

Report of Statutory Examination
As of December 31, 2009
of
Delta Dental Plan of Vermont, Inc.

NAIC Company Code 53279

by the
Vermont Department of Banking, Insurance, Securities
and Health Care Administration

Division of Insurance



The attached report of examination made of the condition and affairs as of December 31, 2009 of:

Delta Dental Plan of Vermont Inc.

Burlington, VT

was recently completed by duly qualified examiners of the State of Vermont, Department of Banking, Insurance, Securities and Health Care Administration.

Due consideration has been given to the comments of the examiners regarding the operations of Delta Dental Plan of Vermont and its financial condition, as reflected in this report. This report is hereby, as of this date, approved, adopted, filed and made an official record of this Department.

IN WITNESS WHEREOF, I have hereunto
set my hand, and affixed the official seal of
this Department at the City of Montpelier
this 6th day of June, 2011.



A handwritten signature in black ink, which appears to read "S. W. Kimbell". The signature is written in a cursive style and is positioned above a horizontal line.

Stephen W. Kimbell, Commissioner

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Delta Dental Plan of Vermont, Inc.
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January 4, 2011

Honorable Stephen W. Kimbell
Commissioner
Department of Banking, Insurance, Securities &
Health Care Administration
89 Main Street
Montpelier, Vermont 05620-3101

Dear Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination has been made for the examination period ended December 31, 2009 of the financial condition, business affairs, transactions, and accounts and records of:

Delta Dental Plan of Vermont, Inc.
Statutory Home Office Location
135 College Street, Burlington, VT 05401

The following examination report is respectfully submitted.

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Scope of Examination

The National Association of Insurance Commissioners (NAIC) favors the association examination system, which allows a representative number of states to adequately plan and devote resources to the financial examinations of multi-state licensed insurers. Our association examination was conducted in coordination with the Maine and New Hampshire Insurance Departments' examinations of the financial condition and activities of the following affiliated companies:

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

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.

We have performed our association examination of Delta Dental Plan of Vermont (the Company) as of December 31, 2009. The prior examination of the Company was conducted as of December 31, 2005. The current examination covered the period January 1, 2006 through December 31, 2009. As necessary, the examination team reviewed transactions occurring subsequent to December 31, 2009, but prior to the date of this report (i.e. the completion date of the examination).

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (FCEH). 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. 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

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compliance with Statutory Accounting Principles and annual statement instructions, and, when applicable, to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

Reliance on Outside Entities

The Company requested that the independent accounting firm of Baker, Newman & Noyes make available for review all work papers pertinent to the audit of the Company's financial statements for the year ended December 31, 2009. The Examiners reviewed their work papers and considered possible similarities in our examination approach and that of Baker, Newman & Noyes.

Summary of Significant Findings

As described in detail elsewhere in this report, the Examiner's made the findings summarized below:

1. Review of the custodial agreements indicated certain areas of noncompliance with the NAIC Financial Condition Examiners Handbook (FCEH);
2. Meeting minutes of the Board and Committees were frequently not properly approved or signed;
3. The Company currently reports related party payables incorrectly;
4. Several less significant accounting and reporting related findings were reported to the Company in a separately issued Comment Letter.

Subsequent Events

Through a series of transaction in 2009, the Company, DDPNH and DDPME each acquired a 1/3 interest in Red Tree Holdings (RTH), 100% owner of two entities, Red Tree Insurance Company (RTIC) and Combined Services LLC (CSLLC). The Company did not request approval from the Commissioner for the acquisition of a controlling interest in another insurer as required by 8 V.S.A. §4595. As such, a public hearing and Department review process did not occur until 2010, subsequent to the balance sheet date of this examination. On December 22, 2010, the Commissioner signed an Order on Petition to Acquire Controlling Interest in Red Tree Insurance Company, Inc. which approved the transaction with several conditions, including continued compliance with the

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filing requirements of Vermont Holding Company law and the inclusion of a put option valid through September of 2015 that allows the Company's Board to exercise an option to sell its share of stock in RTH at a predetermined price to DDPME and DDPNH under certain conditions.

Effective January 19, 2010, the DDPME provided a guarantee to maintain Red Tree Insurance Company, Inc. shareholders' surplus at a level no less than \$2,000,000. This guarantee was a Maine Bureau of Insurance requirement related to the licensure of RTIC. DDPNH and the Company's Boards have voted to share in any surplus contributions needed to meet the \$2,000,000 minimum requirement.

Effective December 31, 2010, the Company, DDPNH, and DDPME each sold their one-third ownership interest in NEDA to RTH for \$19,535 each.

Company Background and 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 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 exempt from federal income taxes under Internal Revenue Code section 501(c)(4).

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

In 1997, 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

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employees. Each company initially invested \$10,000 for a one third interest in the new organization and each has made subsequent investments. These investments are recorded using the equity method. As discussed in the Subsequent Events section above, a December 2010 transaction resulted in the entity being owned 100% by RTH.

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

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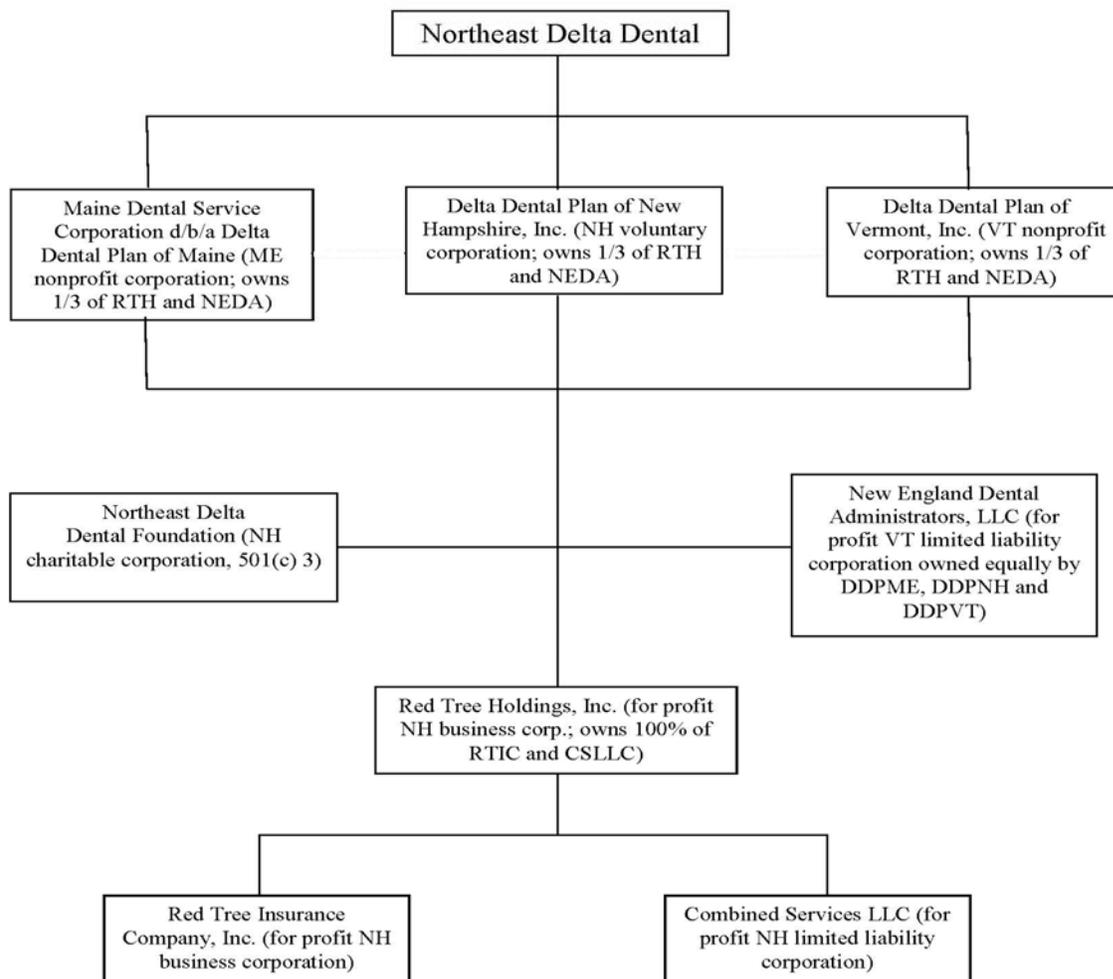
As of December 31, 2009

Organizational Chart

Northeast Delta Dental is the trade name shared by DDPVT, DDPNH and DDPME. The Chart below is presented as of December 31, 2009

The following chart illustrates the Plan's organization.

Northeast Delta Dental



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Corporate Records

The Companies' main administrative offices are located in Concord, New Hampshire, which is where the Company's corporate records are located. The minutes of the Board of Trustees meetings were reviewed for the period of examination. Aside from findings contained within this report, the minutes adequately support reported transactions and events and appeared to be in compliance with the statutes of the State of Vermont and in accordance with the Company's own charter and by-laws.

Management and Control

The Company is a member organization. Per the Company's by-laws, "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 this Corporation".

The affairs of the Corporation are governed by a 16 member Board of Trustees (the Board). The by-laws state that the Board shall be made up of 8 Public Members and 8 Provider Members. Trustees are elected by the membership, in accordance with the by-laws. The Company holds an annual Membership Meeting and a quorum exists when 20% of the membership or 36 members are present. The by-laws state that the meeting "shall be held during the months of April, May, or June, as determined by the Board, to hear reports and to transact such other corporate business which properly come before them."

The by-laws provide for 5 standing committees of the Board. These are as follows: Executive Committee, Finance Committee, Corporate Governance Committee, Delta Fund Committee and the Professional Relations Advisory Committee.

The Company's articles of incorporation, by-laws, and minutes of the Board's and committee's meetings held during the period under examination were reviewed. Based upon our review, the Company is conducting its affairs in substantial compliance with the statutes of the State of

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Vermont and in accordance with its own charter and by-laws.

The membership of this Board is as follows;

Delta Dental Plan of Vermont, Inc. Board of Trustees as of December 31, 2009

Name	Title
David M. Anderson	Chair, Public Member
LeeAnn Podruch, DDS	Vice Chair, Provider Member
Lawrence G. Jensen	Treasurer, Public Member
John L. Westbrook, DDS	Secretary, Provider Member
Clayton R. Adams	Trustee, Public Member
Paul A. Averill, DDS	Trustee, Provider Member
Paula L. Cope, M.Ed	Trustee, Public Member
Michael R. Dick, DMD	Trustee, Provider Member
Gregory H. Ellis, DMD	Trustee, Provider Member
Laurie A. Gunn, SPHR	Trustee, Public Member
Philip A. Lapp, CPA	Trustee, Public Member
Brenda L. Needham	Trustee, Public Member
William D. Purdy, DDS, MS	Trustee, Provider Member
James T. Rude	Trustee, Public Member
Brian D. Shuman, DMD	Trustee, Provider Member
Nevin Zablotzky, DMD	Trustee, Provider Member

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The Company's officers, as listed in the 2009 statutory annual statements:

Name	Title
Thomas Raffio	President
John L. Westbrook, DDS	Secretary
Lawrence G. Jensen	Treasurer
William H. Lambrukos	Vice President

The Company provided an employee organizational chart for all officers and key employees.

The following is a list of key employees interviewed:

Name	Title
Thomas Raffio	President & CEO
Linda Roche	Director Strategy Management
Gene Emery	Vice President Marketing
Ken Robinson	General Counsel
Connie Roy-Czyzowski	Vice President Human Resources
Helen Biglin	Senior Vice President Finance
Laurence Weissbrot	Director Actuarial & Research
Mike Bourbeau	Vice President Information Systems
William Lambrukos	Senior Vice President Operations

It is apparent from the interview process that knowledge of business processes, plans, results, and risk areas are shared amongst senior management of the Company. All officers appeared to be qualified in terms of experience and knowledge.

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Fidelity Bonds and Other Insurance

The Company is protected by a fidelity bond. The coverage amount was reviewed and was determined to be in excess of the NAIC recommended levels of coverage. The Company and its affiliates maintain other insurance coverage including property and equipment, automobile, directors' and officer's and general liability.

Pension and Other Postretirement Plans

All functions of the Company are performed by affiliated companies, as such the Company has no employees and thus no pension or employee benefit plans.

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 and vision plans throughout Vermont, New Hampshire and Maine. RTIC, the vision insurance company is not licensed in Vermont.

Growth of the Company

The table below highlights the Company's growth since the last Statutory Examination which was performed as of December 31, 2005:

	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009
Total Members	26,199	27,852	30,675	33,912	34,586
Total Admitted Assets	\$ 10,537,260	\$ 12,855,084	\$ 14,585,973	\$ 14,389,043	\$ 15,444,759
Total Liabilities	1,892,525	1,907,282	2,303,874	2,190,600	2,224,479
Total Capital & Surplus	8,644,735	10,947,802	12,282,099	12,198,443	13,220,280
Total Revenues	18,999,218	20,864,044	23,262,401	26,179,965	28,094,274
Total Claims	14,252,284	15,665,244	18,680,051	21,673,239	23,787,632
Net Income	1,398,476	2,239,250	1,476,127	387,837	567,711

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Reinsurance

The Company does not have any ceded reinsurance arrangements. The Company has immaterial assumed reinsurance.

Accounts and Records

All accounting and recordkeeping functions of the Company are performed by DDPNH in accordance with a service agreement between the two companies. As part of the information systems review, reliance was placed on review of the Company's response to the NAIC prescribed Information Systems Questionnaire. Interviews with Company staff were conducted to gather supplemental information and to corroborate the Company's responses to the questionnaire. Included in the scope of this review were management and organization controls, logical and physical security controls, changes to applications, system and program development, contingency planning, and operations and processing controls.

Statutory Deposits

The Company does not maintain any Statutory Deposits.

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Financial Statements

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Statement of Financial Position
For the Year Ended December 31, 2009

Assets	12/31/2009
Bonds	\$ 8,650,676
Common stocks	4,102,065
Cash and short term investments	1,749,582
Other invested assets	21,089
Subtotals, cash and invested assets	14,523,412
Investment income due and accrued	77,656
Uncollected premiums	39,632
Amounts receivable relating to uninsured plans	804,059
Total Assets	\$ 15,444,759
Liabilities	
Claims unpaid	\$ 907,300
Unpaid claims adjustment expenses	102,000
Premiums received in advance	329,776
General expenses due or accrued	376,503
Liability for amounts held under uninsured plans	508,900
Total Liabilities	2,224,479
Surplus	
Unassigned funds (surplus)	13,220,280
Total Surplus	13,220,280
 Total Liabilities and Surplus	 \$ 15,444,759

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Delta Dental Plan of Vermont, Inc.
Statement of Revenues and Expenses
For the Year Ended December 31, 2009

		12/31/2009
Underwriting Income		
Net premium income	\$	28,094,274
Claims incurred		23,787,632
Expenses incurred:		
Claim adjustment		928,928
General administrative		3,256,292
Net underwriting gain or (loss)		121,422
Investment Income		
Net investment income earned		383,688
Net realized capital gains or (losses)		62,601
Net investment gain or (loss)		446,289
Net income (loss)		567,711
Capital and Surplus Account		
Beginning statutory surplus & unassigned funds	\$	12,198,443
Net income (loss)		567,711
Change in net unrealized capital gains or (losses)		440,446
Change in non-admitted assets		13,680
Ending statutory surplus and unassigned funds	\$	13,220,280

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Significant Findings and Recommendations

1. Comment:

Review of the custodial agreements indicated certain areas of noncompliance with the FCEH. Specifically, the FCEH prescribed clauses were not included in the custodial agreements:

- If a custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner.
- During regular business hours, and upon reasonable notice, an officer or employee of the insurance company, an independent accountant selected by the insurance company, and a representative of an appropriate regulatory body shall be entitled to examine, on the premises of the custodian, its records relating to securities, if the custodian is given written instructions to that effect from an authorized officer of the insurance company.

Recommendation:

The Company should ensure that the custodial agreements conform to the requirements of the FCEH.

2. Comment:

A majority of the Board of Trustees, Finance Committee and Corporate Governance Committee minutes provided by the Company were either drafts or not signed. Additionally, Finance Committee minutes for 6/10/07, 6/1/09, and 11/9/09 meetings were never approved by the Committee and Corporate Governance Committee minutes for the 2/8/06, 11/9/06, 1/31/07, 3/15/07, 11/8/07, 3/19/08, and 10/6/08 meetings were never approved.

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Recommendation:

The Company should ensure that meeting minutes of the Board and Committees are complete as well as properly approved and signed.

3. Comment:

The Company currently reports related party payables under "general expenses due or accrued" rather than "amounts due to parent, subsidiaries and affiliates".

Recommendation:

The Company should report balances due to and receivable from related parties appropriately as "amounts due to parent, subsidiaries and affiliates" and "receivables from parent, subsidiaries and affiliates".

4. Comment:

The Examiners identified other findings, including numerous less significant or less material departures from statutory accounting and reporting. These findings have been communicated to the Company's Board of Trustees in a separate Comment Letter.

Recommendation:

The Company should develop a corrective action plan for all of the findings in the Comment Letter.

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Conclusion

As a result of this examination, the financial condition of the Company as of December 31, 2009 and related increases and decreases since the prior exam was determined to be as follows:

	<u>2005</u>	<u>2009</u>	<u>Increase (Decrease)</u>
Admitted assets	\$10,537,260	\$15,444,759	\$4,907,499
Liabilities	\$1,892,525	\$2,224,479	\$331,954
Surplus	\$8,644,735	\$13,220,280	\$4,575,545

In addition to the undersigned, Kaj Samsom, CFE, Examiner for the Department, also participated in this examination with examiners from the Maine Bureau of Insurance and the New Hampshire Department of Insurance. We wish to express our appreciation to the officers and employees of the Company for the courteous cooperation extended during the course of the examination.

Respectfully submitted,



Kenneth L. McGuckin, CFE

Chief Examiner

Vermont Department of Banking, Insurance, Securities,
and Health Care Administration

STATE OF VERMONT

COUNTY OF WASHINGTON

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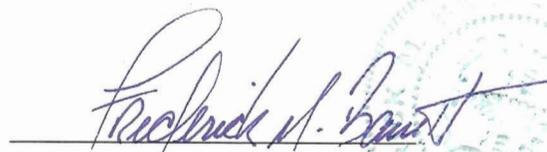
As of December 31, 2009

Kenneth L. McGuckin, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.



Kenneth L. McGuckin

Subscribed and sworn to before me
this 31 day of May, 2011.



Notary Public


Fredrick M. Barrett
Notary Public State of Vermont at Large
My Commission Expires February 10, 2015