

**EXAMINATION REPORT  
of  
VIRGINIA CONTRACTORS  
GROUP SELF-INSURANCE ASSOCIATION  
OILVILLE, 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

P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
1300 E. MAIN STREET  
RICHMOND, VIRGINIA 23219  
TELEPHONE: (804) 371-9741  
[www.scc.virginia.gov/boi](http://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 Virginia Contractors 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 29<sup>th</sup> day of April 2024

Scott A. White  
Commissioner of Insurance



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Richmond, Virginia  
February 12, 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:

**VIRGINIA CONTRACTORS  
GROUP SELF-INSURANCE ASSOCIATION**

Oilville, 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 June 1, 1982. On July 1, 1990, the Bureau revised the Association's license to authorize employers' liability coverage. According to the Articles of Association, the Association was formed for the following purposes:

- (a) To consider and deal by all lawful means with common problems involved in employee safety in the construction industry and to secure cooperative action in advancing common purposes of the members of the Association.
- (b) To qualify as a group self-insurance association with the goal of pooling the liabilities of its members which liabilities may arise under the Virginia Workers' Compensation Act. Such qualification shall be done in accordance with the applicable laws of the Commonwealth of Virginia as well as any rules or regulations adopted pursuant thereto.
- (c) To do anything necessary and proper for the accomplishment of any of the purposes set forth herein.

## **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 six nor more than nine board members of which three-fourths must be members of the Association. The Board shall elect a Chairman, a Vice-Chairman, a Secretary and any additional officers, as the Board deems necessary.

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

<u>Representative</u>	<u>Member</u>
DeWitt C. Baldwin	Capital Interior Contractors, Inc. Richmond, Virginia
John M. Jordan, III	Hawkins-Graves, Inc. Lynchburg, Virginia
Mark R. Pace	E.C. Pace Company, Inc. Roanoke, Virginia
Deborah C. Sorensen	High Purity Systems, Inc. Manassas, Virginia
Allen B. Whittle	Thor, Inc. Roanoke, Virginia
Wayne D. Witmer	Harman Construction, Inc. Harrisonburg, Virginia

#### Officers

Mark R. Pace	Chairman
Wayne D. Witmer	Vice-Chairman
Allen B. Whittle	Secretary

### **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 applicants 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 fiscal year basis ending May 31.

### **ADMINISTRATIVE AND OTHER SERVICES AGREEMENT**

Effective June 1, 1984, the Association entered into an administrative agreement with Thomas Rutherford, Inc. (Rutherford). This agreement was terminated on June 1, 2022.

Effective June 1, 2022, the Association entered into an administrative and other services agreement with Landin Services LLC (Landin). This agreement is effective for a period of seven years and will automatically renew with the same terms for a three-year term; and then for successive one-year terms. According to the agreement, Landin is responsible for the following administrative services:

- Advising the Board on policy matters and ensuring that the provisions of the Association's contracts for services are met.
- Maintenance of books and records for the Association.
- Collection, receipt, transfer and deposit of and accounting for all Association funds in accordance with procedures established by the Association.
- Maintenance of an office location for records of the Association.
- Maintenance of a computer records system which shall be owned by Landin which shall contain up to date, complete accurate records in a readily assessable format.
- Provide billing and member maintenance services for the Association.
- Invest the Association's fund surpluses as directed by the Board.

According to the agreement, Landin is responsible for the following other services:

- Serve as service agent and act as advisor and representative of the Association in all matters pertaining to any obligations and requirements imposed by 14 VAC 5-370-10 and by the Virginia Workers' Compensation Act.
- Act on behalf of the Association and its member companies in completing and filing any required notices or reports with the excess insurer.
- Act as underwriter for the Association in the selection of new members, as well as monitoring the performance of each to ensure that their membership continues to be to the benefit of the Association.

- Provide advice, service and assistance to the Association and its members in all matters relating to safety in accordance with requirements of Association standard operating procedures.
- Advising the Association and its member companies as to medical, nursing, and other rehabilitation services including hospitalization required under the Workers' Compensation Statutes and provide medical cost containment services.
- Handling all claims in accordance with the requirements of 14 VAC 5-370.

In exchange for the above services, Landin will receive an annual fee of a percentage of earned premiums, as determined by a payroll audit of all Association members for each fiscal year. For administrative services performed, Landin shall receive 11% of earned premium. For other services performed, including claims handling and risk control, Landin shall receive 7.5% of earned premium. Total administrative and other service fees paid in 2022 were \$896,254.

### **DIVIDENDS TO MEMBERS**

Any surplus assets accumulated within a fiscal 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:

Fiscal Year	September 19, <u>2018</u>	September 12, <u>2019</u>	September 10, <u>2020</u>	October 18, <u>2021</u>
2002/2003	\$0	\$0	\$0	\$8,846
2005/2006	5,943	3,704	6,540	20,301
2006/2007	248,245	0	0	0
2007/2008	0	0	26,720	15,869
2008/2009	100,000	100,000	0	0
2010/2011	150,000	150,000	100,000	100,000
2012/2013	0	300,000	100,000	100,000
2013/2014	200,000	200,000	250,000	250,000
2015/2016	132,359	0	0	0
2016/2017	0	0	0	100,000
2018/2019	0	0	0	250,000
2019/2020	0	0	0	250,000
Total	<u>\$836,547</u> *	<u>\$753,704</u> **	<u>\$483,260</u> ***	<u>\$1,095,016</u> ****



\*The approval in 2018 was contingent upon dividend funds totaling \$325,000 being applied to the various deficits.

\*\*The approval in 2019 was contingent upon dividend funds of \$400,000 being held as dividends approved but unpaid to be applied to various deficits if needed in the future.

\*\*\*The approval in 2020 was contingent upon dividend funds of \$183,260 being held as dividends approved but unpaid to be applied to various deficits if needed in the future.

\*\*\*\*The approval in 2021 was contingent upon dividend funds of \$695,016 being held as dividends approved but unpaid to be applied to various deficits if needed in the future.

### **SPECIAL RESERVES AND DEPOSITS**

At December 31, 2022, the Association had United States Government Agency obligations with a par value of \$1,000,000 on deposit with the Treasurer of Virginia in lieu of carrying aggregate excess insurance and reported within the Association's investments and restricted members' equity. Pursuant to 14 VAC 5-370-60 A, each group self-insurance association licensed by the Bureau shall maintain a security deposit of \$250,000. This requirement was met by a separate surety bond on deposit with the Treasurer of Virginia.

### **EXCESS INSURANCE COVERAGE**

The Association had a specific excess insurance agreement in force at December 31, 2022, with the following limits:

	<u>Association's Retention</u>	<u>Excess Insurer's Limits</u>
Specific Excess	\$1,250,000 for each Accident or Disease	Workers' Compensation Statutory Employers' Liability \$1,000,000

The Association does not carry aggregate excess insurance because it has satisfied the requirement set forth in 14 VAC 5-370-90, which states, in part, that the Commission may release the Association from the aggregate excess insurance requirement if the deposit with the Treasurer of Virginia established by the Association is in an amount determined by the Commission to be adequate.

**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	\$250,260
Bonds, long term	11,177,965
Other invested assets	237,700
Cash on deposit	2,030,153
Deposit with service agent	755,000
Premiums receivable	600,653
Interest due and accrued	82,292
Amounts recoverable on paid losses	153,065
Income tax receivable	31,000
Prepaid administrative fees	21,366
Prepaid excess insurance premium	66,218
	<hr/>
Total assets	<u><u>\$15,405,672</u></u>

**LIABILITIES AND MEMBERS' EQUITY**

Losses unpaid	\$8,665,913
Loss adjustment expenses unpaid	708,523
Contingency reserve	2,114,345
Unearned premiums	1,059,731
Excess insurance premiums payable	47,220
Premium refunds payable	145,599
Administrative fees payable	32,769
Service agent's fees payable	96,328
Taxes, licenses and fees payable	210,000
Dividends payable	1,333,074
Professional fees payable	70,000
Investment fees payable	9,000
	<hr/>
Total liabilities	\$14,492,502
Restricted members' equity	957,610
Unrestricted members' equity	(44,440)
	<hr/>
Total liabilities and members' equity	<u><u>\$15,405,672</u></u>

**STATEMENT OF INCOME**  
**FOR YEAR ENDED DECEMBER 31, 2022**

**UNDERWRITING INCOME**

Premiums earned	<u>\$5,842,808</u>
Deductions:	
Losses incurred	\$4,415,179
Loss expenses incurred	174,605
Other underwriting expenses incurred	1,548,946
Contingency reserve	<u>182,073</u>
Total underwriting deductions	<u>\$6,320,803</u>
Net underwriting loss	<u>(\$477,995)</u>

**INVESTMENT INCOME**

Net investment income earned	\$291,818
Net realized capital losses	<u>(349,619)</u>
Net investment loss	<u>(\$57,801)</u>

**OTHER INCOME**

Late fees/other	<u>\$14,202</u>
Total other income	<u>\$14,202</u>
Net income before federal income taxes	(\$521,594)
Federal income taxes incurred	<u>0</u>
Net income	<u><u>(\$521,594)</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	* \$591,907	\$384,820	\$2,055,959	\$4,058,726	\$4,431,513
Adjustment for previous examination changes	441,608				
Net income (loss)	(206,337)	1,605,790	1,935,895	697,819	(521,594)
Net unrealized capital gains (losses)	60,440	395,887	362,152	(329,556)	(902,604)
Prior period adjustment	0	0	0	0	(368,655)
Dividends paid to members	<u>(502,798)</u>	<u>(330,538)</u>	<u>(295,280)</u>	<u>4,524</u>	<u>(392,416)</u>
Restricted and unrestricted members' equity, end of year	\$384,820	\$2,055,959	\$4,058,726	\$4,431,513	\$2,246,244
Less: Restricted members' equity, end of year	<u>996,273</u>	<u>1,021,560</u>	<u>1,024,116</u>	<u>1,001,633</u>	<u>957,610</u>
Unrestricted members equity, end of year before undistributed dividends	(\$611,453)	\$1,034,399	\$3,034,610	\$3,429,880	\$1,288,634
Less: Dividends declared but unpaid	<u>14,804</u>	<u>437,970</u>	<u>625,950</u>	<u>1,725,490</u>	<u>1,333,074</u>
Unrestricted members' equity, end of year	<u>(\$626,257)</u>	<u>\$596,429</u>	<u>\$2,408,660</u>	<u>\$1,704,390</u>	<u>(\$44,440)</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	Fifth Fiscal Year Preceding 2017/2018	Fourth Fiscal Year Preceding 2018/2019	Third Fiscal Year Preceding 2019/2020	Second Fiscal Year Preceding 2020/2021	First Fiscal Year Preceding 2021/2022	Partial Current Fiscal Year 6/1/22-12/31/22	Total Inception to Date (1982-2022)
<b><u>Income Received</u></b>								
Premiums written	\$194,016,365	\$7,606,405	\$6,940,178	\$7,143,672	\$6,673,826	\$5,847,152	\$4,484,306	\$232,711,904
Less: Excess insurance	18,475,111	802,166	595,559	614,016	619,129	590,864	445,505	22,142,350
Net premiums written	\$175,541,254	\$6,804,239	\$6,344,619	\$6,529,656	\$6,054,697	\$5,256,288	\$4,038,801	\$210,569,554
Investment income	15,905,489	85,481	194,421	186,830	73,821	10,878	(28,444)	16,428,476
Allocation between years	(10,894)	0	(2,583)	(4,385)	(4,093)	(4,297)	26,252	0
Other	98,128	(9,328)	7,487	(2,241)	21,018	133,097	(895,283)	(647,122)
Total income collected	\$191,533,977	\$6,880,392	\$6,543,944	\$6,709,860	\$6,145,443	\$5,395,966	\$3,141,326	\$226,350,908
<b><u>Less: Expenses Paid</u></b>								
Losses paid	\$114,342,342	\$4,803,002	\$3,130,061	\$2,079,742	\$2,090,831	\$1,959,961	\$130,910	\$128,536,849
Allocated loss adjustment expenses paid	8,054,875	473,295	276,716	182,742	188,216	96,223	4,533	9,276,600
Administrative fees	20,724,432	836,871	758,992	793,234	727,727	615,287	398,069	24,854,612
Service agent's fees	14,191,887	570,635	517,044	540,732	496,205	419,555	182,818	16,918,876
Taxes, licenses, and fees	6,063,467	338,754	255,824	243,172	238,288	238,605	0	7,378,110
Federal income tax	774,083	173,144	116,005	365,938	321,379	51,009	31,000	1,832,558
Other expenses	790,199	103,106	105,147	113,964	134,032	124,639	67,640	1,438,727
Total expenses	\$164,941,285	\$7,298,807	\$5,159,789	\$4,319,524	\$4,196,678	\$3,505,279	\$814,970	\$190,236,332
Net cash income	\$26,592,692	(\$418,415)	\$1,384,155	\$2,390,336	\$1,948,765	\$1,890,687	\$2,326,356	\$36,114,576
<b><u>Add: Receivables</u></b>								
Premiums receivable	\$0	\$0	\$0	\$0	\$0	\$79,209	\$521,444	\$600,653
Interest due and accrued	29,489	0	7,773	13,193	12,315	12,928	6,594	82,292
Amounts recoverable on paid losses	153,065	0	0	0	0	0	0	153,065
Other	0	0	0	0	0	0	118,584	118,584
Total	\$182,554	\$0	\$7,773	\$13,193	\$12,315	\$92,137	\$646,622	\$954,594
<b><u>Deduct: Liabilities</u></b>								
Losses unpaid	\$1,735,842	\$674,352	\$448,833	\$558,412	\$989,609	\$2,459,835	\$1,799,030	\$8,665,913
Loss adjustment expenses	209,740	79,677	32,688	23,861	44,098	253,109	65,350	708,523
Contingency reserve	1,212,137	0	208,215	214,310	200,203	176,743	102,737	2,114,345
Unearned premiums	0	0	0	0	0	0	1,059,731	1,059,731
Excess insurance premiums payable	0	0	0	0	0	47,220	0	47,220
Premium refunds payable	0	0	0	0	0	0	145,599	145,599
Administrative fees payable	0	0	0	0	0	32,769	0	32,769
Service agent's fees payable	0	0	0	0	0	22,302	74,026	96,328
Taxes, licenses and fees payable	0	0	0	0	0	0	210,000	210,000
Other expenses payable	0	0	0	0	0	20,000	59,000	79,000
Total	\$3,157,719	\$754,029	\$689,736	\$796,583	\$1,233,910	\$3,011,978	\$3,515,473	\$13,159,428

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

	All Other Fiscal Years Preceding 1982-2017	Fifth Fiscal Year Preceding 2017/2018	Fourth Fiscal Year Preceding 2018/2019	Third Fiscal Year Preceding 2019/2020	Second Fiscal Year Preceding 2020/2021	First Fiscal Year Preceding 2021/2022	Partial Current Fiscal Year 6/1/22-12/31/22	Total Inception to Date (1982-2022)
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$23,617,527	(\$1,172,444)	\$702,192	\$1,606,946	\$727,170	(\$1,029,154)	(\$542,495)	\$23,909,742
Less: Dividends paid inception to date by fiscal year	21,663,498	0	0	0	0	0	0	21,663,498
Less: Restricted Members' Equity by fiscal year	670,325	47,881	47,881	47,881	47,881	47,881	47,880	957,610
Unrestricted Members' Equity undistributed by fiscal year	\$1,283,704	(\$1,220,325)	\$654,311	\$1,559,065	\$679,289	(\$1,077,035)	(\$590,375)	\$1,288,634
Less: Dividends declared but unpaid	833,074	0	250,000	250,000	0	0	0	1,333,074
Unrestricted Members' Equity 12/31/22	<u>\$450,630</u>	<u>(\$1,220,325)</u>	<u>\$404,311</u>	<u>\$1,309,065</u>	<u>\$679,289</u>	<u>(\$1,077,035)</u>	<u>(\$590,375)</u>	<u>(\$44,440)</u>

\*Although the cumulative unrestricted members' equity for the fiscal years 1982-2017 at December 31, 2022 was \$450,630, the 1990/1991, 1996/1997, 1998/1999, 2006/2007, 2007/2008, 2009/2010, 2011/2012, and 2015/2016, fiscal years had members' equity deficits of \$542, \$3,372, \$106,229, \$333, \$59,743, \$464,923, \$18,909, and \$3,576 respectively.

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

	Amount Per <u>Association</u>	Amount Per <u>Examiner</u>	Increase (Decrease) <u>Members' Equity</u>
<u>Assets:</u>			
Premiums receivable	\$79,209	\$600,653	\$521,444
Amounts recoverable on paid losses	225,920	153,065	(72,855)
Prepaid administrative fees	37,925	21,366	(16,559)
Prepaid excess insurance premium	100,385	66,218	(34,167)
<u>Liabilities:</u>			
Contingency reserve	2,110,881	2,114,345	(3,464)
Unearned premiums	1,210,266	1,059,731	150,535
Premium refunds payable	0	145,599	(145,599)
Administrative fees payable	36,613	32,769	3,844
Service agent's fees payable	87,656	96,328	(8,672)
Examiners' changes in members' equity			<u>\$394,507</u>
Restricted and unrestricted members' equity per Association			\$518,663
Restricted and unrestricted members' equity per Examiners			<u>913,170</u>
Increase in restricted and unrestricted members' equity			<u>\$394,507</u>



## RECOMMENDATIONS FOR CORRECTIVE ACTION

### Management and Control

1. The results of this examination reflect a members' equity deficit for the 1990/1991, 1996/1997, 1998/1999, 2006/2007, 2007/2008, 2009/2010, 2011/2012, 2015/2016, 2017/2018, 2021/2022, fiscal years and the 2022/2023 partial current fiscal year of \$542, \$3,372, \$106,229, \$333, \$59,743, \$464,923, \$18,909, \$3,576, \$1,220,325, \$1,077,035, and \$590,375, 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

2. Amounts recoverable on paid losses \$153,065

The above asset is \$72,855 less than the amount reported by the Association in its 2022 Annual Statement. The Examiners' amount is based on a review of payments received in 2023 for reinsurance recoverable amounts reported at December 31, 2022.

### Payroll Audit Changes

The adjustments in the following recommendations were determined by utilizing each member's final 2022/2023 fiscal year payrolls which were not fully completed until after the Association's 2022 Annual Statement filing to the Bureau.

3. Premiums receivable \$600,653  
Premium refunds payable \$145,599

The above amounts have been increased and decreased \$521,444 and \$145,599, respectively. The Examiners' amounts are based on subsequent 2022/2023 fiscal year member payroll audits and reflect differences between audited contributions and contributions paid, prorated for the period June 1, 2022 through December 31, 2022.

4. Prepaid administrative fees \$21,366

The above asset is \$16,559 less than the amount reported by the Association in its 2022 Annual Statement. The Examiners' amount reflects administrative fees paid at December 31, 2022, less the amount owed at December 31, 2022 based on the Examiners' analysis of member payroll audits for the period under review and subsequent 2022/2023 fiscal year member payroll audits.

5. Prepaid excess insurance premium \$66,218

The above asset is \$34,167 less than the amount reported by the Association in its 2022 Annual Statement. The Examiners' amount reflects excess insurance premiums paid at December 31, 2022, less the amount owed at December 31, 2022 based on the Examiners' analysis of the 2022/2023 fiscal year member payroll audits.

6. Contingency reserve \$2,114,345

The above liability is \$3,464 more than the amount reported by the Association in its 2022 Annual Statement. The Examiners' change is a result of an increase in earned premium based on a review of member payroll audits during the period under review and subsequent 2022/2023 fiscal year member payroll audits, which is the basis for the calculation of the contingency reserve.

7. Unearned premiums \$1,059,731

The above liability is \$150,535 less than the amount reported by the Association in its 2022 Annual Statement. The Examiners' amount reflects the estimated premiums received to date at December 31, 2022, less the amount earned at December 31, 2022 based on subsequent 2022/2023 fiscal year member payroll audits.

8. Administrative fees payable \$32,769

The above liability is \$3,844 less than the amount reported by the Association in its 2022 Annual Statement. The Examiners' amount reflects administrative fees paid at December 31, 2022, less the amount owed at December 31, 2022 based on the Examiners' analysis of member payroll audits for the period under review.

9. Service agent's fees payable \$96,328

The above liability is \$8,672 more than the amount reported by the Association in its 2022 Annual Statement. The Examiners' amount reflects service agent's fees paid at December 31, 2022, less the amount owed at December 31, 2022 based on the Examiners' analysis of member payroll audits for the period under review.

**SUBSEQUENT EVENT**

On May 23, 2023, the Bureau approved dividends for the Association totaling \$250,000.

**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, Chamelle Macon, APIR, and Alyssa Marinoble participated in the work of the examination.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Benjamin MacKercher".

Benjamin MacKercher, CFE  
Senior Insurance Examiner



• *Building in Safety since 1982* •

April 24, 2024

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

Dear Mr. Smith:

This is in response to your April 4, 2024, letter regarding the Virginia Contractors Group Self-Insurance Association's Examination Report as of December 31, 2022. We take no issue with any matter contained in the examination report. Regarding the recommendations for corrective action, we respond as follows:

Management and Control

1. In regard to the 1990/91, 1996/97, 1998/99, 2006/07, 2007/08, 2009/10, 2011/12, 2015/16, 2017/18, 2021/22 and 2022/23 fund year deficits of \$542, \$3,372, \$106,229, \$333, \$59,743, \$464,923, \$18,909, \$3,576, \$1,220,325, \$1,077,035 and \$590,375 respectively, we request permission to continue to monitor due to the following:
  - As of December 31, 2023, the following years no longer reflect a deficit: 1990/91, 1996/97, 2006/07, 2007/08, 2011/12, 2015/16 and 2022/23.
  - As of December 31, 2023, the following years have experienced positive development thereby reducing the deficits: 1998/99, 2009/10, 2017/18 and 2021/22.
  - There is nearly \$1 million in IBNR for these years as of December 31, 2023, which could potentially be reduced/removed and improve the equity position as the years continue to mature.
  - Of the nearly \$2 million in contingency reserve as of December 31, 2023, the Bureau has indicated in their most recent dividend approval letter dated April 22, 2024, that \$277,519 in excess contingency reserves can be released from the oldest fiscal years to reduce deficits in various fund years.

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Mr. David Smith, CFE, CPCU  
April 24, 2024  
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- Investment earnings in future years will continue to be allocated.
- The Group maintains a Board Discretionary Fund with a current balance of \$483,074 which could be utilized to reduce deficits as needed.

Based on the above, we believe the deficits are manageable and do not jeopardize the long-term financial integrity of VACO.

#### Accounts and Records

2. Amounts Recoverable on Paid Losses – The difference is due to payments received in 2023 for reinsurance recoverable amounts reported as of December 31, 2022.
3. Premiums Receivable and Premium Refunds Payable – The difference in premiums receivable and premium refunds payable are due to differences between audited premiums and premiums received as of December 31, 2022.
4. Prepaid Administrative Fees – The difference is attributed to premiums developed from subsequent payroll audits, which are the basis for computing fees due to the Administrator.
5. Prepaid Excess Insurance Premium – The difference is attributed to payroll amounts developed from subsequent payroll audits, which is the basis for computing excess insurance premiums.
6. Contingency Reserve – The difference is attributed to an increase in earned premiums developed from subsequent payroll audits, which is the basis for the calculation of the contingency reserve.
7. Unearned Premiums – The difference is attributed to premiums developed from subsequent payroll audits.
8. Administrative Fees Payable – The difference is attributed to a change in the liability for fees payable to the Administrator based on subsequent payroll audits which is the basis for computing administrative fees.
9. Service Agent's Fees Payable – The difference is attributed to a change in the liability for fees payable to the Service Agent based on subsequent payroll audits which is the basis for computing service agent fees.

I hope our responses are satisfactory. Should you have any questions or need any additional information, please do not hesitate in contacting us. Please provide 10 copies of the report. Thank you.

Sincerely,



Mark Pace, Chairman  
Members' Supervisory Board