

**Government of the District of Columbia**  
Department of Insurance, Securities and Banking



Thomas E. Hampton  
Commissioner

**BEFORE THE  
INSURANCE COMMISSIONER OF  
THE DISTRICT OF COLUMBIA**

Re: Report on Examination - **National Assisted Living Risk Retention Group**, as of December 31, 2007

**ORDER**

An Examination of **National Assisted Living Risk Retention Group**, as of December 31, 2007 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

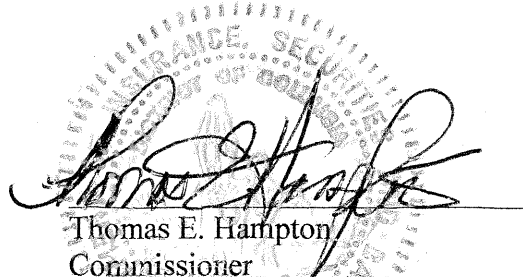
It is hereby ordered on this 10th day of August, 2009, that the attached financial condition examination report be adopted and filed as an official record of this Department.

In addition, it is hereby ordered that the Company comply with the recommendations in the attached financial condition examination report.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.



Thomas E. Hampton  
Commissioner

The signature is a stylized, handwritten cursive script in black ink, written over a circular, faint background stamp that contains the text "DEPARTMENT OF INSURANCE, SECURITIES AND BANKING" and "DISTRICT OF COLUMBIA".

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION  
National Assisted Living Risk Retention Group  
AS OF  
DECEMBER 31, 2007

NAIC NUMBER 11806

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Washington, D.C.  
April 24, 2009

Honorable Thomas E. Hampton  
Commissioner  
Department of Insurance, Securities and Banking  
Government of the District of Columbia  
810 First Street, NE, Suite 701  
Washington, D.C. 20002

Dear Sir:

In accordance with Section 31-3931.14 of the District of Columbia Official Code, we have examined the financial condition and activities of

**National Assisted Living Risk Retention Group**

hereinafter referred to as the "Company" or "NALRRG," at the office of its program manager, Venture Captive Management, LLC, (previously named Rankin-Shuttleworth, Inc. as of the date of the examination) located at 3740 DaVinci Court NW, Suite 130, Norcross, Georgia 30092.

**SCOPE OF EXAMINATION**

This full-scope examination, covering the period from October 30, 2003 through December 31, 2007, including any material transactions and/or events noted occurring subsequent to December 31, 2007, was conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

Our examination was conducted in accordance with examination procedures established by the Department and procedures recommended by the National Association of Insurance Commissioners ("NAIC") and, accordingly, included such tests of the accounting records and such other examination procedures as we considered necessary in the circumstances.

Our examination included a review of the Company's business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Company was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2005 through 2007. The firm expressed qualified opinions on the Company's financial statements for the years 2003 and 2004 due to the fact that the statements were presented on a statutory basis and were therefore not in conformity with accounting principles generally

accepted in the United States of America. We placed substantial reliance on the audited financial statements for calendar years 2003 through 2006, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2007. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2007. We placed reliance on the work of the auditor and directed our efforts, to the extent practical, to those areas not covered by the firm's workpapers.

### **STATUS OF PRIOR EXAMINATION FINDINGS**

The prior examination of the Company was an organizational examination conducted by the Insurance Department of the State of South Carolina. The exam report, dated January 27, 2004, contained three recommendations.

Our examination included a review to determine the current status of the three recommendations in the prior exam report, and determined that the Company had satisfactorily addressed these recommendations.

### **HISTORY**

#### **General:**

NALRRG was incorporated on September 15, 2003 and commenced business October 30, 2003 as a risk retention group in South Carolina. On March 11, 2005 the Company re-domesticated to the District of Columbia under the District's captive insurance laws.

The Company was formed by the North Carolina Association, Long Term Care Facilities ("NCALTCF") as a means of providing medical professional and general liability insurance coverage to NCALTCF's members. As of December 31, 2007, the Company provides coverage to long term care facility owners in North Carolina, South Carolina, Virginia, Georgia, Tennessee, Alabama, and Florida.

#### **Membership:**

The Company is authorized to issue Class A and Class B shares of common stock to its policyholders/members in accordance with the Company's articles of incorporation.

The purchase of Class A shares is voluntary, but purchasers are required to also purchase insurance from the Company. Class A shares are \$1,000 per share, and shareholders receive ten votes per share on all matters submitted to a vote of the shareholders and have the right to receive a portion of the net assets upon dissolution of the Company. During the examination, we noted that not all Class A shareholders were policyholders of the Company as required by the Company's articles of incorporation and shareholder agreement, as well as required by the Federal Liability Risk Retention Act of 1986 ("LRRRA"). See the "Comments and

Recommendations” section of this Report, under the caption “Company Ownership,” for further comments regarding this condition.

The Company’s stock subscription agreement obligates policyholders to purchase one share of Class B stock at the price of \$105 per share for each bed being insured. Payments for shares are due in three annual installments of \$35 per share. The Class B shares are not transferable and are forfeited in the event that the policyholder is no longer insured by the Company. Class B shareholders receive one vote per share on all matters submitted to a vote of the shareholders. Class B shareholders have no right to any distributions upon dissolution of the Company except for any dividends or distributions that were previously declared by the board of directors with respect to Class B shares.

Class A and Class B shares have no par value. 10,000 Class A shares were authorized and 1,055 were issued and outstanding at December 31, 2007. 90,000 Class B shares were authorized and 10,795 were issued and outstanding at December 31, 2007.

In 2008, the board of directors voted to reduce the capital contribution for new Class B shareholders from \$105 per share paid over three years, to \$35 per share paid only in year one. Corresponding to this change in capital contributions for new shareholders, the board voted to split the Class B shares of current shareholders. If a shareholder had paid the full \$105 per share, then they would receive three Class B shares for every one share. If a shareholder had paid \$70 per share, then they would receive two Class B shares for every one share. If a current shareholder had only paid \$35 per share, then the remaining portion of the payment would be canceled so that each share cost \$35. These changes were approved by the Department on October 9, 2008.

#### Surplus Notes:

In 2003, the Company issued various surplus notes totaling \$660,000 as part of initial capital. One \$520,000 note bearing 12 percent interest was issued to Bayport Corporation Ltd., an off-shore corporation owned by Rex Rankin, who also has an ownership interest in the Company’s program manager, Rankin-Shuttleworth, Inc. Another non-interest bearing note for \$30,000 was also issued to Bayport Corporation Ltd. In addition, there was a non-interest bearing note for \$100,000 issued to Tommy and Ann Cranford, who have an agency agreement in place with the Company, and a \$10,000 non-interest bearing note issued to Brenda Dillman, the administrator of a facility insured by the Company.

In November 2005, with approval from the Department, the Company re-paid \$360,000, plus accrued interest, of the outstanding \$520,000 note to Bayport Corporation Ltd. This left a remainder of \$160,000 on the note. In addition, in 2005, the \$10,000 non-interest bearing note to Brenda Dillman was converted into ten Class A shares in a cashless exchange of one Class A share for each \$1,000 of surplus note converted. As of December 31, 2007, the Company had a balance of \$290,000 in surplus notes and accrued surplus note interest of \$88,228.

Subsequent to the examination period, with approval from the Department, the Company re-paid the \$100,000 non-interest bearing surplus note to Tommy and Ann Cranford. The

Company's board of directors also resolved in February 2009 to re-pay the \$160,000 interest bearing note to Bayport Corporation Ltd., including accrued interest, pending approval from the Department.

Dividends and Distributions:

Other than surplus note principal and interest payments notes above, the Company did not declare or pay any dividends or other distributions during the period under examination.

**MANAGEMENT**

The following persons were serving as the Company's directors as of December 31, 2007:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
John Leandro, Chairman North Carolina	Secretary/Treasurer Hermitage Retirement Center of Rockingham
Faiger Blackwell North Carolina	President Universal Healthcare
Debra Kirby North Carolina	Administrator McAlpine Adult Care
Inez Miles North Carolina	Chief Executive Officer Floyd B. McKissick, Sr. Assisted Living Center
Al Stephen Pierce North Carolina	Chief Executive Officer GJP Enterprises, LLC
Guy Pierce North Carolina	Manager GJP Enterprises, LLC
Kim Simpson North Carolina	President Magnolia Gardens
Allen Taft Virginia	President The Taft Companies
Charles Trefzger North Carolina	Owner Hunter Hill Senior Village
Danny Tuttle North Carolina	President Davie Place

John Weeks  
North Carolina

President  
Nubbing Hill Healthcare Inc.

Lou Wilson  
North Carolina

Executive Director  
North Carolina Association Long Term Care Facilities

The following persons were serving as the Company's officers as of December 31, 2007:

<u>Name</u>	<u>Title</u>
John Leandro	Chairman/Secretary
Guy Pierce	President
Faiger Blackwell	Vice President
John Weeks	Treasurer

Committees:

As of December 31, 2007, the Company's board of directors has established the following committees:

Audit/Finance Committee:

Al Stephen Pierce, Chairman  
John Leandro  
Guy Pierce  
Danny Tuttle  
John Weeks

Claims Committee:

Dean Wilson, Chairman  
Ann Cranford  
Debra Kirby  
Kim Simpson  
Danny Tuttle  
Belinda Wilson

Risk Management & Loss Prevention Committee:

Sterling Shuttleworth, Chairman  
Susan Morris  
Kim Simpson  
Belinda Wilson  
Lou Wilson

Underwriting Committee:

John Leandro, Chairman  
Al Stephen Pierce  
Danny Tuttle  
John Weeks

Conflicts of Interest:

The Company has adopted a "Business Conduct Code & Ethics" policy ("Code"), which includes a conflicts of interest policy. Under the Code, the Company's directors and officers are required to annually sign conflict of interest statements. Our review disclosed there were no conflicts of interest reported that would adversely impact the Company. However, the Company was unable to provide signed conflict of interest statements for all directors and officers for all periods under examination. We discussed this situation with the Company during the examination. Management indicated that they recognized the importance of maintaining



compliance with the Code, and indicated improved record-keeping procedures would be implemented to ensure all signed conflict of interest statements would be available at all times in the future.

#### Corporate Records:

We reviewed the minutes of the meetings of the board of directors and shareholders for the period under examination. Based on our review, it appears that the minutes documented the board's review and approval of the Company's significant transactions and events.

### **CAPTIVE MANAGER**

The Taft Companies, LLC ("Taft") is the Company's captive manager, and provides services including record retention, regulatory compliance and other management services.

### **FIDELITY BOND AND OTHER INSURANCE**

NALRRG maintains insurance company professional liability coverage, as well as directors and officers liability coverage, with a \$1,000,000 maximum aggregate limit for both policies combined. The Company's program manager, Rankin-Shuttleworth, maintains professional liability coverage in the amount of \$1,000,000, as well as a \$1,000,000 commercial crime coverage policy. This provides adequate coverage based on NAIC guidelines and contractual requirements.

### **PENSION AND INSURANCE PLANS**

The Company has no employees and therefore has no employee pension or insurance plans.

### **STATUTORY DEPOSITS**

As of December 31, 2007, the Company did not have any statutory deposits in the District of Columbia and was not required to maintain any such deposits. In addition, the Company was not required to maintain statutory deposits with any other jurisdictions.

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2007, the Company was licensed in the District of Columbia and was registered as a risk retention group in Alabama, Florida, Georgia, North Carolina, South Carolina, Tennessee, Texas and Virginia. \$1,297,131 (70 percent) of the Company's written premium in 2007, which totaled \$1,865,015, was in North Carolina, \$205,907 (11 percent) in Georgia, \$136,838 (7 percent) in Virginia, \$81,971 (4 percent) in South Carolina, \$74,228 (4

percent) in Florida, \$53,744 (3 percent) in Alabama, and \$15,196 (1 percent) in Tennessee. The Company had no written premium in Texas.

The Company provides claims made professional liability and general liability coverage to assisted living facilities. Limits are offered up to \$100,000 per claim and \$300,000 per location with a zero deductible. Policy limits include defense costs. Policies covering multiple affiliated facilities are subject to a combined \$1,000,000 annual aggregate. The Company does not reinsure any portion of its risk. Management has made a determination reinsurance is not necessary due to low policy limits, favorable claims experience and good financial position of the Company.

During the examination, we noted that the Company was not using correct step factor rates that had been filed with the Department during the 2007. However, the Company had filed new rates in 2008 and was using the new rates and step factors appropriately. During the examination, we discussed with management the importance of and the requirement to use the rates and step factors on file. Management agreed to continue to ensure, going forward, that the rates and step factors on file would be used, and that any proposed changes to the rates and step factors would be filed with the Department.

The Company has no employees and its daily business operations are managed by various service providers. During the examination period and as of the date of this report, the Company's captive manager, Taft, managed the Company's regulatory filings from its offices in Washington, D.C. Taft subcontracts the accounting, underwriting, policy issuance, and premium billing and collection to Rankin-Shuttleworth, Inc. in Norcross, Georgia (effective January 1, 2008, Rankin-Shuttleworth, Inc. became Venture Captive Management, LLC). Rankin-Shuttleworth subcontracts claim administration services to The Littleton Group in Austin, Texas. Risk management and loss control services are provided by ACM, LLC in Surfside, Florida. The Company's contracts with some of its service providers have not been updated since inception, and we noted that the contracts did not always reflect the actual nature of the relationship and transactions between the Company and the service providers. See the "Comments and Recommendations" section of this Report under the caption "Service Provider Contracts" for further comments regarding this condition.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

This examination was a financial examination, and generally did not include market conduct procedures. An examination of the market conduct affairs of the Company has never been conducted. A market conduct examination would include detailed reviews of the Company's sales and advertising, agent licensing, timeliness of claims processing, and complaint handling practices and procedures.

The scope of our examination did not include market conduct procedures, including, but not limited to, market conduct procedures in the following areas:

- Policy Forms

- Fair Underwriting Practices
- Advertising and Sales Materials
- Treatment of Policyholders:
  - Claims Processing (Timeliness)
  - Complaints

### **REINSURANCE**

The Company did not cede or assume any reinsurance during the examination period.

### **ACCOUNTS AND RECORDS**

The primary locations of the Company's books and records are at the offices of its captive manager, Taft, in Washington, D.C.; and at the offices of its program manager, Rankin-Shuttleworth, Inc. in Norcross, Georgia.

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers. Our examination did not disclose any significant issues with these records.

## **FINANCIAL STATEMENTS**

The following financial statements, prepared in accordance with accounting practices generally accepted in the United States (“GAAP”), reflect the financial condition of the Company as of December 31, 2007, as determined by this examination:

<b><u>STATEMENT</u></b>	<b><u>PAGE</u></b>
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The accompanying Notes to Financial Statements are an integral part of these Financial Statements.

# BALANCE SHEET

## ASSETS

	<i>December 31, 2007</i>
Bonds	\$ 2,013,363
Cash (\$494,401), cash equivalents (\$0) and short-term investments (\$2,662,958)	<u>3,157,359</u>
Subtotals, cash and invested assets	\$ 5,170,722
Investment income due and accrued	\$ 20,610
Uncollected premiums and agents' balances in the course of collection	32,447
Aggregate write-ins for other than invested assets:	
Deferred acquisition costs – commissions	\$ 89,784
Deferred acquisition costs – management fees	67,338
Deferred acquisition costs – premium taxes	44,893
Deferred acquisition costs – risk management fees	35,913
Prepaid expenses	5,281
Deferred federal income tax	<u>88,399</u>
Total Aggregate write-ins for other than invested assets	\$ 331,608
Total	<u><u>\$ 5,555,387</u></u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

	<i>December 31, 2007</i>
Losses ( <b>NOTE 1</b> )	\$ 1,509,257
Loss adjustment expenses ( <b>NOTE 1</b> )	423,820
Other expenses (excluding taxes, licenses and fees)	33,676
Taxes, licenses and fees (excluding federal and foreign income taxes)	42,916
Current federal and foreign income taxes	(76,575)
Unearned premiums	897,846
Amounts withheld or retained by company for account of others	17,500
Accrued interest payable	88,228
	<hr/>
Total Liabilities	\$ 2,936,668
	<hr/>
Common capital stock	\$ 2,075,535
Surplus notes	290,000
Unassigned funds (surplus)	253,184
Surplus as regards policyholders	\$ 2,618,719
	<hr/>
Total	\$ 5,555,387
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## STATEMENT OF INCOME

	<i>2007</i>
UNDERWRITING INCOME	
Premiums earned	\$ 1,767,702
DEDUCTIONS	
Losses incurred	\$ 814,950
Loss expenses incurred	465,672
Other underwriting expenses incurred	666,670
Total underwriting deductions	\$ 1,947,292
Net underwriting loss	\$ (179,590)
INVESTMENT INCOME	
Net investment income earned	\$ 196,183
Net realized capital gains	1,535
Net investment gain	\$ 197,718
OTHER INCOME	
Interest expense	\$ (19,200)
Net income after dividends to policyholders, after capital gains and before all other federal and foreign income taxes	\$ (1,072)
Federal and foreign income taxes incurred	(9,561)
Net income	\$ 8,489

### **CAPITAL AND SURPLUS ACCOUNT**

Net loss, 2003	\$	(329,512)
Change in surplus notes		660,000
Initial capital: Paid in		1,039,250
Net change in surplus as regards policyholders, 2003		<u>1,369,738</u>
Surplus as regards policyholders, December 31, 2003	\$	<u>1,369,738</u>
Net loss, 2004	\$	(36,181)
Capital changes: Paid in		300,700
Net change in surplus as regards policyholders, 2004		<u>264,519</u>
Surplus as regards policyholders, December 31, 2004	\$	<u>1,634,257</u>
Net income, 2005	\$	327,007
Change in net unrealized capital gains or (losses)		(3,630)
Change in surplus notes		(370,000)
Capital changes: Paid in		266,130
GAAP adjustments relating to prior year		16,775
Net change in surplus as regards policyholders, 2005		<u>236,282</u>
Surplus as regards policyholders, December 31, 2005	\$	<u>1,870,539</u>
Net income, 2006	\$	250,590
Change in net unrealized capital gains or (losses)		2,366
Capital changes: Paid in		262,290
Net change in surplus as regards policyholders, 2006		<u>515,246</u>
Surplus as regards policyholders, December 31, 2006	\$	<u>2,385,785</u>
Net income, 2007	\$	8,489
Change in net unrealized capital gains or (losses)		17,279
Capital changes: Paid in		207,165
Net change in surplus as regards policyholders, 2007		<u>232,933</u>
Surplus as regards policyholders, December 31, 2007	\$	<u>2,618,719</u>

### **ANALYSIS OF EXAMINATION CHANGES TO SURPLUS**

There were no changes to the Company's surplus as a result of our examination.



### **COMPARATIVE FINANCIAL POSITION OF THE COMPANY**

The comparative financial position of the Company for the periods since inception is as follows:

	2007	2006	2005	2004	2003
Assets	\$ 5,555,387	\$ 4,421,184	\$ 3,547,867	\$ 2,593,233	\$ 1,779,506
Liabilities	2,936,668	2,035,399	1,677,328	958,976	409,768
Capital and surplus	2,618,719	2,385,785	1,870,539	1,634,257	1,369,738
Gross written premium	1,865,015	1,598,984	1,364,470	958,793	284,400
Net earned premium	1,767,702	1,473,999	1,148,120	752,903	31,092
Net investment income	197,718	109,781	61,176	12,357	1,341
Net income (loss)	\$ 8,489	\$ 250,590	\$ 327,007	\$ (36,181)	\$ (329,512)

**Note:**

Amounts in the preceding financial statements for the years ended December 31, 2003 through December 31, 2006 were taken from the Company's Annual Statements as filed with the Department. Amounts for the year ended December 31, 2007 are amounts per examination.

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 – Loss and Loss Adjustment Expense Reserves:**

The Company reported “Losses” and “Loss adjustment expenses” reserves totaling \$1,509,257 and \$423,820, respectively. These reserves represent management’s best estimate of the amounts necessary to pay all claims and related expenses that have been incurred but are still unpaid as of December 31, 2007.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expenses reserves as of December 31, 2007, were reviewed as part of our examination. As part of our review, we relied on the Company’s independent actuary, who concluded that the Company’s reserves appeared to be sufficient. In addition, as part of our review of the Company’s reserves, we engaged an independent actuary (examination actuary) to review the methods employed, assumptions relied upon, and conclusions reached by the Company’s independent actuary. The examination actuary utilized in our examination concluded that the amount of the reserves as of December 31, 2007 were reasonable and adequate. However, the examination actuary also noted several recommendations related to the methodologies and assumptions utilized by the Company’s independent actuary to compute these reserves. See the “Comments and Recommendations” section of this Report, under the caption “Loss Reserves” for further comments regarding these conditions.

In addition, although the examination actuary concluded that the amount of the reserves as of December 31, 2007 were reasonable and adequate, we noted that the Company did not record as part of its loss adjustment expenses reserves a reserve related to “Adjusting & Other” (A&O) expense payments. In this regard, the Company reported cumulative A&O expense payments since inception of the Company totaling \$273,000, which represents approximately 40 percent of the Company’s total loss and loss adjustment expense payments totaling \$674,000 since inception of the Company. However, the Company has not established a separate provision for A&O reserves. We discussed this issue with the Company during the examination and indicated to management we believed going forward, a reserve for A&O expenses should be recorded. Management indicated agreement and indicated such a reserve would be recorded beginning in 2009.

## **COMMENTS AND RECOMMENDATIONS**

### **Company Ownership:**

As mentioned previously in this Report, we noted that not all Class A shareholders of the Company were policyholders of the Company as required by the Company's articles of incorporation and shareholder agreement, as well as required by §3901(a)(4)(E) of the Federal Liability Risk Retention Act of 1986 (LRRRA), which requires that all owners of a risk retention group must also be insureds of the risk retention group. Specifically, as of December 31, 2007, the Company had 1,055 shares of Class A stock issued and outstanding to 31 shareholders. Of these 31 shareholders, seventeen (17) had active insurance policies with the Company, six (6) were past policyholders but were either cancelled or not active as of December 31, 2007, and eight (8) shareholders had never been insured by the Company. **We recommend that the Company take steps to be in full compliance by August 31, 2009 with the provisions of its articles of incorporation, shareholder agreement, and the LRRRA. All shareholders of the Company shall be policyholders by that date, and any that are not shall be required by the Company to return their shares to the Company by that date.**

### **Service Provider Contracts:**

As indicated in the "Territory and Plan of Operation" section of this Report, the Company's contracts with certain of its service providers have not been updated since inception, and we noted that the contracts did not always reflect the actual nature of the relationship and transactions between the Company and the service providers. Specifically, according to the contracts on file with the Department, the Company contracts with Taft for captive management services, and Taft then subcontracts certain functions to other service providers. Under the contract, management fees would be paid to Taft, and Taft would then pay the subcontractors. However, in practice, the Company is paying each service provider directly. In addition, the captive manager contract refers to the Company's domicile as South Carolina, which was the former domicile of the Company. **We recommend that the Company revise and update, as necessary, all service provider agreements and file the revised agreements with the Department.**

### **Loss Reserves:**

The Company reported "Losses" and "Loss adjustment expenses" reserves totaling \$1,509,257 and \$423,820, respectively. These reserves represent management's best estimate of the amounts necessary to pay all claims and related expenses that have been incurred but are still unpaid as of December 31, 2007. As part of our review, we relied on the Company's independent actuary, who concluded that the Company's reserves appeared to be sufficient. In addition, as part of our review of the Company's reserves during our examination, we engaged an independent actuary ("examination actuary"), to review the methods employed, assumptions relied upon, and conclusions reached by the Company's actuary. Although the examination actuary determined

that the loss reserves reported by the Company as of December 31, 2007 appeared reasonable and adequate, the examination actuary noted certain areas in which the methodologies utilized by the Company's actuary to compute these reserves could be improved. Specifically, the rational for certain key factors used by the Company's independent actuary in the reserve analyses, such as loss costs and expected loss ratios, was not thoroughly explained in the work of the Company's actuary. In addition, the underlying loss development factors used by the Company's independent actuary have not been updated since 2003. **We recommend that the Company ensure its actuary documents the rational for key factors, such as loss costs and expected loss ratios, used by the actuary in the reserve analyses. In addition, the Company should ensure its actuary reviews the need to update the underlying loss development factors.**

## CONCLUSION

Our examination disclosed that as of December 31, 2007 the Company had:

Admitted Assets	\$ 5,555,387
Liabilities and Reserves	2,936,668
Common Capital Stock	2,075,535
Surplus Notes	290,000
Unassigned Funds (Surplus)	253,184
Total Surplus	2,618,719
Total Liabilities, Capital and Surplus	\$ 5,555,387

Based on our examination, the accompanying balance sheet properly presents the financial position of the Company at December 31, 2007, and the accompanying statement of income properly presents the results of operations for the period then ended.

Chapter 39 ("CAPTIVE INSURANCE COMPANIES") of Title 31 ("Insurance and Securities") of the D.C. Official Code specifies the level of capital and surplus required for the Company. We concluded that the Company's capital and surplus funds exceeded the minimum requirements during the period under examination.

## SIGNATURES

In addition to the undersigned, the following examiners representing the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination:

Christina M. Bonney, Collins Consulting, Inc.  
Charles B. Carter, Collins Consulting, Inc.  
John G. Gantz, Collins Consulting, Inc.

The actuarial portion of this examination was completed by William E. Burns, ACAS, MAAA, Unique Risk Solutions LLC.

Respectfully submitted,



Pamela C. Woodroffe  
Examiner-In-Charge  
Collins Consulting, Inc.

Under the Supervision of,



Xiangchun (Jessie) Li, CFE  
Supervising Examiner  
District of Columbia Department of Insurance,  
Securities and Banking

**Government of the District of Columbia**  
**Department of Insurance, Securities and Banking**



**Thomas E. Hampton**  
**Commissioner**

July 20, 2009

Guy Pierce  
President  
National Assisted Living Risk Retention Group  
C/o The Taft Companies  
901 Dulaney Valley Road, Suite 610  
Towson, Maryland 21204

Dear Mr. Pierce:

Pursuant to the provisions of Section 31-1404 of the D.C. Official Code, enclosed is a draft copy of the Report on Examination ("Report") of the affairs and financial condition of **National Assisted Living Risk Retention Group**, as of December 31, 2007.

Please submit, to my attention, a written response calling attention to any errors or omissions in the draft Report. In addition, the Company's response shall include responses to each of the recommendations included in the "Comments and Recommendations" section of this Report. These responses should indicate the Company's agreement or disagreement with each recommendation, as well as a summary of the corrective measures which will be taken by the Company for each recommendation. If the Company disagrees with any of these recommendations, the response shall indicate the reason(s) for the disagreement, as well as an explanation of alternative measures to be taken by the Company to address the condition which lead to the recommendation.

The response must be in writing and shall be furnished to this Department by August 3, 2009. In addition to a hard-copy response, please also furnish the response electronically via e-mail to me, in a Microsoft "Word" format, to [sean.o'donnell@dc.gov](mailto:sean.o'donnell@dc.gov).

Sincerely,

P. Sean O'Donnell  
Director of Financial Examination,  
Risk Finance Bureau

Enclosure



**National Assisted Living  
Risk Retention Group**

July 30, 2009

Mr. P. Sean O'Donnell  
Director of Financial Examination  
Risk Finance Bureau  
Department of Insurance, Securities and Banking  
810 First Street, NE, Suite 701  
Washington, DC 20002

**Re: Report on Examination – National Assisted Living Risk Retention Group, Inc**

Dear Mr. O'Donnell,

We refer to your letter dated July 20, 2009 with draft report attached.

After carefully reading the report we found no errors, and can think of no pertinent omissions. In relation to the recommendations on pages 16 and 17 we wish to advise as follows:

1. **Company Ownership:** all of the uninsured Class A Shareholders were notified that they were not in compliance with the requirements of the LRRA and the company's Articles. Two of those Shareholders have since effected insurance with NALRRG, and another two are in the process of effecting insurance. In relation to the others, management will be presenting a recommendation to the Board of Directors at the next meeting scheduled for August 19, 2009 to redeem the shares based on a valuation done in accordance with the provisions set out in the Shareholders Agreement. If the recommendation is agreed to by the Board approval will then be sought from the DISB.
2. **Service Provider Contracts:** management is in the process of revising/updating all service provider contracts. Some of these have already been completed and are to be signed by Officers of NALRRG at Board meeting scheduled for 8/19/2009. Copies of the completed documents will be filed with the DISB.
3. **Loss Reserves:** the comment and recommendation was discussed with the Company's actuary. In future reserve reports, the actuary will provide more information with respect to the loss costs and expected loss ratios, which are underlying assumptions of some of the actuarial projection methods. Regarding the loss development factors, it should be noted that the selected report year development factors have changed slightly since the inception of NALRRG. The actuary has not changed the accident year loss development factors which underlie the report year development factors, but the actuary has revisited these



factors each year , and has been comfortable with not changing them. The actuary will continue to revisit these factors every year and will introduce any changes warranted by information at that time.

Yours truly,



.....  
Guy Pierce  
President

**Government of the District of Columbia**  
**Department of Insurance, Securities and Banking**



**Thomas E. Hampton**  
**Commissioner**

August 10, 2009

Guy Pierce  
President  
National Assisted Living Risk Retention Group  
C/o The Taft Companies  
901 Dulaney Valley Road, Suite 610  
Towson, Maryland 21204

Dear Mr. Pierce:

We are in receipt of your response dated July 30, 2009 which addresses the corrective actions taken or to be taken by National Assisted Living Risk Retention Group to comply with the recommendations made in the Report on Examination as of December 31, 2007. The response adequately addresses the recommendations made in the Report.

The adopted Report (which includes a copy of this letter), and the Order evidencing such adoption are enclosed. Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the adopted Report will be held private and confidential for a period of 10 days from the date of the Order evidencing such adoption. After this 10 day period has passed, the Report will be publicly available. The Department of Insurance, Securities and Banking will forward the adopted Report electronically to each Commissioner whose name is set forth on Page 1 of the Report, as well as to the National Association of Insurance Commissioners, and to each state in which the Company is registered.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each Company director stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please send these affidavits to my attention at the Department.

Please contact me at 202-535-1169 if you have any questions.

Sincerely,

P. Sean O'Donnell  
Director of Financial Examination  
Risk Finance Bureau

Enclosure