEMBER 31, 2022

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA



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

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I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Wood Products of Virginia Group Self-Insurance Association as of December 31, 2022, 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 16th day of April 2024

Scott A. White
Commissioner of Insurance



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Richmond, Virginia
February 26, 2024

Honorable Scott A. White
Commissioner of Insurance
Richmond, Virginia

Dear Sir:

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:

**WOOD PRODUCTS 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 Association was made by representatives of the State Corporation Commission's Bureau of Insurance (the Bureau) as of December 31, 2017. This examination covers the period from January 1, 2018 through December 31, 2022.

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 March 1, 1982. On July 1, 1990, the Bureau revised the Association's license to authorize employers' liability coverage. According to its indemnity agreement, the Association was formed to allow members to self-insure and to pool their separate liabilities arising pursuant to the terms of the Virginia Workers' Compensation Act and for certain other types of employers' liabilities.

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 eleven board members of which three-fourths of whom must be members in good standing of the Association.

The Board and officers were as follows at December 31, 2022:

Board

Representative

Robert P. Ball

William D. Deep, Jr.

Tatum B. Ferguson

Bobby J. Harris

John S. Purcell

Marijo E. Wood

Member

Middleburg Millwork, Inc.
Middleburg, Virginia

American Pallet
Richmond, Virginia

Ferguson Land and Lumber Company
Rocky Mount, Virginia

Old Dominion Wood Products
Lynchburg, Virginia

J. S. Purcell Lumber Company
Louisa, Virginia

Neff Lumber Mills, Inc.
Broadway, Virginia

Officers

Bobby J. Harris
 John S. Purcell
 Marijo E. Wood

Chairman
 Vice-Chairman
 Secretary/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 Bureau.

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 adopted and established by the Board. Claims are processed and paid by a service agent under a contractual agreement with the Association. The Association's operations are conducted on a calendar year basis.

ADMINISTRATIVE AGREEMENT

Effective January 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 eight months and the agreement continued thereafter subject to termination by either party upon 90 days advance written notice.

According to the agreement, SIS shall administer the financial affairs of the Association as established and adopted by the Board; advise the board on policy matters; contract with a service agent, attorneys, accountants and other advisors and consultants; set up policies and maintain a set of books and records; collect all sums due the Association; pay all items of expense; direct the solicitation and enrollment of new members; file necessary reports; and conduct other managerial duties as may be mutually agreed upon.

As compensation for its services, SIS shall receive 7.5% of all members' contributions calculated under provisions of 14 VAC 5-370-110 without reduction as a result of premium discounts, experience ratings, deviations or other adjustments. The Association incurred \$295,642 in fees relating to this agreement in calendar year 2022.

CLAIMS CONSULTING SERVICE AGREEMENT

Effective January 1, 1994, the Association entered into a claims consulting service agreement with SIS. The agreement is subject to termination by either party upon 60 days advance written notice. According to this 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 the settlement of claims.

As compensation, the Association shall pay SIS $\frac{1}{2}$ 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 \$19,709 in fees relating to this agreement in calendar year 2022.

CLAIMS SERVICE AGREEMENT

Effective January 1, 1998, the Association entered into a claims service agreement with Trigon Administrators, Inc., currently known as Sedgwick CMS (Sedgwick). The original term of the agreement was for a period of 12 months and the agreement shall automatically renew for additional one-year terms unless either party provides 60 days advance written notice of its intent to non-renew or renegotiate any portion of the agreement.

Under the terms of the agreement, Sedgwick will handle all aspects of the management of claims for the life of the claim including the following: claims counseling; loss control services; furnishing monthly reports; medical cost containment services; and other miscellaneous claims-related services. Additionally, Sedgwick will be compensated 30% of the savings generated by inpatient bill audits, 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 \$252,200 in fees relating to this agreement in calendar year 2022.

DIVIDENDS TO MEMBERS

Any surplus assets accumulated within a plan year may be declared refundable by the Board. Payment 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:

Approval Dates

<u>Plan Year</u>	<u>September 20, 2018</u>	<u>October 1, 2019</u>	<u>September 9, 2020</u>	<u>September 13, 2021</u>	<u>September 23, 2022</u>
1996	\$2,500	\$1,000	\$1,000	\$2,364	\$0
1997	0	1,000	1,000	5,113	0
1998	0	0	0	10,205	26,969
2000	0	0	0	10,000	33,993
2001	998	1,264	1,641	1,280	0
2003	1,280	1,622	2,109	1,638	0
2005	1,520	1,000	1,000	4,441	0
2006	1,401	1,000	2,000	2,918	0
2008	0	0	0	3,325	0
2009	10,000	5,000	3,384	1,262	0
2010	10,000	15,000	15,000	19,636	0
2011	50,000	25,000	15,000	6,779	0
2012	25,000	10,000	20,000	10,181	0
2013	50,000	40,000	0	0	20,000
2014	50,000	50,000	50,000	75,000	30,000
2015	100,000	100,000	75,000	125,000	100,000
2017	0	75,000	100,000	100,000	100,000
2018	0	0	100,000	25,000	100,000
2019	0	0	0	50,000	0
2020	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>50,000</u>
Total	<u>\$302,699</u>	<u>\$326,886</u>	<u>\$387,134</u>	<u>\$454,142</u>	<u>\$460,962</u>

SPECIAL RESERVES AND DEPOSITS

At December 31, 2022, the Association had a United States Treasury Note with a par value of \$255,000 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, 2022, with the following limits:

	<u>Association's Retention</u>	<u>Excess Insurer's Limit</u>
Specific Excess	\$800,000 maximum for each accident and each employee for disease	Workers' Compensation Statutory Employers' Liability \$1,000,000
Aggregate Excess	Greater of \$5.00 per \$100 of annual remuneration or minimum loss fund of \$4,451,684	\$5,000,000

FINANCIAL STATEMENTS

There follows a statement reflecting the financial condition of the Association at December 31, 2022, a statement of income for the year ended December 31, 2022, 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, 2022

ASSETS

Bonds, short term	\$367,573
Bonds, long term	5,933,121
Other invested assets	343,383
Cash on deposit	202,949
Premiums receivable	396,191
Interest due and accrued	28,139
Amounts recoverable on paid losses	19,756
Prepaid administrative fees	31,000
Other prepaid expenses	4,174
	<hr/>
Total assets	<u><u>\$7,326,286</u></u>

LIABILITIES AND MEMBERS' EQUITY

Losses unpaid	\$4,334,907
Loss adjustment expenses unpaid	252,812
Contingency reserve	1,250,608
Unearned premiums	746,499
Excess insurance premiums payable	45,977
Premium refunds payable	96,210
Administrative fees payable	24,795
Taxes, licenses and fees payable	95,000
Dividends payable	991,900
Professional fees payable	17,500
Investment fees payable	3,000
Payroll audit fees payable	8,910
	<hr/>
Total liabilities	\$7,868,118
Restricted members' equity	255,000
Unrestricted members' equity	(796,832)
	<hr/>
Total liabilities and members' equity	<u><u>\$7,326,286</u></u>

STATEMENT OF INCOME
FOR YEAR ENDED DECEMBER 31, 2022

UNDERWRITING INCOME

Premiums earned	<u>\$3,366,595</u>
Deductions:	
Losses incurred	\$1,825,348
Loss expenses incurred	259,763
Other underwriting expenses incurred	765,164
Contingency reserve	<u>52,371</u>
Total underwriting deductions	<u>\$2,902,646</u>
Net underwriting gain	<u>\$463,949</u>

INVESTMENT INCOME

Net investment income earned	\$117,208
Net realized capital gains	<u>63,634</u>
Net investment gain	<u>\$180,842</u>

OTHER INCOME

Dividends applied to deficit fund years	<u>\$169,738</u>
Total other income	<u>\$169,738</u>
Net income before federal income taxes	\$814,529
Federal income taxes incurred	<u>0</u>
Net income	<u><u>\$814,529</u></u>

RECONCILIATION OF MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Members' equity, previous year before undistributed dividends	* (\$1,390,270)	(\$900,131)	(\$702,633)	\$628,860	\$300,196
Adjustment for previous examination changes	(37,544)				
Net income or (loss)	918,504	445,260	1,560,108	99,911	814,529
Net unrealized capital gains or (losses)	(40,576)	66,089	104,180	(129,393)	(349,398)
Dividends paid to members	<u>(350,245)</u>	<u>(313,851)</u>	<u>(332,795)</u>	<u>(299,182)</u>	<u>(315,259)</u>
Restricted and unrestricted members' equity, end of year	(\$900,131)	(\$702,633)	\$628,860	\$300,196	\$450,068
Less: Restricted members' equity, end of year	<u>256,378</u>	<u>257,173</u>	<u>260,350</u>	<u>255,579</u>	<u>255,000</u>
Unrestricted members' equity, end of year before undistributed dividends	(\$1,156,509)	(\$959,806)	\$368,510	\$44,617	\$195,068
Less: Dividends declared but unpaid	<u>623,865</u>	<u>636,900</u>	<u>691,239</u>	<u>846,194</u>	<u>991,900</u>
Unrestricted members' equity, end of year	<u><u>(\$1,780,374)</u></u>	<u><u>(\$1,596,706)</u></u>	<u><u>(\$322,729)</u></u>	<u><u>(\$801,577)</u></u>	<u><u>(\$796,832)</u></u>

* Adjusted members' equity from previous examination.

Members' Account By Fiscal Year Inception to Date December 31, 2022

	All Other Fiscal Years Preceding 1982-2017	Fourth Fiscal Year Preceding 2018	Third Fiscal Year Preceding 2019	Second Fiscal Year Preceding 2020	First Fiscal Year Preceding 2021	Current Fiscal Year 2022	Total Inception to Date (1982-2022)
Income Received							
Premiums written	\$67,622,898	\$3,080,944	\$3,406,551	\$3,488,506	\$3,413,338	\$3,949,466	\$84,961,703
Less: Excess insurance	8,705,118	314,961	425,344	361,573	196,619	337,434	10,341,049
Net premiums written	\$58,917,780	\$2,765,983	\$2,981,207	\$3,126,933	\$3,216,719	\$3,612,032	\$74,620,654
Investment income	5,676,171	101,572	96,713	104,295	33,328	188,456	6,200,535
Allocation between years	47,059	10,276	331	40,778	55,183	(153,627)	0
Other	2,282,192	0	0	0	0	(349,579)	1,932,613
Total income collected	\$66,923,202	\$2,877,831	\$3,078,251	\$3,272,006	\$3,305,230	\$3,297,282	\$82,753,802
Less: Expenses Paid							
Losses paid	\$33,584,721	\$1,459,992	\$2,086,404	\$1,185,038	\$1,215,987	\$454,448	\$39,986,590
Allocated loss adjustment expenses paid	2,707,174	259,130	425,493	266,151	367,743	39,427	4,065,118
Administrative fees	5,953,189	291,921	321,664	314,626	286,500	321,570	7,489,470
Service agent's fees	4,532,094	219,939	241,247	235,970	214,875	252,200	5,696,325
Taxes, licenses, and fees	1,524,883	71,376	83,602	76,379	93,069	0	1,849,309
Federal income tax	188,240	0	0	0	0	0	188,240
Other expenses	1,685,900	63,934	60,054	58,555	87,232	11,985	1,967,660
Total expenses	\$50,176,201	\$2,366,292	\$3,218,464	\$2,136,719	\$2,265,406	\$1,079,630	\$61,242,712
Net cash income	\$16,747,001	\$511,539	(\$140,213)	\$1,135,287	\$1,039,824	\$2,217,652	\$21,511,090
Add: Receivables							
Premiums receivable	\$0	\$0	\$0	\$0	\$0	\$396,191	\$396,191
Interest due and accrued	7,024	1,534	49	6,089	8,240	5,203	28,139
Amounts recoverable on paid losses	19,756	0	0	0	0	0	19,756
Other	0	0	0	0	0	35,174	35,174
Total	\$26,780	\$1,534	\$49	\$6,089	\$8,240	\$436,568	\$479,260
Deduct: Liabilities							
Losses unpaid	\$266,330	\$100,000	\$250,061	\$422,424	\$1,058,760	\$2,237,332	\$4,334,907
Loss adjustment expenses	45,788	0	0	10,383	57,439	139,202	252,812
Contingency reserve	743,855	92,428	102,195	104,655	102,400	105,075	1,250,608
Unearned premiums	0	0	0	0	0	746,499	746,499
Excess insurance premiums payable	0	0	0	0	0	45,977	45,977
Premium refunds payable	0	0	0	0	0	96,210	96,210
Administrative fees payable	0	0	0	0	0	24,795	24,795
Taxes, licenses and fees payable	0	0	0	0	0	95,000	95,000
Other expenses payable	0	0	0	0	0	29,410	29,410
Total	\$1,055,973	\$192,428	\$352,256	\$537,462	\$1,218,599	\$3,519,500	\$6,876,218

Members' Account By Fiscal Year Inception to Date December 31, 2022

	All Other Fiscal Years Preceding 1982-2017	Fourth Fiscal Year Preceding 2018	Third Fiscal Year Preceding 2019	Second Fiscal Year Preceding 2020	First Fiscal Year Preceding 2021	Current Fiscal Year 2022	Total Inception to Date (1982-2022)
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$15,717,808	\$320,645	(\$492,420)	\$603,914	(\$170,535)	(\$865,280)	\$15,114,132
Less: Dividends paid inception to date by fiscal year	14,445,224	179,901	0	38,939	0	0	14,664,064
Less: Restricted Members' Equity by fiscal year	<u>0</u>	<u>51,000</u>	<u>51,000</u>	<u>51,000</u>	<u>51,000</u>	<u>51,000</u>	<u>255,000</u>
Unrestricted Members' Equity undistributed by fiscal year	\$1,272,584	\$89,744	(\$543,420)	\$513,975	(\$221,535)	(\$916,280)	\$195,068
Less: Dividends declared but unpaid	<u>885,740</u>	<u>45,099</u>	<u>50,000</u>	<u>11,061</u>	<u>0</u>	<u>0</u>	<u>991,900</u>
Unrestricted Members' Equity 12/31/22	<u>\$386,844</u>	<u>\$44,645</u>	<u>(\$593,420)</u>	<u>\$502,914</u>	<u>(\$221,535)</u>	<u>(\$916,280)</u>	<u>(\$796,832)</u>

*Although the cumulative unrestricted members' equity for the fiscal years 1982-2017 at December 31, 2022 was \$386,844, the 2007 fiscal year had a member's equity deficit of \$9,498.

STATEMENT OF EXAMINERS' CHANGES IN MEMBERS' EQUITY
DECEMBER 31, 2022

	<u>Amount Per Association</u>	<u>Amount Per Examiner</u>	<u>Increase (Decrease) Members' Equity</u>
<u>Assets:</u>			
Premiums receivable	\$0	\$396,191	\$396,191
<u>Liabilities:</u>			
Contingency reserve	1,241,605	1,250,608	(9,003)
Excess insurance premiums payable	0	45,977	(45,977)
Premium refunds payable	0	96,210	(96,210)
Administrative fees payable	0	24,795	(24,795)
Professional fees payable	15,000	17,500	<u>(2,500)</u>
Examiners changes in members' equity			<u><u>\$217,706</u></u>
Restricted and unrestricted members' equity per Association			(\$759,538)
Restricted and unrestricted members' equity per Examiners			<u>(541,832)</u>
Increase in restricted and unrestricted members' equity			<u><u>\$217,706</u></u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

1. The results of this examination reflect an unrestricted members' equity deficit for the 2007, 2019, 2021, and 2022 fiscal years of \$9,498, \$593,420, \$221,535, and \$916,280, 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. The Board must recognize the Association's financial condition and take necessary steps, which may include assessments, to eliminate all deficits.

Payroll Audit Changes

The adjustments in the following recommendations were determined by utilizing each member's final 2022 fiscal year payrolls which were not fully completed until after the Association's 2022 Annual Statement filing to the Bureau.

- | | |
|--------------------------------|------------------|
| 2. <u>Premiums receivable</u> | <u>\$396,191</u> |
| <u>Premium refunds payable</u> | <u>\$ 96,210</u> |

The above amounts are \$396,191 and \$96,210 more, respectively, than the amounts reported by the Association in its 2022 Annual Statement. The Examiners' amounts are based on subsequent 2022 member payroll audits and reflect differences between audited contributions and contributions paid December 31, 2022.

- | | |
|-------------------------------|--------------------|
| 3. <u>Contingency reserve</u> | <u>\$1,250,608</u> |
|-------------------------------|--------------------|

The above liability is \$9,003 more than the amount reported by the Association in its 2022 Annual Statement. The Examiners' amount is a result of an increase in earned premium based on a review of subsequent 2022/2023 member payroll audits, which is the basis for the calculation of contingency reserve.

- | | |
|---|-----------------|
| 4. <u>Excess insurance premiums payable</u> | <u>\$45,977</u> |
|---|-----------------|

The above liability is \$45,977 more than the amount reported by the Association in its 2022 Annual Statement. The Examiners' amount reflects an increase in the audited member payrolls, as defined by the excess insurer, and developed from subsequent 2022 member payroll audits, which is the basis for computing excess insurance premiums.

5. Administrative fees payable \$24,795

The above liability is \$24,795 more than the amount reported by the Association in its 2022 Annual Statement. The Examiners' amount is based on subsequent 2022 fiscal year member payroll audits and reflects the differences between the fees owed at December 31, 2022, and the amounts actually paid at December 31, 2022.

6. Professional fees payable \$17,500

The above liability is \$2,500 more than the amount reported by the Association in its 2022 Annual Statement. The Examiners' amount is based on a review of invoices paid in 2023 for accounting services pertaining to 2022.

SUBSEQUENT EVENT

On September 18, 2023, the Bureau approved dividends for the Association totaling \$475,479.

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, Benjamin MacKercher, CFE & Alyssa Marinoble participated in the work of the examination.

Respectfully submitted,

Danielle T. Ellis

Danielle T. Ellis, APIR
Insurance Examiner

WOOD PRODUCTS OF VIRGINIA GROUP SELF INSURANCE ASSOCIATION

Administered By
SELF INSURANCE SERVICES, LLC
COST CONTROL THROUGH SERVICE

April 10, 2024

Mr. David H. Smith
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 Wood Products of Virginia Group Self Insurance Association during the examination period January 1, 2018 through December 31, 2022.

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

Sincerely,



Travis Miller
Administrator
Wood Products of Virginia Group
Self Insurance Association

Enclosures

Wood Products 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.

Payroll Audit Changes

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 payroll audit information not available at the time the financial statement was filed.
4. 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.
5. 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.
6. 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.