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Department of Insurance
State of Idaho

Attorneys for the Department of Insurance

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE
STATE OF IDAHO

In the Matter of:

DELTA DENTAL PLAN OF IDAHO, INC.

Certificate of Authority No. 1901
NAIC No. 47791

Docket No. 18-3317-17

**ORDER ADOPTING REPORT
OF EXAMINATION AS OF
DECEMBER 31, 2015**

The State of Idaho, Department of Insurance (“Department”), having conducted an examination of the affairs, transactions, accounts, records, and assets of Delta Dental Plan of Idaho, Inc. (“Delta Dental”), pursuant to Idaho Code §§ 41-3426 and 41-219(1) and (5), hereby alleges the following facts that constitute a basis for issuance of an order, pursuant to Idaho Code § 41-227(5)(a), adopting the Report of Examination of Delta Dental of Idaho, Inc., as of December 31, 2015 (“Report”), as filed.

FINDINGS OF FACT

1. Delta Dental is an Idaho-domiciled professional service corporation licensed to transact disability insurance, excluding managed care, in Idaho under Certificate of Authority

No. 1901. Delta Dental transacts such business under the assumed business name Delta Dental of Idaho.

2. The Department completed an examination of Delta Dental pursuant to Idaho Code §§ 41-3426 and 41-219(1) and (5) on or about March 30, 2017. The Department's findings are set forth in the Report.

3. Pursuant to Idaho Code § 41-227(4), a copy of the Report, verified under oath by the Department's examiner-in-charge, was filed with the Department on March 30, 2017, and a copy was transmitted to Delta Dental on March 31, 2017. A copy of the verified Report is attached hereto as Exhibit A.

4. On or about April 5, 2017, the Department received a Waiver from Delta Dental signed by Greg Donaca, Chief Financial Officer for Delta Dental. By execution of such Waiver, a copy of which is attached hereto as Exhibit B, Delta Dental consented to the immediate entry of a final order by the Director of the Department ("Director") adopting the Report without any modifications; waived its right to make a written submission or rebuttal to the Report; and waived its right to request a hearing and to seek reconsideration or appeal from the Director's final order.

CONCLUSIONS OF LAW

5. Idaho Code § 41-227(5)(a) provides that "[w]ithin thirty (30) days of the end of the period allowed for the receipt of written submissions or rebuttals, the director shall fully consider and review the report, together with any written submissions or rebuttals and relevant portions of the examiner's work papers" and shall enter an order adopting the report of examination as filed or with modifications or corrections.

6. Having fully considered the Report, the Director concludes that Delta Dental appears to meet the qualifications for maintaining a certificate of authority established pursuant to Idaho Code § 41-3408.

ORDER

NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED that the Report of Examination of Delta Dental of Idaho, Inc., as of December 31, 2015, is hereby ADOPTED as filed, pursuant to Idaho Code § 41-227(5)(a).

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(8), that the adopted Report is a public record and shall not be subject to the exemptions from disclosure provided in chapter 1, title 74, Idaho Code.

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(6)(a), that, within thirty (30) days of the issuance of the adopted Report, Delta Dental shall file with the Department's Chief Deputy Examiner affidavits executed by each of its directors stating under oath that they have received a copy of the adopted Report and related orders.

IT IS SO ORDERED.

DATED this 8th day of May, 2017.

STATE OF IDAHO
DEPARTMENT OF INSURANCE



DEAN L. CAMERON
Director

NOTIFICATION OF RIGHTS

This Order constitutes a final order of the Director. Any party may file a motion for reconsideration of this final order within fourteen (14) days of the service date of this order. The Director will dispose of the petition for reconsideration within twenty-one (21) days of its receipt, or the petition will be considered denied by operation of law. *See*, Idaho Code § 67-5246(4).

Pursuant to Idaho Code §§ 67-5270 and 67-5272, any party aggrieved by this final order may appeal it by filing a petition for judicial review in the district court of the county in which: (1) the hearing was held; or (2) the final agency action was taken; or (3) the aggrieved party resides or operates its principal place of business in Idaho; or (4) the real property or personal property that was the subject of the agency decision is located. An appeal must be filed within twenty-eight (28) days of: (a) the service date of this final order; or (b) an order denying a petition for reconsideration; or (c) the failure within twenty-one (21) days to grant or deny a petition for reconsideration, whichever is later. *See*, Idaho Code § 67-5273. The filing of a petition for judicial review does not itself stay the effectiveness or enforcement of the order under appeal.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that, on this 01 day of May, 2017, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2015, to be served upon the following by the designated means:

Delta Dental Plan of Idaho, Inc.
555 E. Parkcenter Blvd.
P.O. Box 2870
Boise, ID 83701-2870
gdonaca@deltadentalid.com
kinskeep@deltadentalid.com

☐ first class mail
☒ certified mail
☐ hand delivery
☒ email

Hermoliva Abejar
Chief Deputy Examiner
Idaho Department of Insurance
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☐ first class mail
☐ certified mail
☒ hand delivery
☐ email



DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

Of

DELTA DENTAL OF IDAHO, INC.
(Professional Service Corporation)
(NAIC Company Code: 47791)

As of

December 31, 2015



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Boise, Idaho
March 30, 2017

Mr. Dean Cameron
Director of Insurance
State of Idaho
Department of Insurance
700 West State Street
P.O. Box 83720
Boise, Idaho 83720-0043

Dear Director:

Pursuant to your instructions, in compliance with Idaho Code §41-219(1) and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2015, of the financial condition and corporate affairs of:

Delta Dental of Idaho, Inc.
555 E. Parkcenter Boulevard
Boise, Idaho 83706

Hereinafter referred to as the "Company", at the primary location of its books and records in Boise, Idaho. The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

We have performed our full scope, risk-focused examination of Delta Dental of Idaho, Inc. The last exam was completed as of December 31, 2010. This examination covers the period of January 1, 2011 through December 31, 2015.

Examination Procedures Employed

Our examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* to determine compliance with accounting practices and procedures in conformity with the applicable laws of the State of Idaho, and insurance rules promulgated by the Idaho Department of Insurance (Department). 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 system controls and procedures used to mitigate those risks. The 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 NAIC Accounting Practices and Procedures Manual (SSAPs and Annual Statement instructions when applicable to domestic state regulations).

The Company retained the services of a certified public accounting firm, Eide Bailly, Boise, Idaho, to audit its financial records for the years under examination. The firm provided the examiners access to requested work papers prepared in connection with its audits. The external audit work was relied upon where deemed appropriate.

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.

The examination determined the risks associated with identified key functional activities of the Company's operations and considered mitigating factors. Interviews were held with the senior management of the Company to gain an understanding of the entity's operating profile and control environment.

This examination report includes findings of fact, as mentioned in Idaho Code §41-227(2) and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

A letter of representation certifying that management disclosed all significant matters and records was obtained from management and included in the examination working papers.

Status of Prior Examination Findings

Our examination included a review to determine the current status of the exception condition commented upon in our preceding Report of Examination, dated December 31, 2010, which covered the period from January 1, 2006 to December 31, 2010. We determined that the Company had satisfactorily addressed the exception condition.

SUMMARY OF SIGNIFICANT FINDINGS

The Company did not properly complete Schedule BA - Verification Between Years. The Company responded "NONE" to this schedule. However, the Company owns 100 percent of Health Services Group, LLC (HSG) at year-end 2015.

In addition, the Company did not prepare Schedule BA - Part 1 pursuant to NAIC Annual Statement Instructions. The Company did not report fair market value in column 11 or book value in column 12. According to the HSG's trial balance, the total equity at year-end 2015 was (\$36,262.04). However, the Company has indicated the valuation is \$0 due to the negative equity. Therefore, the Company should treat HSG as a nonadmitted asset pursuant to SSAP Number 4 and report it as a nonadmitted asset throughout the Annual Statement including the Assets page, the Exhibit of Nonadmitted Assets, and Schedule BA - Verification Between Years.

Furthermore, the Company erroneously presented the gain or loss on ASC business in Note 17(2)c in the 2015 Annual Statement. According to the NAIC Annual Statement Instructions, this information should be presented in Note 18, Gain or Loss to the Reporting Entity From Uninsured A&H Plans and Uninsured Portion of Partially Insured Plans.

SUBSEQUENT EVENTS

Subsequent to the examination date, James Edward Pierce, DDS, was elected Chair of the Board; Jonathan Louis Jurevic was elected Chair-Elect; Nancy Learned Briggs was elected as Immediate Past-Chair; and Kyle James Siemen, DDS, was elected Secretary. Also subsequent to the examination date, the Audit and Investment Committees were combined to form the Audit, Investment, and Financial Committee.

COMPANY HISTORY

General

The Company is a non-profit, non-stock professional service organization organized on June 21, 1971 under Title 41, Chapter 34, Idaho Code. Business commenced on December 15, 1971.

The Company is exempt from Federal income tax under § 501(c)(4) of the Internal Revenue Code. This exemption was granted in February 1973 and remains in effect. The Company is also exempt from state income tax under Idaho Code § 63-3025B; however, it is subject to a tax imposed upon each subscriber's contract under Idaho Code § 41-3427.

In 2004, the Company registered a "doing business as" (DBA) name of "Delta Dental of Idaho" with the Department. The Company's legal name, however, remains, "Delta Dental Plan of Idaho, Inc."

The Company formed Health Services Group, LLC (HSG), an Idaho limited liability company, on September 12, 2012, as an insurance producer.

CORPORATE RECORDS

The meetings of the Board of Directors and the Members were conducted on a quarterly and an annual basis, respectively, for all the years under examination.

MANAGEMENT AND CORPORATE GOVERNANCE

The by-laws of the Company indicate the number of Directors shall be not less than three (3) nor more than thirteen (13). The authorized number of Directors may be fixed or changed from time to time by an amendment to the by-laws or by resolution of the Board of Directors or members.

The following persons served as Directors of the Company as of December 31, 2015:

| <u>Name and Business Address</u> | <u>Company Position and Affiliation</u> |
|---|---|
| Nancy Learned Briggs Boise, Idaho | Chair, Retired Software Executive |
| James Edward Pierce, DDS Lewiston, Idaho | Chair-Elect, Dentist, General Practice |
| Michael Nicholas Fery Boise, Idaho | Immediate Past-Chair, CEO and Chairman, Rocky Mountain Management |

| | |
|---|---|
| Kyle James Siemen, DDS Pocatello, Idaho | Secretary, Dentist, General Practice |
| Mark Robert Alexander, DDS Twin Falls, Idaho | Dentist, General Practice |
| Terry Emmitt Brady, DDS Boise, Idaho | Retired Dentist, General Practice |
| Steve Michael Bruce, DDS Boise, Idaho | Dentist, General Practice |
| Jonathan Louis Jurevic Portland, Oregon | Chief Financial Officer, Oregon Anesthesiology Group |
| William Vern McCann, Jr. Lewiston, Idaho | President, McCann Ranch and Livestock Company |
| Michael Mark Mooney Boise, Idaho | Chief Executive Officer, Bank of the Cascades |
| Kurt Alexander Petellin, DDS Boise, Idaho | Dentist, General Practice |
| Park Price Idaho Falls, Idaho | President, Bank of Idaho |
| Jill Shelton Wagers, DDS Boise, Idaho | Dentist, General Practice |

The number of Directors serving the Company at year-end 2015 was in compliance with the Company's by-laws and Idaho Code §41-2835(1).

According to the by-laws, the Executive Officers of the Company shall be the Chair, Chair-Elect, Immediate-Past Chair, President, Secretary, and Treasurer. The Board shall appoint the Chief Executive Officer, Secretary, and Treasurer and other such officers, assistant officers, and other agents deemed necessary. The same individual may simultaneously hold more than one office, except that the same individual may not simultaneously hold the offices of President and Secretary. The following persons served as officers of the Company as of December 31, 2015:

| | |
|--------------------------|---------------------------------------|
| Nancy Learned Briggs | Chair |
| James Edward Pierce, DDS | Chair-Elect |
| Michael Nicholas Fery | Immediate Past-President |
| Kyle James Siemen, DDS | Secretary |
| Jean Francine De Luca | President and Chief Executive Officer |
| Gregory Douglas Donaca | Treasurer and Chief Financial Officer |

The Chair, Chair-Elect, Immediate Past-Chair, Secretary and Chief Executive Officer shall comprise a standing Executive Committee. Executive Committee members as of December 31, 2015 are as follows:

| | |
|--------------------------|-----------------------------------|
| Nancy Learned Briggs | Chair |
| James Edward Pierce, DDS | Chair-Elect |
| Michael Nicholas Fery | Immediate Past-Chair |
| Kyle James Siemen, DDS | Secretary |
| Jean Francine De Luca | President/Chief Executive Officer |
| Jonathan Louis Jurevic | At Large Member |

Pursuant to the Company's by-laws, the Board of Directors may create standing or ad hoc Committees, as needed. Each Committee shall be comprised of two or more Directors appointed by the Board, which shall also designate one of the appointed Directors to chair the Committee. The responsibility of each Committee will be defined by a Committee Charter approved by the Board of Directors.

The following standing committees were appointed by the Board of Directors as of December 31, 2015:

Audit Committee

Michael Nicholas Fery, Chair
Jonathan Louis Jurevic
William Vern McCann, Jr.
Michael Mark Mooney
James Edward Pierce, DDS
Park Price
Jill Shelton Wagers, DDS

Compensation Committee

Nancy Learned Briggs, Chair
Michael Nicholas Fery
Jonathan Louis Jurevic
Kurt Alexander Petellin, DDS
James Edward Pierce, DDS
Park Price
Kyle James Siemen, DDS

Investment Committee

Jonathan Louis Jurevic, Chair
Steve Michael Bruce, DDS
William Vern McCann, Jr.

Michael Mark Mooney
Park Price
Kyle James Siemen, DDS

Governance Committee

Park Price, Chair
Mark Robert Alexander, DDS
Terry Emmitt Brady, DDS
Nancy Learned Briggs
Michael Nicholas Fery
Jonathan Louis Jurevic
James Edward Pierce, DDS

Dental Advisory Committee

Kyle James Siemen, DDS, Chair
Mark Robert Alexander, DDS
Steve Michael Bruce, DDS
William Vern McCann, Jr.
Michael Mark Mooney
Kurt Alexander Petellin, DDS
Jill Shelton Wagers, DDS

Community Outreach Committee

Mark Robert Alexander, DDS, Chair
Terry Emmitt Brady, DDS
Steve Michael Bruce, DDS
Michael Mark Mooney
Kurt Alexander Petellin, DDS
Jill Shelton Wagers, DDS
Russell Duke, Central District Health
Chris Ludlum, Saint Luke's
Dr. Sarah Toevs, Boise State University

The Company became part of a holding company system through formation of HSG. The Company is the ultimate controlling person in the holding company system as shown in the following organizational chart.

Delta Dental of
Idaho (47791)
|
Health Services
Group, LLC
(ID)

As previously reported, HSG was formed on September 12, 2012. The Company is the sole member of HSG and has 100 percent membership interest. The Company's initial capital to HSG was \$2,500. The Company is not obligated to make additional capital contributions. The Company has no right to receive a return of capital from HSG. However, HSG may distribute to the Company any cash that's available for distribution.

Inter-company Agreements

An operating agreement was entered into by the Company and HSG on September 12, 2012. Under this agreement, the Company serves as the manager of HSG. The Company is entitled to reimbursement for all direct expenses borne, incurred, or advanced on behalf of HSG, including organizational expenses. All items of income, gain, loss, deduction, or credit shall be allocated to the Company in accordance with the provisions of the Internal Revenue Service Code. All costs and expenses of HSG shall be paid from its funds.

Effective October 1, 2012, the Company entered into an administrative services agreement with HSG. The initial term is five years but can be extended annually for additional years thereafter. Either party shall give at least three months written notification to terminate if not renewed. The agreement may also be terminated for other reasons stated therein.

Under the agreement, HGS provides product support, customer service and related services. The Company provides administrative and management support to HSG, for which HSC pays a monthly administrative fee to the Company. In addition, the Company bills HSG monthly for the actual cost of any direct expense incurred due to the administration of HSG's business. The agreement calls for monthly settlements. The parties shall comply with HIPAA; HSG will establish and implement safeguards to prevent the use or disclosure of protected health information (PHI).

FIDELITY BONDS AND OTHER INSURANCE

The minimum fidelity bond coverage suggested by the NAIC for an insurer of the Company's size and premium volume is not less than \$450,001. As of December 31, 2015, the Company had sufficient bond coverages of \$755,000.

The Company also has additional insurance protection for business and operations; business automobile; directors and officers; umbrella, and flood and earthquake coverages.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's employees are covered by a 401(k) plan and a profit sharing plan sponsored by the Company. The employer's matching contribution is an amount equal to 200 percent of each participant's salary reduction contributions for the plan year, not to exceed three percent of the participant's salary eligible for contributions. The Board of Directors determines plan contributions to the profit-sharing plan at the end of each year. At December 31, 2015, the fair market value of vested benefits was \$3,104,648. The Company's contribution for the plan was \$152,479 for 2015.

In addition, the Company maintains a deferred compensation program for the benefit of participating dentists. Pursuant to the provisions of the program, the Company reduces its claim payments to the dentists and invests the withheld funds, plus related interest, as directed by the dentist and allowed by the program, for future distributions to the dentists. Those reductions may not exceed the lesser of \$17,500 or 100 percent of the annual payments to the dentists. At December 31, 2015, the fair market value for the plan assets was \$6,798,847.

On December 31, 2003, the Company entered into a supplementary income retirement trust agreement (rabbi trust) for certain employees. The trust is funded with cash. Upon the death, disability, retirement or termination of employment of the plan participants, a distribution of plan assets is made to the terminating participant. At December 31, 2015, the fair market value of the plan assets was \$687,442.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2015, the Company is licensed in the State of Idaho as a professional service organization. The Company provides prepaid dental service programs to subscribers, their eligible dependents, or other beneficiaries. The Company launched individual and family plans in 2012. In addition, the Company partners with other insurance carriers to provide dental products bundled with health insurance policies. In late 2015, sales of DeltaVision, the Company's vision product offered through HSG were discontinued. Dental insurance is marketed to groups and individuals through the Company's sales force and other distribution channels such as on-line brokers, medical benefits providers, and directly through private exchanges and Idaho's public exchange.

GROWTH OF THE COMPANY

The following represents the Company's Premium Activity and its relationship to surplus over the period of our examination.

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|--------------|------------|------------|------------|------------|
| Gross Written Premium | \$42,710,486 | 38,464,485 | 34,525,505 | 31,969,679 | 31,490,525 |
| Policyholder Surplus | \$33,065,472 | 32,084,366 | 28,975,264 | 23,465,591 | 19,619,780 |
| Gross Written Premium to Policyholder Surplus Ratio | 129% | 120% | 119% | 136% | 161% |

Gross written premium and policyholder surplus increased over the examination period due to organic growth in substantially all lines of business.

LOSS EXPERIENCE

The following represents the Company's loss experience and its relationship to net premium income over the period of our examination:

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|--|--------------|------------|------------|------------|------------|
| Net Premium Earned | \$42,710,486 | 38,464,485 | 34,525,505 | 31,969,679 | 31,490,525 |
| Claims Incurred | \$34,811,610 | 30,574,559 | 27,104,826 | 25,374,532 | 26,531,597 |
| Claims Adjustment Expenses Incurred (AEI) | 801,642 | 860,895 | 818,814 | 725,898 | 941,468 |
| Total Claims and Claims AEI | \$35,613,252 | 31,435,454 | 27,923,640 | 26,100,430 | 27,473,065 |
| Total Claims and Claims AEI to Net Premium Earned Ratio (Loss Ratio) | 83.39% | 81.73% | 80.88% | 81.65% | 87.25% |

REINSURANCE

Assumed

The Company did not assume any reinsurance as of December 31, 2015.

Ceded

The Company did not cede any reinsurance as of December 31, 2015.

ACCOUNTS AND RECORDS

The annual independent audits of the Company for the years 2011 through 2015 were performed by Eide Bailly, Boise, Idaho. Their audit reports were made available for the examination.

Document and information requests for the examination were made in writing. The Company provided the requested documentation and information in a timely manner.

STATUTORY DEPOSITS

Professional Service Corporations are not required to maintain a statutory deposit pursuant to Title 41, Chapter 34, Idaho Code.

FINANCIAL STATEMENTS

Balance Sheet

[As of December 31, 2015]

Statement of Revenue and Expenses

[As of December 31, 2015]

Reconciliation of Surplus

[For all the years under examination]

Analysis of Changes in Financial Statements Resulting From Examination

Balance Sheet
As of December 31, 2015

ASSETS

| | |
|---|----------------------------|
| Bonds | |
| Preferred stocks | \$13,988,034 |
| Common stocks | 51,320 |
| Properties occupied by the company | 17,140,540 |
| Properties held for sale (Note 1) | 1,428,725 |
| Cash (\$2,541,108) | 527,000 |
| *Aggregate write-ins for invested assets | 2,541,108 |
| Total Invested Assets | <u>7,486,289</u> |
| Investment income due and accrued | \$43,163,015 |
| Uncollected premiums and agents' balances in the course of collection | \$ 87,480 |
| Amounts receivable relating to uninsured plans | 321,530 |
| Electronic data processing equipment and software | 1,098,667 |
| Furniture and equipment, including health care delivery assets | 72,688 |
| Receivable from parent, subsidiaries and affiliates | 239,405 |
| Total Assets | <u>4,500</u> |
| | <u><u>\$44,987,285</u></u> |

*Deferred compensation plan: \$7,486,289

LIABILITIES, CAPITAL AND SURPLUS

| | |
|---|----------------------------|
| Claims unpaid (Note 2) | \$2,062,000 |
| Unpaid claims adjustment expenses (Note 2) | 133,514 |
| Aggregate health policy reserves, including the liability of \$0 for medical loss ratio rebate per Public Health Service Act (Note 2) | 228,186 |
| Premiums received in advance | 1,356,577 |
| General expenses due or accrued | 575,211 |
| Amounts withheld or retained for the account of others | <u>7,566,325</u> |
| Total Liabilities | <u>\$11,921,813</u> |
| **Aggregate write-ins for special surplus funds | \$ 75,000 |
| Unassigned funds (surplus) | <u>32,990,472</u> |
| Total Capital and Surplus | <u>\$33,065,472</u> |
| Total Liabilities, Capital and Surplus | <u><u>\$44,987,285</u></u> |

**ACA fee assessment: \$75,000.

Statement of Revenue and Expenses
As of December 31, 2015

| | | |
|--|---------------------|---------------------------|
| Net premium income | | <u>\$42,710,486</u> |
| Total Revenues | | \$42,710,486 |
| Other professional services | <u>\$34,811,610</u> | |
| Total hospital and medical | \$34,811,610 | |
| Claims adjustment expenses, including \$0 cost containment expenses | 801,642 | |
| General administrative expenses | <u>5,945,695</u> | |
| Total underwriting deductions | | <u>41,558,947</u> |
| Net underwriting gain (loss) | | \$1,151,539 |
| Net investment income earned | \$ 393,777 | |
| Net realized capital gains | <u>203,476</u> | |
| Net investment gains (losses) | \$ 597,253 | |
| *Aggregate write-ins for other income or expenses | (300) | |
| Net income (loss) after capital gains tax and before all other federal income taxes | | <u>\$1,748,492</u> |
| Net Income (Loss) | | <u><u>\$1,748,492</u></u> |

*Miscellaneous Expense: \$(300).

Reconciliation of Surplus

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Capital and surplus prior reporting year | \$32,084,366 | \$28,975,264 | \$23,465,591 | \$19,619,780 | \$19,043,603 |
| Net income or (loss) | 1,748,492 | 3,348,511 | 3,215,358 | 3,190,642 | 1,704,358 |
| Change in net unrealized capital gains (losses) | (1,113,899) | (424,493) | 1,932,816 | 680,516 | (908,228) |
| Change in nonadmitted assets | 318,923 | 185,084 | 361,498 | (25,346) | (219,953) |
| *Aggregate write-ins for gains or (losses) in surplus (Note 3) | 27,591 | 0 | 0 | 0 | 0 |
| Rounding | (1) | 0 | 1 | (1) | 0 |
| Net change in capital and surplus | \$ 981,106 | \$ 3,109,102 | \$ 5,509,673 | \$ 3,845,811 | \$ 576,177 |
| Capital and surplus end of reporting period | <u>\$33,065,472</u> | <u>\$32,084,366</u> | <u>\$28,975,264</u> | <u>\$23,465,591</u> | <u>\$19,619,780</u> |

*Remove Health Services Group, LLC from beginning surplus: \$27,591. (Note 3)

Analysis of Changes in Financial Statements Resulting From Examination

There were no adjustments made to surplus in the Report of Examination.

NOTES TO FINANCIAL STATEMENTS

Note (1) Properties held for sale \$527,000

For the years under examination, the Company had a waiver from the Idaho Department of Insurance from the requirement to dispose of the property reported as "Properties held for sale" as set forth in Idaho Code § 41-729.

Note (2) Claims unpaid \$2,062,000
 Unpaid claims adjustment expenses 133,514
 Aggregate health policy reserves, including the liability of \$0 for
 medical loss ratio rebate per Public Health Service Act 228,186

Anne L. Treankler, FSA, MAAA, Vice President, Actuarial & Underwriting, with Delta Dental of Wisconsin, examined the assumptions and methods used in determining loss reserves, actuarial liabilities, and related items as of December 31, 2015. In Ms. Treankler's opinion, the amounts carried in the balance sheet:

- Are in accordance with the accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles;
- Are based on actuarial assumptions relevant to contract provisions and appropriate to the purpose for which the statement was prepared;
- Meet the requirements of the insurance laws and regulations of the State of Idaho (domicile) and are at least as great as the minimum aggregate amounts required by any state in which this statement is filed;
- Make a good and sufficient provision for all unpaid claims and other actuarial liabilities of the organization under the terms of its contracts and agreements;
- Are computed on the basis of assumptions and methods consistent with those used in computing the corresponding items in the annual statement of the proceeding year-end; and
- Include appropriate provision for all actuarial items that ought to be established.

Note (3) Aggregate write-ins for gains or (losses) in surplus \$27,591

As previously reported, HSG is a wholly owned subsidiary of the Company. The financial statements for the Company were reported as the consolidated results of both the parent and subsidiary in 2014. Surplus was adjusted to eliminate HSG from the Company's 2015 beginning surplus balance. Therefore, the 2015 financial statements reflect only the Company as required by the Idaho Department of Insurance.

COMMENTS AND RECOMMENDATIONS

Compliance with Annual Statement Instructions

Pursuant to Idaho Code § 41-210(4), the Department issues a bulletin every year to adopt the use of the revised Accounting Practices and Procedures manual of the NAIC (SSAP). Idaho Code § 41-335 requires every authorized insurer to file with the Director a full and true statement of its affairs prepared in accordance with the NAIC Annual Statement Instructions. According to SSAP Number 1, Paragraph 11, the financial statements shall include an explanation that the preparation of financial statements is in conformity with the annual statement instructions.

The Company did not properly complete Schedule BA - Verification Between Years. The Company responded "NONE" to this schedule. However, the Company owns 100 percent of Health Services Group, LLC at year-end 2015.

In addition, the Company did not prepare Schedule BA - Part 1 pursuant to NAIC Annual Statement Instructions. The Company did not report fair market value in column 11 or book value in column 12. According to the HSG's trial balance, the total equity at year-end 2015 was (\$36,262.04). However, the Company has indicated the valuation is \$0 due to the negative equity. Therefore, the Company should treat HSG as a nonadmitted asset pursuant to SSAP Number 4 and report it as a nonadmitted asset throughout the Annual Statement including the Assets page, the Exhibit of Nonadmitted Assets, and Schedule BA - Verification Between Years.

Furthermore, the Company erroneously presented the gain or loss on ASC business in Note 17 (2)c in the 2015 Annual Statement. According to the NAIC Annual Statement Instructions, this information should be presented in Note 18, Gain or Loss to the Reporting Entity From Uninsured A&H Plans and Uninsured Portion of Partially Insured Plans.

Based on the examination findings, the Company is not in compliance with Idaho Code § 41-335, SSAP Number 1, Paragraph 11, and the NAIC Annual Statement Instructions.

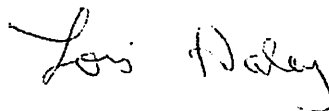
It is recommended the Company properly complete Schedule BA - Verification Between Years, Schedule BA - Part 1, the Assets Page, and the Exhibit of Nonadmitted Assets in accordance with the instructions set forth within the NAIC Annual Statement Instructions in compliance with Idaho Code § 41-335 and SSAP Number 1, Paragraph 11.

It is also recommended the Company properly complete Notes 17 and 18 of the Annual Statement in accordance with the instructions set forth within the NAIC Annual Statement Instructions in compliance with Idaho Code § 41-335 and SSAP Number 1, Paragraph 11.

ACKNOWLEDGEMENT

The undersigned acknowledges the assistance and cooperation extended during the course of the examination by representatives of the Company.

Respectfully submitted,

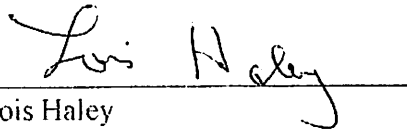
A handwritten signature in black ink, appearing to read "Lois Haley". The signature is fluid and cursive, with the first name "Lois" and last name "Haley" clearly distinguishable.

Lois Haley, CFE
Examiner-in-Charge
Representing the Idaho Department of Insurance

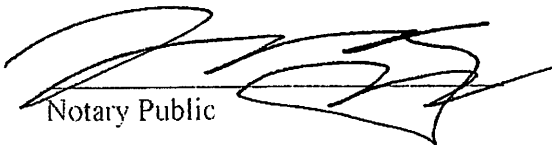
AFFIDAVIT OF EXAMINER

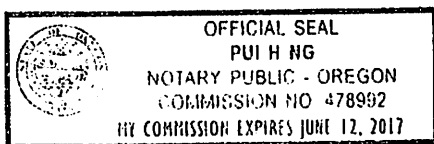
State: Oregon
County: Multnomah

Lois Haley, being duly sworn, deposes and says that she is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that he has made an examination of the affairs and financial condition of Delta Dental of Idaho, Inc. for the period from January 1, 2011 through December 31, 2015, that the information contained in the report consisting of the foregoing pages is true and correct to the best of her knowledge and belief, and that any conclusions and recommendations contained in this report are based on the facts disclosed in the information.


Lois Haley
On behalf of Idaho Department of Insurance

Subscribe and sworn to before me the 30th day of March, 2017, at Portland, Oregon.


Notary Public



My Commission Expires: 06/12/2017

C.L. "BUTCH" OTTER
Governor

State of Idaho
DEPARTMENT OF INSURANCE

700 West State Street, 3rd Floor
P.O. Box 83720
Boise, Idaho 83720-0043
Phone (208)334-4250
Fax (208)334-4398
Website: <http://www.doi.idaho.gov>

DEAN L. CAMERON
Director

RECEIVED
2017 APR 10 AM 9:43
STATE OF IDAHO
DEPT OF INSURANCE

WAIVER

In the matter of the Report of Examination as of December 31, 2015, of the

DELTA DENTAL OF IDAHO, INC.
555 E Parkcenter Blvd.
Boise, Idaho 83706

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 30th day of March 2017, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, the Company also hereby waives:

1. its right to examine the report for up to thirty (30) days as provided in Idaho Code section 41-227(4),
2. its right to make a written submission or rebuttal to the report prior to entry of a final order as provided in Idaho Code section 41-227(4) and (5),
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 5 day of April, 2017

DELTA DENTAL OF IDAHO, INC.

Greg Donaca

Name (print)

Greg Donaca

Name (signature)

CFO

Title

