

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of First Commonwealth of Missouri, Inc. for the period ended
December 31, 2011

ORDER

After full consideration and review of the report of the financial examination of First Commonwealth of Missouri, Inc for the period ended December 31, 2011, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of First Commonwealth of Missouri, Inc as of December 31, 2011, be and is hereby ADOPTED as filed and for First Commonwealth of Missouri, Inc to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 4th day of June, 2013.

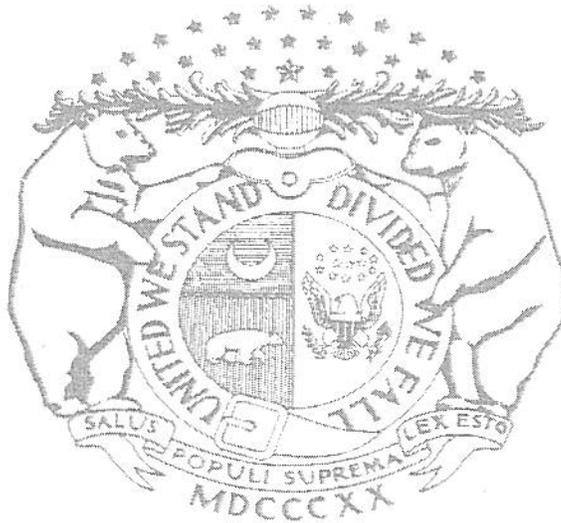


John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF
FINANCIAL EXAMINATION

First Commonwealth of Missouri, Inc.

As of:
DECEMBER 31, 2011



FILED
JUN 14 2013
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 and Paid-In Surplus	2
Dividends	2
Acquisitions, Mergers and Major Corporate Events.....	2
Surplus Debentures	2
CORPORATE RECORDS	3
MANAGEMENT AND CONTROL	3
Board of Directors.....	3
Officers	3
Committees	3
Holding Company, Subsidiaries and Affiliates	4
Organizational Chart.....	4
Affiliated Transactions.....	4
FIDELITY BOND AND OTHER INSURANCE	5
PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS	5
TERRITORY AND PLAN OF OPERATION	5
GROWTH OF COMPANY	6
LOSS EXPERIENCE	7
REINSURANCE	7
ACCOUNTS AND RECORDS	7
Independent Auditor	7
STATUTORY DEPOSITS	7
Deposits with the State of Missouri.....	7
FINANCIAL STATEMENTS	8
ASSETS	9
LIABILITIES, CAPITAL AND SURPLUS	9
STATEMENT OF REVENUE AND EXPENSES	10
RECONCILIATION OF CAPITAL AND SURPLUS	10
COMMENTS ON FINANCIAL STATEMENTS	11
SUMMARY OF RECOMMENDATIONS	11
ACKNOWLEDGEMENT	12
VERIFICATION	12
SUPERVISION	12

April 16, 2013

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

FIRST COMMONWEALTH OF MISSOURI, INC.

hereinafter referred to as "FCW Mo.", or the "Company". The Company's main administrative office is located at 550 West Jackson Boulevard, Chicago, Illinois 60661; telephone number (212) 598-8829. The examination began on January 8, 2013, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The previous examination of the Company was performed as of December 31, 2007, by an examiner from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current examination covers the period from January 1, 2008, through December 31, 2011, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC. No other zones participated in this examination. This examination also included material transactions or events occurring subsequent to December 31, 2011.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners 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 following key activities were identified: Investments and Treasury, Reserves, Intercompany, Premiums and Taxes.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings during the examination.

SUBSEQUENT EVENTS

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

COMPANY HISTORY

General

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

Capital Stock and Paid-In Surplus

First Commonwealth, Inc. owns 100% of the issued and outstanding common stock of the Company. As of December 31, 2011, the Company was authorized to issue 50,000 shares of common stock with a par value of \$1 per share. There were 50,000 shares issued and outstanding for a balance of \$50,000 in the capital account.

The Company had \$357,253 of paid-in surplus as of December 31, 2011. No changes to paid-in surplus were noted during the examination period.

Dividends

The Company paid no dividends prior to 2006. Below is a summary of the dividends declared and paid to its shareholder for the period 2006 through 2011.

2006	\$54,000
2007	95,000
2008	175,000
2009	46,000
2010	500,000
2011	500,000

Acquisitions, Mergers and Major Corporate Events

There were no major corporate events during the examination period.

Surplus Debentures

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

CORPORATE RECORDS

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

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

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a board of four (4) directors. The directors serving at December 31, 2011 were as follows:

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
Richard A. Goren Woodland Hills, California	Second Vice President, Group Dental Guardian Life Insurance Company of America
Jeffrey M. Kolesar Chicago, Illinois	Manager, DHMO Products Guardian Life Insurance Company of America
Raymond J. Marra Bethlehem, Pennsylvania	Vice President, Group Products Guardian Life Insurance Company of America
Thomas A. McInteer Bethlehem, Pennsylvania	Second Vice President Guardian Life Insurance Company of America

Officers

The officers of the Company serving and reported on the Jurat page of the Annual Statement at December 31, 2011 were as follows:

<u>Name</u>	<u>Position</u>
Richard A. Goren	Chairman, President, CEO and COO
Stuart J. Shaw	Vice President
Alexander M. Kogan	Vice President and Appointed Actuary
Walter R. Skinner	Treasurer
Jermaine D. Jones	Controller
Leslie A. Barbi	Investment Officer
Chi M. Kwok	Investment Officer
Tracy L. Rich	Secretary
Faith M. Drennan	Assistant Secretary

Committees

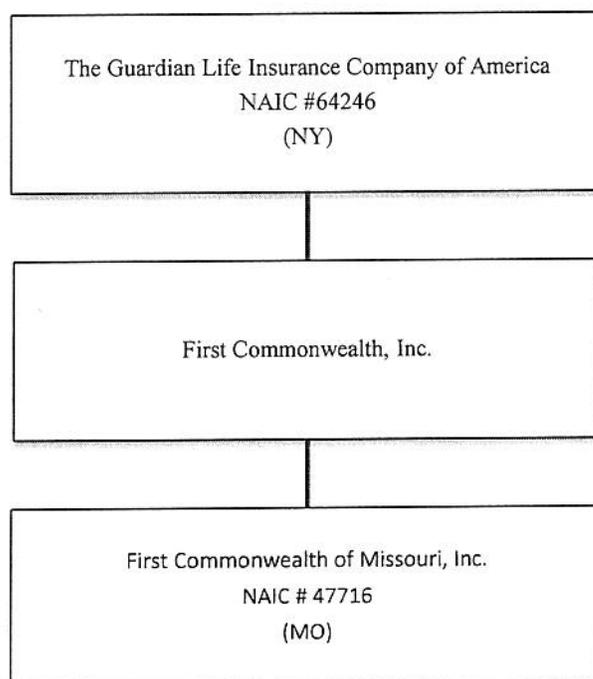
The Company formed an audit committee in 2011 consisting of each of the four board members. The audit committee complies with the requirements of RSMo 375.1030.

Holding Company, Subsidiaries and Affiliates

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

Organizational Chart

The following is an abridged organizational chart which depicts the holding company system at December 31, 2011. All subsidiaries are wholly owned unless otherwise noted. Only entities that are directly related to the Company are listed.



Affiliated Transactions

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

Investment Management Agreement

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

Rate(s): Expenses are allocated to FCW Mo based on the Company's pro rata share of the total fixed income investment portfolio of the Guardian enterprise. The Company incurred fees of \$3,983 in 2011 under this agreement.

Management and Administrative Services Agreement

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

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

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

Rate(s): The monthly fee payable to Guardian is equal to the actual cost of performing all of the services provided plus 10%. The Company incurred fees of \$960,126 in 2011 under this agreement.

Tax Sharing Agreement

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

Effective: July 19, 2001

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

Rate(s): Each participant computes its tax as if it were filing a separate unconsolidated return and remits such tax payment to Guardian. The Company incurred fees of \$81,915 in 2011 under this agreement.

FIDELITY BOND AND OTHER INSURANCE

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

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company does not have any employees. All services are provided through contractual agreements with the Company's affiliates.

TERRITORY AND PLAN OF OPERATION

The Company is licensed as a prepaid dental plan with DIFP per Chapter 354 RSMo (Health Service Corporations). At December 31, 2011, the Company was licensed only in Missouri.

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

The Company offers a Dental HMO Plan, and a Dental PPO Plan. These products are described below.

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

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

GROWTH OF COMPANY

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Total Admitted Assets	\$3,794,219	\$3,636,776	\$3,377,813	\$2,949,543
Premium Income	3,485,484	2,677,070	2,327,945	2,175,180
Net Income	(13,786)	39,375	172,310	152,672
Total Capital and Surplus	3,329,423	3,322,798	2,994,458	2,647,780

Total admitted assets, premium income and capital and surplus all experienced steady decreases throughout the examination period. The decreases to admitted assets and capital and surplus were primarily due to \$500,000 dividends paid to the Company’s parent in 2010 and 2011. The Company’s surplus remains sound relative to its operations and liabilities.

LOSS EXPERIENCE

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Total Revenue	\$3,491,292	\$2,683,519	\$2,329,696	\$2,176,703
Total Benefits and Expenses	3,668,417	2,629,514	2,082,876	1,959,615
Net Investment Income	46,413	4,078	16,099	17,499
Federal Income Taxes Incurred	<u>(116,926)</u>	<u>18,708</u>	<u>91,447</u>	<u>81,915</u>
Net Income	<u>\$(13,786)</u>	<u>\$ 39,375</u>	<u>\$172,310</u>	<u>\$152,672</u>

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

REINSURANCE

The Company does not assume or cede any reinsurance.

ACCOUNTS AND RECORDS

Independent Auditor

An independent accounting firm audits the Company annually. The Company's 2011 financial statements were audited by the CPA firm, PricewaterhouseCoopers LLC.

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

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the DIFP as of December 31, 2011, as reflected below, were sufficient in par and market value to meet the deposit requirement for the state of Missouri in accordance with Section 354.707.1 RSMo (Capital, surplus, security required--cash, securities, bond to be deposited or filed with director, director to return deposit, when --security subject to final judgments--security not required for prepaid dental plans funded by government--director may waive capital, surplus, security requirements, when).

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Bond	<u>\$53,000</u>	<u>\$54,014</u>	<u>\$52,946</u>

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2011, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments On Financial Statements," 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 Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

ASSETS

Bonds	\$2,398,767
Cash and Short-Term Investments	512,746
Investment Income Due and Accrued	1,966
Uncollected Premiums	10,021
Receivables from Parent, Subsidiaries and Affiliates	<u>26,042</u>
Total Assets	<u>\$2,949,543</u>

LIABILITIES, CAPITAL AND SURPLUS

Claims Unpaid	\$ 89,974
Unpaid Claims Adjustment Expenses	3,254
Aggregate Health Policy Reserves	7,815
Premiums Received in Advance	28,674
General Expenses Due or Accrued	67,873
Current Federal Income Taxes Payable	23,427
Amounts Withheld for Others	1,019
Amounts Due to Parent, Subsidiaries and Affiliates	79,687
Miscellaneous Liabilities	<u>40</u>
Total Liabilities	301,763
Common Capital Stock	50,000
Gross Paid-In and Contributed Surplus	357,253
Contingency Reserve	150,000
Unassigned Funds	<u>2,090,527</u>
Total Capital and Surplus	<u>2,647,780</u>
Total Liabilities, Capital and Surplus	<u>\$2,949,543</u>

STATEMENT OF REVENUE AND EXPENSES

Net Premium Income	\$2,175,180	
Change in Unearned Premium Reserve	(1,452)	
Administrative Fee Income	<u>2,975</u>	
Total Revenues		\$2,176,703
Other Professional Services	1,611,287	
Emergency Room and Out-of-Area	230	
Claims Adjustment Expenses	12,825	
General Administrative Expenses	<u>335,273</u>	
Total Underwriting Deductions		<u>1,959,615</u>
Net Underwriting Gain		217,088
Net Investment Income	17,499	
Net Realized Capital Gains	<u>0</u>	
Net Investment Gains		<u>17,499</u>
Net Income Before Federal Income Taxes		234,587
Federal Income Taxes Incurred		<u>81,915</u>
Net Income		<u>\$152,672</u>

RECONCILIATION OF CAPITAL AND SURPLUS

Capital and Surplus as of Prior Examination (year end 2008)		\$3,329,423
Capital and Surplus as of year end 2009		3,322,798
Capital and Surplus prior reporting year		\$2,994,458
Net Income		152,672
Change in Net Deferred Income Tax		(190)
Change in Non-admitted Assets		840
Dividends to Stockholders		500,000
Net Change in Capital and Surplus		<u>(346,687)</u>
Capital and Surplus current year		<u>\$2,647,780</u>

COMMENTS ON FINANCIAL STATEMENTS

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

SUMMARY OF RECOMMENDATIONS

There are no recommendations.

Jeremiah W. (Jay) Nixon
Governor
State of Missouri



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

DIVISION OF INSURANCE COMPANY REGULATION

Frederick G. Heese, Chief Financial Examiner & Division Director

May 1, 2013

Kevin Lenaghan, CPA, MBA, FLMI
First Commonwealth of Missouri, Inc
7 Hannover Square, 22nd Fl
Mail Station H22-A
New York, New York 10004

Dear Mr. Lenaghan:

Enclosed is a copy of the Examination Report of First Commonwealth of Missouri, Inc. for the period ending December 31, 2011. You have 30 days from the date of this letter or June 1, 2013, in which to submit in writing any response or rebuttal to this Examination Report and **to indicate whether you wish your response or rebuttal to be included in the report as a public document.** If your response is not received by June 1, 2013 we will proceed with making the examination report a public document.

Your attention is directed to the General Comments and/or Recommendations, in any, contained on page 12 of this Examination Report. Please set forth your responses to these comments, in any, and indicate any corrective action that has been or will be instituted by your company. **Your response may be submitted by e-mail or fax by directing to:**

Tammy Rodieck, Exam Coordinator
Email: tammy.rodieck@insurance.mo.gov
Fax: 573-751-5888
Phone: 573-526-4877

In the meantime, you are not authorized to distribute copies of the Examination Report until you are notified to do so by this office. Please contact the Department should you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Frederick G. Heese".

Frederick G. Heese, CFE, CPA, MBA
Chief Financial Examiner & Division Director

FGH/tsr

Enclosure
Certified Mail
Return Receipt Requested