

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

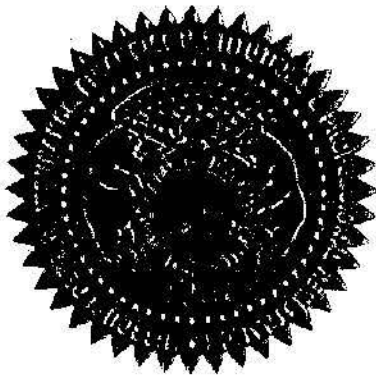
RE: Examination Report of First commonwealth of Missouri, Inc as of December 31, 2007

### 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, 2007, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER 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 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 June 4, 2009.



A handwritten signature in black ink, appearing to read "John M. Huff".

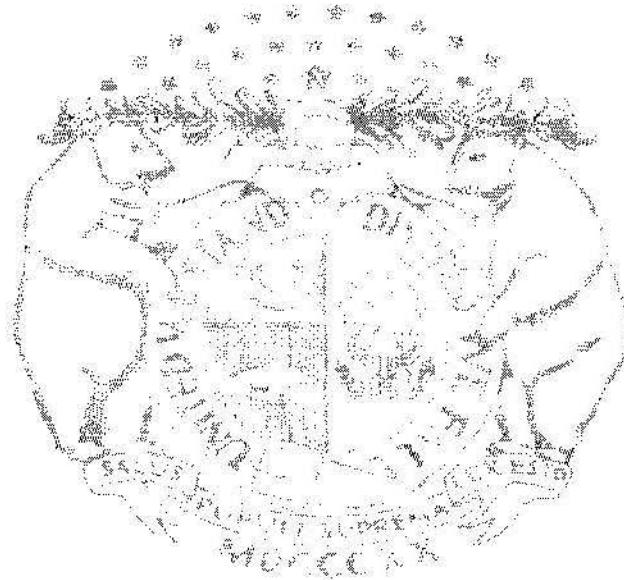
John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF  
FINANCIAL EXAMINATION

First Commonwealth of Missouri, Inc.

AS OF  
DECEMBER 31, 2007

**FILED**  
JUN 14 2009  
DIRECTOR OF INSURANCE &  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



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

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New York, New York  
May 1, 2009

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

Honorable Merle D. Scheiber, Director  
Division of Insurance  
State of South Dakota  
Secretary, Midwestern Zone, NAIC

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

Gentlemen:

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

**First Commonwealth of Missouri, Inc.**

also referred to as the "Company." The examination was conducted at the Company's office at 7 Hanover Square, 22nd Fl, New York, New York 10004, telephone number (212)-919-2702. This examination began on November 18, 2008, and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full scope financial examination of First Commonwealth of Missouri, Inc. was performed as of December 31, 2004. The examination was conducted 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 full scope financial examination covers the period from January 1, 2005, through December 31, 2007. The examination was conducted by an examiner from the state of Missouri representing the Midwestern Zone of the NAIC.

This examination also included material transactions and/or events occurring after December 31, 2007.

## Procedures

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

## Comments Previous Examination

The general comments and recommendations in the previous examination report and the Company's response and/or subsequent action taken by the Company are listed below.

### 1. Comment: Corporate Records

The minutes of the board of directors do not indicate that the board reviewed the prior examination report for the period ending December 31, 2000. It is recommended that the board review all examination reports and indicate such review in the minutes.

During the review of the Company's by-laws it was noted that the by-laws have never been amended from Confi-dent Health, Inc., the original name of the Company. It is recommended that the company amend its by-laws to reflect the current name of the Company. A copy of the amended by-laws should be submitted to the Missouri Secretary of State.

### Company's Response:

We acknowledge the recommendation that the board review all examination reports and indicate such reviews in the minutes of the Board of Directors meetings. The amended by-laws will be complete by February 15, 2006.

### Current Findings:

The minutes of the board did document review of the prior examination report. The Bylaws were revised in 2006 to reflect the current name of the Company.

### 2. Comment: Accounts and Records

It was noted during the examination that the Company has not filed an abandoned property report with the state of Missouri as required by RSMo 447.510 (Unclaimed funds held and owing by the insurance company presumed abandoned). The Company is directed to prepare and submit an abandoned property report to the Missouri State Treasurer for the period ending December 31, 2004.

### Company's Response:

The Company provided a copy of the December 31, 2004, abandoned property report on January 17, 2006.

### Current Findings:

The Company complied with the prior examination comment and has properly filed unclaimed property reports since the prior examination.

## 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

The Company is authorized to issue 50,000 shares of \$1 par value common stock. All authorized shares are issued and outstanding to First Commonwealth, Inc.

### Dividends

The Company paid no dividends prior to 2006. In 2006 and 2007, the Company declared and paid \$54,000 and \$95,000 respectively, to its shareholder.

### Management

The Board of Directors consists of the following three members elected and serving as of December 31, 2007:

<u>Name and Address</u>	<u>Business Affiliation</u>
Karen G. Adams New York, NY	Actuary, Group Dental Pricing NRO Guardian Life Insurance Company of America
Richard A. Goren New York, NY	Second Vice President, Group Dental HMO Development Guardian Life Insurance Company of America
Thomas McInteer New York, NY	Vice President, Group Dental Pricing Management - NRO Guardian Life Insurance Company of America

The Company's board of directors had no active committees during the examination period.

The officers elected in accordance with the Company's bylaws and serving as of December 31, 2007, were as follows:

<u>Name</u>	<u>Office</u>
Richard A. Goren	President and Chief Executive Officer
Stuart J. Shaw	Vice President
Andrew M. Kahn	Controller
Bruce J. Walker	Treasurer
Faith M. Drennan	Secretary

### **Conflict of Interest**

The Company has a comprehensive corporate compliance program which includes a Code of Business Conduct and Ethics as well as a Code of Ethics for Senior Officers. Conflict of interest forms were reviewed for directors and officers for the period under examination with no material conflicts noted.

### **Corporate Records**

The minutes of the Board of Directors provided sufficient documentation of major corporate transactions.

### **Acquisitions, Mergers, and Major Corporate Events**

There were no acquisitions or mergers directly affecting the Company. The Company transferred its financial reporting from Chicago to New York during the examination period.

### **Surplus Debentures**

None

## **AFFILIATED COMPANIES**

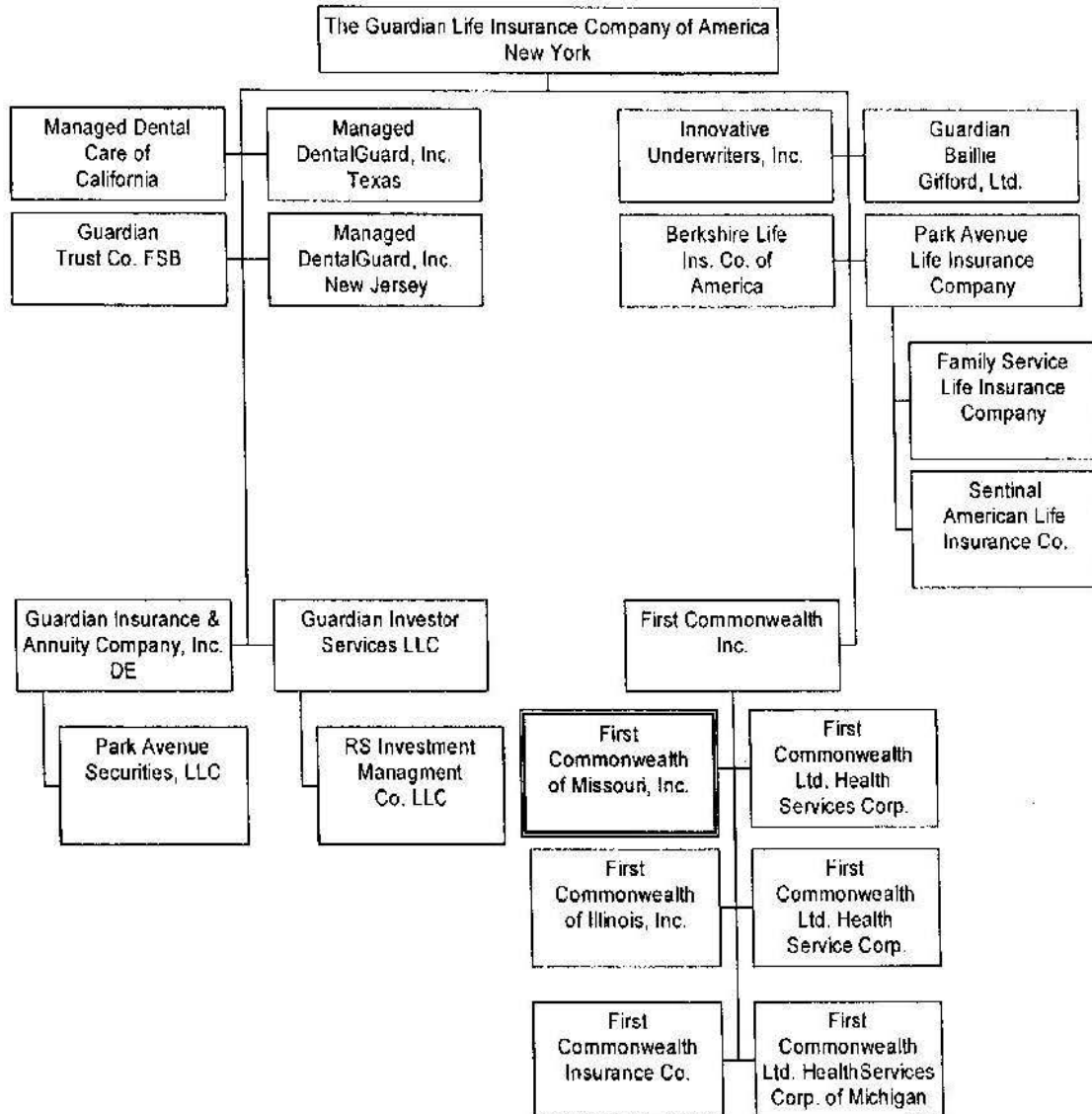
### **Holding Company, Subsidiaries and Affiliates**

First Commonwealth of Missouri, Inc. is a member of an Insurance Holding Company System as defined by section 382.010 RSMo (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 organizational chart partially depicts the holding company system of First Commonwealth of Missouri, Inc. as of December 31, 2007.





### Intercompany Agreements

During the period under examination the Company was party to the following intercompany agreements.

1. Type: Tax Sharing Agreement
  - Parties: First Commonwealth of Missouri, Inc., The Guardian Life Insurance Company of America (Guardian) and its other subsidiaries listed on Appendix A of the agreement.
  - Effective: July 19, 2001
  - Terms: Each participant's share of the consolidated group tax liability is determined by reference to a pro forma federal income tax return. Quarterly, Guardian

provides each subsidiary with a statement of estimated tax, which is payable within fifteen days. Guardian submits a statement to each subsidiary within 30 days of filing the consolidated tax return showing the amount of tax due or refundable. Settlement is within fifteen days.

2. Type: Management and Administrative Services Agreement
- Parties: First Commonwealth of Missouri, Inc., and three dental affiliates, and Guardian, First Commonwealth Inc., and First Commonwealth of Illinois, Inc.,
- Effective: Effective November 1, 2004
- Terms: Guardian will provide services for the Dental Entities including: account establishment, billing and accounting, claims administration, conversion policies and administration, coordination of benefits and subrogation, Dental director and utilization management services, Dentist accounting, facilities and personnel, financial functions, information services, insurance, marketing, maintain member eligibility records, member services, postage and forms, product design and development, termination and run-off processing, underwriting and actuarial, and governmental regulations. The fees will be calculated on a monthly basis and shall be equal to the actual cost of performing all of the services described.

First Commonwealth Inc. shall maintain membership number information for all Dental Entities and determine the pro rata portion of fees owed by each Dental Entity to Guardian for its services. First Commonwealth Inc. will bill each Dental entity for its pro rata share of the Guardian fees plus ten percent which is paid to First Commonwealth Inc., for its services and remit the aggregate fee to Guardian.

First Commonwealth of Illinois, Inc. will provide the Dental Entities with access to its participating provider network which consists of participating general and specialist dentists. The access fee is payable monthly and is equal to the actual cost plus ten percent.

The agreement has a term of five years after which it will extend in one year increments.

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

The Company is a named insured on financial institution bond with a single loss limit of \$500,000 and a deductible of \$5,000. The coverage meets the minimum amount of fidelity insurance suggested according to NAIC guidelines.

## EMPLOYEE BENEFITS

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

## STATUTORY DEPOSITS

### Deposits with the State of Missouri

The funds on deposit with the DIFP as of December 31, 2007, as reflected below, were deemed 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>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
U.S. Treasury Note	<u>\$53,000</u>	<u>\$55,936</u>	<u>\$52,521</u>

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Territory and Plan of Operations

The Company is licensed as a prepaid dental plan with the DIFP per Chapter 354 RSMo (Health Service Corporations). At December 31, 2007, the Company was licensed only in Missouri. The Company has no applications pending in any other states.

The Company markets its products through local insurance agencies and independent brokers. The Company provides brochures explaining the products and funding alternatives available to prospective enrollees. Marketing efforts are coordinated through the St. Louis Regional Group Office of Guardian Life Insurance Company. Broker commissions are paid monthly.

The Company offered a Dental HMO Plan and a Dental PPO Plan during the examination period. 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.).

The Company recently introduced a new series of Dental HMO plans under the brand name of Managed DentalGuard. These plans offer improved prepaid benefits to companies and are consistent with Guardian's prepaid plans in other markets, giving multi-state groups the opportunity to offer the same prepaid benefit to all employees.

**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.

**Indemnity Plan** - Although no longer marketed, the Company reported a small number of members remaining in its Indemnity Plan. The Indemnity Plan provides coverage for dental services that are medically necessary. These services include diagnostic and preventative services, basic and major dental services and orthodontic services. First Commonwealth pays usual, customary and reasonable fees after subscribers satisfy a deductible.

#### **Provider Contracts**

Section 354.715 RSMo (Providers of dental care) requires a written agreement between a prepaid dental plan and participating dental health care service providers. The Company has complied with this requirement by maintaining written agreements with its participating providers.

#### **Enrollee Contracts**

Section 354.712 RSMo (Contract or contract certificate to be issued to enrollees) requires a prepaid dental plan to issue a contract or contract certificate outlining coverage and benefits to each enrollee. Individual subscribers receive contracts; subscribers under a group contract receive contract certificates. The Company has complied with this requirement by providing contracts or contract certificates to its enrollees.

#### **Rates**

The Company's rate structure is not subject to approval by the Missouri Department of Insurance. The Company uses internal analysis to set premium rates and provider capitation rates.

#### **Grievance Procedure and Quality Assurance**

Section 354.715 RSMo (Providers of dental care) requires a prepaid dental plan to establish procedures for reviewing and mediating enrollees' complaints regarding the quality of care received from a participating dentist. Further, the statute stipulates that enrollees and participating dentists be made aware of the prepaid dental plan's review mechanism and of the process for submitting a complaint for review. The Company has complied with these requirements by establishing a grievance procedure and by including the complaint submission process in the subscriber agreement.

### **REINSURANCE**

The Company does not assume or cede any reinsurance.

## ACCOUNTS AND RECORDS

An independent accounting firm audits the Company annually. The Company's 2007 financial statements were audited by the CPA firm, PricewaterhouseCoopers LLC. Their workpapers were used in the course of this examination as deemed appropriate.

Reserves and related actuarial items reported in the financial statements were reviewed and certified by Barbara Louise Snyder, M.A.A.A., Senior Vice President and Chief Actuary of The Guardian Life Insurance Company of America.

The Company held two JP Morgan money market funds totaling \$2,141,896, which it reported on Schedule E of the Annual Statement. However, per the SVO Manual Part 6 Section 3(e) Shares of Mutual funds - Funds qualifying for favorable reserve treatment for purposes of the AVR, shall be reported on Schedule DA - Part 1 in the case of money market funds. The Company must comply with the Annual Statement Instructions.

## FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2007, and the results of operations for the fiscal period 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 financial statement item.

## ASSETS

	Amounts Per Annual Statement		Notes	Examination Findings	
	Assets	Assets Not Admitted		Net Admitted Assets	Examination Adjustments
Bonds	\$52,521				\$52,521
Cash and short-term investments	3,973,107				3,973,107
<b>Subtotal Cash and Invested Assets</b>	<b>\$4,025,628</b>				<b>\$4,025,628</b>
Investment income due and accrued	\$220				\$220
Uncollected premiums and agents balances	31,159				31,169
Net Deferred Tax Asset	1,890	1,890			-
Intercompany receivables	64,824				64,824
<b>Total Assets</b>	<b>\$4,123,731</b>	<b>\$1,890</b>			<b>\$4,121,841</b>

## LIABILITIES, CAPITAL AND SURPLUS

	Amounts Per Annual Statement	Notes	Examination Adjustments	Amounts Per Examination
Claims unpaid (less \$0 reinsurance ceded)	\$280,041			\$280,041
Unpaid claims adjustment expenses	11,945			11,945
Aggregate health policy reserves	7,059			7,059
Premiums received in advance	6,002			6,002
General expenses due or accrued	59,962			59,962
Current federal and foreign income tax payable and interest	66,154			66,154
Remittances and items not allocated	2,535			2,535
Amounts due to parent, subsidiaries and affiliates	105,753			105,753
Other Federal Tax Liabilities	64,181			64,181
<b>Total Liabilities</b>	<b>\$603,632</b>			<b>\$603,632</b>
Common capital stock	\$50,000			\$50,000
Gross paid in surplus	357,253			357,253
Contingency Reserve	150,000			150,000
Unassigned funds	2,960,956			2,960,956
<b>Surplus as regards policyholders</b>	<b>\$3,518,209</b>			<b>\$3,518,209</b>
<b>Totals</b>	<b>\$4,121,841</b>			<b>\$4,121,841</b>

## STATEMENT OF REVENUE AND EXPENSES

	Amounts Per Annual Statement	Notes	Examination Adjustments	Amounts Per Annual Statement
Net premium income	\$4,957,719			\$4,957,719
Change in unearned premium reserves	(249)			(249)
Administrative Fee Income	5,716			5,716
<b>Total Revenues</b>	<b>\$4,963,187</b>			<b>\$4,963,187</b>
<b>Hospital and Medical</b>				
Other professional services	\$3,801,481			\$3,801,481
<b>Less:</b>				
Claims adjustment expenses	13,982			13,982
General administrative expenses	895,511			895,511
<b>Total Underwriting Deductions</b>	<b>\$4,710,974</b>			<b>\$4,710,974</b>
Net underwriting gain or (loss)	252,213			252,213
Net investment income earned	36,695			36,695
<b>Net Income before federal income taxes</b>	<b>\$288,908</b>			<b>\$288,908</b>
Federal and foreign income taxes incurred	113,520			113,520
<b>Net income</b>	<b>\$175,388</b>			<b>\$175,388</b>

### NOTES TO FINANCIAL STATEMENTS

None

### EXAMINATION CHANGES

None

### GENERAL COMMENTS AND/OR RECOMMENDATIONS

#### Accounts and Records

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The Company held two JP Morgan money market funds totaling \$2,141,896, which it reported on Schedule E of the Annual Statement. However, per the SVO Manual Part 6 Section 3(e) Shares of Mutual funds - Funds qualifying for favorable reserve treatment for purposes of the AVR, shall be reported on Schedule DA - Part 1 in the case of money market funds. The Company must comply with the Annual Statement Instructions.

### SUBSEQUENT EVENTS

None







May 29, 2009

Mr. Frederick G. Heese, CFE, CPA  
Chief Financial Examiner & Acting Division Director  
Division of Insurance Company Regulation  
301 West High Street  
Room 530  
Jefferson City, MO 65102-0690

RE: First Commonwealth of Missouri, Inc. Examination Report  
for the period ending 12/31/07

Dear Mr. Heese:

Regarding the above-referenced Examination Report, the Company submits the following response to the General Comments and/or Recommendations contained on page 11:

The Company acknowledges that its money market fund investments should be reported on Schedule DA – Part 1. The Company has modified its reporting on a prospective basis to include money market fund investments on Schedule DA for statutory reporting consistent with the NAIC Annual Statement Instructions.

Please feel free to contact me if you need any additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Andrew Kahn".

Andrew Kahn, Controller  
First Commonwealth  
7 Hanover Square  
New York, NY 10004  
212-598-8548