



**STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE**

**REPORT ON EXAMINATION
OF THE
TENNESSEE AUTOMOTIVE ASSOCIATION
SELF-INSURERS' TRUST
NASHVILLE, TENNESSEE**

**AS OF
DECEMBER 31, 2022**

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Nashville, Tennessee
April 10, 2024

Honorable Carter Lawrence
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

In accordance with your instructions and pursuant to Tennessee Code Annotated (“Tenn. Code Ann.”) § 56-1-408 and Tennessee Compilation of Rules and Regulations (“Tenn. Comp. R. & Regs.”) 0780-01-54-.20, a full-scope financial examination and market conduct review, as of December 31, 2022, has been made of the condition and affairs of:

TENNESSEE AUTOMOTIVE ASSOCIATION SELF-INSURERS’ TRUST
2521 White Avenue
Nashville, Tennessee 37204

hereinafter referred to as the “Trust” and a report thereon is submitted as follows:

INTRODUCTION

This examination was arranged by the Tennessee Department of Commerce and Insurance (TDCI or “Department”). The examination was conducted by duly authorized representatives of the TDCI.

SCOPE OF EXAMINATION

The last examination of the Trust was made as of December 31, 2017. This examination covers the period from January 1, 2018, through December 31, 2022, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination was conducted in accordance with rules and procedures as prescribed by the statutes of the State of Tennessee, and in accordance with practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC) in the *Financial Condition Examiners Handbook* (“Handbook”), as deemed appropriate. The examination sought to evaluate the overall financial statement presentation and

management's compliance with generally accepted accounting principles. The examination also included an assessment of prospective risks faced by the Trust, based on information obtained during the course of the examination.

The examination reviewed the Trust's business policies and practices, management and corporate matters, and reviewed and evaluated assets, liabilities, income, and disbursements. In addition, our examination included tests to provide reasonable assurance that the Trust was in compliance with applicable laws, rules, and regulations. In planning and conducting our examination, we considered the concepts of materiality and risk, and our examination efforts were directed accordingly.

A separate market conduct review was also performed concurrently with the financial examination. See the "Market Conduct Activities" section of this report.

The Trust provided a Letter of Representation certifying that management has disclosed all significant matters and records.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

The examination included a review to determine the current status of the comments and recommendations in the previous report on examination, as of December 31, 2017. A summary of the Commissioner's directives and the corrective actions taken by the Trust is discussed below:

Comments

1. It was noted that the Trust did not have a formal conflict of interest policy to govern the actions of its directors, officers, and employees. As a good business practice and to evidence compliance with Tenn. Code Ann. § 56-3-103, the Trust was advised to implement such a policy and require annual disclosures of conflicts or potential conflicts of interest.

Corrective Action

In October 2018, the Trust created a conflict of interest disclosure form and each member of the Board of Trustees completed this form annually during the period of examination.

2. It was noted that the Trust's Custodial Agreement with First Tennessee Bank did not comply with Tenn. Comp R. & Regs. 0780-01-46-.02 paragraphs (d), (f), (g), (h), (j), (k), (n), and (o).

Corrective Action

On February 26, 2019, the Trust entered into a revised Custodial Agreement with First Tennessee Bank in order to comply with this regulation. See the “Comments and Recommendations” section of this report.

3. It was noted that the Trust’s auditors had not rotated audit partners on the Trust’s engagement. As a best practice, the Trust should consider having its auditors rotate audit partners on its engagement every five (5) years.

Corrective Action

Beginning with the 2020 audit, the Trust’s auditors rotated audit partners on the Trust’s engagement.

Recommendations

1. It was found that the Trust treats its annual statement liability line item “Distributions Due to Members,” as surplus when determining whether it has met the aggregate surplus requirement set forth in Tenn. Comp. R. & Regs. 0780-01-54-.11(1)(a). This regulation requires the Trust to maintain minimum aggregate surplus in the amount of thirty percent (30%) of its unpaid claims liability. While the funds of the Trust associated with this liability are available for the payment of claims, a liability of the Trust cannot simultaneously be considered surplus funds of the Trust.

It was recommended that the Trust establish surplus in an amount that is sufficient to satisfy the requirement of this regulation.

Corrective Action

Beginning with the 2018 audited financial statements, the Trust reported an amount for Members’ Surplus and no longer reports a liability for “Distributions Due to Members.” Also, the Trust no longer reports all earnings or losses as “Distributions Due to (from) Members” on the Statements of Operations and Members’ Surplus.

2. The Trust’s member list was tested against the member list reported to the TDCI. The results of this test showed a significant difference between the two (2) lists. The Trust was unable to provide documentation showing that all members added, canceled, or terminated during the examination period were reported to the TDCI as required by Tenn. Comp. R. & Regs. 0780-01-54-.08.

It was recommended that the Trust file all new member and cancellation documentation with the TDCI in order to comply with Tenn. Comp. R. & Regs. 0780-01-54-.08.

Corrective Action

The Trust complied with this recommendation and filed all new member and cancellation documentation with the TDCI in order to comply with Tenn. Comp. R. & Regs. 0780-01-54-.08.

TRUST HISTORY

The Trust's sponsoring association, the Tennessee Automotive Association (TAA), is a Tennessee non-profit trade association of automobile and truck dealers which was incorporated in 1945. The Trust is an unincorporated association that was created by the TAA to act as a self-insurance group. The operation of the Trust is confined to Tennessee where it is licensed to transact the business of workers' compensation and employers' liability group self-insurance. Membership in the Trust is composed of qualifying members of TAA that have pooled their liabilities under the Tennessee Workers' Compensation Law.

In accordance with Tenn. Comp. R. & Regs. 0780-01-54-.04, the Trust was created through the adoption of the Declaration of Trust and Bylaws ("Bylaws"), on December 17, 1990. The Trust was formed to act as a workers' compensation self-insurance group as defined by Tenn. Comp. R. & Regs. 0780-01-54-.02(17) and as authorized by Tenn. Code Ann. § 50-06-405. In accordance with Tenn. Comp. R. & Regs. 0780-01-54-.04(2)(e)(2), each member is required to execute and be bound by an indemnity agreement and power of attorney as a condition of membership in the Trust. Membership in the Trust also requires an initial contribution equal to twenty-five percent (25%) of first year estimated annual net premiums for workers' compensation coverage. The Trust continues to maintain the members' deposits.

MANAGEMENT AND CONTROL

MANAGEMENT

Board of Trustees

The operation and administration of the Trust is the joint responsibility of a Board of Trustees ("Board") consisting of not more than fifteen (15) nor less than five (5) individuals. Pursuant to Tenn. Comp. R. & Regs. 0780-01-54-.06(1), all Trustees are required to be residents of the State of Tennessee or officers of corporations authorized to do business in the State of Tennessee. At least two-thirds (2/3) of the Trustees are required to be employees, officers, or directors of members of the Trust. During the period under examination, all the Trustees were members of TAA.

The Trustees shall be elected by the members of the Trust. Each Trustee shall serve for a term of five (5) years. A Trustee may be removed, with or without cause, by a majority vote of all Trustees. If a Trustee dies, becomes incapacitated, refuses to act, resigns, or is removed, his successor shall be appointed by the remaining Trustees to fill the unexpired term of office.

The following persons were duly elected to serve on the Board, as of December 31, 2022:

<u>Name</u>	<u>Principal Business Affiliation</u>
Eddie Roberts	Roberts Toyota
Eddie Rogers	Edd Rogers Chevrolet-Buick
Rick Hill	Rick Hill Imports
Stan McNabb	Stan McNabb Chevrolet-Cadillac-Buick-GMC
Stefan Smith	Lexus of Memphis
Dave Kirk	Dave Kirk Chevrolet
Johnny W. Farris	Farris Motor Company

Officers

Pursuant to the Bylaws, the Board shall elect officers from among its members to serve for a term of one (1) year. The officers of the Trust shall consist of a Chairman, Vice-Chairman, and a Secretary. The Board may elect other officers if the need arises.

The following persons served as the Trust's officers, as of December 31, 2022:

<u>Name</u>	<u>Title</u>
Dave Kirk	Chairman
Stan McNabb	First Vice-Chairman
Rick Hill	Secretary, Second Vice-Chairman
Eddie Rogers	Third Vice-Chairman
Eddie Roberts	Fourth Vice-Chairman

CORPORATE RECORDS

The Trust's Bylaws state that the Board shall meet quarterly, or as often as required, at the principal office of the Trust, or at such other location as may be acceptable to the Board. Special meetings of the Board may be called at any time and may be by telephone conference calls or other methods of communication, by which all Trustees participating may simultaneously hear each other. During the period under examination, there were twenty-five (25) regular and special meetings of the Board and five (5) meetings of the members of the Trust. The minutes of the Board and members' meetings were reviewed and appear to reflect properly the acts of the respective bodies. Membership

requirements, powers and duties of the Trustees, and group members were verified to be in accordance with Tenn. Comp. R. & Regs. 0780-01-54.

SERVICE AGREEMENTS

The Trust had seven (7) service agreements in effect during the period of examination.

Administrative Agreement

Effective December 17, 1990, the original Administrative Agreement was executed between Tennessee Automotive Association Service Company (TAASC) and the Trust. Effective January 5, 2006, TAASC and the Trust entered into a revised Administrative Agreement. The Board engaged TAASC to act as the administrator of the Trust within the meaning of Tenn. Comp. R. & Regs. 0780-01-54-.02(1) and (2), to carry out the policies established by the Board, and to provide day-to-day management of the Trust, to the extent such functions are not performed by the service agent.

Claims Processing Agreement

Effective October 1, 2022, the Trust entered into an annual renewable agreement with Brentwood Services Administrators, Inc. (BSA) that provided “Specified Third Party Administrator Services” for claims processing and other related services.

The prior agreement with BSA for claims processing was effective from October 1, 2019, through October 1, 2022.

Medical Bill Review Services Agreement

Effective October 1, 2022, the Trust entered into an annual renewable agreement with BSA for medical bill review. BSA is paid a percentage of all savings derived from reductions to the medical provider’s bill.

The prior agreement with BSA for medical bill review was effective from October 1, 2019, through October 1, 2022.

Medical Cost Containment Services Agreement

Effective October 1, 2022, the Trust entered into an annual renewable agreement with BSA for medical cost containment services for larger medical expense claims or claims in which applicable law requires such services. BSA is paid a stated hourly rate depending on the services rendered.

The prior agreement with BSA for medical cost containment was effective from October 1, 2019, through October 1, 2022.

Royalty Agreement

Effective January 1, 1992, and continuing through the period of examination, the Trust paid royalty fees to TAA equal to a percentage of earned premiums. Such fees were approved by the Board to be paid to the Association for the use of the TAA trade name in the marketing efforts of the Trust.

Custodial Agreement

The Trust and First Tennessee Bank executed an amended Custodial Agreement in 2019. This agreement complies with all the provisions of Tenn. Comp. R. & Regs. 0780-01-46. However, the Trust's 2018 through 2022 Board meeting minutes do not reflect approval of the Custody Agreement, which is required by Tenn. Comp. R. & Regs. 0780-01-46-.02(2). See the "Comments and Recommendations" section later in this report.

Investment Management Agreement

The Trust is a party to an Investment Advisory Agreement with Highland Capital Management, LLC ("Highland") giving Highland authority to supervise and direct the investment and reinvestment of all the Trust's assets, pursuant to the Trust's investment policy. The current agreement became effective January 5, 2013.

EXCESS OF LOSS INSURANCE

In accordance with Tenn. Comp. R. & Regs. 0780-01-54-.04(3)(c), the Trust maintained excess of loss agreements for workers' compensation and employers' liability claims with Safety National Casualty Corporation throughout the period under examination. The agreements contains both specific and aggregate coverage.

The policies provide coverage for losses sustained by the Trust as a result of injury by accident occurring during the policy period, or by disease caused or aggravated by exposure to conditions occurring during the policy period. The policies have provisions for the continuation of coverage in the event of the Trust's insolvency. The policies were written by a company authorized to do business in the State of Tennessee.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2022, and as of the date of this report, the Trust was licensed to transact business only in the State of Tennessee. The Trust is licensed to operate as a self-insured workers' compensation pool which provides workers' compensation coverage to its members.

GROWTH OF THE TRUST

The following exhibit depicts certain aspects of the growth and financial history of the Trust for the period subject to this examination, according to audited financial statements filed with the TDCI:

<u>Year</u>	<u>Earned Premiums</u>	<u>Total Reserves for Loss & LAE*</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Members' Surplus</u>
2022	\$5,311,174	\$9,822,660	\$21,901,362	\$12,295,153	\$9,606,209
2021	\$5,715,920	\$8,984,627	\$22,657,493	\$11,796,030	\$10,861,463
2020	\$5,888,478	\$9,223,366	\$23,483,453	\$12,788,094	\$10,695,359
2019	\$5,925,786	\$10,030,640	\$22,486,841	\$13,297,886	\$9,188,955
2018	\$6,474,601	\$10,681,295	\$22,325,930	\$13,942,085	\$8,383,845

*This represents the total reserves for loss & loss adjustment expenses for all policy years with open and closed claims since inception.

LOSS EXPERIENCE

The following comparative data reflects the loss experience of the Trust for the period under examination, as reported by the Trust in its audited financial statements filed with the TDCI:

<u>Year</u>	<u>Premiums Earned</u>	<u>Incurred Losses & LAE</u>	<u>Under-writing Ratio</u>	<u>General & Admin. Expenses</u>	<u>General & Admin. Expense to Premiums</u>	<u>Combined Ratio</u>
2022	\$5,311,174	\$4,467,930	84.12%	\$1,671,783	31.48%	115.60%
2021	\$5,715,920	\$2,856,281	49.97%	\$1,608,762	28.15%	78.12%
2020	\$5,888,478	\$1,836,374	31.19%	\$1,641,627	27.88%	59.06%
2019	\$5,925,786	\$2,831,389	47.78%	\$1,730,292	29.20%	76.98%
2018	\$6,474,601	\$4,883,944	75.43%	\$1,751,050	27.04%	102.48%

CORRECTION OF FUND YEAR DEFICITS

On October 26, 2022, the Trust notified the TDCI of various fund year deficit corrections needed, as shown below. The Trust requested a transfer of funds from fund years with a surplus to cover the fund year deficits. The TDCI, via email dated November 15, 2022, approved the surplus transfers pursuant to Tenn. Comp. R. & Regs. 0780-01-54-.24(1)(b).

<u>Fund Year</u>	<u>Surplus Transferred</u>	<u>Fund Year</u>	<u>Fund Year Deficit</u>
1998	\$55,774	2004	\$142,880
2002	\$57,924	2008	\$276,548
2003	\$62,704	2011	\$672,980
2005	\$73,387	2021	\$853,841
2006	\$146,509		
2007	\$690,931		
2009	\$429,933		
2010	\$48,313		
2012	\$380,774		
	\$1,946,249		\$1,946,249

The Trust filed a correction of fund year deficits and surplus transfers every year of the examination period, all of which were approved by the TDCI in accordance with Tenn. Comp. R. & Regs. 0780-01-54-.24(1)(b).

REFUNDS OR DISTRIBUTIONS

Tenn. Comp. R. & Regs. 0780-01-54-.15 states, "Any monies for a fund year in excess of the amount necessary to fund all obligations for that fund year may be declared refundable by the board of trustees not less than eighteen (18) months after the end of the fund year and only with the written approval of the Commissioner." If the refund is declared, ten percent (10%) of the refundable amount must be retained by the pool for an additional year to cover any obligations that may not yet have been reported.

Pursuant to Tenn. Comp. R. & Regs. 0780-1-54-.15, the Trust on October 26, 2022, requested the TDCI approve a refund of surplus to members in the amount of \$865,669. The Board formally approved this request on October 6, 2022. The TDCI on November 15, 2022, approved the requested return of surplus.

The return of surplus was paid in the form of credits to members' premium payments in 2023, and cash payments to former members who were members during the 2014, 2015,

2016, 2017, and 2019 policy years. In addition, the Trust requested and received approval from the TDCI to return surplus to current and former members each year during the five (5) year period of examination.

ACCOUNTS AND RECORDS

Tenn. Comp. R. & Regs. 0780-01-54-.09(2) requires the Trust to submit to the Commissioner a statement of financial condition audited by an independent certified public accountant (CPA) on or before the last day of the sixth (6th) month following the end of the Trust's December 31 fiscal year, or June 30. As permitted by Tenn. Comp. R. & Regs. 0780-01-54-.09(5), the Trust's financial statements were presented in accordance with Generally Accepted Accounting Principles (GAAP).

The Trust's auditor issued the Trust's GAAP audited financial statements and prepared the Trust's federal income tax returns. The CPA also prepared all year-end adjusting entries and an adjusted trial balance as of year-end.

During the review of the Trust's signature cards for its cash and investment accounts, the Examiner noted TAASC's previous President was listed as an authorized signer. Effective January 1, 2023, the President of TAASC resigned and is no longer associated with the Trust or TAASC. See the "Comments and Recommendations" section later in this report.

The Trust's 2022 Annual Statement was reconciled to the corresponding general ledger account balances. All the Trust's investment securities were confirmed with the custodian of such securities as of the date of this examination. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. These test checks and reviews revealed no material discrepancies.

The Trust's books and records are located at TAA's headquarters in Nashville, Tennessee and BSA's headquarters in Brentwood, Tennessee.

MARKET CONDUCT ACTIVITIES

In conjunction with this examination, a market conduct review was made of the Trust as of December 31, 2022. The following areas were addressed:

Underwriting

During the period of examination, the Trust used established underwriting guidelines to determine the acceptance or rejection of underwriting risks. These guidelines, which were approved by the Board and filed with the TDCI prior to the period of examination, were found to be in compliance with Tenn. Comp. R. & Regs. 0780-01-54-.08(1). No exceptions were noted with regard to the Trust's compliance with its underwriting guidelines.

During the period of examination, examiners were able to verify that all new members, member cancellations, and terminations had been reported to the TDCI in accordance with Tenn. Comp. R. & Regs. 0780-01-54-.08(4) and (7). The Trust has maintained all member documentation in accordance with Tenn. Comp. R. & Regs. 0780-01-54-.08(5) and (6), including all records of termination or cancellation.

Rate and Premium Contributions

Trust rate and premium contributions were examined for compliance with Tenn. Comp. R. & Regs. 0780-01-54-.10, Rates and Rate Reporting. No exceptions were found.

Producer Licensing

Producer licensing and appointments were reviewed for compliance with Tenn. Code Ann. § 56-6-115 and Tenn. Comp. R. & Regs. 0780-01-54-.17. No exceptions were noted.

Advertising

In the examination of the Trust's advertising, items issued by the Trust were examined in accordance with Tenn. Code Ann. § 56-08-104(1) and (2). The Trust's bulletins and internet website were examined in accordance with the statute and found to be in compliance.

Claims Review

The Trust's processing of workers' compensation claims was examined for compliance with claims handling standards as required by the Tennessee Department of Labor and Workforce Development (TDOL), Bureau of Workers' Compensation, Tenn. Comp. R. & Regs. 0800-02-14, and Tenn. Code Ann. § 56-8-105.

A sample of claims that were open as of December 31, 2022, and a sample of closed claims incurred during the period of examination were reviewed. Information regarding the examination of these open and closed claims files is described below:

Reporting Requirements

Tenn. Comp. R. & Regs. 0800-02-14-.03(1) requires employers to report accidents to their insurer within two (2) business days of knowledge of injury. No exceptions were found.

Investigation

Tenn. Comp. R. & Regs. 0800-02-14-.04(6) requires a decision on compensability within fifteen (15) calendar days of the verbal or written notice of injury. The Trust was not in compliance with Tenn. Comp. R. & Regs. 0800-02-14-.04(6). See the “Comments and Recommendations” section of this report.

Tenn. Comp. R. & Regs. 0800-02-14-.08 requires documentation of medical rating, date of Maximum Medical Improvement (MMI) by the treating physician, information needed to settle a claim, and an offer of settlement in writing within thirty (30) calendar days of MMI. The Trust was not in compliance with Tenn. Comp. R. & Regs. 0800-02-14-.08. See the “Comments and Recommendations” section of this report.

Payment of Benefits

Tenn. Comp. R. & Regs. 0800-02-14-.06 requires compensation payments for an injury to be received by the claimant no later than fifteen (15) days after the date the disability begins. It also requires compensation benefits be issued timely to assure the injured employee receives the benefits no later than the date they are due. No exceptions were found.

Payment of Medical Costs

Tenn. Comp. R. & Regs. 0800-02-14-.07 and Tenn. Comp. R. & Regs. 0800-02-17-.10(7) require all medical costs owed for undisputed claims under the Tennessee Workers’ Compensation Law be paid within thirty (30) days of receipt of invoice. No exceptions were found.

Case Reserves

The Trust established and maintained reserves for known claims and expenses and claims incurred but not reported (IBNR), pursuant to Tenn. Comp. R. & Regs. 0780-01-54-.11(4).

In the examination of case reserves, the examiner considered the reserve established in each case and the overall reserve pattern present in the sample, in determining if the Trust established and maintained adequate reserves. The examiner found that the case reserves tested as of December 31, 2022, appeared to be adequate at the time of review, based on known health information of the injured employee.

In general, during the period of examination, the Trust exercised a conservative reserve policy that resulted in establishment of an adequate reserve in compliance with rule requirements.

Policyholder Complaints

Complaints for workers' compensation claims are handled through the TDOL. Information on how to request assistance is posted on the TDOL website. The website provides contact information in order to file a complaint with the TDOL.

BSA maintains a complaint register on behalf of the Trust in accordance with Tenn. Code Ann. § 56-8-104(11). No complaints were received on behalf of the Trust during the period under examination, nor did the Department receive any formal complaints about the Trust.

Privacy of Non-Public Personal Information

The Trust's members are commercial businesses. Accordingly, Tenn. Comp. R. & Regs. 0780-01-72-.02(2), Privacy of Consumer Information Regulations, does not apply to commercial businesses.

The third-party vendors engaged by the Trust for accounting, claims, underwriting, excess insurance, investments, and member premium audits have written privacy policies, or their agreements with the Trust contain confidentiality and protection language governing Trust, member, and injured employee information.

Anti-Fraud Plan

The Trust has a formalized anti-fraud plan, which was filed with the TDCI on February 25, 2009. The anti-fraud plan language is in compliance with Tenn. Code Ann. § 56-47-112(a).

SUBSEQUENT EVENTS

On October 27, 2023, the Trust notified the TDCI of additional fund year deficits as shown below. The Trust requested a transfer of surplus from fund years with a surplus to cover the fund year deficits for a total of \$3,041,741. The TDCI, via email dated November 22, 2023, approved the surplus transfers pursuant to Tenn. Comp. R. & Regs. 0780-01-54-.24(1)(b).

<u>Fund Year</u>	<u>Surplus Transferred</u>	<u>Fund Year</u>	<u>Fund Year Deficit</u>
1998	\$55,774	2004	\$392,585
2002	\$888	2008	\$298,878
2003	\$62,704	2011	\$681,680
2005	\$50,379	2021	\$731,052
2006	\$141,662	2022	\$937,545
2007	\$698,107		
2009	\$456,273		
2010	\$28,919		
2012	\$787,473		
2013	\$683,162		
2014	\$75,399		
	<u>\$3,041,741</u>		<u>\$3,041,741</u>

At the October 3, 2023, Board meeting, the Board approved the request for a refund of surplus of \$1,094,199. This request was sent to the TDCI on October 27, 2023, and was approved on November 22, 2023, pursuant to Tenn. Comp. R. & Regs. 0780-01-54-.15. This refund of surplus was distributed to the members in January 2024.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities and fund balance, and a statement of operations and fund balance as reported by the Trust in its 2022 Annual Statement.

ASSETS

Cash and cash equivalents	\$1,421,862
Investments	19,356,287
Premiums receivable	420,102
Accrued investment income	131,259
Reinsurance receivable	7,701
Refundable income taxes	317,007
Prepaid expenses	140,546
Restricted investments	<u>106,598</u>
Total	<u>\$21,901,362</u>

LIABILITIES AND FUND BALANCE

Loss and loss-adjustment expense reserves	\$9,822,660
Accounts payable to members	141,615
Accounts payable and accrued expenses	424,543
Return of surplus payable	865,669
Deferred revenue	13,200
Member deposits	<u>1,027,466</u>
Total Liabilities	12,295,153
Members' Surplus	<u>9,606,209</u>
Total	<u>\$21,901,362</u>

STATEMENTS OF OPERATIONS AND MEMBERS' SURPLUS

Revenues

Premiums	\$5,311,174
Investment income	<u>338,474</u>
Total Revenues	<u>5,649,648</u>

Expenses

Loss and loss-adjustment	4,467,930
Administrative fees	215,910
Bank charges	82,487
Payroll audit expense	37,175
Premium taxes	138,313
Professional fees	94,665
Reinsurance	556,890
Royalty fees	61,689
Service fees	467,966
Miscellaneous	<u>16,688</u>
Total Expenses	<u>6,139,713</u>

Earnings (loss) before income taxes	(490,065)
Income tax expense (benefit)	<u>(100,480)</u>
Net earnings (loss)	(389,585)
Members' Surplus at beginning of year	10,861,463
Return of surplus	<u>(865,669)</u>
Members' Surplus at end of year	<u>\$9,606,209</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Members' Surplus

\$9,606,209

Members' Surplus, as established by this examination, is the same as what was reported by the Trust in its 2022 Annual Statement. There were no changes made to any asset or liability items as a result of our examination performed as of December 31, 2022.

COMMENTS AND RECOMMENDATIONS

Comments

1. As noted in the "Accounts and Records" section of this report, the President of the Trust's Administrator was listed as an authorized signer for the Trust's cash and investment accounts. Effective January 1, 2023, as the President of TAASC resigned and is no longer associated with the Trust or TAASC.

Subsequent to the December 31, 2022, examination date, the Trust executed new signature cards. In October 2023, the previous President of TAASC was removed as a signer and the current President of TAASC and the President Emeritus of TAASC were added as signers.

2. Tenn. Comp. R. & Regs. 0780-01-54-.07(3)(d) requires TAASIT's Administrator, TAASC to file NAIC Biographical Data forms with the TDCI that are completed by TAASC's officers and directors. As of year-end 2022, TAASC had not filed these forms for three (3) officers and directors.

The Trust addressed this issue and in October 2023, NAIC Biographical Data forms were completed by Dave Kirk, Eddie Roberts, and Eddie Rogers and filed with the TDCI.

3. In February 2019, the Trust entered into a revised Custody Agreement with First Tennessee Bank that complied with Tenn. Comp. R. & Regs. 0780-01-46-.02. However, minutes of the Trust's Board meetings for 2018 through 2022 do not reflect approval of the Custody Agreement, which is required by Tenn. Comp. R. & Regs. 0780-01-46-.02(2).

On October 3, 2023, the Board officially approved the amended Custody Agreement as recorded in the minutes.

Recommendations

1. As noted in the “Market Conduct Activities” section of this report, the Trust was not in compliance with Tenn. Comp. R. & Regs. 0800-02-14-.04(6), which requires a decision on compensability within fifteen (15) calendar days of the verbal or written notice of injury. It is recommended the Trust comply with Tenn. Comp. R. & Regs. 0800-02-14-.04(6) and document compliance in their claim files.
2. As noted in the “Market Conduct Activities” section of this report, the Trust was not in compliance with Tenn. Comp. R. & Regs. 0800-02-14-.08, which requires documentation of medical rating, date of MMI by the treating physician, information needed to settle a claim, and an offer of settlement in writing within thirty (30) calendar days of MMI. It is recommended the Trust comply with Tenn. Comp. R. & Regs. 0800-02-14-.08.

CONCLUSION

Rules and procedures as prescribed by the statutes of the State of Tennessee, and guidance from the NAIC Handbook, as deemed appropriate, have been followed in connection with the verification and valuation of assets and the determination of liabilities of the Tennessee Automotive Association Self-Insurers' Trust ("Trust").

In such manner, it was found that as of December 31, 2022, the Trust had assets of \$21,901,362 and liabilities, exclusive of members' surplus, of \$12,295,153. Thus, there existed for the additional protection of the members of the Trust, the amount of \$9,606,209 in the form of members' surplus. Tenn. Comp. R. & Regs. 0780-01-54-.11(1) requires self-insured workers' compensation pools to maintain a minimum surplus equal to thirty percent (30%) of the unpaid claims' liability of the pool. For this examination, as of December 31, 2022, the Trust maintains surplus in an amount that is sufficient to meet the requirement of Tenn. Comp. R. & Regs. 0780-01-54-.11(1).

The courteous cooperation of the officers and employees of the Trust's Administrator, TAASC, extended during the course of the examination is hereby acknowledged.

In addition to the undersigned, Nneka LaBon, APIR, MCM, Insurance Examiner, Britta Becker, Insurance Examiner, and Donald Karnes, CFE, Supervising Examiner, from the State of Tennessee, participated in the work of this examination.

Respectfully submitted,

James T. Pearce, Jr.

James T. Pearce, Jr. (Jun 14, 2024 09:20 CDT)

James T. Pearce, Jr, MCM
Examiner-in-Charge
State of Tennessee

CERTIFICATION

The undersigned certifies and says that he has duly executed the attached examination report of the Tennessee Automotive Association Self-Insurers' Trust located in Nashville, Tennessee, dated April 10, 2024, and made as of December 31, 2022, on behalf of the Tennessee Department of Commerce and Insurance. The undersigned further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information, and belief.

James T. Pearce, Jr.

James T. Pearce, Jr. (Jun 14, 2024 09:20 CDT)

James T. Pearce, Jr, MCM
Examiner-in-Charge
State of Tennessee