

REPORT OF EXAMINATION

DELTA DENTAL PLAN OF WYOMING

AS OF

DECEMBER 31, 2017



STATE OF WYOMING

DEPARTMENT OF INSURANCE

CHEYENNE, WYOMING

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SALUTATION
Cheyenne, Wyoming
February 13, 2019

The Honorable Tom Glause
Insurance Commissioner
State of Wyoming
106 East 6th Avenue
Cheyenne, WY 82002

Commissioner Glause:

Pursuant to your instructions and in compliance with the provisions of the Wyoming Insurance Code and the rules and regulations promulgated by the National Association of Insurance Commissioners, hereinafter called "NAIC," an examination was made as of December 31, 2017, of the financial condition, management, and affairs of:

DELTA DENTAL PLAN OF WYOMING

hereinafter referred to as the "Company," at its home office located at 6234 Yellowstone Road, Cheyenne, Wyoming. The following report of the examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

We have performed our single-state examination of Delta Dental Plan of Wyoming. The last examination was a qualifying examination for the Company to obtain its certificate of authority on June 25, 2013. This examination covers the period of June 25, 2013 through December 31, 2017.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in Wyoming Statute § 26-2-116 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Previous Examination

The previous examination was a qualifying examination for the Company to obtain its certificate of authority. There were no examination findings.

Current Examination

During the examination, the Company was unable to provide conflict of interest statements for two out of the four years reviewed for its directors. Additionally, the Company could not provide conflict of interest statements for two out of thirteen directors for 2014. These two directors were elected to the Board after the spring meeting at which time the other directors signed their conflict of interest statements.

As a result of this condition, the Company may be unaware of any conflicts of interest or prohibited practices of its directors or officers which could lead to possible statutory violations.

Pursuant to W.S. § 26-24-127(a)(iii), any officer or director, or any member of any committee or an employee of a domestic insurer who is charged with the duty of investing or handling the insurer's funds shall not be pecuniarily interested in any loan, pledge or deposit, security,

investment, sale, purchase, exchange, reinsurance or other similar transaction or property of the insurer except as a stockholder or member.

Recommendation 1: It is recommended that the Company implement a policy to obtain conflict of interest statements from all of its officers and directors on an annual basis and for new members when they are elected to the Board. These statements should be kept on file and reviewed accordingly.

It was also noted that the Audit Committee is not preapproving services provided by the independent certified public accountant.

Pursuant to W.S. § 26-3-306(k), which states in part, “All auditing services and nonaudit services provided to an insurer by the qualified independent certified public accountant of the insurer shall be preapproved by the audit committee.”

Recommendation 2: It is recommended that the Audit Committee preapprove all auditing and nonaudit services to be provided by the independent certified public accountant and document this approval in the Board minutes.

COMPANY HISTORY

The Company was originally incorporated on October 31, 1967, under the name Wyoming Dental Service Corporation. The purpose of the corporation is to establish and operate non-profit, prepaid dental service plans throughout the State of Wyoming. The current name was adopted on June 15, 1990. The Company is located in Cheyenne, Wyoming.

The Company is a Wyoming nonprofit corporation which administers dental insurance contracts offered to its groups and subscribers on either a risk or an administrative services contract basis. The Company is domiciled in the state of Wyoming and is doing business only in the state of Wyoming.

The Company was previously exempt from licensing with the Wyoming Department of Insurance based on a Wyoming Attorney General’s opinion dated July 13, 1970. However, the Company was required to obtain a certificate of authority in order to participate on the health insurance marketplace due to the passage of the Patient Protection and Affordable Care Act. Therefore, the Company became licensed as an insurance company on June 25, 2013. As of January 2017, the Company is no longer participating on the health insurance marketplace, however, it continues to provide certified plans off of the health insurance marketplace.

Delta Dental Plans Association: The Company is a member of the Delta Dental Plans Association, a national organization, located in Illinois. The Association consists of 39 independent member companies operating in 50 states, Puerto Rico and other territories.

MANAGEMENT AND CONTROL

The entire control and direction of the Company rests with its Board of Directors. The bylaws provide for not more than 15 and not less than 12 directors as determined by the Board. Thirteen

directors were actually in office as of December 31, 2017. The Board consists of one participating dentist elected from each of the six districts of the Wyoming Dental Association. The remaining ad-hoc members are elected at the annual meeting. Board members are elected for three-year terms and may only serve three consecutive terms.

The annual meeting date of the Company is to be held at the same time and in the same town or city as the annual meeting of the Wyoming Dental Association.

As of December 31, 2017, the following directors were holding office:

Mary Burman	Rita Meyer
Rod Chisholm	Dan Morrison, DDS
Jackie Freeze	Bob Palmer
Bruce Holwell	Ryne Paulson, DDS
Scott Houfek, DDS	Aaron Taff, DDS
Brad Kincheloe, DDS	Bob Tyrrell, DDS
Jim Linton	

Article XIII of the bylaws provides for the officers of the Corporation who shall consist of a Chairman of the Board, one or more Vice-Chairmen, a Treasurer, and a Secretary. In addition, Article XIII provides for a President and Chief Executive Officer and/or one or more Vice Presidents as the executive and operating officers of the corporation.

As of December 31, 2017, the officers were as follows:

Chairman of the Board – Scott Houfek, DDS
Vice-Chairman of the Board – Brad Kincheloe, DDS
Treasurer - Jim Linton
Secretary - Rita Meyer
President/CEO – Kerry Hall
Vice President – Patricia Guzman
Director of Accounting – Jennifer Hanrahan

Corporate Records

The Articles of Incorporation, bylaws, and minutes of the meetings of the Board of Directors, Finance, Legal, Bylaws, and Audit Committee, Human Resources, Membership and Nominating Committee, and Human Resources and Professional Relations Committee were reviewed. It was determined that the actions taken at the various meetings were adequately documented.

The Company's home office and books and records are located in Cheyenne, Wyoming. The Company has an administration agreement with the Delta Dental Plan of South Dakota (DDPSD). Under the terms of the agreement, DDPSD sets up group records, maintains the eligibility and claims systems, generates risk billings/subscriber listings, processes manual and electronic claims, administers coordination of benefits, disburses claims payments, and issues 1099's for claims payments.

Holding Company Structure

There are two companies in the holding company system. Delta Dental Plan of Wyoming is the parent company and controls the Wyoming Delta Dental Foundation. The Foundation provides scholarships for dental students to the University of Nebraska and Creighton University. The students come back to Wyoming to practice dentistry or they have to repay the scholarship. The Foundation also dispenses toothbrushes, sponsors oral health education programs, and offers programs for seniors' dental care.

TERRITORY AND PLAN OF OPERATION

The Company operates in the state of Wyoming and only writes dental insurance. The Company also acts as an administrator for some self-insured dental plans. The Company has approximately 11 employees. Sales operations are conducted through independent brokers and agents.

Growth of the Company

The Company was licensed on June 25, 2013. On September 30, 2013, the Company had surplus of \$8,829,130. As of December 31, 2017, the Company had surplus of \$12,732,765. This is an increase of \$3,903,635.

The Company's net admitted assets were \$12,535,214 on September 30, 2013. As of December 31, 2017, the Company had net admitted assets of \$16,667,444. This is an increase of \$4,132,230.

The Company had direct premiums written of \$13,474,423 for 2013. Reported direct premiums written for 2017 were \$16,014,186. This is an increase of \$2,539,763. These amounts do not include self-insured business.

Business In Force by State

The Company operates only in the state of Wyoming and is authorized to conduct disability (health) insurance business. As of January 1, 2017, the Company stopped offering dental plans on Wyoming's Federally Facilitated Marketplace under the Patient Protection and Affordable Care Act. The Company's direct premiums written for 2017 were \$16,014,186.

The Company functions as an administrator for various self-insured dental plans. The Company is reimbursed for certain administrative costs and for payments made on behalf of the beneficiaries of the plans.

REINSURANCE

The Company does not cede or assume reinsurance. The Company only writes dental insurance and has consistently been profitable. The Department's consulting actuary noted the following about the Company:

- The Company has a strong capital position of \$12.7 million and an RBC of 1,579% for 2017, which would allow the Company to sustain a prolonged period of adverse experience.
- The Company's block of business has performed consistently with underwriting gains for the past five years with loss ratios between 79-82%.
- Dental business is not susceptible to catastrophic claims.

Based on these observations, the Department's consulting actuary determined that reinsurance coverage is not necessary for the Company.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Wyoming Department of Insurance and present the financial condition of the Company for the period ending December 31, 2017.

There were no adjustments to the financial statements as a result of the examination.

Delta Dental Plan of Wyoming
Statement of Assets, Liabilities and Surplus
as of December 31, 2017

ASSETS	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$2,021,231		\$2,021,231
Common stocks	7,194,008		7,194,008
Cash and cash equivalents	3,255,775		3,255,775
Subtotal - cash and invested assets	12,471,014		12,471,014
Investment income due and accrued	32,358		32,358
Uncollected premiums	138,010		138,010
Amounts receivable relating to uninsured plans	1,702,798		1,702,798
Guaranty funds receivable or on deposit	260,929		260,929
Electronic data processing equipment and software	11,942	11,942	0
Furniture and equipment	55,841	55,841	0
Receivables from parent, subsidiaries and affiliates	2,446		2,446
Aggregate write-ins for other-than-invested assets	2,103,754	43,865	2,059,889
Total assets	\$16,779,092	\$111,648	\$16,667,444
LIABILITIES & SURPLUS			
Claims unpaid			\$644,000
Unpaid claims adjustment expenses			64,000
Premiums received in advance			370,556
General expenses due or accrued			387,278
Amounts withheld or retained for the account of others			1,948,845
Amounts due to parent, subsidiaries and affiliates			520,000
Total liabilities			3,934,679
SURPLUS			
Unassigned funds (surplus)			12,732,765
Total surplus			12,732,765
Total liabilities and surplus			\$16,667,444

Delta Dental Plan of Wyoming
Statement of Revenue and Expenses
for the Year Ending December 31, 2017

Net premium income	\$16,014,186
Aggregate write-ins for other non-health revenues	1,671
Total revenues	16,015,857
Other professional services	12,822,426
Total hospital and medical	12,822,426
Claims adjustment expenses	604,463
General administrative expenses	2,472,268
Total underwriting deductions	15,899,157
Net underwriting gain	116,700
Net investment income earned	296,587
Net realized capital gains or (losses)	378,721
Net investment gain or (loss)	675,308
Aggregate write-ins for other income or expenses	(29,893)
Net income (loss) before federal income taxes	762,115
Federal income taxes incurred	0
Net income or (loss)	\$762,115
<u>Surplus</u>	
Surplus, December 31, 2016	\$11,586,516
<u>Gains and (Losses)</u>	
Net income or (loss)	762,115
Change in net unrealized capital gains or (losses)	424,668
Change in nonadmitted assets	(40,534)
Net change in surplus	1,146,249
Surplus, December 31, 2017	\$12,732,765

Delta Dental Plan of Wyoming
Reconciliation of Surplus
January 1, 2013 through December 31, 2017

	*****As Reported and Filed by the Company*****				
	2013	2014	2015	2016	2017
Surplus, December 31, of prior year	\$8,096,278	\$9,399,318	\$9,900,217	\$10,333,046	\$11,586,516
Net income or (loss)	814,093	568,595	831,168	817,638	762,115
Change in net unrealized capital gains or (losses)	513,111	(67,041)	(414,574)	398,497	424,668
Change in nonadmitted assets	(24,164)	(655)	16,235	37,335	(40,534)
Net change in surplus	1,303,040	500,899	432,829	1,253,470	1,146,249
Surplus, December 31, of current year	\$9,399,318	\$9,900,217	\$10,333,046	\$11,586,516	\$12,732,765

SUBSEQUENT EVENTS

The Company is in the process of constructing a new home office. This will result in a significant outlay of capital. The Company is also in the process of replacing its vendor for its claims processing system. The Company is currently in negotiations with Delta Dental Plan of Idaho to be the provider of its claims processing system.

SUMMARY OF RECOMMENDATIONS

Recommendation 1: It is recommended that the Company implement a policy to obtain conflict of interest statements from all of its officers and directors on an annual basis and for new members when they are elected to the Board. These statements should be kept on file and reviewed accordingly.

Recommendation 2: It is recommended that the Audit Committee preapprove all auditing and nonaudit services to be provided by the independent certified public accountant and document this approval in the Board minutes.

CONCLUSION

Jeff Braunschweig, Tracy McEwen, and G. Douglas Melvin, examiners for the Wyoming Department of Insurance, participated in the examination. Review of the Company’s reserves was conducted by the firm Taylor-Walker Consulting, LLC.

Appreciation is expressed for the cooperation and assistance extended by the officers and employees of the Company during the course of the examination.

I, the undersigned, hereby certify that an examination has been made of **DELTA DENTAL PLAN OF WYOMING**, and the preceding report is true and correct to the best of my knowledge and information.

Respectfully submitted,

G. Douglas Melvin, CPA, CFE
Examiner In-Charge
Senior Examiner
Department of Insurance
State of Wyoming

This report has been reviewed and is true and correct to the best of my knowledge and information.

Linda Johnson, CPA, CFE
Chief Financial Examiner
Department of Insurance
State of Wyoming

The foregoing instrument was acknowledged under oath before me this _____ day of March 2019.

Witness my hand and official seal.

Notary Public

My Commission Expires: _____