



**DEPARTMENT OF INSURANCE, FINANCIAL  
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

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

RE: Examination Report of Advantica Dental Benefits, Inc. for the period ended December 31, 2014

**ORDER**

After full consideration and review of the report of the financial examination of Advantica Dental Benefits, Inc. for the period ended December 31, 2014, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pensions, stock ownership and insurance plans, territory and plan of operation, growth of company, loss experience, reinsurance, accounts and records, statutory deposits, financial statements, comments on the financial statements, and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Advantica Dental Benefits, Inc. as of December 31, 2014 be and is hereby ADOPTED as filed and for Advantica Dental Benefits, Inc. to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on the Financial Statements and/or Summary of Recommendations section of such report; and (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 11<sup>th</sup> day of March, 2016.



A handwritten signature in blue ink, appearing to read "John M. Huff", is written over a horizontal line.

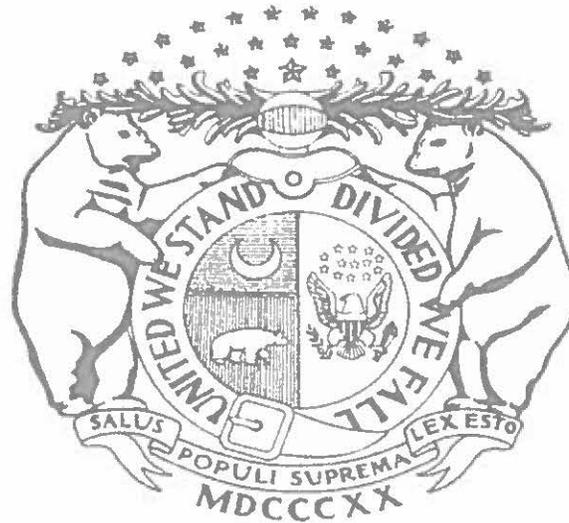
John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF  
FINANCIAL EXAMINATION

**Advantica Dental Benefits, Inc.**

As of:  
DECEMBER 31, 2014

**FILED**  
MAR 21 2016  
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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January 6, 2016

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

Director Huff:

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

**Advantica Dental Benefits, Inc.**

hereinafter referred to as such or as "ADB" or as the "Company." The Company's statutory home office is located at 9735 Landmark Parkway Drive, Suite 14, St Louis, MO 63127, telephone number (314) 543-4900. This examination began on April 6, 2015, and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

We have performed a multi-state examination of ADB. The last examination of ADB was completed as of December 31, 2009. This examination covers the period of January 1, 2010 through December 31, 2014, and material transactions or events occurring subsequent to December 31, 2014.

**Procedures**

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook), except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration (DIFP) or statutes of the State of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating systems controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and Annual Statement Instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examiners relied upon information and workpapers provided by the Company's independent auditor, BKD LLP, for its audit covering the period from January 1, 2014, through December 31, 2014, and its Independent Service Auditor's Reports for Delta Dental of Missouri (DDMO), and DeniServ, LLC. Such reliance included fraud risk analysis, internal control narratives and tests of internal controls.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings.

### **SUBSEQUENT EVENTS**

There were no significant subsequent events.

### **COMPANY HISTORY**

#### **General**

Advantica Dental Benefits, Inc. was incorporated under the provisions of the General and Business Corporation Laws of Missouri on June 6, 1994, as Premier Dental Plan, Inc. On November 7, 1994, the Missouri Department of Insurance issued the Company a certificate of authority to operate as a prepaid dental plan pursuant to Sections 354.700 to 354.723 RSMo (Prepaid Dental Plans). The name of the Company was changed to BJC Dental Plan, Inc. on February 27, 1996. On December 31, 2002, BJC Dental Plan, Inc. entered into an agreement to be acquired by Delta Dental Plan of Missouri. The articles of incorporation were amended on January 21, 2004 to change the name to Essex Dental Benefits, Inc. In 2010, the Company's name was changed to Advantica Dental Benefits, Inc.

#### **Capital Stock**

The Company has two classes of common stock. There are 100,000 authorized shares split equally between Class A (voting stock) and Class B (non-voting stock), both with a \$1 par value. Ten shares of Class A stock are issued and outstanding and 49,990 shares of Class B stock were issued in a stock dividend in 2006, and remain outstanding for a total common capital stock account of \$50,000.

Capital contributions made in January 2003, February 2005, and March 2010 in the amounts of \$1,300,000, \$500,000, and \$500,000 respectively, and a June 2012 reduction of \$300,000 in the form of an extraordinary dividend/return of capital comprise the Company's current contributed capital balance of \$2,000,000.

#### **ACA impact on Special Surplus Funds**

On January 1, 2015, the Company was subject to an annual fee under Section 9010 of the Federal Affordable Care Act (ACA). This amount was reflected as a write-in for special surplus funds of \$199,532 at December 31, 2014.

#### **Dividends**

The Company has paid no ordinary dividends.

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

During calendar year 2012, DDMO, the ultimate controlling entity, restructured its subsidiary organizations to streamline services and achieve cost efficiencies. Advantica Administrative Services (AAS), Advantica Dental Benefits, Inc. (ADB), Advantica Insurance Company (AIC), and DeniServ, LLC are now wholly owned subsidiaries of Advantica Holding Company. Advantica Benefits, Inc., and Allied EyeCare, LLC were merged with and into AAS. AAS is now the parent of Advantica Administrative Services-New York IPA, Inc., Advantica EyeCare IPA of New York, Inc., Advantica, Inc. and Advantica Reinsurance Company, LTD.

### **Surplus Debentures**

No surplus debentures were issued or outstanding during the examination period.

## **CORPORATE RECORDS**

The Company's articles of incorporation and bylaws were reviewed. The Company amended its articles of incorporation on May 24, 2010, to change the name of the Company from Essex Dental Benefits, Inc. to Advantica Dental Benefits, Inc.

The Company made the following revisions to the bylaws effective June 13, 2011.

- Company name was changed from Essex Dental Benefits, Inc. to Advantica Dental Benefits, Inc.
- Section 4.2 – revised to state the President rather than Chairman shall call shareholder meetings to order.
- Section 6.1 – revised the minimum number of board members to 1 from 2.
- Section 6.6 – revised to allow the President or board majority to call special meetings of the board rather than the Chairman or two board members.
- Section 6.9 – revised to remove language setting a minimum requirement for the number of members on board committees.
- Article 7 and 8– revised to remove references to the Chairman and Vice Chairman of the board in discussion of officers and their duties.

The joint unanimous written consents of the board of directors and sole shareholders (in lieu of special meetings) were reviewed and appear to properly support and approve the corporate transactions and events for the period under examination.

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

The management of the Company is vested in a board of 1 director authorized by the Company's articles of incorporation and bylaws. The director serving at December 31, 2014, was as follows:

#### **Name and Address**

David W. Haynes  
Saint Louis, MO

#### **Principal Occupation and Business Affiliation**

President & CEO  
Delta Dental of Missouri

Subsequent to the examination period, on August 18, 2015, Rob Goren was named the new President and Chief Executive Officer effectively immediately. Rob Goren also replaced David Haynes as the director of Advantica Dental Benefits, Inc.

### Officers

The officers of the Company serving and reported on the Jurat page of the Annual Statement at December 31, 2014, were as follows:

<u>Name</u>	<u>Position</u>
David W. Haynes	President
Barbara C. Bentrup	Secretary & Treasurer

On July 9, 2015, David Haynes announced he was leaving the Company by December 31, 2015. On August 18, 2015, Rob Goren was named the new President and Chief Executive Officer effectively immediately. Rob Goren also replaced David Haynes as President of Delta Dental of Missouri. Goren had previously served as chief actuary and senior vice-president of business development for Delta Dental of Missouri.

### Committees

The Company has no established committees of its own, instead relying on the committees of the ultimate parent, Delta Dental of Missouri. The various committees of the board established by Delta Dental of Missouri at December 31, 2014, are as follows.

#### Executive Committee

Dr. Guy P. Bates, Chairperson  
Dr. Ollie Fisher  
Mrs. Dee A. Joyner  
Mr. Richard W. Braun  
Mr. Brian W. Berglund  
Mr. David Haynes  
Dr. Ed Robison  
Staff Liaison – Mrs. Janice Lees

#### Compensation Committee

Mr. Brian W. Berglund, Chairperson  
Mr. H.R. Redohl  
Dr. Robert M. Tait  
Mr. Richard W. Braun  
Staff: Ms. Jane Stanhaus

#### Finance and Audit Committee

Mr. Richard W. Braun, Chairperson  
Mrs. Dee A. Joyner  
Mr. Brian W. Berglund  
Dr. Ollie C. Fisher  
Mr. James F. Hoffmeister  
Staff Liaison – Mrs. Barbara Bentrup

#### Governance/Nominating Committee

Mr. Mick Redohl, Chairperson  
Mr. Brian W. Berglund  
Dr. Ollie Fisher  
Mr. Richard W. Braun  
Mrs. Dee A. Joyner  
Mr. Jim Sandfort  
Staff: Mrs. Janice Lees

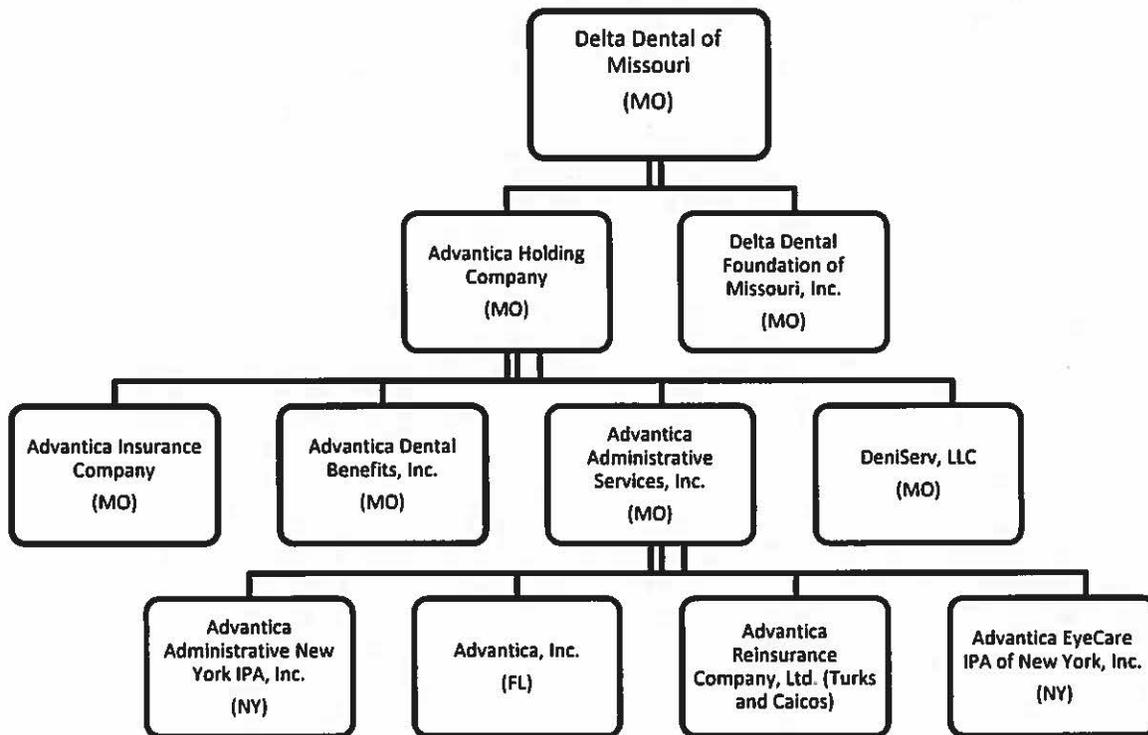
Subsequent to the examination period, in 2015, substantial changes occurred in these committees as a result of the board elections, and the replacement of David Haynes as noted above.

**Holding Company, Subsidiaries and Affiliates**

The Company is part of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The Company is a wholly owned subsidiary of Advantica Holding Company, which in turn is wholly owned by Delta Dental of Missouri, the ultimate controlling entity of the holding company system.

**Organization Chart**

The following organizational chart depicts the Company within the current holding company system. All subsidiaries shown are wholly owned.



**Affiliated Transactions**

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

Intercompany Services Agreement between DDMO and its direct and indirect subsidiaries, effective November 1, 2010, was non-disapproved by DIFP on June 30, 2011. An amendment to update the parties was approved December 11, 2012. Parties agree to supply and receive certain management and support services at cost.

Intercompany Tax Allocation Agreement between all Advantica Holding Company subsidiaries effective December 1, 2010, was non-disapproved by DIFP on December 10,

2010. An amendment to update the parties was approved on December 11, 2012. Each party has agreed to file consolidated federal and state income tax returns for the taxable period ending December 31, 2010, and any subsequent taxable periods for which they are permitted to file a consolidated tax return.

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

The Company is a named insured on a financial institution bond purchased by its parent, Delta Dental of Missouri. The bond provides \$1,000,000 in coverage with a \$10,000 deductible. This coverage meets the minimum amount of fidelity insurance recommended by the NAIC.

The Company is also a named insured on policies that provide the following coverages: property, general and excess, auto, directors and officers, fiduciary, and workers' compensation. The Company's insurance coverages appear adequate.

#### **PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company has no employees. Services are provided by affiliates under service agreements described under "Affiliated Transactions." Affiliates' employees are provided benefits typical of the industry including various types of leave, holidays, a cafeteria plan, group life, short-term disability, long-term disability, an employee group health plan, educational assistance, incentive plans, a 401(k) savings plan, and a defined contribution retirement plan. In addition, the Company has a nonqualified, defined benefit, deferred compensation plan for its officers.

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

The Company is licensed as a prepaid dental under Chapter 354 RSMo (Health Service Corporations – Health Maintenance Organizations - Pre-paid Dental Plans). ADB operates in Missouri only.

ADB provides dental insurance benefits to employer groups headquartered in the state of Missouri. These groups pay a fee to ADB and, in turn, ADB pays dental claims for their employees.

The majority of the Company's enrollees are covered by PPO contracts under which covered benefits are provided for pre-designated co-payment fees. ADB also provides coverage to a small number of group enrollees through an indemnity coverage contract.

## GROWTH OF COMPANY

Premiums dropped significantly in 2011 as the Company focused on the small group market and did not renew underperforming groups. Premiums continued to drop in 2012 as the Company continued the non-renewal of underperforming groups.

<u>Year</u>	<u>Direct Premium Written</u>	<u>Capital and Surplus</u>	<u>Direct Premium Written to Capital and Surplus</u>
2014	\$16,386,526	\$ 2,293,806	714%
2013	15,320,510	2,306,821	664%
2012	16,062,512	2,731,753	588%
2011	28,833,252	3,008,924	958%
2010	32,932,723	2,695,612	1222%

## LOSS EXPERIENCE

The following exhibit reflects the Company's claims unpaid and medical experience over the examination period. The drop in both medical benefits and number of claims unpaid in 2011 and 2012, was directly related to the changes in business written as noted above in "Growth of Company."

<u>Year</u>	<u>Claims Unpaid</u>	<u>Medical Benefits</u>
2014	\$ 666,000	\$ 13,633,735
2013	635,000	13,021,766
2012	635,000	13,629,353
2011	795,000	24,070,206
2010	1,325,000	27,917,623

## REINSURANCE

The Company does not assume or cede reinsurance.

## ACCOUNTS AND RECORDS

### General

The Company's financial statements were prepared using Sage MAS 500 financial accounting software.

Reserves and related actuarial items as of December 31, 2014, were reviewed and certified by F. Ray Martin, FSA, MAAA, president and owner of MarACon, LLC.

The Company maintains its employer, member and provider data on the aQDen claims processing system and related applications. aQDen is a client-server based application developed to manage benefits, members, enrollments, providers, predeterminations,

dental claims, account reconciliation, commissions, invoicing and check/explanation of benefit processing.

**Independent Auditor**

The Company's financial statements for the period January 1, 2014 to December 31, 2014, were audited by BKD LLP, Certified Public Accountants. The workpapers and reports of the most recent independent audit were reviewed for this examination. These workpapers and reports were used in the course of this examination as deemed appropriate.

**Information Systems**

In conjunction with this examination, Andrew Balas, AES, Information Systems Financial Examiner with the DIFP, conducted a review of the Company's information systems. His evaluation did not identify any significant weaknesses.

**STATUTORY DEPOSITS**

**Deposits with the State of Missouri**

The funds on deposit with the Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2014, as reflected below, were sufficient in par and market value to meet the deposit requirement in accordance with Section 354.707 RSMo (Capital, surplus, security required).

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Belton MO School District Bond	\$50,000	\$52,290	\$50,352

**Deposits with Other States**

The Company has no funds on deposit with other states.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the DIFP and present the financial condition of the Company for the period ending December 31, 2014. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on the Financial Statements." These differences, if any, were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

## ASSETS

	Assets Current Year	Nonadmitted Assets Current Year	Net Admitted Assets Current Year
Bonds	\$ 2,014,933	\$ 0	\$ 2,014,933
Cash and short-term investments	1,382,841	0	1,382,831
Subtotal – Cash and invested assets	3,397,774	0	3,397,774
Investment income due and accrued	1,344	0	1,344
Uncollected premiums and agent's balances	63,186	0	63,186
Amounts receivable relating to uninsured plans	85,989	0	85,989
Totals	<u>\$ 3,548,293</u>	<u>\$ 0</u>	<u>\$ 3,548,293</u>

## LIABILITIES, SURPLUS AND OTHER FUNDS

Claims unpaid	\$ 666,000
Unpaid claims adjustment expenses	31,750
Premiums received in advance	146,795
Amounts withheld or retained on account of others	12,739
Amounts due to parent, subsidiaries and affiliates	<u>397,203</u>
<b>Total liabilities</b>	<b>\$ 1,254,487</b>
Provision for ACA Tax	199,532
Common capital stock	50,000
Gross paid-in and contributed surplus	2,000,000
Required statutory surplus	150,000
Unassigned funds	<u>(105,726)</u>
Total capital and surplus	<u>\$ 2,293,806</u>
<b>Totals</b>	<b><u>\$ 3,548,293</u></b>

## STATEMENT OF INCOME

Net premium income	\$ 16,386,526
<b>Total revenues</b>	<b>\$ 16,386,526</b>
Hospital/medical benefits	13,633,735
Claims adjustment expenses	1,068,081
General administrative expenses	1,671,440
<b>Total underwriting deductions</b>	<b>\$ 16,373,256</b>
Net underwriting gain (loss)	\$ 13,270
Net investment income earned	18,947
Net realized capital gains (losses) less capital gains tax	0
Net investment gains (losses)	<b>\$ 18,947</b>
Net income before taxes	\$ 32,117
Federal and foreign income taxes incurred	<b>\$ 56,952</b>
<b>Net income (loss)</b>	<b>\$ (24,825)</b>

## CAPITAL AND SURPLUS RECONCILIATION

<b>Capital and surplus December 31, 2009</b>		<u>\$1,829,246</u>
Net income or (loss) for the year	\$ 326,775	
Change in non-admitted assets	39,591	
Paid-in surplus	<u>500,000</u>	
Net change in capital and surplus	<u>(\$ 866,366)</u>	
<b>Capital and surplus December 31, 2010</b>		<u>\$2,695,612</u>
Net income or (loss) for the year	\$ 327,102	
Change in non-admitted assets	(13,790)	
Paid-in surplus	<u>0</u>	
Net change in capital and surplus	<u>\$ 313,312</u>	
<b>Capital and surplus December 31, 2011</b>		<u>\$3,008,924</u>
Net income or (loss) for the year	\$ (11,898)	
Change in non-admitted assets	34,727	
Paid-in surplus	<u>(300,000)</u>	
Net change in capital and surplus	<u>\$ (277,171)</u>	
<b>Capital and surplus December 1, 2012</b>		<u>\$2,731,753</u>
Net income or (loss) for the year	\$ (450,038)	
Change in non-admitted assets	25,106	
Paid-in surplus	<u>0</u>	
Net change in capital and surplus	<u>\$ (424,932)</u>	
<b>Capital and surplus December 31, 2013</b>		<u>\$2,306,821</u>
Net income or (loss) for the year	\$ (24,825)	
Change in non-admitted assets	11,810	
Paid-in surplus	<u>0</u>	
Net change in capital and surplus	<u>\$ (13,015)</u>	
<b>Capital and surplus December 31, 2014</b>		<u>\$2,293,806</u>

### **COMMENTS ON THE FINANCIAL STATEMENTS**

There are no comments on the financial statements.

### **SUMMARY OF RECOMMENDATIONS**

There are no recommendations.

