

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

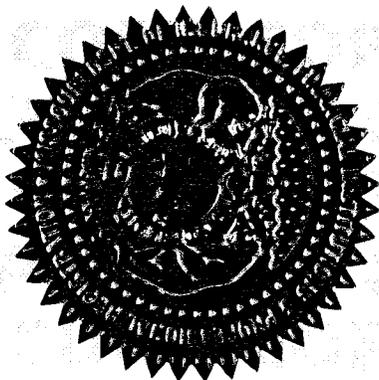
RE: Examination Report of Delta Dental of Missouri as of December 31, 2005

ORDER

After full consideration and review of the report of the financial examination of Delta Dental of Missouri for the period ended December 31, 2005, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, 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 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 mentioned in the General Comments and/or 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 February 13, 2007.



A handwritten signature in black ink, appearing to read "Douglas M. Ommen".

DOUGLAS M. OMMEN, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF
FINANCIAL EXAMINATION

DELTA DENTAL OF MISSOURI

As of:
DECEMBER 31, 2005

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

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November 14, 2006
St. Louis, Missouri

Honorable Alfred W. Gross, Commissioner
Bureau of Insurance
Virginia State Corporate Commission
Chairman, Financial Condition (E) Committee, NAIC

Honorable Ann Womer Benjamin, Director
Department of Insurance
State of Ohio
Secretary, Midwestern Zone, NAIC

Honorable W. Dale Finke, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Dear Sirs/Madam:

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 the "Company". The Company's office is located at 12399 Gravois Road, St. Louis, Missouri 63127, telephone number (314) 656-3000. Examination fieldwork began on August 7, 2006, and was completed on November 14, 2006.

SCOPE OF EXAMINATION

Period Covered

The last comprehensive financial examination of the Company was performed as of December 31, 2001, by examiners from the state of Missouri.

The current financial examination of the Company covers the period from January 1, 2002, through December 31, 2005, and was conducted by examiners from the state of Missouri. This examination also included material transactions or events occurring subsequent to December 31, 2005.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (Department) and statutes of the state of Missouri prevailed.

Workpapers of the Company's independent auditor, BKD, LLP, were made available to the examiners for review. Standard examination procedures were modified as deemed appropriate under the circumstances.

Comments - Previous Examination

1. Comment:

At December 31, 2001, the Plan had a vacant position on its Board of Directors for a member dentist. The Plan should fill this position in compliance with its by-laws, which stipulate a seventeen-member Board.

Company Response:

The Company plans to elect a dentist board member at its next annual meeting in 2003.

Current Finding:

The bylaws now require thirteen members on the board of directors with six members required to be dentists. The board currently has six dentists.

2. Comment:

The Plan should include all of its directors on the jurat page of the annual statement.

Company Response:

The Company will ensure that all of its directors are included on the jurat page in the appropriate section of the annual statement on all future filings.

Current Finding:

All directors were listed on the jurat page. (Note that five of the directors are listed on the second page as a continuation of the jurat page.)

3. Comment:

The Plan included amounts receivable from ASO/ASC groups in its health care receivables. Per SSAP 47 (Uninsured Plans), non-risk receivables should be reported separately as receivable from uninsured accident and health plans. The Plan should report its non-risk receivables separately from its health care receivables.

Company Response:

For Delta the receivables that relate to ASC business are relatively minimal due to the timing of reimbursement versus the payment of claims, which is less than one week. Due to the prompt electronic receipt of payment, outstanding ASC receivables are relatively minimal. We have not attempted to segregate this receivable because our receivables system is not sophisticated enough to break down this number. Calculating it manually would not be reasonably possible or cost-effective for the dollars involved.

Current Finding:

The Company reports estimated balances for health care receivables and non-risk receivables in the annual statement. Based on studies of the overall membership and utilization patterns, the Company determines that 75% of the total receivables are attributed to non-risk groups and 25% are actual health care receivables. The Company should accurately identify the groups and report exact balances in the annual and quarterly statements.

HISTORY

General

The Company was incorporated as a not-for-profit entity on November 10, 1958, as Missouri Dental Service. The Company changed its name to Delta Dental Plan of Missouri on February 23, 1985. The Company was licensed as a health services corporation under the provisions of Chapter 354 RSMo (Health Service Corporations). On July 1, 1990, the Missouri Department of Insurance 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). During 2005, the Company changed its name to Delta Dental of Missouri.

Capital Stock

The Company has no common capital stock and pays no dividends.

Management

The Company has a Board of Directors consisting of six dentists and eight public representatives elected by the membership as authorized by the By-laws. (The total number was reduced to thirteen members at the most recent annual meeting.) The By-laws stipulate that the president of Delta Dental of Missouri serve on the Board. Directors serve a three-year term with elections staggered so that approximately one-third of the Board is elected each year. Directors serving as of December 31, 2005, were as follows:

<u>Name</u>	<u>Director Status</u>
Guy P. Bates, Jr., DDS Springfield, MO	Member Dentist

Brian Berglund St. Louis, MO	Public Representative
Melvin M. Bloom, CPA Chesterfield, MO	Public Representative
Ollie C. Fisher, DMD St. Louis, MO	Member Dentist
Steve P. Gaal, III Arnold, MO	Public Representative
Richard J. Haffner, DDS St. Louis, MO	Member Dentist
Joseph P. Hopkins St. Louis, MO	Public Representative
Dee A. Joyner St. Louis, MO	Public Representative
David L. Kaelin, DMD Cape Girardeau, MO	Member Dentist
H.R. Redohl St. Louis, MO	Public Representative
Edward C. Robison, DDS Warrensburg, MO	Member Dentist
Robert M. Tait, DDS Raymore, MO	Member Dentist
William Tunney, Jr. Chesterfield, MO	Public Representative
Kenneth L. Worley Fortuna, MO	Public Representative

Officers serving as of December 31, 2005 were as follows:

<u>Name</u>	<u>Title</u>
Steve P. Gaal, III	President and Chief Executive Officer
David Haynes	Chief Financial Officer
Janice Lees	Secretary
Pamela Martin	Senior Vice President, Chief Operating Officer

Richard Klassen
Al Martinez
Karl Mudra

Vice President, Marketing and Sales
Vice President, Government and Dental Affairs
Chief Information Officer

Conflict of Interest

The Company's conflict of interest policy requires all directors, officers and employees to report any possible conflict of interest to the president. Signed conflict of interest disclosure statements were reviewed for 2004 and no material conflicts of interest were noted. No disclosures were made during 2005 because the Company plans to move this function into its ethics and compliance program during 2006. The Company should ensure that conflict of interest disclosures are completed each year.

Corporate Records

The Articles of Incorporation and the By-laws were reviewed. The By-laws were amended in May, 2005 to reduce the number of board members required to serve on the board of directors.

A review was made of the minutes of the annual membership meetings, the Board of Directors' meetings and the meetings of the various Board committees for the period under examination. The board acknowledged receipt of the prior examination report at its January 30, 2003 meeting. The minutes appear to properly support and approve the corporate transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

The Company had no affiliates until 2002 when DeniServ, LLC was formed. That company provides the data processing for claims, billing and eligibility for all the entities now affiliated with Delta Dental of Missouri.

On December 31, 2002, the Company acquired 100% of the common stock of BJC Dental Plan, Inc. This company, now named Essex Dental Benefits, Inc., offers a preferred provider option (PPO) product in the greater St. Louis market area including parts of Illinois.

During 2004, the Company organized Essex Benefits Insurance Company, Inc., to provide medical malpractice insurance to dentists. That company began operations in 2006.

Surplus Debentures

The Company does not have any surplus debentures issued or outstanding.

AFFILIATED COMPANIES

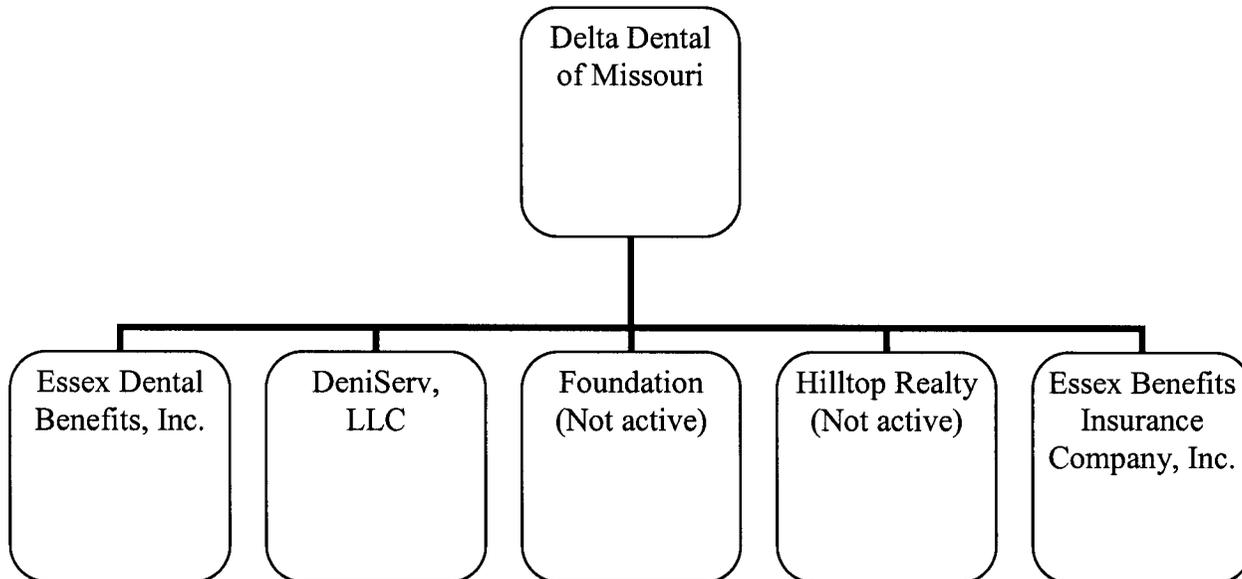
Holding Company

The Company is a member of an Insurance Holding Company System, as defined by Section

382.010 RSMo. Pursuant to Missouri Insurance Regulation 20 CSR 200-11.100 and Section 382.100 RSMo., the Company has filed Form B of the Insurance Holding Company System with the Missouri Department of Insurance, Financial Institutions and Professional Registration.

Organizational Structure

The Company owns 100% of each of its subsidiaries. The following organizational chart depicts the ownership structure of the Company:



Intercompany Transactions

Services are provided among the various companies within this holding company system. DeniServ, LLC provides data processing services to both Delta Dental of Missouri and Essex Dental Benefits, Inc. Delta Dental of Missouri provides various administrative services to the other companies.

At December 31, 2005, there were no agreements in place among any of these companies; however, agreements were obtained during the course of this examination. The Company should ensure that all future transactions among affiliated companies are documented with formal agreements and those agreements should be submitted to the Department.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a crime policy with an aggregate loss limit of \$300,000 and a deductible of \$1,000. This limit was below the National Association of Insurance Commissioners' minimum recommended coverage of \$600,000 for a company of this size. The Company should increase its coverage limit and maintain fidelity coverage in accordance

with recommended guidelines.

The Company is also insured through policies providing coverage for real and personal property, general liability, automobile liability, fiduciary responsibility, workers compensation and employer liability and directors' and officers' liability.

EMPLOYEE BENEFITS AND PENSION PLAN

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.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The U.S. Treasury Bond on deposit with the Department of Insurance, Financial Institutions and Professional Registration was sufficient in par and market value to meet the deposit requirement for the state of Missouri in accordance with 354.707 RSMo (Capital and surplus requirements; deposit required).

	<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
	U. S. Treasury Note	<u>\$ 205,000</u>	<u>\$ 205,000</u>	<u>\$ 205,483</u>

Deposits with Other States

The Company had funds on deposit with other states in which it is licensed. Those funds on deposit as of December 31, 2005, were as follows:

<u>State</u>	<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
South Carolina	U. S. Treasury Note	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed as a prepaid dental plan with the Missouri Department of Insurance, Financial Institutions and Professional Registration in accordance with Chapter 354 RSMo

(Health Services Corporations-Health Maintenance Organizations). The Company is licensed in Missouri and South Carolina and provides dental benefits to employees of groups headquartered in these states.

The Company provides services for both fully-insured customers and administrative service contracts (ASC) for self-insured groups. The Company bills premiums prior to the start of the coverage period for fully-insured groups and is responsible for all subsequent claims incurred. For ASC business, the Company administers claims activity and is reimbursed by the group for claims paid by the Company on the group's behalf. Roughly three-fourths of the Company's business is comprised of ASC groups.

Grievance Procedures

Section 354.715 RSMo (Providers of dental care) requires prepaid dental plans to establish procedures for the review and mediation of enrollee complaints regarding the appeal of a denied claim or the quality of care rendered by a participating provider. The Company has established an appeal procedure and information about filing an appeal is provided to enrollees in the enrollment agreement and to providers in the participation agreement. In addition, the Explanation of Benefits provided to enrollees includes claim appeal procedure information.

REINSURANCE

The Company has no reinsurance.

ACCOUNTS AND RECORDS

Independent Auditor

For the years 2002 and 2003, the Company's financial statements were audited by PricewaterhouseCoopers LLP. The 2004 and 2005 statements were audited by BKD, LLP.

Independent Actuary

Reserve requirements for each year of the examination were evaluated and certified by the Company's consulting actuary, F. Ray Martin, MAAA, of Tillinghast.

Consulting Actuary

Consulting actuary, Timothy F. Harris, MAAA, of Milliman, Inc., Consulting Actuaries, was retained by the Department to review the adequacy of losses and other related liabilities. He determined that the reserves were adequate.

Annual Statement

Numerous errors were noted in the schedules and exhibits of the December 31, 2005 annual statement. These errors included:

- Did not disclose foreign investments in Schedule D, Part 2, Section 2.
- Did not show the effective interest rate in Schedule D, Part 1.
- Did not show the correct amortization for all bonds in Schedule D, Part 1.
- Did not show the correct times for coupon payments in Schedule D, Part 1.
- Bank balances in excess of \$100,000 were not shown separately in Schedule E, Part 1.

The Company should take action to ensure that the annual statement is completed in accordance with annual statement instructions.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2005, 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 "Notes to 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 "Notes to 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.

BALANCE SHEET
As of December 31, 2005

Assets

	Assets	Nonadmitted	Net Admitted Assets
Bonds	\$ 8,788,103	\$ -	\$ 8,788,103
Preferred stocks	109,803	-	109,803
Common stocks	14,050,708	3,081,948	10,968,760
Properties occupied by the company	2,207,235	-	2,207,235
Cash and short-term investments	14,275,566	-	14,275,566
Investment income due and accrued	150,529	-	150,529
Uncollected premiums and agents' balances	1,060,447	-	1,060,447
Amounts receivable relating to uninsured plans	3,181,340	-	3,181,340
Electronic data processing equipment	284,252	111,679	172,573
Furniture and equipment	218,042	218,042	-
Receivables from parent, subsidiaries and affiliates	1,938,967	1,590,815	348,152
Aggregate write-ins for other than invested assets	3,644,601	1,813,090	1,831,511
Total Assets	<u>\$ 49,909,593</u>	<u>\$ 6,815,574</u>	<u>\$ 43,094,019</u>

Liabilities

Claims unpaid	\$ 5,490,560
Unpaid claims adjustment expenses	545,194
Premiums received in advance	1,018,606
General expenses due or accrued	7,017,575
Aggregate write-ins for other liabilities	743,720
Total Liabilities	<u>\$ 14,815,655</u>

Capital and Surplus

Aggregate write-ins for other than special surplus funds	150,000
Unassigned funds	28,128,364
Total Capital and Surplus	<u>\$ 28,278,364</u>
Total Liabilities, Capital and Surplus	<u>\$ 43,094,019</u>

INCOME STATEMENT
For the Year Ending December 31, 2005

Net premium income	\$ 76,060,468	
Self Rent Income	375,000	
Administrative Service Contracts	1,379,497	
Other	<u>296,425</u>	
Total revenues		\$ 78,111,390
Total hospital and medical	62,240,020	
Claims adjustment expenses	5,410,346	
General administrative expenses	<u>9,129,143</u>	
Total underwriting deductions		<u>76,779,509</u>
Net underwriting gain or (loss)		1,331,881
Net investment income earned	915,135	
Net realized capital gains or (losses)	<u>1,124,850</u>	
Net investment gains or (losses)		<u>2,039,985</u>
Net income (loss)		\$ 3,371,866

CAPITAL AND SURPLUS
As of December 31, 2005

Capital and surplus prior reporting year		\$ 24,612,863
Net income or (loss)	\$ 3,371,866	
Change in net unrealized capital gains (losses)	(65,955)	
Change in nonadmitted assets	240,311	
Unrealized gain in investment in subsidiary	119,273	
Other	<u>6</u>	
Net change in capital and surplus		<u>3,665,501</u>
Capital and surplus end of reporting year		\$ 28,278,364

NOTES TO THE FINANCIAL STATEMENTS

None

EXAMINATION CHANGES

None

GENERAL COMMENTS AND RECOMMENDATIONS

Conflict of Interest, page 5

The Company should ensure that conflict of interest disclosures are completed annually.

Intercompany Transactions, page 6

The Company should ensure that all agreements between itself and affiliates are properly documented in formal agreements and those agreements should be submitted to the Department.

Fidelity Coverage, page 6

The Company needs to increase its fidelity coverage to \$600,000 to meet the minimum recommended level prescribed by the National Association of Insurance Commissioners. The Company should periodically evaluate this coverage to ensure that the minimum levels are maintained.

Annual Statement, page 8

The Company should take action to ensure that the annual statement is fully completed in accordance with annual statement instructions.

SUBSEQUENT EVENTS

None

ACKNOWLEDGEMENT

The assistance and cooperation extended by the officers and the employees of Delta Dental of Missouri during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Mike Gruner, AFE, CPA; Art Palmer, CFE and John Rehagen, AFE, examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration participated in this examination.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Robert P. Jordan, 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.

Robert P. Jordan

Robert P. Jordan, CFE
Examiner-in-Charge
Department of Insurance, Financial Institutions
and Professional Registration

Sworn to and subscribed before me this 2nd day of November, 2006
My commission expires:

May 11, 2008

Vicky L. Barreau
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.

Christiana Dugopolski

Christiana Dugopolski, CFE, CPA
Audit Manager, St. Louis
Department of Insurance, Financial Institutions
and Professional Registration