



STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON EXAMINATION
OF THE
DELTA DENTAL OF TENNESSEE

(NAIC # 54526)

NASHVILLE, TENNESSEE 37228

AS OF
DECEMBER 31, 2012

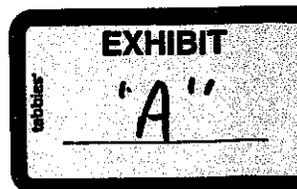


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Nashville, Tennessee
February 12, 2014

Honorable Julie Mix McPeak
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tenn. Code Ann. § 56-30-118, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a full-scope financial examination and market conduct review has been made of the condition and affairs of:

DELTA DENTAL OF TENNESSEE

NAIC # 54526
240 Venture Circle
Nashville, Tennessee 37228

hereinafter generally referred to as the "Company" and a report thereon is submitted as follows:

INTRODUCTION

This examination was called by the Tennessee Department of Commerce and Insurance (TDCI) on January 22, 2013. On-site examination work commenced on March 11, 2013. With the Company having authority to write business only in the State of Tennessee, the examination was not classified as a coordinated association examination under NAIC Guidelines. The examination was performed by duly authorized representatives of the TDCI.

SCOPE OF EXAMINATION

The last examination of the Company was completed as of December 31, 2007. This examination report covers the period from January 1, 2008 through December 31, 2012, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination was conducted in accordance with the *NAIC Financial Condition Examiners Handbook* and practices and procedures of the TDCI. The examination was planned and performed 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 included 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 consistent with Tennessee statutes and regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Independent actuaries were used in the review of the Company's reserves.

COMPLIANCE WITH PREVIOUS EXAMINATIONS FINDINGS

The previous examination report made two recommendations which were incorporated as Directives pursuant to Commissioner's Order No.: 09-22. They are as follows:

1. The Company is directed to comply with Tenn. Code Ann. § 56-1-501(g) by ensuring that stock and bond purchases are properly recorded in order to prepare its financial statements in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures Manual.
2. The Company is further directed to comply with Tenn. Code Ann. § 56-30-112(7) by continuing to annually accumulate contingency reserves as required, and list this item on a segregated basis on its financial statements.

The Company implemented control procedures in order to comply with both directives and it appears that they are now in compliance.

COMPANY HISTORY

The Company was incorporated on September 20, 1965, as the Tennessee Dental Service Corporation. It was organized pursuant to the "Dental Service Plan Law, 1961," Tenn. Code Ann. § 56-30-101 et seq. The Company was issued a Certificate of Authority on July 17, 1969, to commence the business of a dental service plan. On October 6, 1970, the Company's name was changed to Delta Dental Plan of Tennessee. The Company formed Delta Dental Service, a nonprofit corporation, on

February 19, 1993. Effective June 29, 1993, Delta Dental Service and the Company merged and Delta Dental Plan of Tennessee became the surviving corporation.

Effective March 12, 2005, the Company changed its name to Delta Dental of Tennessee. A new Certificate of Authority was issued by the TDCI on August 2, 2005, authorizing the Company to transact the business of a "Nonprofit Dental Service Plan Corporation."

MANAGEMENT AND CONTROL

MANAGEMENT

The Company is not considered to be party to an insurance holding company system as defined by Tenn. Code Ann. § 56-11-101(b)(7)(D)(2008). The referenced statute notes that "insurance company" does not include "nonprofit dental service corporations." Additionally, a nonprofit dental plan is not subject to insurance statutes unless expressly provided in Tenn. Code Ann. § 56-30-103, which provides in part:

"...The laws of this state relative to insurance companies or to the business of insurance, and acts in amendment of the laws or in addition to the laws, do not apply to any nonprofit dental service corporation unless expressly so provided in the laws or acts."

The Company's Bylaws state "that the business and affairs of the Company shall be directed by a Board of Directors consisting of not less than thirteen (13) or more than seventeen (17) directors."

As of December 31, 2012, the Board was composed of the following:

<u>NAME</u>	<u>ADDRESS</u>	<u>OCCUPATION</u>
Dr. Paul Bacon	Cleveland, TN	Dentist
Dr. Bruce Baird*	Sewanee, TN	Dentist
Mr. Andrew Beasley	Brentwood, TN	Realtor
Dr. Victor Beck	Columbia, TN	Dentist
Dr. Dan Bottomley	Greeneville, TN	Dentist
Mr. L. C. Burkhalter	Collierville, TN	Retired Businessman
Mr. John R. Collier, Jr.	Columbia, TN	Vice President, Hospital
Dr. Terence R. Comar	Portage, MI	Dentist
Ms. Jerre Harris	Hernando, MS	Retired Benefits Director
Dr. Wayne L. Johnson*	Lebanon, TN	Dentist
Dr. David C. Morton	Clarksville, TN	Dentist
Dr. Joseph F. Rainey	Clinton, TN	Dentist

<u>NAME</u>	<u>ADDRESS</u>	<u>OCCUPATION</u>
Dr. Carmen Reagan	Clarksville, TN	Retired Professor
Mr. Drew Robinson	Cleveland, TN	Assistant District Attorney
Mr. Leslie Sellers	Clinton, TN	Realtor
Dr. James E. Sexton	Germantown, TN	Dentist
Dr. Campbell Sowell, Jr.	Culleoka, TN	Dentist
Ms. Laura O. Stearns	East Lansing, MI	Vice President, Charitable Organization
Dr. Philip Wenk*	Nashville, TN	Chief Executive Officer

*Ex-officio Board Members

BOARD COMMITTEE ASSIGNMENTS

Executive and Compensation Committee

Dr. Campbell Sowell, Jr.	Chairman of the Board
Mr. Leslie Sellers	Vice Chairman
Dr. Victor Beck, Jr.	Secretary/Treasurer
Mr. John Collier, Jr.	Immediate Past Chairman

Audit and Finance Committee

Victor Beck, Chair
Terry Comar
Mr. Leslie Sellers
L.C. Burkhalter
Andy Beasley

Nominating Committee

Mr. Drew Robinson, Chair
Dr. James E. Sexton
Dr. Bruce Baird
Mr. John Collier, Jr.

Investment Committee

Mr. J. Thomas Perry, Chair
Mr. Andrew Beasley
Mr. Bob Perry
Dr. Philip A. Wenk

Quality Assurance & Improvement Committee

Ms. Jerre Harris, Chair
Dr. Paul Bacon
Ms. Laura Stearns
Dr. Philip A. Wenk
Ms. Kathy Fussell
Ms. Melissa Huschke
Mr. Tom Perry

Disputed Claims Appeal Committee

Dr. Joseph Rainey, Chair
Dr. Wayne Johnson
Mr. Drew Robinson

Corporate Citizenship Committee

Dr. Carmen Reagan, Chair
Dr. Philip A. Wenk
Ms. Missy Acosta
Ms. Pamela R. Dishman

As of December 31, 2012, the following persons held office in the Company:

Dr. Philip A. Wenk	President
Mr. J. Thomas Perry	Senior Vice President and CFO
Ms. Donna K. Martin	Senior Vice President
Ms. Pamela R. Dishman	Senior Vice President
Ms. Michelle Acosta	Vice President
Mr. Donald L. Beaty	Vice President
Ms. Melissa A. Huschke	Vice President
Mr. Jerry R. Reavis	Vice President
Ms. Shanda Brown	Vice President
Mr. Louis F. Turbeville	Controller
Ms. Kathy Fussell	Regulatory Compliance Controller

The administrative and executive functions of the Company are performed by the home office staff.

At December 31, 2012, the Company retained the following professional services:

Auditing Services: Plante & Moran, PLLC
1111 Michigan Avenue, Suite 100
East Lansing, Michigan 48823

Legal Services: Waller Lansden Dortch & Davis
511 Union Street, Suite 2700
Nashville, Tennessee 37219

Actuarial Services: Delta Dental Plan of Michigan
P.O. Box 30416
Lansing, Michigan 48909

CONTROL

Control of the Company is vested in its members pursuant to Tenn. Code Ann. § 56-30-103. The sole member for the Company is Renaissance Health Service Corporation (RHSC or Member), which is a Michigan Non-Profit Corporation that also is the sole member of other Delta Dental Plans located in other states. A further discussion of the relationship is contained under the heading "Transactions with Affiliates."

The TDCI approved the Irrevocable Proxy of RHSC on February 13, 2006, stating that RHSC was not considered to control the Company or Delta Dental Plan of Michigan under Tenn. Code Ann. § 56-11-101(b)(3)(2008). Based upon this interpretation, indirect control rests with the Board of the Company.

Dividends

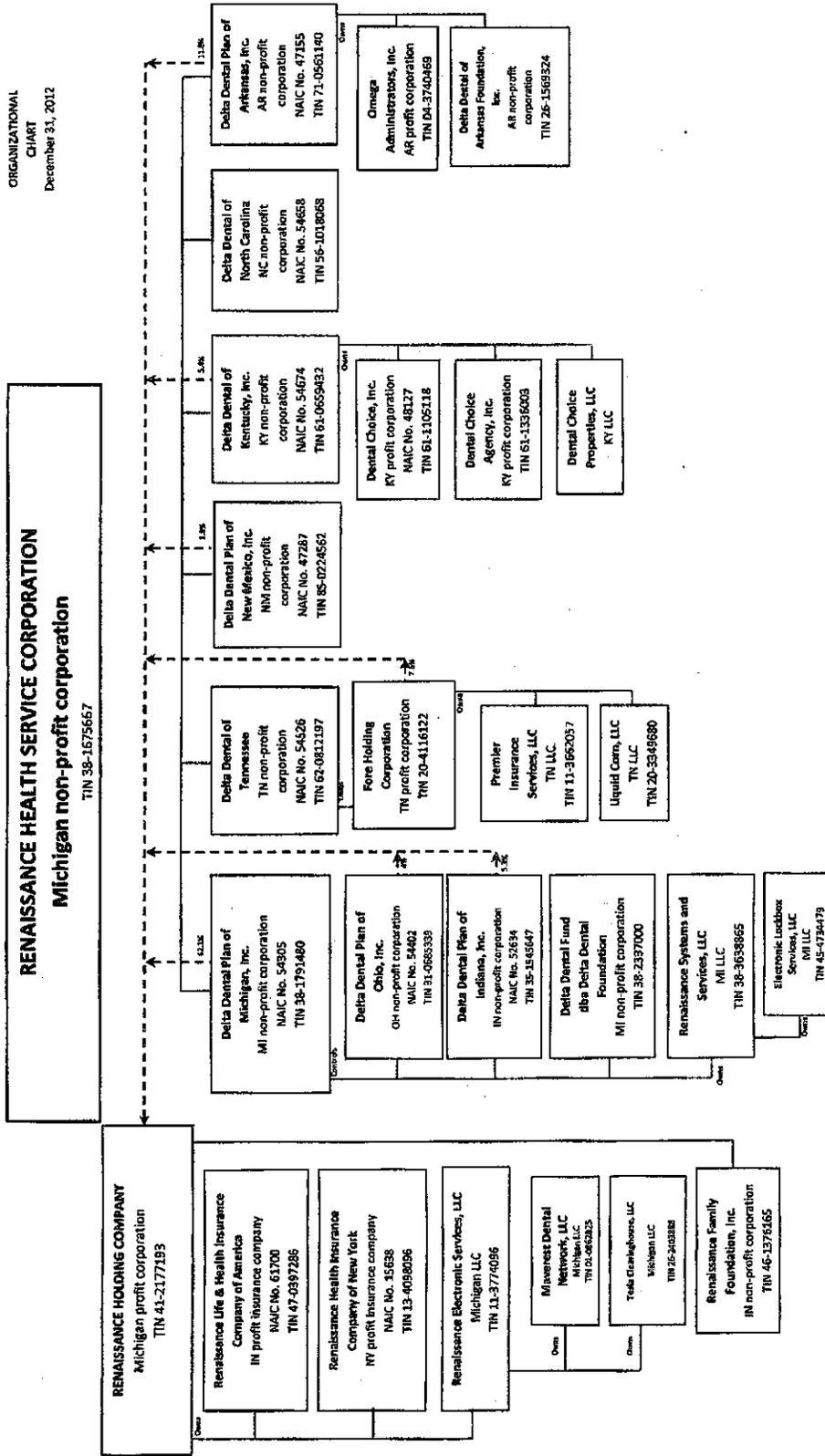
No dividends or distributions have been paid to the Member since the inception of the Company.

PECUNIARY INTEREST AND CONFLICTS OF INTEREST

The Company has a conflict of interest policy for its directors, officers and responsible employees, which was adopted effective September 24, 2004, prohibiting officers and directors from having pecuniary interest in the investment or disposition of Company funds. The directors, officers and responsible employees file annual conflict of interest statements. These statements were reviewed for the period under examination. No exceptions were noted.

ORGANIZATIONAL CHART

ORGANIZATIONAL CHART
December 31, 2012



CORPORATE RECORDS

Minutes of meetings of the Board of the Company were reviewed for the period under examination as well as minutes for meetings of various committees. In general, such minutes appear to be in proper order and accurately report the proceedings of each respective meeting.

Charter

The Company's original charter was filed and recorded with the Tennessee Secretary of State on September 20, 1965. The original charter was amended and restated on June 29, 1993, pursuant to Title 48, Chapter 61 of the Tennessee Nonprofit Corporation Act. The restated charter established the Company as a nonprofit public benefit corporation and states that the purpose for which the Company is formed is "to operate a dental service plan in accordance with Tennessee's Dental Service Plan Law, 1961, and to conduct any other lawful business." The charter established that the Company would have membership. Additionally, the charter recites other general and specific powers in detail. These are usual in nature and consistent with statute.

On September 27, 1996, an amendment to the Company's charter was filed for the purpose of changing the name of the Company and changing the address to its current address at 240 Venture Circle, Nashville, Tennessee.

At a special called meeting of the Member held on March 12, 2005, the membership voted to change the name of the Company to Delta Dental of Tennessee. The name change was approved by the TDCI on June 20, 2005. The amended charter was filed with the Secretary of State of June 29, 2005.

Bylaws

The Bylaws of the Company in effect at December 31, 2012, were approved by the Board on March 26, 2010.

The Bylaws establish the rules which regulate the affairs of the Company. Said Bylaws contain thirteen articles which govern the conduct and duties of its sole corporate member, directors and officers.

The Bylaws provide for an annual meeting of the Member, at which time a Board is elected. Officers are elected by the Board at the Board meeting following any meeting of the Member.

The Bylaws are such as those generally found in corporations of this type and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company's officers, directors and members. The Bylaws may be repealed or amended by an affirmative vote of two-thirds of the Board.

TRANSACTIONS WITH AFFILIATES

AFFILIATION AGREEMENT

In late 2005, the Company entered an Affiliation Agreement with Delta Dental Plan of Michigan, Inc. (DDPMI), a Michigan nonprofit corporation, and Dental Health Plan, Inc. (subsequently renamed "Renaissance Health Services Corporation," or RHSC), a Michigan nonprofit corporation. The agreement was amended on August 23, 2008, as part of an effort to make the individual affiliation arrangements of each Affiliated Delta Dental Company consistent. In general, the purpose of the affiliation is to enable the companies to achieve certain long-term goals such as improved operational efficiencies, and to allow for diversification through other affiliated for-profit companies.

RHSC is the sole voting member of the Company and DDPMI. Under the terms of the Affiliation Agreement, the Company remains a separate corporation with a separate board of directors. The Board of the Company will continue to designate the CEO and approve the budget and investments. Additionally, the Company retains its voting rights in Delta Dental Plans Association (DDPA). RHSC has the right to nominate two individuals to serve as voting members on the Boards of DDTN and DDPMI.

DATA PROCESSING FRAUD DETECTION

Effective March 18, 2003, the Company entered into an agreement with DDPMI for Data Processing Services and related services for identifying suspected instances of dental health care fraud and abuse based on treatment and billing patterns. The agreement was for one year, and automatically renews each year unless 90 days advance written notice of intent to cancel is given by either party. Fees are based on hourly rates and all associated costs.

ADMINISTRATIVE SERVICES

Effective June 1, 2007, the Company entered into an agreement with Delta Dental Plan of Michigan (DDPMI) to provide computer services and related support allowing the Company to process dental claims. This agreement was amended effective February 1, 2008, to allow DDPMI to provide additional administrative services to the Company, and to state that the Company would pay the actual cost incurred and reasonably allocable

costs associated with the services provided.

Effective December 21, 2009, the Company and Renaissance Life and Health Insurance Company of America entered into an Agreement whereby each party would provide certain administrative services to the other as needed, and the recipient of such services would pay the actual cost incurred and reasonably allocable costs associated with the services provided.

ACTUARIAL SERVICES

Effective November 1, 2003, an agreement was entered into by and between DDPMI and the Company, whereby DDPMI provides actuarial and underwriting services, including the annual actuarial opinion.

FIDELITY BONDS AND OTHER INSURANCE

The Company is a named insured on a fidelity bond issued to its affiliate, RHSC. The Company has a separate single loss limit of coverage of \$500,000, with a deductible of \$1,000. Coverage is underwritten by Great American Insurance Company, which is licensed in Tennessee. Minimum fidelity bond coverage of \$700,000 is suggested by guidelines published in the NAIC *Financial Condition Examiners Handbook*. See "Comments and Recommendations" section of this report.

In addition, the Company is a named insured on Business Automobile, Workers' Compensation, Commercial General Liability, Umbrella Liability, Computer Crime for Financial Institutions, Managed Care Organization Errors and Omissions, and Healthcare Organizations Management Liability insurance policies issued to RHSC. All of the policies are written by insurers that are licensed in Tennessee.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

Profit Sharing Plan

The Company provides a profit-sharing plan for all eligible employees. The Company funds the plan at the rate of six (6) percent of the employee's annual salary. The contributions vest to the employee as follows:

<u>Years of Vested Service</u>	<u>Percentage Vested</u>
0-1	0%
2	20%
3	40%
4	60%
5	80%
6	100%

401(k) Plan

The Company offers a 401(k) deferred compensation plan for eligible employees. Employees may begin making contributions to this plan after completing one year of employment. The maximum amount that an employee can contribute is determined by federal law.

The company matches a portion of the employee's contribution in compliance with Safe Harbor guidelines. The Company is the administrator of the plan.

Life Insurance

The Company provides a life insurance policy for full-time employees effective the first working day of the month following 30 days of employment. This coverage is written through Standard Insurance Company, which is licensed in Tennessee.

Long-Term Disability Insurance

The Company provides long-term disability insurance coverage for its full time employees, at no cost to the employee. This coverage provides benefits to employees who become disabled while employed by the Company and is written through Standard Insurance Company.

Medical Insurance

The Company offers medical insurance for full-time employees on a contributory basis through BlueCross BlueShield of Tennessee, effective the first working day of the month following 30 days of employment. The employee is additionally offered the opportunity

of electing coverage for his or her spouse and/or dependents. BlueCross BlueShield is licensed in Tennessee as a "Tennessee Nonprofit Hospital and Medical Association."

Dental Insurance

The Company offers dental insurance for full time employees on a non-contributory basis through its own plans. The employee is offered the opportunity of electing coverage for his or her spouse and/or dependents on a contributory basis.

Longevity Pay Program

Employees who have completed at least three consecutive years of service with the Company will receive a lump sum payment at the rate of \$25.00 per year on the next pay day following their anniversary date.

Other Benefits

Other benefits available for employees include holidays, sick leave, vacation leave, service awards and educational assistance.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2012, and as of the date of this examination report, the Company was licensed to transact business only in the State of Tennessee. The Certificate of Authority was inspected.

During 2012, the Company wrote direct premium in only one state:

<u>State</u>	<u>Amount</u>
Tennessee	<u>\$108,964,759</u>
Total	<u>\$108,964,759</u>

Plan of Operation

The Company provides dental insurance to groups headquartered in Tennessee on a fully insured or self-funded basis. The self-funded groups are considered Administrative Services Only (ASO). During 2012, the Company received \$19,924,356 in administrative fee income from the ASO business for which it receives an agreed upon fee from the self-funded groups. The Company also offers dental insurance to individuals in Tennessee.

The Company offers two basic products: (1) Delta Premier – a fee-for-service product, and (2) Delta PPO Preferred Option – a discounted PPO product. The usual term of coverage is for one year and all accounts are billed on a monthly basis. The Company markets its products via direct sales by its internal marketing department and through independent agents. During the period under review and through the date of this report, all contract and subscriber certificate preparation was performed by the Company and was subject to the underwriting rules adopted by the Company and promulgated in accordance with approved rates. Claims are received from the providers at the Company's office by mail or electronic means.

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company since the previous examination, according to annual statements filed with the TDCI (\$000's omitted):

Annual Statement Date	Net Premium	Net Investment Income	Medical & Hospital Expenses	Claims & Admin. Expenses	Net Income	Net Assets	Total Surplus
12/31/2012	\$108,965	\$2,912	\$108,024	\$5,304	\$6,884	\$66,504	\$48,713
12/31/2011	105,080	1,942	103,675	5,919	5,834	59,955	42,203
12/31/2010	98,480	922	99,536	13,566	3,201	55,015	36,213
12/31/2009	92,320	1,043	93,994	10,257	1,946	46,030	34,196
12/31/2008	85,217	1,064	85,623	9,258	2,039	41,817	31,091
12/31/2007	82,205	1,278	82,283	8,804	3,645	41,728	31,784

LOSS EXPERIENCE

The loss experience for the period under examination, as developed from the Company's annual statements, was as follows:

<u>Year</u>	<u>Medical Expenses Incurred</u>	<u>Net Premiums Earned</u>	<u>Loss Ratio</u>
2012	\$108,023,957	\$108,964,759	99.1%
2011	103,675,488	105,080,411	98.7%
2010	99,536,304	98,480,273	101.1%
2009	93,993,622	92,320,211	101.8%
2008	<u>85,623,452</u>	<u>85,217,256</u>	<u>100.5%</u>
Total	<u>\$490,852,823</u>	<u>\$490,062,910</u>	<u>100.2%</u>

REINSURANCE

The Company was not a party to any reinsurance agreement at December 31, 2012. No reinsurance agreements have existed since the Company's inception. As no reinsurance agreements were in effect, no commission equity would exist.

ACCOUNTS AND RECORDS

During the course of the examination, accounts were verified by various tests and procedures deemed necessary to confirm values for assets and liabilities appearing in the Company's financial statements. All of the Company's investment securities were confirmed with the custodian of such securities as of the date of this examination. General ledger trial balances were reconciled with copies of annual statements for the years 2008, 2009, 2010, 2011 and 2012. Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations and status of the Company during the period under examination.

The Company's Risk Based Capital Report was reviewed. The Company was in compliance with Tenn. Code Ann. § 56-46-101, *et seq.* (Risk Based Capital for Insurers).

Books and records of the Company are kept at the home office location:

240 Venture Circle
Nashville, Tennessee 37228

STATUTORY DEPOSITS

As stated earlier in this report, the Company is not required to maintain a deposit with the TDCI based on the language contained in Tenn. Code Ann. § 56-30-103.

The Company is required to maintain a Contingency Reserve pursuant to Tenn. Code Ann. § 56-30-112 (7) which is to be accumulated at the rate of not less than 2.5 percent of net premium income annually. "When the contingency reserves equal seventy-five thousand dollars (\$75,000), or fifty-five percent (55%) of the annual premium income, whichever is higher, further accumulations may be discontinued for any length of time not required to meet the requirements of this subdivision (7)."

The Company has continued to accumulate funds annually as required by the statute and reported \$25,100,010 as "Aggregate write-ins for other than special surplus funds" in the 2012 annual statement, which represents the Contingency Reserve.

COMMITMENTS AND CONTINGENCIES

As of December 31, 2012, the Company has committed no reserves to cover any contingent liability. Various lawsuits against the Company have arisen in the normal course of business relating to insurance claims settlements. Contingent liabilities arising from litigation are not considered material in relation to the financial position of the Company.

MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Company as of December 31, 2012, in conjunction with this examination. The following items were addressed:

Policy Forms and Underwriting Practices

The examiners reviewed a sample of the policy forms that were used by the Company during the period of examination. Documentation was provided which noted filing with the TDCI prior to use as provided for in Tenn. Code Ann. § 56-30-106. The filings are consistent in form and include appropriate documentation.

Underwriting procedures and policy administration are consistent with Company guidance and conform to Tenn. Code Ann. § 56-8-104 and Tenn. Comp. R. & Regs. 0780-01-34. Group policies entered into the computer rating model by underwriting staff of the company was observed during the examination to verify consistency and compliance with statutory guidance.

The primary intention of underwriting for the individual product is to establish the attained age of the insured, number of dependents to be covered, and region of residence, in order to apply the appropriate rate. No individual medical underwriting is performed.

In the examination of the Company's underwriting system and policy administration, no instances of unfair methods of competition or unfair or deceptive acts were found.

Advertising

The advertising items used by the Company included print, internet and radio materials. In the examination of the above materials, no incidents of misrepresentation or false advertising were found. These items were found to comply with Tenn. Code Ann. § 56-8-104(1), which defines unfair methods of competition and unfair or deceptive acts.

The Company's website, www.deltadentaltn.com, also contains plan and enrollment information.

Claims Review

A sample of paid claim files reviewed during the examination indicated that claims were being paid in accordance with policy provisions and settlements were made properly upon receipt of proper evidence of the Company's liability.

Policyholder Complaints

The Company maintained a complaint/grievance register as stipulated by Tenn. Code Ann. § 56-8-104(11). The register and sample of complaint/grievance files were examined and found to be in compliance with statutory requirements.

Privacy of Non-Public Personal Information

Based upon a review of the Company's policy for the disclosure of privacy of non-public personal information, the Company has complied with Tenn. Comp. R. & Regs. § 0780-1-72, "Privacy of Consumer Information Regulations." The Privacy Policy is printed on the membership card and is posted on the Company's website.

Timely Reimbursement of Health Insurance Claims

Tenn. Code Ann. § 56-7-109 establishes payment standards which require payment of a clean claim within 30 calendar days when submission is in paper form and within 21 days when submission is electronic. Claims are processed by Delta Dental Plan of Michigan, Inc. under terms of an administrative services agreement. The reports provided to the Company document that 98.35% of claims processed on behalf of the Company were processed within 10 days of receipt for the 2012 year.

A sample of claims reviewed during the examination indicated timely processing in accordance with policy provisions and supported proper adjudication of the claim. The processing time complied with the statute, "Timely reimbursement of health insurance claims."

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities and statement of income at December 31, 2012, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$30,239,826	\$379,339	\$29,860,487
Common Stocks	11,379,947		11,379,947
Real estate: property occupied by company	1,812,213		1,812,213
Cash and short-term investments	13,506,050		13,506,050
Other invested assets (Schedule BA)	1,485,605	850,000	635,605
Investment income due and accrued	356,083	69,956	286,127
Uncollected premiums	1,354,831	1,153	1,353,678
Furniture and equipment	2,404,096	2,404,096	0
Aggregate write-ins for other than invested assets	<u>7,966,130</u>	<u>295,748</u>	<u>7,670,382</u>
Totals	<u>\$70,504,781</u>	<u>\$4,000,292</u>	<u>\$66,504,489</u>

Details of Write-Ins

Administrative fees receivable	\$ 178,386	\$ 2,498	\$ 175,888
Prepaid expenses	266,091	266,091	0
Other assets	36,268	36,268	0
Allowance for doubtful accounts	(25,034)	(25,033)	(1)
Paid claims receivable	6,214,877	15,924	6,198,953
Miscellaneous receivable	16,854		16,854
National accounts receivable	233,000		233,000
Unpaid claims receivable	1,045,687		1,045,687
Rounding	<u>1</u>		
Summary of write-ins	<u>\$7,966,130</u>	<u>\$ 295,748</u>	<u>\$7,670,382</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	<u>Covered*</u>	<u>Total</u>
Claims unpaid	\$4,124,500	\$4,124,500
Unpaid claim adjustment expenses	316,975	316,975
Aggregate health policy reserves	356,488	356,488
Premiums received in advance	1,635,977	1,635,977
General expenses due or accrued	5,832,683	5,832,683
Amounts withheld or retained for the account of others	1,324,795	1,324,795
Aggregate write-ins for other liabilities (ASC unpaid claims)	<u>4,199,762</u>	<u>4,199,762</u>
Total Liabilities	<u>\$17,791,180</u>	<u>\$17,791,180</u>
Aggregate write-ins for other than surplus funds (Statutory Reserve)		\$25,100,010
Unassigned funds (surplus)		<u>23,613,299</u>
Total capital and surplus		<u>48,713,309</u>
Total Liabilities, Capital and Surplus		<u>\$66,504,489</u>

*The Company did not report any uncovered liabilities.

STATEMENT OF REVENUE AND EXPENSES

	Total
Member months	2,717,631
Net premium income	<u>\$108,964,759</u>
Total revenues	108,964,759

MEDICAL AND HOSPITAL:

Aggregate write-ins for other medical and hospital (Claims incurred)	<u>108,023,957</u>
Subtotal	<u>108,023,957</u>

LESS:

Total medical and hospital	108,023,957
Claims adjustment expenses	(6,157,622)
General administrative expenses	<u>11,461,907</u>
Total underwriting deductions	<u>113,328,242</u>

Net underwriting gain or (loss) (4,363,483)

Net Investment income earned	1,907,050
Net realized capital gains or losses	<u>1,005,033</u>
Net investment gains or losses	2,912,083
Aggregate write-ins for other income or expenses	<u>8,335,546</u>

Net income or (loss) before income taxes 6,884,146
Net income \$6,884,146

Details of write-ins

Administrative fee Income	\$19,924,356
Other income	(1,533)
Operating expenses	(11,582,507)
National accounts income	2,904,000
National accounts expense	<u>(2,908,770)</u>

Total aggregate write-ins for other income \$ 8,335,546

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus prior reporting year		\$42,202,834
Net income	\$6,884,146	
Change in net unrealized capital gains (losses) less capital gains tax of \$0	327,364	
Change in non-admitted assets	(773,641)	
Aggregate write-ins for gains or (losses) in surplus	<u>72,606</u>	
Net change in capital and surplus		<u>6,510,475</u>
Capital and surplus end of reporting year		<u>\$48,713,309</u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Surplus as regards Policyholders,					
December 31, prior year	\$42,202,834	\$36,213,251	\$34,195,883	\$31,091,006	\$31,784,261
Net Income	6,884,146	5,834,160	3,201,114	1,945,645	2,039,199
Change in net unrealized capital gains (losses)	327,364	1,087,200	167,802	615,639	(2,453,637)
Change in non-admitted assets	(773,641)	(961,311)	(1,396,064)	527,482	(278,816)
Aggregate write-ins for gains and losses in surplus	72,606	<u>29,534</u>	<u>44,517</u>	<u>16,111</u>	<u>(2)</u>
Net change in capital and surplus	<u>6,510,475</u>	<u>5,989,583</u>	<u>2,017,369</u>	<u>3,104,877</u>	<u>(693,255)</u>
Surplus as regards Policyholders,					
December 31, current year	<u>\$48,713,309</u>	<u>\$42,202,834</u>	<u>\$36,213,251</u>	<u>\$34,195,883</u>	<u>\$31,091,006</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Differences in various items were noted during the course of examination; however, none were considered to produce a material effect on surplus funds, as regards policyholders, either singly or in the aggregate.

COMMENTS AND RECOMMENDATIONS

Comments

Effective January 1, 2012, the Company implemented a change in the accounting and recording of reimbursements received from uninsured plans for claims adjustment expenses. The Company no longer records this reimbursement as a component of other income, but rather as a reduction of Claims Adjustment Expenses, which is reported on page 4, Line 20, in the statutory Statement of Revenue and Expenses. This treatment appears consistent with SSAP No. 47, paragraph 6, which recommends reporting as follows: "deduct administrative fees and related reimbursements from general administrative expenses or claims adjustment expenses if the administrative services provided include services for claims adjustment expenses."

The administrative fee income and related general administrative expenses is presented on a net basis in the Aggregate Write-ins for Other Income, (page 4, Line 29), with the gross amounts shown in the Details of Write-Ins (page 4, Lines 2901 and 2903).

This change did not have an impact on net income for the year ended December 31, 2012, and the change did not have an impact on total capital and surplus.

As noted in the section, "Fidelity Bonds and Other Insurance," the Company is a named insured on a fidelity bond issued to its affiliate, RHSC, with a separate single loss limit of coverage of \$500,000, and a deductible of \$1,000. It is suggested that the Company evaluate the adequacy of their coverage and consider increasing their fidelity bond protection to the amount suggested in the NAIC *Financial Condition Examiners Handbook*.

Recommendations

None.

CONCLUSION

The customary insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been utilized in connection with the verification and valuation of assets and the determination of liabilities of Delta Dental of Tennessee of Nashville, Tennessee.

In such manner, it was determined that, as of December 31, 2012, the Company had admitted assets of \$66,504,489, and liabilities, exclusive of unassigned funds, of \$17,791,180. Thus, there existed for the additional protection of the policyholders, the amount of \$48,713,309 in the form of aggregate write-ins for other than special surplus funds and unassigned funds (surplus).

The courteous cooperation of the officers and employees of the Company extended during the course of the examination is hereby acknowledged.

In addition to the undersigned, David N. Bobo, Keith Patterson, and Rebecca Walker, Insurance Examiners for the State of Tennessee, participated in the work of this examination. An actuarial review was performed by Michael A. Mayberry, FSA, MAAA, of the actuarial firm Lewis & Ellis, Inc., of Richardson, Texas. A review of the Company's information systems was performed by Carol Riley, AES, CISA, CGEIT, CRISC, of Noble Consulting Services of Indianapolis, Indiana.

Respectfully submitted,



Rhonda Bowling-Black, CFE
Insurance Examiner
State of Tennessee

AFFIDAVIT

The undersigned deposes and says that she has duly executed the attached examination report of Delta Dental of Tennessee dated February 12, 2014, and made as of December 31, 2012, on behalf of the Department of Commerce and Insurance, State of Tennessee. Deponent further says she is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of her knowledge, information and belief.

Rhonda Bowling-Black

Rhonda Bowling-Black
Insurance Examiner
State of Tennessee

Subscribed and sworn to before me

this 16th day of
June, 2014

Notary Helen W. Dorsey

County Davidson

State Tennessee

Commission Expires: 11/06/2017



Mike Orr

From: Joy Little
Sent: Thursday, June 19, 2014 2:41 PM
To: Mike Orr
Subject: FW: Delta Dental of Tennessee - Final Report of Examination

From: Frank Turbeville [<mailto:fturbeville@deltadentaltn.com>]
Sent: Wednesday, June 18, 2014 8:59 AM
To: Helen Dorsey; Jay Uselton; Joy Little
Cc: Tom Perry; Kathy Fussell
Subject: RE: Delta Dental of Tennessee - Final Report of Examination

*** This is an EXTERNAL email. Please exercise caution. DO NOT open attachments or click links from unknown senders or unexpected email. - OIR-Security***

MS Little and MS Dorsey:

As per your email of June 16, 2014 and related letter and Final Report of Examination of the Delta Dental of Tennessee as December 31, 2012, Delta Dental of Tennessee is in agreement with the examination report, recommendations and conclusion.

Please feel free to contact me with any other questions you may have.

Cordially

Frank Turbeville
Controller
fturbeville@deltadentaltn.com
Direct: 615-742-6917
Fax: 615.244.8108
Dental made simple :)

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240 Venture Circle
Nashville, TN 37228
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Business: 888.281.9396
<http://www.DeltaDentalTN.com>

From: Helen Dorsey [<mailto:Helen.Dorsey@tn.gov>]
Sent: Monday, June 16, 2014 12:08 PM
To: Frank Turbeville
Subject: Delta Dental of Tennessee - Final Report of Examination
Importance: High

Dear Mr. Turbeville, please see the attached letter and report regarding Delta Dental of Tennessee. If you have any questions, please feel free to contact me.

Helen W. Dorsey
TN Dept. of Commerce and Insurance
Company Exams - 7th Floor
500 James Robertson Pwy
Nashville, TN 37243-1135

