

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Advantica Dental Benefits, Inc

### ORDER

After full consideration and review of the report of the financial examination of Advantica Dental Benefits, Inc for the period ended December 31, 2009, 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 report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER, Advantica Dental Benefits, 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 25<sup>th</sup> day of May, 2011.



A handwritten signature in black ink, appearing to read "John M. Huff", with a horizontal line extending to the right.

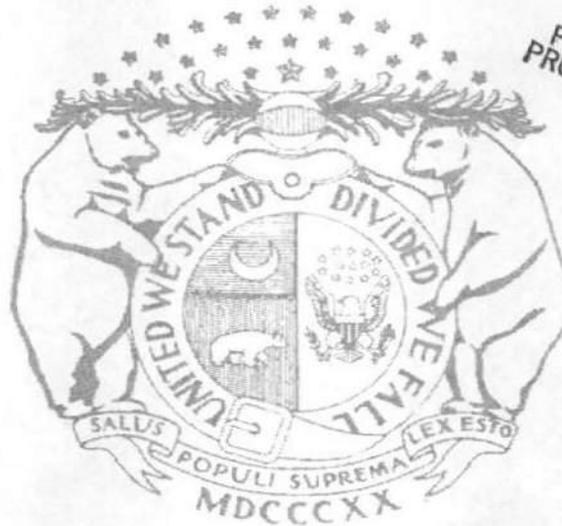
John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF  
FINANCIAL EXAMINATION

**Advantica Dental Benefits, Inc.**

As of:

DECEMBER 31, 2009



**FILED**  
JUN 04 2011  
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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March 17, 2011

Honorable Joseph Torti III, Superintendent  
Division of Insurance Regulation  
State of Rhode Island  
Chairman, Financial Condition (E) Committee, NAIC

Honorable Stephen Robertson, Commissioner  
Department of Insurance  
State of Indiana  
Secretary, Midwestern Zone, NAIC

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

Dear Sirs:

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

**Advantica Dental Benefits, Inc.**

hereinafter referred to as such or as "ADB" or as the "Company." The Company's statutory home office is located at 9735 Landmark Parkway Drive, Suite 14, St Louis, MO 63127, telephone number (314) 543-4900. This examination began on December 6, 2010 and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

The last full scope association financial examination of Advantica Dental Benefits, Inc. was made as of December 31, 2005, by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope financial examination covers the period from January 1, 2006, through December 31, 2009, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating. This examination also included material transactions or events occurring subsequent to December 31, 2009.

### **Procedures**

This examination was conducted using guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration ("DIFP") or statutes of the state of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating systems controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's 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: Treasury, Reserves, Claims Handling, Premiums, Underwriting, and Intercompany.

The examiners relied upon information and workpapers provided by the Company's independent auditor, BKD LLP, for its audit covering the period from January 1, 2009, through December 31, 2009. Such reliance included fraud risk analysis, internal control narratives and tests of internal controls.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Bylaws**

The Company bylaws require eight directors, four of which are to be "ethical dentists duly licensed under the laws of the state of Missouri." At December 31, 2009, the Board included only three dentists. The Company intends to amend its bylaws such that a fourth dentist is not required.

### **Fidelity Bond**

The Company is a named insured on a financial institution bond policy purchased by its parent, Delta Dental of Missouri, which provides \$750,000 in coverage with a \$10,000 deductible. This coverage does not equal the minimum amount of fidelity insurance recommended by the NAIC of \$900,000.

### **Unclaimed Property**

Although the Company holds outstanding checks dating back to 2001, it has not made any unclaimed property filings nor does it maintain an escheat liability account on its books.

## **SUBSEQUENT EVENTS**

The Company received a \$500,000 capital contribution from its parent in the first quarter of 2010. On May 24, 2010, the Company filed an amendment to its articles of incorporation to change its name to Advantica Dental Benefits, Inc.

## COMPANY HISTORY

### General

Advantica Dental Benefits, Inc. was incorporated under the provisions of the General and Business Corporation Laws of Missouri on June 6, 1994, as Premier Dental Plan, Inc. On November 7, 1994, the Missouri Department of Insurance issued the Company a certificate of authority to operate as a prepaid dental plan pursuant to Sections 354.700 to 354.723 RSMo (Prepaid Dental Plans). The name of the Company was changed to BJC Dental Plan, Inc. on February 27, 1996. On December 31, 2002, BJC Dental Plan, Inc. entered into an agreement to be acquired by Delta Dental Plan of Missouri. The articles of incorporation were amended on January 21, 2004 to change the name to Essex Dental Benefits, Inc. Subsequent to the examination period, the Company's name was changed to Advantica Dental Benefits, Inc.

### Capital Stock and Paid-In Surplus

The Company has two classes of common stock. There are 100,000 authorized shares split equally between Class A (voting stock) and Class B (non-voting stock), both with a \$1 par value. Ten shares of Class A stock are issued and outstanding and 49,990 shares of Class B stock were issued in a stock dividend in 2006 and remain outstanding for a total common capital stock account of \$50,000.

Capital contributions made in January 2003, and February 2005 in the amounts of \$1,300,000, and \$500,000, respectively, comprise the Company's current contributed capital balance of \$1,800,000.

### Dividends

The Company has paid no dividends.

### Acquisitions, Mergers and Major Corporate Events

Effective December 31, 2007, Delta Dental of Missouri formed a new subsidiary, Essex Holding Company ("EHC"), and transferred all former direct subsidiaries, including the Company, into EHC. EHC was subsequently renamed Advantica Holding Company, Inc.

### Surplus Debentures

None

## CORPORATE RECORDS

The Company's articles of incorporation and bylaws were reviewed. There were no amendments to the bylaws during the exam period. In 2004, the articles of incorporation were amended to change the name of the corporation to Essex Dental Benefits, Inc.

The joint unanimous written consents of the board of directors and sole shareholder (in lieu of special meetings) were reviewed and appear to properly support and approve the corporate transactions and events for the period under examination.

The Company bylaws require eight directors, four of which are to be "ethical dentists duly licensed under the laws of the state of Missouri." At December 31, 2009, the Board

included only three dentists. The Company indicated that they do not intend to elect a fourth dentist. The Company should revise their bylaws to conform to the quantity and mix of directors that the Company intends to maintain.

## MANAGEMENT AND CONTROL

### Board of Directors

The management of the Company is vested in a board of 8 directors authorized by the Company's articles of incorporation and bylaws. The directors serving at December 31, 2009, were as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
Guy P. Bates Jr. Springfield, MO	Dentist
Brian W. Berglund Saint Louis, MO	Attorney Bryan, Cave LLP
Melvin M. Bloom Chesterfield, MO	Retired Partner Hochschild, Bloom & Co.
Steve P. Gaal III Saint Louis, MO	Retired (2010) President Delta Dental of Missouri
Richard J. Haffner Saint Louis, MO	Dentist
David W. Haynes Clayton, MO	Assistant Treasurer Delta Dental of Missouri
Dee A. Joyner Clayton, MO	Senior Vice President Commerce Bank
Robert M. Tait Grandview, MO	Dentist

### Officers

The officers of the Company serving and reported on the Jurat page of the Annual Statement at December 31, 2009, were as follows:

<u>Name</u>	<u>Position</u>
Steve P. Gaal III	Chairman
Richard J. Haffner, DDS	Vice Chairman
Sheldon C. Cohen, DMD	President
Brian W. Berglund	Secretary
Janice Lees	Assistant Secretary
David W. Haynes	Assistant Treasurer

### **Committees**

The Company has no established committees of its own, instead relying on the committees of the ultimate parent, Delta Dental of Missouri. The various committees of the board established by Delta Dental of Missouri are as follows.

#### **Executive Committee**

Richard J. Haffner, Chairperson  
Robert M. Tait  
Dee A. Joyner  
William J. Tunney Jr.  
Melvin M. Bloom  
H.R. Redohl  
Steve P. Gaal III  
Staff Liaison – Janice Lees

#### **Finance and Audit Committee**

Melvin M. Bloom, Chairperson  
Dee A. Joyner  
Guy P. Bates Jr.  
Brian W. Berglund  
Staff Liaison – David Haynes

#### **Compensation Committee**

Brian W. Berglund, Chairperson  
H.R. Redohl  
Robert M. Tait  
Kenneth L. Worley  
Staff: Jane Stanhaus

#### **Governance Committee**

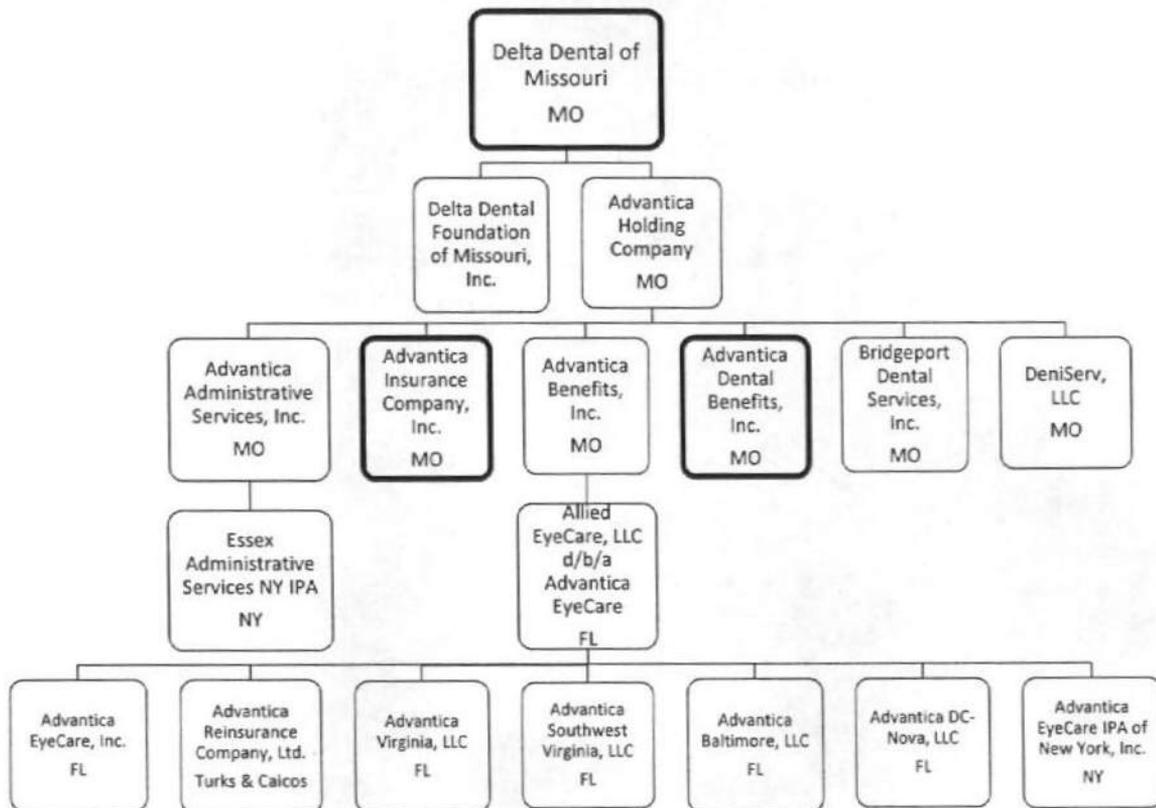
H.R. Redohl, Chairperson  
Brian W. Berglund  
Melvin M. Bloom  
Guy P. Bates Jr.  
William J. Tunney Jr.  
Staff: Janice Lees

### **Holding Company, Subsidiaries and Affiliates**

The Company is part of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The Company is a wholly owned subsidiary of Advantica Holding Company, which in turn is wholly owned by Delta Dental of Missouri (DDM), the ultimate controlling entity of the holding company system.

### **Organization Chart**

The following organizational chart depicts the Company within the current holding company system. All subsidiaries shown are wholly owned.



## Affiliated Transactions

### 1) Management Agreement

Parties: Advantica Dental Benefits, Inc., Advantica Insurance Company, Inc., DeniServ, LLC, and Delta Dental of Missouri.

Effective: January 1, 2007, non-disapproved by DIFP on July 31, 2007

Terms: DDM will provide various administrative services to the other parties to include human resources, financial services, accounting services, information systems services, marketing services and purchasing services.

Rate(s): Fees charged under the Agreement are equal to the cost incurred to render such services to the other parties.

### 2) Intercompany Services Agreement

Parties: Advantica Dental Benefits, Inc., and DeniServ, LLC

Effective: January 1, 2009, non-disapproved by DIFP on June 1, 2009

Terms: DeniServ, LLC will provide software, use and maintenance of the claims processing system and other programs, software development services, training, and network and operations support services.

Rate(s): Services are provided on a cost basis.

3) Intercompany Tax Allocation Agreement

Parties: Advantica Dental Benefits, Inc., Advantica Insurance Company, Inc., Deniserv, LLC,, Advantica Holding Company, Essex Administrative Services, Bridgeport Dental Services, Inc.

Effective: January 1, 2008, non-disapproved by DIFP on December 1, 2008

Terms: Parties agree to file consolidated federal and state income tax returns.

Rates: Payment is the respective income tax liability arising as if each company filed a separate return.

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

The Company is a named insured on a financial institution bond purchased by its parent, Delta Dental of Missouri, which provides \$750,000 in coverage with a \$10,000 deductible. This coverage does not equal the minimum amount of fidelity insurance recommended by the NAIC of \$900,000.

It is recommended that the Company obtain additional fidelity coverage to comply to the minimum amount recommended by the NAIC.

The Company is also a named insured on policies that provide the following coverages: property, general and excess, auto, directors and officers, fiduciary, and workers' compensation. The Company's insurance coverages, other than the financial institution bond, appear adequate.

#### **PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company provides the following benefits to full time employees: various types of leave, holidays, cafeteria plan, group life, short-term disability, long-term disability, employee group health plan, educational assistance, 401(k) savings plan and a defined contribution retirement plan. In addition, the Company has a nonqualified, defined benefit, deferred compensation plan for its officers.

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

The Company is licensed under Chapter 354 RSMo (Health Service Corporations – Health Maintenance Organizations - Pre-paid Dental Plans) as a prepaid dental. ADB operates in Missouri only.

ADB provides dental insurance benefits to employer groups headquartered in the state of Missouri. These groups pay a fee to ADB and, in turn, ADB then pays dental claims for their employees.

The majority of the Company's enrollees are covered under a PPO contract where covered benefits are provided for pre-designated co-payment fees. ADB also provides coverage to a small number of group enrollees through an indemnity coverage contract.

#### **GROWTH OF COMPANY**

The Company's premium continued to grow over the examination period in spite of the economic crisis. However, increased costs attributed to increased utilization in the bad

economy resulted in an operating loss in 2009, and a substantial 25% decrease in capital and surplus.

<u>Year</u>	Direct Premium <u>Written</u>	Capital and <u>Surplus</u>	Direct Premium Written to Capital and Surplus
2009	29,317,070	1,829,246	1,603%
2008	26,588,811	2,446,874	1,087%
2007	23,732,308	2,018,961	1,175%
2006	21,634,820	1,622,521	1,333%

### LOSS EXPERIENCE

The following exhibit reflects the Company's claims unpaid and medical expense experience over the examination period. As noted above, utilization increased substantially as a result of the economic downturn, especially in 2009.

<u>Year</u>	Claims <u>Unpaid</u>	Medical <u>Benefits</u>
2009	1,000,000	25,155,091
2008	994,000	21,958,613
2007	1,039,000	18,978,145
2006	1,334,939	17,968,140

### REINSURANCE

The Company has no reinsurance.

### ACCOUNTS AND RECORDS

#### General

The Company's financial statements were prepared using Sage MAS 500 financial accounting software.

Reserves and related actuarial items as of December 31, 2009, were reviewed and certified by F. Ray Martin, FSA, MAAA, president and owner of MarACon, LLC.

The company is planning to replace the functions of its current premium administration system, Wisddm, with an existing, but unused, Finance Manager module of the customized commercial software, aQDen, which has been used for claims, eligibility and enrollment administration since 1999. Testing of the premium administration system will take place sometime in 2011.

#### Independent Auditor

The Company's financial statements for the period January 1, 2006 to December 31, 2009, were audited by BKD LLP, Certified Public Accountants. The workpapers and reports of the most recent independent audit were reviewed for this examination. These

workpapers and reports were used in the course of this examination as deemed appropriate.

**Information Systems**

In conjunction with this examination, Andrew Balas, AES, Information Systems Financial Examiner with the DIFP, conducted a review of the Company's information systems. His evaluation did not identify any significant weaknesses.

**Unclaimed Property**

Although the Company holds outstanding checks dating back to 2001, it has not made any unclaimed property filings nor does it maintain an escheat liability account on its books. The Company should implement procedures to ensure compliance with the Missouri escheat statutes found in Chapter 447 RSMo (Lost and Unclaimed Property).

**STATUTORY DEPOSITS**

**Deposits with the State of Missouri**

The funds on deposit with the Missouri Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2009, are reflected below. These deposits had sufficient par and market values to meet the deposit requirement for the state of Missouri per Section 354.707 RSMo (Capital, surplus, security required).

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Cash	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>

**Deposits with Other States**

The Company has no funds on deposit with other states.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2009, 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 the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on the 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

	Assets	Nonadmitted Assets	Net Admitted Assets
Cash, cash equivalents and short-term investments	\$ 3,131,281	\$	\$ 3,131,281
Uncollected premiums	635,884		635,884
Current federal income taxes recoverable	31,131		31,131
EDP equipment	13,608	13,608	
Furniture and equipment	20,090	20,090	
Receivables from parent, subsidiaries and affiliates	32,473		32,473
Aggregate write-in for other than invested assets	63,744	63,744	
<b>Total Assets</b>	<b>\$ 3,928,211</b>	<b>\$ 97,442</b>	<b>\$ 3,830,769</b>

## LIABILITIES, SURPLUS AND OTHER FUNDS

	Current Year
Claims unpaid	\$ 1,000,000
Unpaid claim adjustment expenses	40,000
Premiums received in advance	245,548
General expenses due or accrued	286,073
Amounts due parents, subsidiaries, and affiliates	429,902
<b>Total liabilities</b>	<b>\$ 2,001,523</b>
Common capital stock	\$ 50,000
Gross paid in and contributed surplus	1,800,000
Unassigned funds (surplus)	(20,754)
<b>Total capital and surplus</b>	<b>\$ 1,829,246</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 3,830,769</b>

## STATEMENT OF INCOME

	Current Year
Net premium income	\$ 29,317,070
Other income	
Total revenues	\$ 29,317,070
Hospital/medical benefits	\$ 25,155,091
Claims adjustment expenses	(2,000)
General administrative expenses	4,753,944
Total underwriting deductions	\$ 29,907,035
Net underwriting gain (loss)	\$ (589,965)
Net investment income earned	\$ 1,076
Net realized capital gain (loss) less capital gains tax	
Net investment gains	\$ 1,076
Net income (loss) after capital gains tax and before federal income tax	\$ (588,889)
Federal income tax	\$ 76,284
Net income	\$ (665,173)

## CAPITAL AND SURPLUS

	Current Year
Capital and surplus prior reporting year	\$ 2,446,874
Net income	\$ (665,173)
Change in nonadmitted assets	47,546
Rounding difference	(1)
Net change in capital and surplus for the year	\$ (617,628)
Capital and surplus, December 31 current year	\$ 1,829,246

## COMMENTS ON THE FINANCIAL STATEMENTS

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

## SUMMARY OF RECOMMENDATIONS

### **Bylaws**

The Company bylaws require eight directors, four of which are to be "ethical dentists duly licensed under the laws of the state of Missouri." At December 31, 2009, the Board included only three dentists. The Company intends to amend its bylaws such that a fourth dentist is not required. The Company should follow through and amend its bylaws to conform to the mix of directors that the Company intends to maintain.

### **Fidelity Bond**

The Company is a named insured on a financial institution bond policy purchased by its parent, Delta Dental of Missouri, which provides \$750,000 in coverage with a \$10,000 deductible. This coverage does not equal the minimum amount of fidelity insurance recommended by the NAIC of \$900,000. The Company should obtain additional fidelity coverage to comply to the minimum amount recommended by the NAIC.

### **Unclaimed Property**

Although the Company holds outstanding checks dating back to 2001, it has not made any unclaimed property filings nor does it maintain an escheat liability account on its books. The Company should implement procedures to ensure compliance with the Missouri escheat statutes found in Chapter 447 RSMo (Lost and Unclaimed Property).





May 20, 2011

Frederick G. Heese, CFE, CPA  
Chief Financial Examiner & Division Director  
Division of Insurance Company Regulation  
Department of Insurance, Financial Institutions and  
Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65102

Re: Examination Report of Advantica Dental Benefits  
For the period ending December 31, 2009

Dear Mr. Heese:

This letter is in response to your request for a written response or rebuttal to be included in the report as a public document.

The Examination Report noted three items for corrective action; our responses to the comments are:

- **Bylaws** – the Company will amend its bylaws to reduce the number of directors to one and remove the requirement of requiring fifty percent of the board to be "ethical dentists".
- **Fidelity Bond** – the Company has taken steps to increase its financial institution bond, effective July 1, 2011, to \$900,000 as recommended by the NAIC.
- **Unclaimed Property** – the Company will file an unclaimed property report for any items five years or older as of June 30, 2011 no later than November 1, 2011 per escheat statute.

We believe the corrective actions noted to be satisfactory.

Sincerely,

Sheldon C. Cohen, DMD  
President and Chief Executive Officer  
Advantica Dental Benefits, Inc.