

Report on the Examination
As of December 31, 2014
of
Delta Dental Plan of Vermont, Inc.
by the
Vermont Department of Financial Regulation
Division of Insurance



State of Vermont
assistance
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101
www.dfr.vermont.gov

For consumer

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Thomas Raffio
President
Delta Dental Plan of Vermont, Inc.
One Delta Drive
Concord, NH 03302-2002

ORDER OF ADOPTION

In accordance with 8 V.S.A. § 3574 (c), I order that the Report on the Examination of Delta Dental Plan of Vermont, Inc. for the year ending December 31, 2014 is adopted.

The Company may appeal this order within 30 days of its adoption in accordance with the Vermont Administrative Procedure Act and Department of Financial Regulation Rule 82-1.



Michael S. Pieciak, Commissioner

7/15/16

Date



DELTA DENTAL PLAN OF VERMONT, INC.

EXAMINATION REPORT

AS OF DECEMBER 31, 2014

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June 30, 2016

Michael S. Pieciak, Commissioner
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101

Dear Commissioner Pieciak:

Pursuant to the May 20, 2015 examination order, the Insurance Division's financial examination team has conducted an examination of:

Delta Dental Plan of Vermont, Inc.
with their statutory home offices located at
12 Bacon Street, Suite B
Burlington, Vermont 05401

The examination was performed pursuant to 8 V.S.A. §3563 in order to ascertain the Company's financial condition, ability to fulfill its obligations and compliance with the provisions of Vermont law.



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DELTA DENTAL PLAN OF VERMONT, INC.

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SCOPE OF EXAMINATION

As of December 31, 2014, the financial examination of the Delta Dental Plan of Vermont, Inc. (the Company) was performed in coordination with the Maine and New Hampshire Departments of Insurance, with its concurrent financial examination of the Northeast Delta Dental Group (the Group). As of December 31, 2014 the Group consisted of four insurance entities as follows:

- Maine Dental Service Corporation d/b/a Delta Dental Plan of Maine (DDPME)
- Delta Dental Plan of New Hampshire, Inc. (DDPNH)
- Delta Dental Plan of Vermont, Inc. (DDPVT)
- Red Tree Insurance Company, Inc. (RTIC)

The Company's last financial condition examination was as of December 31, 2009 for the previous five year period. The Reports on Examination of these companies will be issued under separate cover by their domestic state regulators. The three states pooled their resources, shared work and tested data as a single unit. Maine functioned as the examination coordinator.

The examination was conducted pursuant to 8 V.S.A. §3563 and guidance provided by the National Association of Insurance Commissioners (NAIC). The examination covered the period from January 1, 2010 through December 31, 2014. The Department conducted the examination in accordance with NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Department plan and perform the examination to evaluate the financial condition and identify prospective risks 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 statutory accounting principles, annual statement instructions and state regulations. The examination also included a review of any material transactions and/or events occurring

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subsequent to the examination date that were noted during the course of this examination. In accordance with the risk-focused examination process, all accounts and activities of the Company were considered.

As required by law and the NAIC standard examination procedures, the Company instructed their independent accounting firm, Baker, Newman & Noyes, LLP, to make available for the Department's review all work papers concerning procedures followed, tests performed, information obtained and conclusions reached pertinent to the audit of the Company's financial statements for the period covered by the examination. The Department reviewed the work papers of Baker, Newman & Noyes to identify additional solvency risk areas and to determine the extent of work performed on high-risk areas, which may have provided insight and efficiencies for the current examination. To the extent possible, the Department utilized the work papers and analyses to supplement the examination work.

The format of this report is designed to explain the procedures employed during the examination and if necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of the examination.

SUMMARY OF SIGNIFICANT FINDINGS

There were no findings in the prior exam report or the current exam report. There were no adjustments made to the annual statement based on this examination.

HISTORY

The Company commenced business on September 1, 1966 as a third party administrator of dental programs. The Company changed its name to Vermont Dental Services, Inc on July 19, 1967 and again on May 3, 1989 to Delta Dental Plan of Vermont, Inc. The Company was granted authority to underwrite their own business on June 27, 1977 under Title 8, Chapter 125 of the Vermont State Statutes and through a "permit to operate" that restricted them to written

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premium of 2 times surplus. This was amended per letter of October 22, 1996, increasing the premium-to-reserve ratio from 2:1 to 8:1. The Company is a non-profit, tax- exempt organization which provides programs of dental care, rendered by dentists, to businesses, associations, unions and individuals located primarily in Vermont that become subscribers to the program.

In 1976 the Company joined with the DDPNH and DDPME to form an association called Northeast Delta Dental to market their products.

In 1995, the three companies founded Northeast Delta Dental Foundation, a New Hampshire 501(c)(3) charitable corporation.

MANAGEMENT AND CONTROL

Corporate Records

The Company's headquarters and administrative offices are located in Concord, New Hampshire, and the Company maintains its corporate records at this location. The Articles of Incorporation, By-Laws and minutes of the Board of Directors meetings held during the period under examination were reviewed. Based upon our review, the Company appears to be conducting its affairs in accordance with its By-Laws. The recorded minutes of these meetings adequately documented approval and oversight of the Company's investment transactions, other material transactions, events and changes in directors.

Membership

The Company is a member organization. Membership is open to any person who is licensed to practice dentistry by the appropriate regulatory authority of the State of Vermont and who complies with the rules, regulations and Bylaws of the Company. A membership agreement is provided indicating that dental services performed by the Member meets the standards of professional care prescribed by state law. Membership automatically terminates upon revoking or suspension of license to practice dentistry by the State of Vermont. Members meet annually

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to hear reports and to transact other corporate business which properly come before them, including the election of Trustees. The presence in person of at least thirty-six or more Members of the Company or more than twenty percent of the Members on record with the Company represented by written proxy constitute a quorum.

Board of Trustees

The affairs of the Company are managed by the Board of Trustees. The number of Trustees are an even number that is not less than twelve nor more than sixteen. One half of the Trustees are public members and one half are provider members. The Trustees have the power necessary to carry on the business of the Company. A majority of the Trustees in office constitute a quorum for the transaction of any business.

The following were elected to the Board of Trustees of the Company in accordance with the By-Laws and serving as of December 31, 2014:

<u>Name and Principal Business Association:</u>	<u>Residence:</u>
Paul A. Averill, DDS Paul A. Averill, DDS	Vermont
David A. Baasch, DDS David A. Baasch, DDS	Vermont
Paula Cope. M.E.D Cope & Associates, Inc.	Vermont
Philip A. Lapp, CPA Gallagher Flynn & Company	Vermont
Theron J. Main, DDS Timberlane Dental Group	Vermont
Suzanne M. McDowell King Arthur Flour	Vermont

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<u>Name and Principal Business Association:</u>	<u>Residence:</u>
Katherine A. O'Connell CPA Site Solutions, Inc.	Vermont
Richard W. Park Retired	Vermont
David B. Solomon, DDS David B. Solomon, DDS	Vermont
Joseph L. Woodin Gifford Medical Center	Vermont
Nevin Zablotzky, DMD Retired	Vermont

Officers

The Officers of the Company consist of a Chair, a Vice Chair, a President, a Secretary who is a resident of the State of Vermont, and any other such Officers as the Board of Trustees considers necessary.

The Officers of the Company as of December 31, 2014 were as follows:

<u>Name</u>	<u>Title</u>
Thomas Raffio	President and CEO
David A. Baasch, DDS	Secretary
Philip A. Lapp, CPA	Treasurer
William H. Lambrukos	Senior Vice President

Affiliated Companies

DDPME, DDPNH and DDPVT joined to form an association called Northeast Delta Dental to market their products. Northeast Delta Dental is governed by a Board of Trustees, which is comprised of five members from each member's Board of Trustees.

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The companies market their products through three channels: direct sales, brokers and affiliations with other healthcare providers.

During 2009, DDPME, DDPNH and DDPVT formed a holding company for other investments, Red Tree Holdings, Inc. (RTH). Each corporation own one third of RTH's outstanding common stock, and have invested \$1,415,000 in RTH and agreed to lend RTH up to an additional \$125,000.

RTH formed a wholly owned subsidiary, Red Tree Insurance Company, Inc. (RTI) which operates as a licensed vision insurance company in the states of New Hampshire and Maine. On December 31, 2009 RTH purchased the sole membership interest of Combined Services LLC (CSLLC). CSLLC provides employee benefit insurance brokerage services, flexible benefit plan administrative services and COBRA administrative services to customers. CSLLC is also the companies' general agent amongst insurance brokers that market the companies dental benefit plans to employers and individuals. The Company has a five-year service agreement whereby they provide management and related services to CSLLC in exchange for a management fee.

DDPME, DDPNH and the Company formed New England Dental Administrators, LLC (NEDA), a Vermont company whose purpose is to provide third party administrative services for employers wishing to obtain cost efficient, self-funded employee dental benefit plans for their employees. Each company initially invested \$10,000 for a one third interest in the organization and each has made subsequent investments. In December 2010, a transaction resulted in the entity being owned 100% by RTH.

DDPNH provides premiums and claims processing, marketing and other administrative services to the Company which is based on a predetermined formula. The Company reimburses DDPNH for certain payroll and benefit costs relating to DDPNH employees located in Vermont and certain other operating costs.

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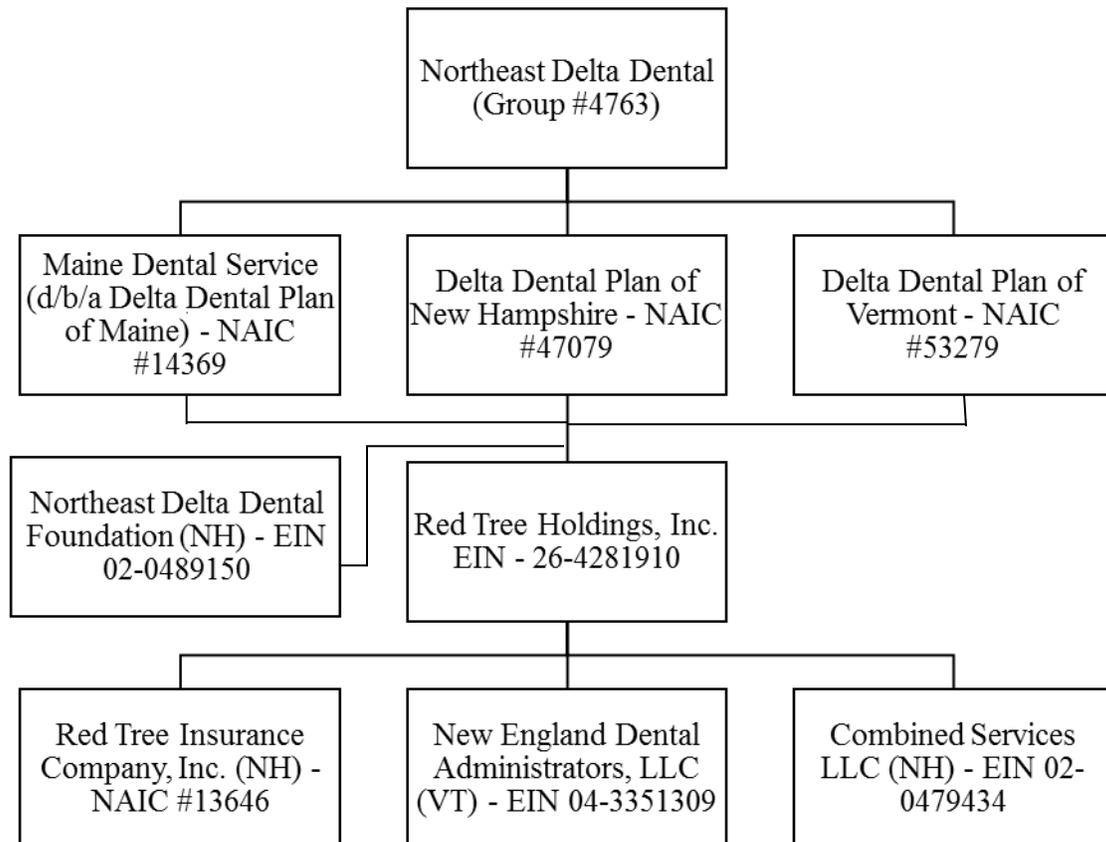
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DDPME has provided a guarantee to increase RTI's shareholders' equity to a minimum of \$2 million if it falls below this amount. This guarantee is required by the Maine Bureau of Insurance. Although not required by the Maine Bureau of Insurance the Boards of the Company and DDPNH have voted to share in any additions of shareholders' equity needed to meet the minimum requirements should that become necessary. A similar guarantee was required by the New Hampshire Department of Insurance that the Company, DDPME and DDPNH increase RTI's shareholders' equity to \$1 million if it falls below this level.

The Company's President and CEO is also the President and CEO of DDPNH, DDPME, NEDA, RTH and RTI, and is the Chair of the management committee of CSLLC.

Organization Chart



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TERRITORY AND PLAN OF OPERATIONS

The Company is licensed only in Vermont. However, through Northeast Delta Dental (its association with DDPNH and DDPME), and its indirect ownership of RTIC, the Companies administer dental plans throughout Vermont, New Hampshire and Maine and administer vision plans in Maine and New Hampshire. RTIC, the vision insurance company is not licensed in Vermont.

REINSURANCE

The Company along with DDPNH and DDPME have each entered into a reinsurance agreement whereby they assume a portion of the risk for various dental benefit contracts. The Company entered into an agreement with Delta Dental of California whereby they assume a portion of the risk for specific dental benefit contracts.

FINANCIAL STATEMENTS

The following statements show the financial position of the Company as of December 31, 2014 in accordance with statutory accounting principles as defined by Vermont State Statute.

Statement of Assets:

Investments	\$ 16,583,626
Investment in affiliate	1,327,013
Cash and short-term investments	5,615,015
Accounts receivable	1,547,938
Accrued investment income	<u>59,317</u>
 Total assets	 <u><u>\$ 25,132,909</u></u>

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Statement of Liabilities, Surplus and Other Funds:

Liabilities

Subscribers' claims payable and related accrued expenses	\$ 1,173,597
Accounts payable and accrued expenses	348,430
Accounts payable - related parties	239,734
Unearned revenue and advances	<u>1,733,324</u>
 Total liabilities	 3,495,085
 Surplus	 <u>21,637,824</u>
 Total liabilities and surplus	 <u><u>\$ 25,132,909</u></u>

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Statement of Income, Expenses and Changes in Capital and Surplus:

Revenues	
Premiums earned	\$ 32,788,343
Management fee	<u>100,000</u>
Total revenues	32,888,343
Net losses and expenses incurred	
Risk claims incurred	26,844,386
Underwriting expenses, net	<u>5,749,655</u>
Total net losses and expenses incurred	32,594,041
Revenues in excess of net losses and expenses incurred	294,302
Net investment income	<u>320,124</u>
Net income	614,426
Change in net unrealized appreciation on investments	188,380
Change in nonadmitted assets	<u>2,793</u>
Change in surplus	805,599
Surplus, beginning of year	<u>20,832,225</u>
Surplus, end of year	<u><u>\$ 21,637,824</u></u>

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SUBSEQUENT EVENTS

In January 2015, the Company will be subject to an annual fee under Section 9010 of the Federal Affordable Care Act (ACA). The annual fee will be allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. As of December 31, 2014, the Company has written health insurance subject to the ACA assessment and expects to conduct health insurance in 2015 and estimate their portion to be \$16,000.

In January 2016, the Board of RTH authorized and approved the acquisition of PreViser Corporation (PreViser) for \$8.1 million. PreViser offers the first evidence-based online risk prediction system for common oral diseases. RTH may also loan PreViser funding necessary to cover any working capital deficit during 2016 and 2017, not to exceed \$1.65 million. In January 2016, the Company, along with DDPME and DDPNH, authorized and approved each making a capital contribution to RTH of \$2.7 million to fund the acquisition of PreViser in 2016 and each has committed to loan RTH up to \$550 thousand in 2016 and 2017.

COMMENTS AND RECOMMENDATIONS

There are no significant findings or financial adjustments as a result of this examination. A Comment Letter will be issued to the Board as a result of this exam addressing opportunities for improvement and other items that did not reach a level of significance to warrant inclusion in this report.

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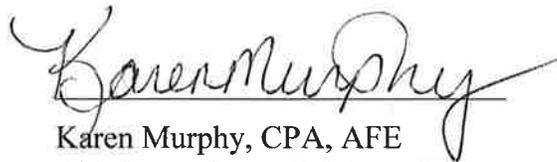
CONCLUSION

As a result of this examination, the financial position of the Company, as of December 31, 2014 was determined to be as follows:

Admitted Assets	<u>\$ 25,132,909</u>
Liabilities	\$ 3,495,085
Surplus	<u>\$ 21,637,824</u>
Total Liabilities and Surplus	<u>\$ 25,132,909</u>

In addition to the undersigned Miranda Cloutier, Examiner in Charge, Ellen Adams, Examiner and regulators and their appointees from Maine and New Hampshire also participated in this coordinated examination. Additionally, work completed by the Maine and New Hampshire Departments of Insurance in their coordinated examination of the Company was accepted to supported conclusions in certain areas of the examination.

Respectfully submitted,



Karen Murphy, CPA, AFE
Chief Examiner, Division of Insurance
Vermont Department of Financial Regulation

STATE OF VERMONT
COUNTY OF WASHINGTON

Karen Murphy, being duly sworn, deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

Subscribed and sworn to before me

This 15th day of July, 2016



Susan R. Lark 8/10/2019
Notary Public