



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

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

RE: Examination Report of Delta Dental of Missouri for the period ended December 31, 2014

ORDER

After full consideration and review of the report of the financial examination of Delta Dental of Missouri for the period ended December 31, 2014, 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, pensions, stock ownership and insurance plans, territory and plan of operation, growth of company, loss experience, reinsurance, accounts and records, statutory deposits, financial statements, comments on the financial statements, and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Delta Dental of Missouri as of December 31, 2014 be and is hereby ADOPTED as filed and for Delta Dental of Missouri 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 the Financial Statements and/or Summary of Recommendations section of such report; and (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 11th day of March, 2016.



A handwritten signature in blue ink, appearing to read "John M. Huff", is written over a horizontal line.

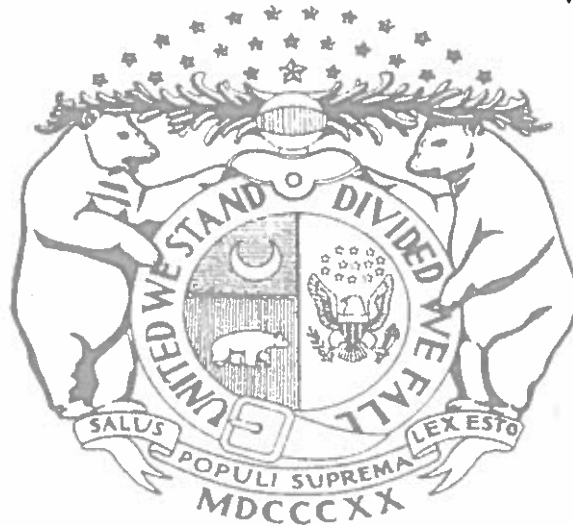
John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF
FINANCIAL EXAMINATION

Delta Dental of Missouri

As of:
DECEMBER 31, 2014

FILED
MAR 21 2016
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

SCOPE OF EXAMINATION	1
Period Covered.....	1
Procedures.....	1
SUMMARY OF SIGNIFICANT FINDINGS	2
SUBSEQUENT EVENTS	2
COMPANY HISTORY	2
General.....	2
Capital Stock.....	2
ACA impact on Special Surplus Funds	2
Dividends	2
Acquisitions, Mergers and Major Corporate Events.....	2
Surplus Debentures	3
CORPORATE RECORDS	3
MANAGEMENT AND CONTROL	3
Board of Directors.....	3
Committees	5
Holding Company, Subsidiaries and Affiliates	6
Organization Chart.....	6
Affiliated Transactions.....	6
FIDELITY BOND AND OTHER INSURANCE	7
PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS	7
TERRITORY AND PLAN OF OPERATION	7
GROWTH OF COMPANY	8
LOSS EXPERIENCE	8
REINSURANCE	8
ACCOUNTS AND RECORDS	8
General.....	8
Independent Auditor	9
Information Systems	9
STATUTORY DEPOSITS	9
Deposits with the State of Missouri	9
Deposits with Other States.....	9
ASSETS	11
LIABILITIES, SURPLUS AND OTHER FUNDS	12
STATEMENT OF INCOME	13
RECONCILIATION OF CAPITAL AND SURPLUS	14
COMMENTS ON THE FINANCIAL STATEMENTS	15
SUMMARY OF RECOMMENDATIONS	15
ACKNOWLEDGEMENT	16
VERIFICATION	16
SUPERVISION	16

January 6, 2016

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

Delta Dental of Missouri

hereinafter referred to as such or as "DDMO" or as the "Company." The Company's statutory home office is located at 12399 Gravois Road, St. Louis, MO 63127, telephone number (314) 656-3000. This examination began on April 6, 2015, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a multi-state examination of DDMO. The last examination of DDMO was completed as of December 31, 2009. This examination covers the period of January 1, 2010 through December 31, 2014, and material transactions or events occurring subsequent to December 31, 2014.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook), 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 examiners relied upon information and workpapers provided by the Company's independent auditor, BKD LLP, for its audit covering the period from January 1, 2014, through December 31, 2014, and its Independent Service Auditor's Reports for Delta Dental of Missouri, and DeniServ, LLC. Such reliance included fraud risk analysis, internal control narratives and tests of internal controls.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings.

SUBSEQUENT EVENTS

There were no significant subsequent events.

COMPANY HISTORY

General

Delta Dental of Missouri was incorporated as a not-for-profit entity on November 10, 1958, as Missouri Dental Service, and was licensed as a health services corporation under the provisions of Chapter 354 RSMo (Health Service Corporations). The Company changed its name to Delta Dental Plan of Missouri on February 23, 1985.

On July 1, 1990, the DIFP issued a Certificate of Authority for the Company to operate as a prepaid dental plan pursuant to Sections 354.700 to 354.723 RSMo (Prepaid Dental Plans). In 2005, the Company changed its name to Delta Dental of Missouri, its current name.

Capital Stock

The Company has no common capital stock or paid-in surplus. The Company does maintain segregated surplus of \$200,000 in compliance with Section 354.710.1 RSMo (Reserve requirements).

ACA impact on Special Surplus Funds

On January 1, 2015, the Company was subject to an annual fee under Section 9010 of the Federal Affordable Care Act (ACA). This amount was reflected as a write-in for special surplus funds of \$1,548,434 at December 31, 2014.

Dividends

The Company has paid no dividends, and has no shareholders.

Acquisitions, Mergers and Major Corporate Events

In February 2010, Delta Dental acquired Allied EyeCare, LLC, a company providing both vision care and benefits. The goal in purchasing Allied Eyecare, LLC was to expand the holding company product offerings to include routine vision and medical eye care. Allied EyeCare, LLC was merged into Advantica Administrative Services (AAS). Vision plans are sold by both DDMO and Advantica Insurance Company, an indirect subsidiary.

During calendar year 2012, DDMO, the ultimate controlling entity, restructured its subsidiary organizations to streamline services and achieve cost efficiencies. Advantica Administrative Services (AAS), Advantica Dental Benefits, Inc. (ADB), Advantica Insurance Company (AIC), and DeniServ, LLC are now wholly owned subsidiaries of Advantica Holding Company. Advantica Benefits, Inc., and Allied EyeCare, LLC were merged with and into AAS. AAS is now the parent of Advantica Administrative Services-New York IPA, Inc., Advantica EyeCare IPA of New York, Inc., Advantica, Inc. and Advantica Reinsurance Company, LTD.

Surplus Debentures

No surplus debentures were issued or outstanding during the examination period.

CORPORATE RECORDS

The Company's articles of incorporation and bylaws were reviewed. On November 18, 2010, the bylaws were amended changing the document heading from Delta Dental Plan of Missouri to Delta Dental of Missouri to correspond with the Articles of Incorporation. In addition the following articles were revised:

Article III, Section 1 and Article XI, Section 1 were amended to reduce the Board from fifteen to thirteen members, by reducing the public representatives from nine to seven members.

Article IV, Section 3 was revised to remove conflicting wording with Section 5 regarding the authority of the President/CEO over employment and discharge of employees.

Article VI, was revised to combine the Nominating and Governance committees into the newly named Governance and Nominating Committee.

The minutes of the board of directors, and committee meetings were reviewed and appear to properly support and approve the corporate transactions and events for the period under examination.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a board of 13 directors authorized by the Company's bylaws. The directors serving at December 31, 2014, were as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
Guy P. Bates Jr. (1) Springfield, MO	Dentist
Brian W. Berglund Saint Louis, MO	Attorney Bryan, Cave LLP

Richard W. Braun Saint Louis, MO	Retired Partner Ernst and Young
Robert E. Butler Saint Louis, MO	Dentist
Ollie C. Fisher (1) Saint Louis, MO	Dentist
David W. Haynes (2) Saint Louis, MO	President and CEO Delta Dental of Missouri
Jim Hoffmeister Clayton, MO	CEO Busch Agricultural Resources, Inc.
Dee A. Joyner (1) Clayton, MO	Senior Vice President Commerce Bank
H.R. Redohl Saint Louis, MO	Retired AAIM Management
Edward C. Robison Warrensburg, MO	Dentist
Robert M. Tait (1) Grandview, MO	Dentist
James Sandfort (1) Ballwin, MO	Retired Superintendent Lindbergh School District
Josh Whitford Raymore, MO	Dentist

(1) The directors noted above were replaced subsequent to the examination period at an election held via mail-in vote concluding February 13, 2015. Elected were Dr. Mark Mancin, Dr. Tim Taylor, Dr. James Rhea, all member dentists, and public members William Bender and Rosemary Bishop.

(2) Also subsequent to the examination period, on August 18, 2015, Rob Goren replaced David Haynes as President, Chief Executive Officer, and board member.

Officers

The officers of the Company serving and reported on the Jurat page of the Annual Statement at December 31, 2014, were as follows:

<u>Name</u>	<u>Position</u>
Guy Bates	Chairman of the Board
David Haynes	President & CEO
Bryan Berglund	Secretary
Dee Joyner	Treasurer
Barbara Bentrup	CFO & Corporate Counsel
Rob Goren	Vice President Actuarial Services
Janice Lees	Vice President Board Relations
Karl Mudra	Chief Information Officer

Subsequent to the examination period, on July 9, 2015, David Haynes announced he was leaving Delta Dental by December 31, 2015. On August 18, 2015, Delta Dental named Rob Goren as the new President and Chief Executive Officer effectively immediately. Goren had previously served as chief actuary and senior vice president of business development.

Committees

In accordance with the bylaws, the board has established various committees with responsibility for managing the Company's affairs between meetings of the board. Quarterly, the full board reviews and approves the actions of the committees.

Established committees include the following at 12/31/2014:

Executive Committee

Dr. Guy P. Bates, Chairperson
Dr. Ollie Fisher
Mrs. Dee A. Joyner
Mr. Richard W. Braun
Mr. Brian W. Berglund
Mr. David Haynes
Dr. Ed Robison
Staff Liaison – Mrs. Janice Lees

Compensation Committee

Mr. Brian W. Berglund, Chairperson
Mr. H.R. Redohl
Dr. Robert M. Tait
Mr. Richard W. Braun
Staff: Ms. Jane Stanhaus

Finance and Audit Committee

Mr. Richard W. Braun, Chairperson
Mrs. Dee A. Joyner
Mr. Brian W. Berglund
Dr. Ollie C. Fisher
Mr. James F. Hoffmeister
Staff Liaison – Mrs. Barbara Bentrup

Governance/Nominating Committee

Mr. Mick Redohl, Chairperson
Mr. Brian W. Berglund
Dr. Ollie Fisher
Mr. Richard W. Braun
Mrs. Dee A. Joyner
Mr. Jim Sandfort
Staff: Mrs. Janice Lees

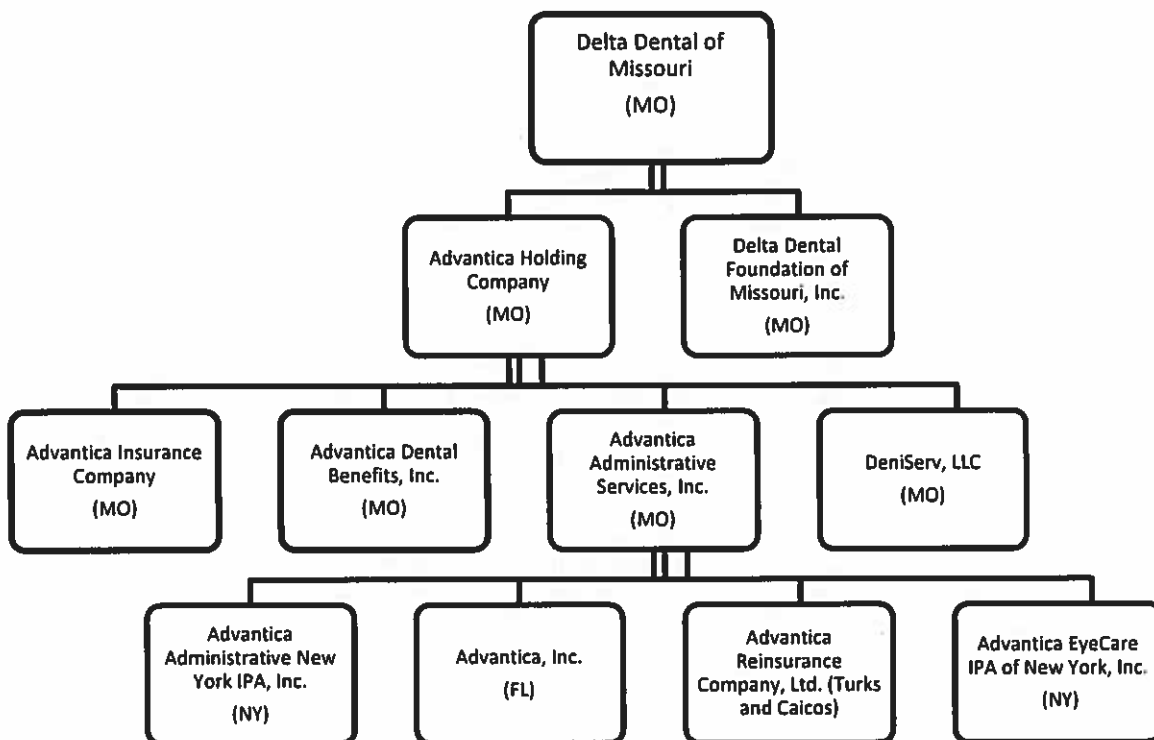
Subsequent to the examination period, substantial changes occurred in these committees in 2015, as a result of the election, and the replacement of David Haynes as noted above.

Holding Company, Subsidiaries and Affiliates

The Company is the ultimate controlling entity of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions).

Organization Chart

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



Affiliated Transactions

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

1. Intercompany Services Agreement between DDMO and its direct and indirect subsidiaries, effective November 1, 2010, non-disapproved by DIFP on June 30, 2011. Amendment to update the parties was approved December 11, 2012. Parties agree to supply and receive certain management and support services at cost.
2. Guaranty Agreement between DDMO and AAS in regard to the obligations of Allied EyeCare, LLC (AE) effective February 4, 2010. DDMO agrees to

guarantee payment by AE of all obligations of AE arising from its Arizona TPA business that arises on or after the effective date. DDMO's obligation under the guarantee is not to exceed \$500,000. This guarantee transferred with the merger of AE into Advantica Benefits, Inc., and Advantica Benefits, Inc., into AAS, effective January 1, 2013.

3. Guaranty Agreement between DDMO and Advantica Administrative Services, Inc., effective February 1, 2012. DDMO agrees to guarantee payment by AAS of all obligations of AAS arising from its Tennessee TPA business that arises on or after the effective date. DDMO's obligation under the guarantee is unconditional, irrevocable and unlimited as long as any claims against AAS as a TPA in Tennessee remain outstanding.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a financial institution bond which provides \$1,000,000 in coverage with a \$10,000 deductible. This coverage meets the minimum amount of fidelity insurance 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 appear adequate.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company provides the following benefits to full time employees: various types of leave, holidays, a cafeteria plan, group life, short-term disability, long-term disability, an employee group health plan, educational assistance, a 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 as a not-for-profit prepaid dental plan in Missouri under Chapter 354 RSMo (Health Service Corporations – Health Maintenance Organizations - Pre-paid Dental Plans). The Company is also licensed and writes business in the state of South Carolina.

DDMO is a member plan of the Delta Dental Plan Association that operates in all 50 states, Guam, Puerto Rico and the Virgin Islands. DDMO provides dental insurance benefits to over 1.6 million members through over 1,800 employer group contracts. Employer groups pay a fee to DDMO and, in turn, DDMO then pays dental claims for their employees. National employer groups can access a nationwide provider panel and local procedure fees via the national association.

DDMO also processes and pays claims for self-funded employers who reimburse DDMO for the claims processed on their behalf. These employers are referred to as ASC – Administrative Service Contracts. For this service, DDMO receives administrative fees

on a per member per month basis or a percentage of claims basis. The fees are billed and collected from each employer group monthly.

In 2010, DDMO started offering dental benefits through individual policies. The individual policies exceeded \$6.3 million in premiums earned in 2014. The individual policies are sold through their E-Commerce site and Healthcare.gov.

GROWTH OF COMPANY

The Company's premium was on an upward trend through 2013, but decreased slightly in 2014. The decrease from 2013 to 2014 was due to a new Tri-Care contract with reduced premium that more than offset other increases.

<u>Year</u>	<u>Direct Premium Written</u>	<u>Capital and Surplus</u>	<u>Direct Premium Written to Capital and Surplus</u>
2014	172,369,980	82,338,439	209%
2013	174,098,328	80,062,910	217%
2012	167,052,483	70,120,025	238%
2011	150,072,564	63,339,515	237%
2010	138,510,222	52,550,674	264%

LOSS EXPERIENCE

The following exhibit reflects the Company's claims unpaid and medical expense experience over the examination period.

<u>Year</u>	<u>Claims Unpaid</u>	<u>Medical Benefits</u>
2014	8,240,753	136,195,172
2013	8,586,500	136,108,364
2012	8,250,160	136,008,576
2011	8,363,477	126,119,476
2010	6,771,207	117,108,923

REINSURANCE

The Company does not assume or cede 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, 2014, were reviewed and certified by F. Ray Martin, FSA, MAAA, president and owner of MarACon, LLC.

The Company maintains its employer, member and provider data on the aQDen claims processing system and related applications. aQDen is a client-server based application developed to manage benefits, members, enrollments, providers, predeterminations, dental claims, account reconciliation, commissions, invoicing and check/explanation of benefit processing.

Independent Auditor

The Company’s financial statements for the period January 1, 2014 to December 31, 2014, 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.

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, 2014, as reflected below 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>
US Treasury Notes	\$ 200,000	\$ 199,000	\$ 199,958

Deposits with Other States

The Company also has funds on deposit with the state of South Carolina to satisfy its statutory deposit requirements. Those funds on deposit as of December 31, 2014, were as follows:

<u>State</u>	<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
South Carolina	US Treasury Note	\$ 150,000	\$ 148,091	\$ 149,160

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the DIFP and present the financial condition of the Company for the period ending December 31, 2014. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of 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, if any, 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

	<u>Assets Current Year</u>	<u>Nonadmitted Assets Current Year</u>	<u>Net Admitted Assets Current Year</u>
Bonds	\$ 41,900,325	\$ 0	\$ 41,900,325
Common stocks	38,538,683	9,781,794	28,756,889
Properties occupied by the Company	1,864,805	0	1,864,805
Cash and short-term investments	<u>24,305,433</u>	<u>0</u>	<u>24,305,433</u>
Subtotal – Cash and invested assets	\$106,609,246	\$ 9,781,794	\$ 96,827,452
Investment income due and accrued	428,825	0	428,825
Uncollected premiums and agent's balances	4,537,687	0	4,537,687
Amounts receivable relating to uninsured plans	7,413,061	0	7,413,061
EDP equipment and software	34,513	0	34,513
Furniture and equipment	216,899	216,899	0
Receivables from parent, subsidiaries and affiliates	490,224	0	490,224
Prepaid expenses	1,495,642	1,495,645	0
SERP funds	668,478	0	668,478
Net amount due from Tricare	<u>46,046</u>	<u>0</u>	<u>46,046</u>
Totals	<u><u>\$121,940,626</u></u>	<u><u>\$ 11,494,338</u></u>	<u><u>\$110,446,288</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Claims unpaid	\$ 8,240,753
Unpaid claims adjustment expenses	813,435
Premiums received in advance	5,843,923
General expenses	12,459,355
Amounts due to parent, subsidiaries and affiliates	171,704
Retention reserves and advance deposits	<u>578,679</u>
Total liabilities	\$ 28,107,849
Provision for ACA Tax	1,548,434
Required Statutory surplus	200,000
Unassigned funds	<u>80,590,005</u>
Total capital and surplus	<u>\$ 82,338,439</u>
Totals	<u><u>\$110,446,288</u></u>

STATEMENT OF INCOME

Net premium income	\$ 19,577,850
Change in unearned premium reserve	171,854,372
Other Income	393,997
General Expenses	<u>121,611</u>
Total revenues	\$172,369,980
Hospital/medical benefits	136,195,172
Claims adjustment expenses	10,339,293
General administrative expenses	<u>19,015,045</u>
Total underwriting deductions	<u>\$165,549,510</u>
Net underwriting gain (loss)	\$ 6,820,470
Net investment income earned	2,045,864
Net realized capital gains (losses) less capital gains tax	<u>911,486</u>
Net investment gains (losses)	<u>\$ 2,957,350</u>
Net income (loss)	<u><u>\$ 9,777,820</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS

Capital and surplus December 31, 2009		<u>\$56,576,697</u>
Net income or (loss) for the year	\$ 3,716,716	
Change in net unrealized capital gains (losses)	(3,625,459)	
Change in non-admitted assets	<u>(4,117,280)</u>	
Net change in capital and surplus	<u>(\$ 4,026,023)</u>	
Capital and surplus December 31, 2010		<u>\$52,550,674</u>
Net income or (loss) for the year	\$ 6,927,789	
Change in net unrealized capital gains (losses)	(216,373)	
Change in non-admitted assets	<u>4,077,425</u>	
Net change in capital and surplus	<u>\$10,788,841</u>	
Capital and surplus December 31, 2011		<u>\$63,339,515</u>
Net income or (loss) for the year	\$11,994,675	
Change in net unrealized capital gains (losses)	(4,273,101)	
Change in non-admitted assets	<u>(941,063)</u>	
Net change in capital and surplus	<u>\$ 6,780,511</u>	
Capital and surplus December 1, 2012		<u>\$70,120,026</u>
Net income or (loss) for the year	\$16,139,965	
Change in net unrealized capital gains (losses)	(5,005,022)	
Change in non-admitted assets	<u>(1,192,058)</u>	
Net change in capital and surplus	<u>\$ 9,942,885</u>	
Capital and surplus December 31, 2013		<u>\$80,062,911</u>
Net income or (loss) for the year	\$ 9,777,820	
Change in net unrealized capital gains (losses)	(4,161,352)	
Change in non-admitted assets	<u>(3,340,939)</u>	
Net change in capital and surplus	<u>\$ 2,275,529</u>	
Capital and surplus December 31, 2014		<u>\$82,338,440</u>

COMMENTS ON THE FINANCIAL STATEMENTS

There are no comments on the financial statements.

SUMMARY OF RECOMMENDATIONS

There are no recommendations.

