



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of First Commonwealth of Missouri, Inc. for the period ended
December 31, 2013

ORDER

After full consideration and review of the report of the financial examination of First Commonwealth of Missouri, Inc. for the period ended December 31, 2013, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, examination changes, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of First Commonwealth of Missouri, Inc. as of December 31, 2013 be and is hereby ADOPTED as filed and for First Commonwealth of Missouri, Inc. to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 14th day of June, 2015.



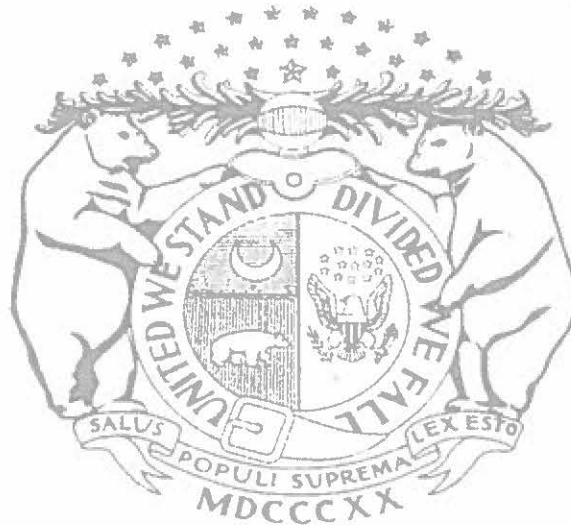

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF
FINANCIAL EXAMINATION

First Commonwealth of Missouri, Inc.

As of:
DECEMBER 31, 2013

FILED
JUN 25 2015
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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May 6, 2015
St. Louis, MO

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, MO 65101

Director Huff:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

First Commonwealth of Missouri, Inc.

hereinafter referred to as such or as the "Company." The Company's main administrative office is located at 550 West Jackson Boulevard, Chicago, Illinois 60661; telephone number (312) 993-1000. The examination began on March 4, 2015, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a single-state examination of First Commonwealth of Missouri, Inc. We performed our examination in conjunction with the examination of The Guardian Life Insurance Company of America conducted by examiners from the State of New York. The last examination was completed as of December 31, 2011. The current examination covers the period from January 1, 2012, through December 31, 2013. This examination also included material transactions or events occurring subsequent to December 31, 2013.

Procedures

This examination was conducted using guidelines set forth in the Financial Condition Examiners Handbook (Handbook) of the NAIC, except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration (Department) or statutes of the State of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and to identify prospective risks of the Company. This process involves obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating the systems controls and procedures used by the Company to mitigate those risks. The examination also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, compliance with Statutory Accounting Principles and Annual Statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The following key activities were identified: Investments, Affiliated Companies, Claims and Reserves, and Premiums and Underwriting.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues or material changes to the financial statements identified during the examination.

SUBSEQUENT EVENTS

There were no events occurring subsequent to year-end that had a material effect on the year-end financial statements.

COMPANY HISTORY

General

The Company originally incorporated as Confi-Dent Health Plan, Inc. on October 18, 1988, as a wholly-owned subsidiary of Group Health Plan, Inc. (GHP). The Company's name was changed to Champion Dental Services, Inc. on September 6, 1989. First Commonwealth, Inc. purchased the Company on December 31, 1996 and changed the Company's name to First Commonwealth of Missouri Inc. on January 1, 1997.

Capital Stock and Paid-In Surplus

First Commonwealth, Inc. owns 100% of the issued and outstanding common stock of the Company. As of December 31, 2013, the Company was authorized to issue 50,000 shares of common stock with a par value of \$1 per share. There were 50,000 shares issued and outstanding for a balance of \$50,000 in the capital account.

The Company had \$357,253 of paid-in surplus as of December 31, 2013. No changes to paid-in surplus were noted during the examination period.

Dividends

The Company paid no dividends prior to 2006. Below is a summary of the dividends declared or paid to the sole shareholder for the period 2006 through 2013.

<u>Year</u>	<u>Amount</u>
2006	\$ 54,000
2007	95,000
2008	175,000
2009	46,000
2010	500,000
2011	500,000
2012	500,000
2013	500,000
Total	<u>\$ 2,370,000</u>

Acquisitions, Mergers and Major Corporate Events

There were no major corporate events during the examination period.

Surplus Debentures

The Company did not have any surplus debentures outstanding during the examination period.

CORPORATE RECORDS

A review was made of the Company's articles of incorporation and bylaws. No amendments were made to the articles of incorporation or bylaws during the examination period.

The minutes of the meetings of the stockholder, board of directors and Audit Committee were reviewed for the period under examination. The minutes provided sufficient documentation that major corporate transactions were evaluated and approved by the board of directors.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a board of four (4) directors. The directors serving at December 31, 2013 were as follows:

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
Jermaine D. Jones New York, New York	Asst. Vice President and Controller, Group Insurance Guardian Life Insurance Company of America
Raymond J. Marra Bethlehem, Pennsylvania	Vice President, Group Products Guardian Life Insurance Company of America
Thomas A. McInteer Bethlehem, Pennsylvania	Vice President, Group Dental Pricing Guardian Life Insurance Company of America
Jolynne I. Williamson Bethlehem, Pennsylvania	Asst. Vice President, Group Dental Product Development Guardian Life Insurance Company of America

Officers

The officers of the Company serving and reported on the Jurat page of the Annual Statement at December 31, 2013, were as follows:

<u>Name</u>	<u>Position</u>
Jolynne I. Williamson	Chairman, President, Chief Executive Officer and Chief Operating Officer
Stuart J. Shaw	Vice President
Sanford E. Penn	Vice President and Appointed Actuary
Walter R. Skinner	Treasurer
Jermaine D. Jones	Controller
Leslie A. Barbi	Investment Officer
Chi M. Kwok	Investment Officer
Margherita L. DiManni	Secretary
John A. Dolan	Assistant Secretary
Tracy L. Rich	Assistant Secretary
Faith M. Drennan	Assistant Secretary

Committees

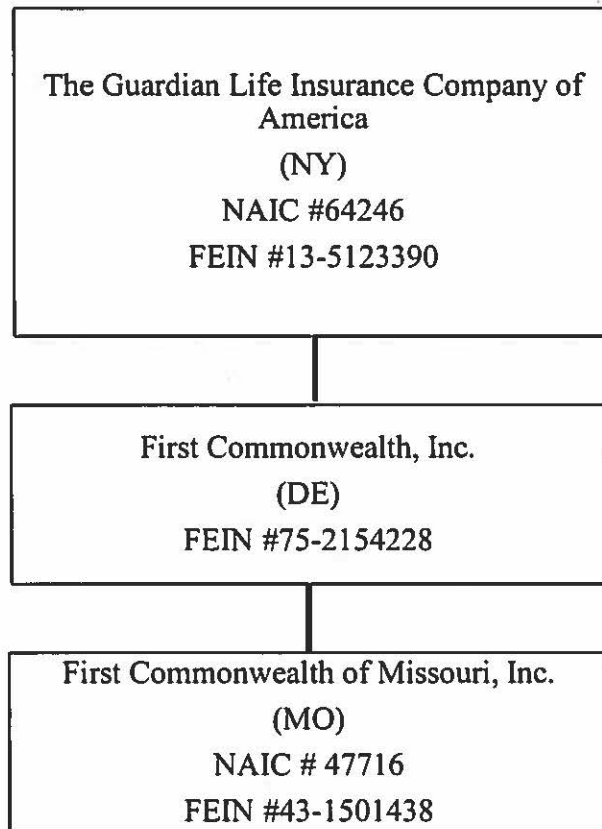
The Company formed an audit committee in 2011 consisting of each of the four board members. The audit committee complies with the requirements of RSMo 375.1030 (Annual audit required, report filed, when--extensions granted, when--audit committee required, when.).

Holding Company, Subsidiaries and Affiliates

The Company is a member of an Insurance Holding Company System as defined by RSMo 382.010 (Definitions). The Company is wholly-owned by First Commonwealth, Inc., which in turn is wholly-owned by The Guardian Life Insurance Company of America (Guardian), a New York domiciled life insurer.

Organizational Chart

The following is an abridged organizational chart which depicts the holding company system at December 31, 2013. All subsidiaries are wholly-owned unless otherwise noted. Only entities that are directly related to the Company are listed.



Intercompany Transactions

The Company enters into various agreements with affiliates. Active agreements are discussed below.

Investment Management Agreement

- Parties: The Guardian Life Insurance Company of America and First Commonwealth of Missouri, Inc.
- Effective: October 1, 2009
- Terms: The agreement grants Guardian the authority to identify, purchase, sell, repurchase, resell, convert, tender or exchange securities or other investments according to the Investment Plan of the Company.

Rate(s): Expenses are allocated to the Company based on the Company's pro rata share of the total fixed income investment portfolio of the Guardian enterprise. The Company incurred fees of \$2,656 in 2013 under this agreement.

Management and Administrative Services Agreement

Parties: The Guardian Life Insurance Company of America and its subsidiaries, including First Commonwealth of Missouri, Inc.

Effective: November 1, 2004. Most recent amendment effective March 23, 2010.

Terms: Guardian performs various services for its dental subsidiaries including account establishment, billing and accounting, claims administration, coordination of benefits and subrogation, underwriting, actuarial and others.

Rate(s): The monthly fee payable to Guardian is equal to the actual cost of performing the services provided plus 10%. The Company incurred fees of \$842,544 in 2013 under this agreement.

Tax Sharing Agreement

Parties: The Guardian Life Insurance Company of America and its subsidiaries, including First Commonwealth of Missouri, Inc.

Effective: July 19, 2001

Terms: Provides for the filing of federal, state and local income tax returns on a consolidated basis.

Rate(s): Each participant computes its tax as if it were filing a separate unconsolidated return and remits such tax payment to Guardian. The Company incurred fees of \$44,828 in 2013 under this agreement.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond with National Union Fire Insurance Company. The bond has a single loss limit of \$500,000 and an aggregate limit of \$1 million. This coverage meets the minimum amount of fidelity insurance suggested by the NAIC.

As a wholly-owned subsidiary of Guardian, the Company is also a named insured where applicable on multiple insurance policies acquired by Guardian to protect its insurable interests. This coverage includes: Professional Liability, Directors & Officers Liability, Employment Practices Liability, Property, General Liability, Auto Liability, and Workers' Compensation. The level of coverage for these insurable risks appears reasonable.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's operations are carried out by employees of the Guardian Life Insurance Company of America pursuant to the Management and Administrative Services Agreement described above. Guardian offers a comprehensive benefits package to its employees, including medical, dental, and vision, life, accidental death and dismemberment, short-term disability, long-term disability, flexible spending accounts, paid time off, holidays, 401(k), and a defined benefit plan. A portion of the cost of these benefits is allocated to the Company. The required settlement date is thirty days after the end of the month.

TERRITORY AND PLAN OF OPERATIONS

The Company is licensed as a prepaid dental plan with the Department under Chapter 354 RSMo (Health Service Corporations). At December 31, 2013, the Company was licensed only in Missouri.

The Company markets its products through local insurance agencies and independent brokers. Broker commissions are paid monthly. The Company provides brochures explaining the products and funding alternatives available to prospective enrollees.

The Company offered a Dental HMO Plan and a Dental PPO Plan during the examination period. These products are described below.

Dental HMO Plan – This product allows groups to select benefit levels and co-payment amounts related to covered services. Coverage provided under the Dental HMO Plan includes diagnostic and preventative services, basic and restorative services, major services and orthodontic services. Subscribers are required to select a general dentist from the Company's provider listing. The selected dentist then arranges for all dental care needs. The Company pays monthly capitation fees, based on the number of subscribers, to participating dentists. The Dental HMO product is typically offered in conjunction with the Company's PPO products, Guardian's PPO products or other Guardian products (life, disability, etc.).

Dental PPO Plan – This product provides coverage similar to the Dental HMO Plan. Subscriber co-payments are lower for services provided by a dentist in the PPO network. Network dentists agree to receive lower reimbursement rates in order to gain access to First Commonwealth enrollees.

GROWTH OF COMPANY

The following exhibit illustrates changes in the Company's admitted assets, premium activity, net income and total capital and surplus during the examination period.

	2012	2013
Total Admitted Assets	\$ 2,624,866	\$ 2,711,031
Premium Income	1,970,845	1,759,486
Net Income	166,652	81,483
Total Capital and Surplus	2,314,420	1,895,890

Total admitted assets increased during the examination period, which is largely attributable to net income from operations. Premium income decreased as a result of a continued decline in membership. Capital and surplus decreased, primarily as a result of a \$500,000 extraordinary dividend payable to the Company's parent, First Commonwealth, Inc. The Company's surplus remains sound relative to its operations and liabilities.

LOSS EXPERIENCE

The following exhibit illustrates the annual operating results of the Company during the examination period.

	2012	2013
Total Revenue	\$ 1,972,216	\$ 1,753,995
Total Benefits and Expenses	1,726,051	1,635,045
Net Investment Gains	10,178	7,361
Federal Income Taxes Incurred	89,692	44,828
Net Income	<u>\$ 166,651</u>	<u>\$ 81,483</u>

While premium income decreased throughout the examination period, benefits and expenses decreased commensurately and the Company has remained profitable. The Company reported positive net income during the examination period.

REINSURANCE

The Company does not assume or cede any reinsurance.

ACCOUNTS AND RECORDS

Independent Accountants

An independent accounting firm audits the Company annually. The Company's 2013 financial statements were audited by the certified accounting public firm PricewaterhouseCoopers LLC. Their workpapers were used in the course of this examination as deemed appropriate.

Actuarial Opinion

Reserves and related actuarial items reported in the financial statements were reviewed and certified by Sanford Penn, FSA, MAAA, Vice President and Appointed Actuary of The Guardian Life Insurance Company of America.

Information Systems

Examiners from the New York Department of Financial Services reviewed Guardian's information systems in the course of their coordinated financial examination. They did not identify any material weaknesses.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Department, as reflected below, were sufficient to meet the capital deposit requirements of the state of Missouri in accordance with Section 354.707.1 RSMo (Capital, surplus, security required).

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Bond	\$ 53,000	\$ 52,996	\$ 53,294

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2013, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statements" section, which follow the financial statements.

There may have been additional differences found in the course of this examination that are not shown in the "Comments on Financial Statements." These differences were determined to be immaterial in relation to the financial statements and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

ASSETS

Bonds	\$ 2,508,587
Cash and short-term investments	185,352
Investment income due and accrued	2,913
Uncollected premiums	5,949
Receivables from parent, subsidiaries and affiliates	8,230
TOTAL ASSETS	\$ 2,711,031

LIABILITIES, SURPLUS AND OTHER FUNDS

Claims unpaid	\$ 131,217
Unpaid claims adjustment expenses	1,498
Aggregate health policy reserves	16,481
Premiums received in advance	17,543
General expenses due or accrued	69,737
Current federal and foreign income tax payable	13,653
Amounts withheld or retained for the account of others	1,167
Amounts due to parent, subsidiaries and affiliates	63,841
Dividend liabilities	500,000
Miscellaneous liabilities	3
TOTAL LIABILITIES	\$ 815,140
Common capital stock	\$ 50,000
Gross paid in and contributed surplus	357,253
Contingency reserve	150,000
Unassigned funds (surplus)	1,338,637
SURPLUS AS REGARDS POLICYHOLDERS	\$ 1,895,890
TOTAL LIABILITIES AND SURPLUS	\$ 2,711,031

STATEMENT OF INCOME

Net premium income	\$ 1,759,486	
Change in unearned premium reserves	(7,586)	
Administrative fee income	2,095	
Total Revenues	<u>2,095</u>	\$ 1,753,995
Other professional services	1,357,629	
Emergency room and out-of-area	567	
Claims adjustment expenses	31,307	
General administrative expenses	245,519	
Total Underwriting Deductions	<u>245,519</u>	<u>1,635,022</u>
Net Underwriting Gain		118,973
Net investment income	7,361	
Net realized capital gains	-	
Net Investment Gains	<u>-</u>	7,361
Fines & penalties of regulatory authorities	(18)	
Interest on fines & penalties of regulatory authorities	(5)	
Total Other Expenses	<u>(5)</u>	<u>(23)</u>
Net Income Before Federal Income Taxes		126,311
Federal and foreign income taxes incurred		<u>44,828</u>
Net Income		<u>\$ 81,483</u>

RECONCILIATION OF CAPITAL AND SURPLUS

Capital and surplus, December 31, 2012	<u>\$ 2,314,420</u>
Net income	81,483
Change in net deferred income tax	612
Change in nonadmitted assets	(624)
Dividends to stockholders	(500,000)
rounding	<u>(1)</u>
Net change in capital and surplus	<u>(418,530)</u>
Capital and surplus, December 31, 2013	<u><u>\$ 1,895,890</u></u>

EXAMINATION CHANGES

There are no changes to the financial statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENTS

There are no comments on the Company's financial statements.

SUMMARY OF RECOMMENDATIONS

There are no recommendations resulting from this examination.

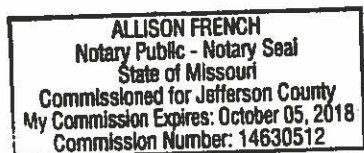
ACKNOWLEDGEMENT


The assistance and cooperation extended by the officers and employees of First Commonwealth of Missouri, Inc. during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Andrew Coppedge, CFE, examiner for the Missouri Department of Insurance, Financial Institutions and Professional Registration participated in this examination.

VERIFICATION

State of Missouri)
) ss
County of St. Louis)

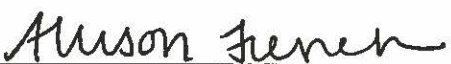
I, Thomas J. Cunningham, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.





Thomas J. Cunningham, CPA, CFE
Examiner-in-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration


Sworn to and subscribed before me this 30 day of April 2015
My commission expires:
October 5, 2018



Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Michael Shadowens, CFE
Audit Manager, St. Louis
Missouri Department of Insurance, Financial
Institutions and Professional Registration