

# CERTIFICATION

June 18, 2014

I, Bruce R. Ramage, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the

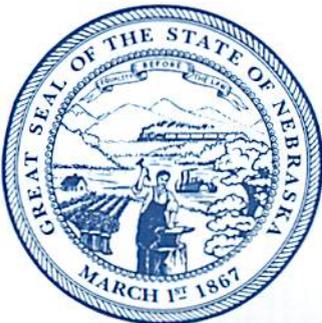
Financial Examination Report of  
**DELTA DENTAL OF NEBRASKA**

as of

December 31, 2012

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE

JUN 18 2014

FILED

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*Bruce R. Ramage*  
DIRECTOR OF INSURANCE

DEPAR

CERTIFICATE OF ADOPTION

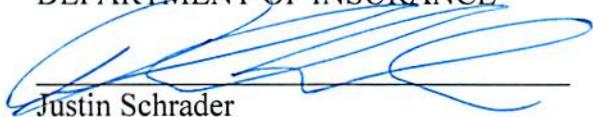
Take notice that the proposed report of the financial examination of

**DELTA DENTAL OF NEBRASKA**

dated as of December 31, 2012, verified under oath by the examiner-in-charge on April 21, 2014, and received by the company on June 2, 2014, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 17 day of June, 2014.

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE

  
Justin Schrader  
Chief Financial Examiner

**STATE OF NEBRASKA**

**Department of Insurance**

**EXAMINATION REPORT**

**OF**

**DELTA DENTAL OF NEBRASKA**

**as of**

**December 31, 2012**



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Minneapolis, Minnesota  
April 21, 2014

Honorable Bruce R. Range  
Director of Insurance  
Nebraska Department of Insurance  
941 "O" Street, Suite 400  
Lincoln, Nebraska 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

**DELTA DENTAL OF NEBRASKA**

which has its Statutory Home Office located at

**11235 Davenport Street, Suite 113  
Omaha, Nebraska 68154**

with its Principal Executive Office located at

**500 Washington Avenue S Suite 2060  
Minneapolis, Minnesota 55415**

(hereinafter also referred to as the "Company") and the report of such examination is respectfully presented herein.

**INTRODUCTION**

The Company was last examined as of December 31, 2008 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2012, and includes such subsequent events and transactions as were considered pertinent to this report. The State of Nebraska participated in this examination and assisted in the preparation of this report.

## **SCOPE OF EXAMINATION**

This examination was conducted pursuant to and in accordance with the provisions of Section §44-5904(1) of the Nebraska Insurance Statutes.

A general review was made of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of the Company". All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the members, Board of Directors and committees, held during the examination period, were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, approval of investment transactions and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed. The Certificate of Authority to conduct the business of insurance within the State of Nebraska was inspected and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statement, is reflected in the financial section of this report under the caption "Body of Report."

All accounts and activities of the Company were considered in accordance with the provisions of Section §44-5904(1) of the Nebraska Insurance Statutes. This included a review of

work papers prepared by McGladrey LLC, the Company's external auditors, during their audit of the Company's accounts for the examination period. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

## **DESCRIPTION OF COMPANY**

### **HISTORY**

The Company was incorporated April 29, 1985 under the provisions of The General Nonprofit Corporation Law of the State of Nebraska. The Company changed its name to Delta Dental of Nebraska effective January 1, 2007. The Company is a member of the Delta Dental Plans Association. The Articles of Incorporation provided that the Company shall have perpetual existence.

### **MANAGEMENT AND CONTROL**

#### **Members**

The Company's Amended By-Laws state that, "all dentists legally licensed in the State of Nebraska, are, upon completion of a particular agreement, eligible for full membership in the Company." The Amended By-Laws also state that, "the annual membership meeting shall be held on or before June 30 each year at a time, date and place to be established by the Board of Directors...At any regular or special members meeting, a quorum shall consist of those members of the Company present either in person or by proxy, provided proper notice of the meeting has been given consistent with these By-Laws. Each member in attendance in person or by proxy

shall be entitled to one vote on any matter submitted for a vote of the membership at a meeting. Valid proxies which contain the name, address, and signature of the member and which are dated within thirty (30) days prior to the date of the meeting shall be honored subject to verification or validation that the person granting the proxy is a member of the corporation.” During the period covered by this examination, annual membership meetings were held on June 15, 2009; June 28, 2010; June 13, 2011; and June 11, 2012.

**Board of Directors**

The Amended Articles of Incorporation state that, “the business affairs of the Company shall be governed by a Board of Directors consisting of up to seventeen (17) members.” The Amended By-Laws state that, “The Directors of the Company shall be not less than five (5) or more than seventeen (17) in number...Each Director shall have one vote at the meetings of the Board of Directors. The majority vote of those Directors present at any meeting shall be sufficient to pass any measure except measures on which a greater vote is required by the Articles of Incorporation, By-Laws or any provision of applicable Nebraska law.”

The Amended By-Laws state that, “the term of the Directors of this Company shall be three years. The election of Directors shall be by the membership and recorded at the annual meeting of the membership to the end that the terms of the Directors of this Company shall be staggered so that there shall be a maximum of continuity of directorship and management.”

The following persons were serving as Directors at December 31, 2012:

<b><u>Name and Residence</u></b>	<b><u>Principal Occupation</u></b>	<b><u>Term Expires</u></b>
Patrick J. Boler Omaha, NE	Chairman of the Board of Directors of the Company and President, Boler, Wood, and Associates	2013

<u>Name and Residence</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
Dr. Richard D. Fitzgerald Omaha, NE	Vice-Chairman of the Board of Directors of the Company, Private Practice Dentist	2013
Patrick D. Garvey LaVista, NE	Vice-President, Garvey and Associates, Inc.	2013
Dr. James D. Palmer Lincoln, NE	Private Practice Dentist	2014
Rodney A. Young Eagan, MN	President and Chief Executive Officer of the Company	2014
Thomas S. Lentz LaVista, NE	Owner, Profit Advantage, Inc.	2015
Dee A. TeKrony Omaha, NE	Client Services Manager, Grace/Mayer Insurance Agency, Inc.	2015

Directors received \$650 per attended meeting in 2012 with the Chair receiving \$950. The President does not receive any additional compensation as a Board member.

### Officers

The Company's Amended Articles of Incorporation state that, "the Officers shall consist of a Chairman, Vice-Chairman, Secretary, Treasurer and such other Officers and Assistant Officers as may be specified in the By-Laws, and if the By-Laws so provide, any two or more offices may be held by the same person, except the offices of Chairman and Secretary."

The following is a listing of Officers elected and serving the Company at December 31, 2012:

<u>Name</u>	<u>Office</u>
Rodney A. Young	President & Chief Executive Officer
Patrick J. Boler	Chairman & Treasurer
Dr. Richard D. Fitzgerald	Vice-Chairman
Dee A. Tekrony	Secretary

## **Committees**

Although the Amended By-Laws of the Company makes a provision for the Chairman of the Board to appoint three standing committees with the approval of the Board, the Nominating, Advisory, and Rules and Legal Committees, no appointments were noted in the minutes of the Board of Directors' meetings held during the period covered by this examination.

## **ADMINISTRATION AGREEMENTS**

### **Management Agreement with DeCare Dental, LLC**

The Company entered into a Management Agreement with DeCare Dental, LLC (DeCare) on January 1, 2006. Under the terms of the agreement, DeCare will provide the Company with management and related services necessary and appropriate to effectively market and administer group pre-paid dental plans in Nebraska. The Company agreed to pay DeCare an annual administrative fee based on a "Per Paid Claim" basis for services provided. The administrative fee is approved annually by the Company's Board of Directors as a part of the approval of the Company's Annual Financial Budget. Exhibit A, Part 2 of the management agreement outlines the items billed to the Company at DeCare's actual cost incurred.

This agreement was effective from January 1, 2006 until December 31, 2008 and automatically renewed for a period of three years thereafter. Notice to non-renew by either party shall be provided 120 days prior to the effective date of termination. This agreement can be terminated upon the mutual written consent of the Company and DeCare.

### **Administrative Agreement with Delta Dental of Minnesota**

The Company entered into an Administrative Agreement with Delta Dental of Minnesota (DDMN) effective April 9, 2009. This agreement replaces most of the DeCare agreement

effective January 1, 2006. DDMN will handle all aspects of the Company's business with the exception of claims, which DeCare will continue to administer.

### **Joinder Agreement**

The Company entered into a Joinder Agreement with Delta Dental Plans Association (DDPA) and DeltaUSA with an effective date of April 6, 2009. This agreement is a product of the DeCare acquisition by Anthem Holdings Corp. The purpose of the agreement allows for the Company to gain access to DDPA, and binds the Company to certain guidelines and standards of the original agreement between DDPA, DeltaUSA, DeCare, DeCare ASO, LLC, and DeCare International.

### **TERRITORY AND PLAN OF OPERATION**

As evidenced by a current Certificate of Authority, the Company is licensed to transact the business of a Pre-paid Dental Service Corporation in the State of Nebraska.

The Company administers pre-paid dental service plans under agreements offered to its subscribers on either a risk basis or an administrative services contract (ASC) basis. ASC contracts make up approximately three quarters of the Company's business. Participating dentists receive payments from the Company for services provided to subscribers in accordance with the usual, customary and reasonable provisions of the membership agreements.

The production of business is carried out by the Sales Manager, based in the Company's Statutory Home Office. Such production is supervised and directed by the Senior Vice-President of Sales of DDMN.

### **REINSURANCE**

The Company does not cede nor assume reinsurance.

## **BODY OF REPORT**

### **GROWTH**

The following comparative data reflects the growth of the Company during the period covered by this examination:

	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>
Bonds	\$ 4,977,000	5,672,000	5,724,841	5,729,961
Common stocks	1,536,966	1,830,668	1,504,125	1,720,819
Admitted assets	7,289,815	7,953,859	8,155,285	8,857,135
Claims unpaid	220,000	198,000	179,000	175,000
Total liabilities	791,182	752,440	478,249	510,244
Capital and surplus	6,498,633	7,201,419	7,677,036	8,346,891
Premium income	6,795,009	6,173,039	6,094,383	5,534,097
Net investment income	183,874	112,852	65,694	61,130
Benefit and loss related payments	5,230,737	4,719,302	4,555,903	4,044,170
Net income	485,212	403,849	557,080	473,750
Member months	361,150	318,587	323,440	290,336

### **FINANCIAL STATEMENTS**

The following statement of admitted assets and liabilities, together with the accompanying statement of revenue and expenses, reflects the financial condition of the Company at December 31, 2012 and its transactions during the year 2012 as determined through this examination. A reconciliation of the capital and surplus account for the period under review is also included.

**FINANCIAL STATEMENT**  
**December 31, 2012**

<b><u>Assets</u></b>	<b><u>Assets</u></b>	<b><u>Assets Not Admitted</u></b>	<b><u>Net Admitted Assets</u></b>
Bonds	\$5,729,961		\$5,729,961
Common stocks	1,720,819		1,720,819
Cash and short-term investments	<u>956,717</u>		<u>956,717</u>
Subtotal, cash and invested assets	\$8,407,497		\$8,407,497
Investment income due and accrued	11,455		11,455
Uncollected premiums and agents' Balance in the course of collection	26,206	\$ 232	25,974
Amounts receivable relating to uninsured plans	410,893		410,893
Prepays	18,670	18,670	
Miscellaneous accounts receivable	<u>1,316</u>	<u>          </u>	<u>1,316</u>
Totals	<u>\$8,876,037</u>	<u>\$18,902</u>	<u>\$8,857,135</u>

**Liabilities, Surplus, and Other Funds**

Claims unpaid	\$ 175,000
Unpaid claims adjustment expenses	5,700
Premiums received in advance	113,238
General expenses due or accrued	<u>216,306</u>
Total liabilities	<u>\$ 510,244</u>
Unassigned funds (surplus)	<u>\$8,346,891</u>
Totals	<u>\$8,857,135</u>

**STATEMENT OF REVENUE AND EXPENSES – 2012**

Net premium income	\$5,534,097
Change in unearned premium reserves and reserves for rate credits	<u>(35,568)</u>
Total revenues	<u>\$5,498,529</u>
Total hospital and medical	\$4,044,170
Claim adjustment expenses	786,742
General administrative expenses	<u>257,588</u>
Total underwriting deductions	<u>\$5,088,500</u>
Net underwriting gain	<u>\$ 410,029</u>
Net investment income earned	\$ 61,130
Net realized capital gains	<u>2,386</u>
Net investment gains	<u>\$ 63,516</u>
Other administrative income	<u>\$ 205</u>
Net income	<u>\$ 473,750</u>

**CAPITAL AND SURPLUS ACCOUNT**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Capital and surplus, beginning	<u>\$5,657,360</u>	<u>\$6,498,633</u>	<u>\$7,201,419</u>	<u>\$7,677,036</u>
Net income	\$ 485,212	\$ 403,849	\$ 557,080	\$ 473,750
Change in net unrealized capital gains	358,496	298,762	(71,359)	195,449
Change in nonadmitted assets	<u>(2,435)</u>	<u>175</u>	<u>(10,104)</u>	<u>656</u>
Net change for the year	<u>\$ 841,273</u>	<u>\$ 702,786</u>	<u>\$ 475,617</u>	<u>\$ 669,855</u>
Capital and surplus, ending	<u>\$6,498,633</u>	<u>\$7,201,419</u>	<u>\$7,677,036</u>	<u>\$8,346,891</u>

## **EXAMINATION CHANGES IN FINANCIAL STATEMENTS**

Unassigned funds (surplus) in the amount of \$8,346,891 as reported in the Company's 2012 Annual Statement has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

## **COMPLIANCE WITH PREVIOUS RECOMMENDATIONS**

The recommendations appearing in the previous report of examination are reflected below together with the remedial actions taken by the Company to comply therewith:

**Corporate Records – Administrative Contracts** – It is recommended that the Plan comply with Neb. Rev. Stat. §44-3810 and file all administrative service contracts for approval by the Director prior to their effectiveness.

**Action:** The Company has not complied with this recommendation. This recommendation will be repeated under the caption “Commentary on Current Examination Findings” in this report.

**Corporate Records – Changes to Articles of Incorporation** – It is recommended that the Plan comply with Neb. Rev. Stat. §44-3813 and file with the Department any amendments to the Articles of Incorporation or any Amended and Restated Articles of Incorporation to the DOI prior to filing the amendments with the Secretary of the State's office as well as any amendments to its By-Laws in the appropriate By-Law format.

**Action:** The Company has complied with this recommendation

**Corporate Records – Premium Contracts** – It is recommended that the Plan comply with Neb. Rev. Stat. §44-3812(2)(c) and amend the Articles of Incorporation to reflect the assessment of a 5% fee in its Premium Contracts or revise the Premium Contracts with providers removing the 5% fee.

**Action:** The Company has complied with this recommendation.

**Corporate Records – Record Retention** – It is recommended that the Plan amend its Management Agreement with DeCare Dental LLC in order to comply with Neb. Rev. Stat. §44-5905(2)(b)(i)(A) which states “all records must be retained for four years or until the period of time in which the transaction took place has undergone a financial examination by the director, whichever is later, following the completion of the

transaction relating to the property, assets, financial accounts, and business of such company or person.”

**Action:** The Company has complied with this recommendation

## **COMMENTARY ON CURRENT EXAMINATION FINDINGS**

### **Annual Statement – Jurat Page**

The Company stated on the 2012 Annual Statement Page 1 – Jurat Page, that there were a total of three Officers of the Company. During the review of the Board of Director minutes, it was noted that there are a total of four Officers.

It is recommended that the Company file their Annual Statement in compliance with Annual Statement Guidelines Page 25 – Jurat Page, listing all Officers and titles on the Jurat Page.

### **Corporate Records – Administrative Agreements and Amendments**

In review of the Company’s administrative agreements, it was noted that these agreements were entered into without being submitted to and approved by the Director of the Nebraska Department Insurance prior to their effective dates. It is again recommended that the Company comply with Section 44-3810 of the Nebraska Insurance Statutes which states, “Such contracts shall be filed with and approved by the Director as being in accordance with the plan of the Company prior to their effectiveness.”

## **SUBSEQUENT EVENTS**

### **ACCOUNTING SYSTEMS**

The Company is currently in the process of changing accounting systems. The Company previously relied upon DeCare to handle all phases their business. DeCare will only be handling claims for the Company going forward. DDMN is creating an accounting system that will also

include the Company's accounting processes. DDMN is currently in the testing phases of the new accounting system and their expectation is to go live on May 1, 2014.

### **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

The following comments and recommendations have been made as a result of this examination:

**Annual Statement – Jurat Page** – It is recommended that the Company file their Annual Statement in compliance with the Annual Statement Guidelines Page 25 – Jurat Page, listing all Officers and titles on the Jurat Page.

**Corporate Records – Administrative Agreements and Amendments** – It is again recommended that the Company comply with Section 44-3810 of the Nebraska Insurance Statutes which states, “Such contracts shall be filed with and approved by the Director as being in accordance with the plan of the Company prior to their effectiveness.”

## ACKNOWLEDGEMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Erin Garvin, CFE, and Kimmea Shannon, Financial Examiners; and Linda Scholl, CFE, Information Systems Specialist; all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Derek Petersen, CFE, MCM  
Examiner-in-Charge  
Department of Insurance  
State of Nebraska

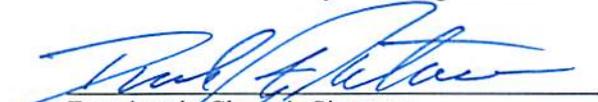
State of Nebraska,

County of Lancaster,

Derek J. Petersen, being duly sworn, states as follows:

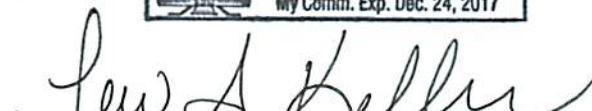
1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Delta Dental of Nebraska.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Delta Dental of Nebraska was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.

  
Examiner-in-Charge's Signature

Subscribed and sworn before me by Derek Petersen on this 21 day of April, 2014.

(SEAL) 

  
Notary Public

My commission expires 12-24-17 [date].