

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Essex Dental Benefits, Inc. as of December 31, 2005

### ORDER

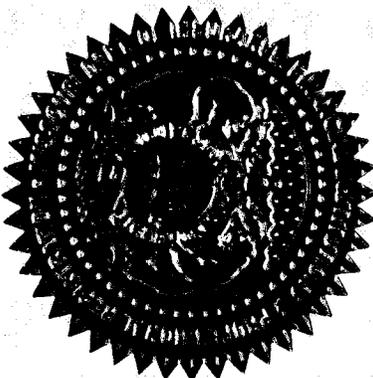
After full consideration and review of the report of the financial examination of Essex Dental Benefits, Inc. for the period ended December 31, 2005, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, Director, Missouri Department 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 Essex 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 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

ESSEX DENTAL BENEFITS, INC.

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

**Essex Dental Benefits, Inc.**

hereinafter referred to as such or as the "Company". The Company's office is located at 9735 Landmark Parkway Drive, Suite 14, St. Louis, Missouri 63127, telephone number (314) 543-4935. 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

The general comments and recommendations in the previous examination report and the subsequent action taken by the Company are listed below.

- 1. Comment:** It is recommended that the board of directors require all directors and officers to provide conflict of interest disclosures. The Company could not produce a current disclosure for director Michael DeHaven.

**Company Response:** Mr. DeHaven's conflict of interest disclosure was signed on July 10, 2002 and forwarded to the Department of Insurance subsequent to the completion of the financial examination. The Secretary of the corporation will develop a procedure to obtain updated conflict of interest disclosures on an annual basis.

**Current Examination Findings:** The Company provided conflict of interest disclosures for all directors and officers as of December 31, 2005.

- 2. Comment:** It is recommended that the board of directors ensure the board consists of four members as required by the articles of incorporation and bylaws. Also, the board should require that the minutes of all meeting be sufficiently detailed to ensure all significant items are disclosed.

**Company Response:** As of the date of this response (9/30/2002), there are four members of the board of directors. The Secretary of the corporation will develop a reporting standard for including all pertinent information required to document the significant items of each meeting.

**Current Examination Findings:** As a result of BJC Dental Plan, Inc. being purchased by Delta Dental, the articles of incorporation and bylaws were changed. The current board of directors consists of the required eight directors. The Company bylaws require that four directors be "ethical dentists duly licensed under the laws of the state of Missouri" (Article VI paragraph 6.1.) As of December 31, 2005, the Board included only three dentists.

**3. Comment:** It is recommended that the board of directors obtain a written tax allocation agreement with the Company's parent. This will help ensure that all parties understand their rights and responsibilities in regard to income tax issues.

**Company Response:** The Treasurer of the corporation will work with the outside auditors to develop and execute a tax sharing agreement between BJC Dental Plan, Inc. and Barnes-Jewish Health Ventures, Inc. for fiscal 2002 and forward.

**Current Findings:** Barnes-Jewish Health Ventures, Inc. sold BJC Dental Plan, Inc. to Delta Dental. Delta changed the BJC's name to Essex Dental Benefits, Inc. Essex, like BJC, is a "for profit" company. Delta Dental is a "not-for-profit" organization and this negates the necessity for Essex to establish a written tax allocation agreement.

## HISTORY

### General

The Company 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 (Delta). The Articles of Incorporation were amended on January 21, 2004 to change the name to Essex Dental Plan, Inc.

### Capital Stock

The Company authorized 100,000 shares of \$1 per share par value common stock in its Organizational Meeting on June 6, 1994. Fifty thousand (50,000) shares of the authorized shares are Class A (voting) common stock and fifty thousand (50,000) shares are Class B (non-voting) common stock. Currently, ten shares of Class A stock have been issued at one dollar (\$1.00) per share. A stock dividend of \$49,990 was made in 2006.

### Management

Pursuant to its articles of incorporation and bylaws, the Company is managed by a board of directors consisting of eight members. Directors are to be divided into two equal classes: (i) directors who are ethical dentists duly licensed under the laws of the state of Missouri and (ii) directors who are members of the public. The Board currently consists of three dentists and five members of the public. The board of directors should act to attain the proper mix of directors in accordance with the articles of incorporation and bylaws.

The members serving on the board of directors at December 31, 2005, were as follows:

Guy P. Bates, Jr., DDS	Richard Haffner, DDS
Brian Berglund	David Haynes
Melvin M. Bloom, CPA	Dee Joyner
Steve P. Gaal	Robert M. Tait, DDS

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

<u>Name</u>	<u>Title</u>
Steve P. Gaal	Chairman
Richard Haffner, DDS	Vice-Chairman
Sheldon C. Cohen, DMD	President
Brian Berglund	Secretary
Melvin M. Bloom, CPA	Treasurer
Janice Lees	Assistant Secretary
David Haynes	Assistant Treasurer

#### Conflict of Interest

The Company has a conflict of interest policy which requires all directors, officers and key employees to sign conflict of interest disclosure statements on an annual basis. Signed conflict of interest disclosure statements were reviewed for all directors, officers and key employees with no material conflicts noted.

#### Corporate Records

A review was made of the Company's articles of incorporation and bylaws. The articles of incorporation have been amended four times prior to this examination. The first amendment was made February 27, 1996, to change the Company's name from Premier Dental Plan, Inc. to BJC Dental Plan, Inc. The second was made on November 12, 1998, to change the purpose of the organization to operate pursuant to Section 354.700 RSMo. The next amendment was made November 20, 1998, to change the number of directors serving on the board of directors from three directors to four. The final amendment was made on December 20, 2004, to change the Company's name from BJC Dental Plan, Inc. to Essex Dental Benefits, Inc.

The Company has also amended its bylaws four times. The first amendment was to change the number of directors serving on the board of directors from three directors to four to be in compliance with the articles of incorporation. The second was made to authorize the Company's former parent (BJC Health System) to perform certain duties associated with the office of treasurer. The third amendment was a complete rewrite in January 2003 after the Company was purchased by Delta. The final amendment was made in March 2005 changing the Company name to Essex Dental Benefits, Inc.

The minutes of the board of directors were reviewed for the period under examination. No weaknesses were noted.

Acquisitions, Mergers and Major Corporate Events

On December 31, 2002, BJC Dental Plan, Inc. was acquired by Delta Dental Plan of Missouri. On December 20, 2003, the Board changed the name to Essex Dental Benefits, Inc.

Surplus Notes

The Company has no surplus notes.

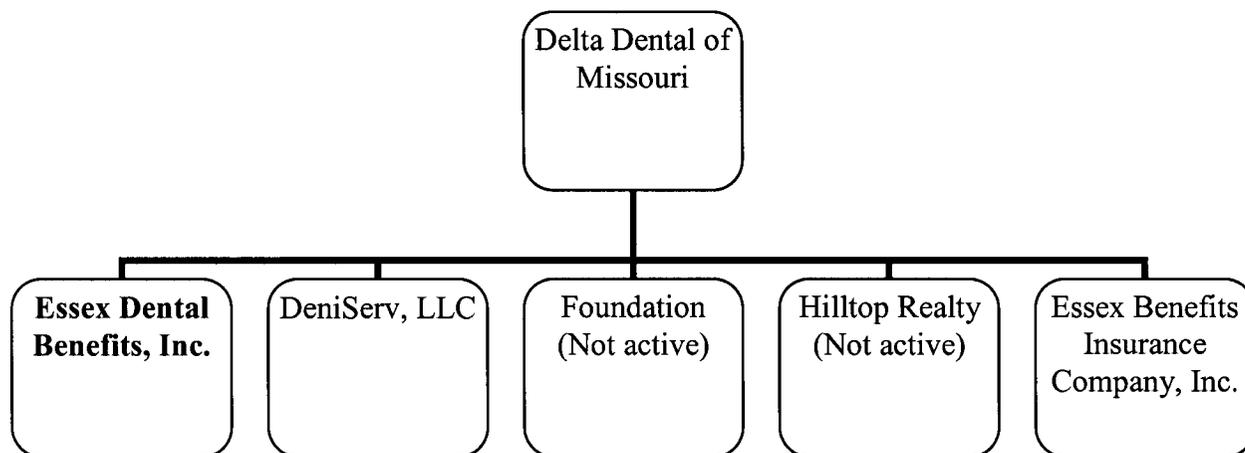
**AFFILIATED COMPANIES**

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 parent 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 is wholly owned by Delta Dental of Missouri. 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 transactions among affiliated companies are documented with formal agreements and those agreements should be submitted to the Department in accordance with 20 CSR 200-11, Control and Management of Insurance Companies.

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

The Company is a named insured, along with the parent company, Delta Dental of Missouri, on a crime policy with an aggregate loss limit of \$300,000 and a deductible of \$1,000. On a combined basis, this limit does not meet the minimum coverage as recommended by the National Association of Insurance Commissioners. The Company should ensure that sufficient coverage is obtained.

The Company is also insured through policies providing coverage for 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 employee benefits typical of the industry. The primary benefits provided to full time employees include: 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 funds on deposit with the Department as of December 31, 2005 as reflected below, were deemed sufficient to meet the deposit requirement of Section 354.707 RSMo (Capital, surplus, security required--) for the state of Missouri.

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
US Treasury Note	<u>\$55,000</u>	<u>\$54,236</u>	<u>\$54,301</u>

#### Deposit with Other States

The Company does not have any funds on deposit with other states.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### General

The Company is licensed as a prepaid dental plan under Chapter 354 RSMo (Health Service Corporations). The Company is also licensed as a preferred provider administrator in Illinois for vision and dental; for vision and dental in Kansas (inactive); and as a third party administrator (TPA) for vision and dental in Missouri.

The Company provides dental benefits to employees of groups headquartered in the state of Missouri. No individual policies are issued. The Company's membership included approximately 800 groups at December 31, 2005. The Company markets products primarily through a network of brokers which provide prospective groups with brochures explaining the types of products and funding alternatives offered by the Company. Brokers receive commission payments on a monthly basis after cash is received by the Company from groups enrolled by the broker.

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

### Contracts

Pursuant to Section 354.715 RSMo (Service contracts), the Company has current dental provider agreements with each of its participating dentists. The Company verifies that all participating dentists hold a current dentist license through the Missouri State Dental Board as part of its credentialing process.

In accordance with Section 354.712 RSMo (Enrollee contracts), the Company has written contracts with its employer groups and issues a summary of benefits to all of its enrollees.

### Grievance Procedures

In accordance with Section 354.715 RSMo (Complaint procedures), the Company has established procedures for review and mediation of enrollee complaints concerning the appeal of a denied claim and the quality of care rendered by a participating dentist. Members are informed of complaint filing procedures in the "Summary Plan Description" provided to each enrollee. The Company appears to address complaints in a timely manner.

## **REINSURANCE**

The Company has no reinsurance.

## **ACCOUNTS AND RECORDS**

### Independent Auditor

The financial statements were audited in 2002 by Ernst & Young, LLP. In 2003, the financial statements were audited by PricewaterhouseCoopers LLP. During 2004 and 2005, the financial statements were audited by BKD, LLP.

### Independent Actuary

Reserve requirements for 2002 were evaluated and certified by the Company's consulting actuary, Darrell D. Knapp, MAAA, with Ernst & Young LLP. F. Ray Martin, MAAA, of Tillinghast provided the actuarial opinions for the years 2003 through 2005.

### 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. That review concluded that the Company's reserves were sufficient.

### Escheat Process

The Company did not have procedures in place to ensure proper administration of stale checks. On December 31, 2005, the Company had 293 stale checks, totaling over \$42,000. During the following month, those checks were cancelled. The Company should review those checks and attempt to notify the owners of those determined to be valid. Also, the Company should implement procedures to ensure compliance with the Missouri escheat statutes found in Chapter 447 RSMo (Lost and Unclaimed Property).

## **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

<b>Assets</b>	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$ 54,301	\$ -	\$ 54,301
Cash	2,677,327	0	2,677,327
Investment income due and accrued	11,805	0	11,805
Uncollected premiums	438,364	0	438,364
Electronic data processing equipment and software	32,664	32,664	0
Furniture and equipment	23,829	23,829	0
Aggregate write-ins for other than invested assets	1,990	1,990	0
<i>Totals</i>	\$ 3,240,280	\$ 58,483	\$ 3,181,797
<b>Liabilities</b>			
Claims unpaid			\$ 1,045,000
Premiums received in advance			67,067
General expenses due or accrued			342,062
Current federal income tax payable			76,000
Amounts due to parent, subsidiaries and affiliates			226,363
<i>Total liabilities</i>			\$ 1,756,492
<b>Capital and Surplus</b>			
Common capital stock			\$ 10
Gross paid in and contributed surplus			1,800,000
Unassigned funds (surplus)			(374,705)
<i>Total capital and surplus</i>			\$ 1,425,305
<i>Total liabilities, capital and surplus</i>			\$ 3,181,797

**INCOME STATEMENT**  
**For the Year Ending December 31, 2005**

Net premium income	\$ 18,595,454
ASO fee income	704,788
PPO network rental income	72,369
Total revenues	<u>19,372,611</u>
Hospital/medical benefits	15,217,419
General administrative expenses	3,992,162
Total underwriting deductions	<u>19,209,581</u>
Net underwriting gain or (loss)	163,030
Net investment gains or (losses)	<u>84,700</u>
Net income or (loss)	247,730
Less: Federal income taxes incurred	<u>76,000</u>
Net income (loss)	<u>\$ 171,730</u>

**CAPITAL AND SURPLUS**  
**As of December 31, 2005**

Capital and surplus prior reporting year	\$ 678,761
Net income or (loss)	\$ 171,730
Change in net unrealized capital gains (losses)	-
Change in nonadmitted assets	74,814
Capital changes, paid in	500,000
Net change in capital and surplus	<u>746,544</u>
Capital and surplus end of reporting year	\$ 1,425,305

## NOTES TO THE FINANCIAL STATEMENTS

None

### EXAMINATION CHANGES

None

### GENERAL COMMENTS AND RECOMMENDATIONS

#### **Management, page 3**

The board of directors should act to attain the proper mix of directors in accordance with the articles of incorporation and bylaws.

#### **Intercompany Transactions, page 6**

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

#### **Fidelity Bond and Other Insurance, page 6**

The Company should ensure that adequate fidelity coverage is maintained, especially since other affiliates participate in this coverage.

#### **Escheat Process, page 8**

The Company must implement procedures to ensure compliance with the Missouri escheat statutes found in Chapter 447 RSMo (Lost and Unclaimed Property).

### SUBSEQUENT EVENTS

None

**ACKNOWLEDGEMENT**

The assistance and cooperation extended by the officers and the employees of Essex Dental Benefits, Inc. during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, 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 2<sup>nd</sup> day of November, 2006  
My commission expires:

May 4, 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