

Report  
of the  
Examination of  
Care-Plus Dental Plans, Inc.  
Wauwatosa, Wisconsin  
As of December 31, 2011

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

**Scott Walker, Governor**  
**Theodore K. Nickel, Commissioner**

**Wisconsin.gov**

March 18, 2013

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Honorable Theodore K. Nickel  
Commissioner of Insurance  
State of Wisconsin  
125 South Webster Street  
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

CARE-PLUS DENTAL PLANS, INC.  
Wauwatosa, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Care-Plus Dental Plans, Inc. (hereinafter also Care-Plus or the company) was conducted in 2007 as of December 31, 2006. The current examination covered the intervening period ending December 31, 2011, and included a review of such 2012 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Affiliated Companies
- Growth of the Company
- Financial Statements
- Accounts and Records
- Data Processing
- Enrollee Complaint Procedure

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

In addition to auditing, the public accounting firm performs non-auditing services for the company, including compilation services. On September 30, 2011, an exemption was granted by the Commissioner, pursuant to s. Ins 50.08 (5), Wis. Adm. Code, permitting the independent auditor to perform this non-audit work for the company.

## II. HISTORY AND PLAN OF OPERATION

Care-Plus Dental Plans, Inc., is described as a nonprofit group model limited service health organization (LSHO) insurer. An LSHO insurer is defined by s. 609.01 (3), Wis. Stat., as ". . . a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, a limited range of health care services performed by providers selected by the organization." Under the group model the company contracts with a sponsoring clinic to provide primary and specialist services. LSHOs compete with traditional fee-for-service health care delivery.

The company was incorporated and commenced business on May 23, 1983. The company is controlled by Dr. Thomas Manos, who is the chairman of the board of directors.

Care-Plus provides primary and specialty care through its provider, Dental Associates Ltd. of Wisconsin (Dental Associates). Dental Associates has 10 dental centers in the southern, eastern and central half of Wisconsin and employs 48 primary care providers and 40 specialty providers. Care-Plus does not require the enrollee to choose a primary care provider as a "gatekeeper"; however, Care-Plus does encourage the selection of one dentist as the enrollee's primary dentist for all general dental care. An enrollee does not need a referral from a primary care provider in order to see one of the specialty providers.

Dental Associates has employment agreements with 88 dentists and specialists. With the exception of the term, vacation, dues, allowance, and compensation, the agreements are identical for all dentist professionals. There are no set lengths to the dentists' contract terms although each party must give a 60-day notice of termination of the contract.

Dental Associates employs both full-time and part-time dentists. Part-time dentists are compensated on an hourly basis, while full-time dentists are either salaried or paid on an incentive program. Incentives are calculated based upon a percentage of agreed fee schedules for each procedure code less laboratory fees. Incentives are paid on a quarterly basis, when applicable.

All dentists are required to provide services on a 24-hour basis, if necessary.

Agreements with individual dentists do not contain any withhold or risk-sharing provisions. The individual employment agreements do contain an indemnification clause whereby the individual dentist and Dental Associates hold each other harmless from all liabilities and costs resulting, as the case may be, from wrongful or negligent acts and omissions of the dentist or Dental Associates.

The provider contract between Care-Plus and Dental Associates transfers risk to Dental Associates. The contract contains an indemnification clause whereby Dental Associates holds Care-Plus harmless from all claims, liabilities, and costs resulting from dental or other services which Dental Associates provides to subscribers. Dental Associates provides dental benefits and administrative services on behalf of Care-Plus subscribers for the lesser of the following:

1. The amount of credits and benefits under Care-Plus policies which Dental Associates applies to subscribers' accounts during the fiscal year; or
2. 100% of the net revenue of Care-Plus remaining after deduction of:
  - a) Any amount paid by Care-Plus to other providers
  - b) All other expenses

Either party with 90 days' written notice can terminate the contract between Care-Plus and Dental Associates on an anniversary date of the agreement.

According to its business plan, the company's service area is comprised of the following counties: Milwaukee, Kenosha, Brown, Outagamie, Fond du Lac, and Racine.

The company offers a limited range of health care coverage which may be changed by riders to include deductibles and copayments. The following basic health care coverages are provided:

- Diagnostic
- Preventative
- Restorative
- Fixed Prosthetics
- Removable Prosthetics
- Endodontics
- Oral Surgery
- Orthodontics
- Periodontics

The company currently markets to groups and individuals. The company uses outside agencies and pays 2% to 5% commission on new and renewal business. The Care-Plus products are as follows:

1. Care-Plus Prepaid – managed care sold to groups.
2. Care-Plus Supplemental – individual policies designed to supplement traditional dental indemnity plans.
3. Care-Plus Gold – individual policies for persons over 55 years old without any other dental coverage.
4. Care-Plus VIP – individual policies for persons with no other dental insurance.

Some of the common limitations or exclusions listed in the detail of these policies include nonemergency dental services provided by a nonparticipating provider, dental services which are primarily for cosmetic purposes, orthodontic treatment, implants, TMJ, duplicate prosthetic devices or appliances, and gold foil or precious metal restorations.

The company uses an actuarially determined base as a beginning point in premium determination. This rate is adjusted to reflect the age, sex, occupation, and coverage characteristics for new groups. Experience is reviewed for renewal groups and, based on the review, a recommendation is made regarding adjusting the rate or cancelling the group. The base rate is adjusted quarterly for inflation and other trending factors.

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of five members. The directors are elected annually to serve a three-year term. Officers for the board are elected at the board's annual meeting. The board members currently do not receive any compensation for serving on the board.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Dr. Thomas Manos Hinsdale, IL	President/Owner Dental Associates, Ltd.	2013
Christopher Domke Clarendon Hills, IL	Managing Director Madison Capital Partners	2013
Daniel Welch Elmhurst, IL	President Professional Practice Consultants, Inc.	2013
Gregory Vorwaller Chicago, IL	Global Head of Capital Markets Cushman & Wakefield	2013
Paul Chronis Burr Ridge, IL	Attorney, Partner Duane Morris LLP	2013

#### Officers of the company

The officers appointed by the board of directors and serving at the time of this examination are as follows:

<b>Name</b>	<b>Office</b>
Dr. Thomas Manos	President and Chairman of the Board
Anthony Vastardis	Vice President
Paul Seubert	Secretary and Treasurer

The officers' salaries are paid by Dental Associates through an administrative agreement with the company.

## **Committees of the Board**

The company's bylaws allow for the formation of certain committees by the board of directors. The committee at the time of the examination is listed below:

### **Grievances Committee**

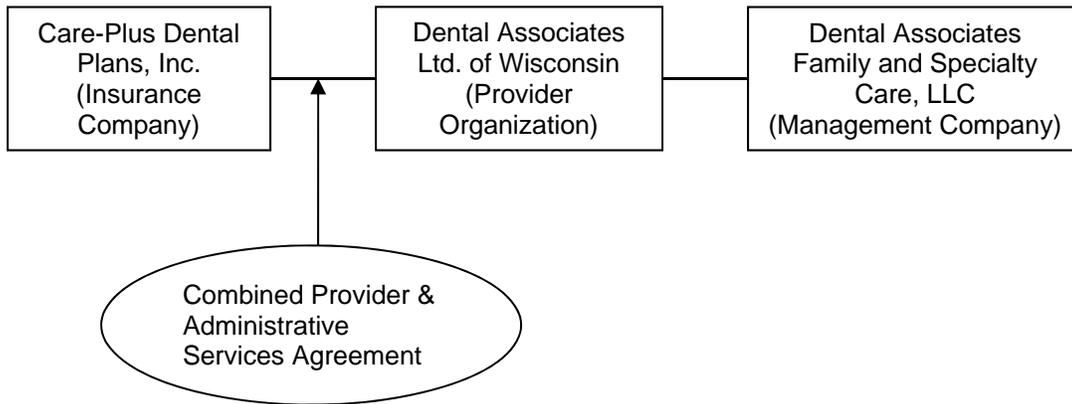
Dr. John Grignon, Chair  
Dr. John Carli  
Dr. John Cuddy  
Dr. John Zweig  
Dr. Debra Perry  
Dr. James Blong  
Dr. David Blong  
Dr. Terrance Murphy  
Dr. Ronald Lambert  
Dr. Donald Gundlach  
Colleen Sorenson  
Brenda Boyd

The company has no employees. Necessary staff is provided through a management agreement with Dental Associates, which is the only entity with which Care-Plus subcontracts. Under the agreement, effective January 1, 2009, Dental Associates agrees to negotiate employer, provider, subscriber, and other contracts; advise the board; maintain accounting and financial records; recruit marketing, utilization review, and claims processing personnel; provide or contract for claims processing and management information systems. Dental Associates receives 100% compensation for services rendered. The term of the agreement is five years. The company may terminate the agreement upon 90 days' written notice if default of standards of performance continues for 30 days after notice of such default.

#### IV. AFFILIATED COMPANIES

Dr. Thomas Manos is the chairman of the board for each of Care-Plus, Dental Associates Ltd. of Wisconsin, and Dental Associates, Ltd. Dr. Manos is also the sole shareholder of Yannis Design, Development & Supplies, LLC; Dental Associates Family and Specialty Care, LLC; and DAL 27<sup>th</sup> Street Clinic, LLC. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of Care-Plus follows the organizational chart.

##### Holding Company Chart As of December 31, 2011



##### Dental Associates Ltd. of Wisconsin

Dental Associates Ltd. of Wisconsin provides dental services. As of December 31, 2011, the company's audited financial statement reported assets of \$11,656,252, liabilities of \$11,339,776 and shareholders' equity of \$316,476. Operations for 2011 produced net income of \$558,419 on revenues of \$58,598,654.

## **V. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported in the December 31, 2011, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the company for the period under examination. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Capital and Surplus per Examination."

**Care-Plus Dental Plans, Inc.  
Assets  
As of December 31, 2011**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Cash, cash equivalents and short-term investments	\$ 16,097	\$	\$ 16,097
Uncollected premiums and agents' balances in the course of collection	65,972		65,972
Receivables from parent, subsidiaries and affiliates	<u>1,274,260</u>	—	<u>1,274,260</u>
<b>Total Assets</b>	<b><u>\$1,356,329</u></b>	<b><u>\$0</u></b>	<b><u>\$1,356,329</u></b>

**Care-Plus Dental Plans, Inc.  
Liabilities and Net Worth  
As of December 31, 2011**

Aggregate health policy reserves	\$ 890,911
Premiums received in advance	440,849
General expenses due or accrued	20,819
Aggregate write-ins for other liabilities (including current)	<u>3,750</u>
Total liabilities	1,356,329
Total capital and surplus	<u>0</u>
<b>Total Liabilities, Capital and Surplus</b>	<b><u>\$1,356,329</u></b>

**Care-Plus Dental Plans, Inc.  
Statement of Revenue and Expenses  
For the Year 2011**

Net premium income		\$20,537,553
Medical and Hospital:		
Other professional services	\$20,162,185	
General administrative expenses	<u>375,368</u>	
Total underwriting deductions		<u>20,537,553</u>
<b>Net Income (Loss)</b>		<b><u>\$ 0</u></b>

**Care-Plus Dental Plans, Inc.**  
**Statement of Cash Flows**  
**As of December 31, 2011**

Premiums collected net of reinsurance		\$20,543,414
Less:		
Benefit- and loss-related payments	\$20,162,185	
Commissions, expenses paid and aggregate write-ins for deductions	<u>385,148</u>	
Total		<u>20,547,333</u>
Net cash from operations		(3,919)
Other cash provided (applied)		<u>20,943</u>
Net change in cash, cash equivalents, and short-term investments		17,024
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>(927)</u>
End of Year		<u>\$ 16,097</u>

## Growth of the Company

The following schedules reflect the growth of the company during the examination

period:

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2011	\$1,356,329	\$1,356,329	\$0	\$20,537,553	\$20,162,185	\$0
2010	1,312,827	1,312,827	0	19,777,318	19,428,673	0
2009	1,261,314	1,261,314	0	19,316,566	19,063,340	0
2008	1,279,108	1,279,108	0	19,523,526	19,225,566	0
2007	1,354,135	1,354,135	0	18,897,239	18,557,820	0
2006	1,283,386	1,283,386	0	18,096,332	17,842,812	0

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Enrollment	Change in Enrollment
2011	0.0%	98.2%	1.8%	62,897	2.3%
2010	0.0	98.2	1.8	61,474	-0.5
2009	0.0	98.7	1.3	61,789	1.1
2008	0.0	98.5	1.5	61,100	-2.4
2007	0.0	98.2	1.8	62,627	0.8
2006	0.0	99.0	1.0	62,108	2.7

### Per Member Per Month Information

	2011	2010	Percentage Change
Premium	<u>\$27.48</u>	<u>\$26.82</u>	2.5%
Expenses:			
Other professional services	\$26.98	\$26.35	2.4
General administrative expenses	<u>0.50</u>	<u>0.47</u>	6.4
Total underwriting deductions	<u>\$27.48</u>	<u>\$26.82</u>	2.5

### **Reconciliation of Capital and Surplus per Examination**

The current examination resulted in no adjustments to surplus or reclassification of balance sheet accounts.

## VI. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were four specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Management and Control—It is recommended that the company file biographical information for the missing officers and directors within 30 days of adoption of this report and that the company file biographical information in accordance with s. Ins 6.52 (5), Wis. Adm. Code, in future periods.

Action—Compliance

2. Financial Reporting—It is recommended that the company classify payments made to providers as capitation payments made to medical groups on Exhibit 7, Part 1, Summary of Transactions with Providers, of the annual statement in the future.

Action—Compliance

During the exam it was noted that this recommendation was incorrect. Payments made to providers should be classified as capitation payments made to all other providers on Exhibit 7 instead of as capitation payments made to medical groups. The examiners discussed this with the company during the exit interview.

3. Unclaimed Funds—It is recommended that the company comply with ch. 177, Wis. Stat., as regards unclaimed funds, and that it submit all funds that remain unclaimed after five years to the state of Wisconsin.

Action—Compliance

4. Advanced Premium—It is recommended that the company report its unearned and advanced premium as required by SSAP No. 54.

Action—Compliance

## **Summary of Current Examination Results**

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

## **Management and Control**

Insurers are required to file a copy of any amendments to their bylaws with the commissioner within 60 days after adoption pursuant to s. 613.12, Wis. Stat. A review of the company's records indicated that significant changes were made to its bylaws in a 2009 amendment but that this amendment was never filed with the office. It is recommended that the company comply with s. 613.12, Wis. Stat., and file amendments to its bylaws with the Office of the Commissioner of Insurance within 60 days of adoption.

## **Depository Accounts**

The examination disclosed that one of the bank accounts holding Care-Plus funds was in the name of the company's affiliate, Dental Associates, and another was a joint account between the company and Dental Associates. Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name. It is recommended that the company hold its deposits in the name of Care-Plus Dental Plans, Inc., in accordance with s. 610.23, Wis. Stat.

## **Unearned Premium**

Statement of Statutory Accounting Principles (SSAP) No. 54, paragraph 12, requires insurers to establish an unearned premium reserve for premiums reported for a period beyond the validation date. The examination disclosed that the company's unearned premium report incorrectly calculated the unearned premium balance. The number of months used to calculate the unearned premium on individual policies was often incorrect. The company also failed to keep organized records, which allowed some policies to be reported twice. Both of these caused the company's unearned premium records not to reconcile with the financial statements. It is recommended that the company comply with SSAP No. 54, paragraph 12, by properly recording individual unearned premium amounts and the corresponding effective dates of policies.

### **Advance Premium**

SSAP No. 54, paragraph 6, requires insurers to report advance premium, those premiums received prior to the due date, as a liability until they become due and recorded as premium income. The examination disclosed that in some cases premiums were erroneously classified as unearned premium instead of advance premium. It is recommended that the company report its advance premium as required by SSAP No. 54, paragraph 6.

### **Income Taxes**

During the past few years the company has been filing the federal tax return required of for-profit entities despite being a non-profit entity. It is recommended that the company file the correct tax forms with the appropriate state and federal agencies.

### **Financial Requirements**

The financial requirements for an LSHO under s. Ins 9.04, Wis. Adm. Code, are as follows:

	<b>Amount Required</b>
1. Minimum capital or permanent surplus	Not less than \$75,000
2. Security deposit	Each LSHO is required to maintain a deposit of securities with the state treasurer or an acceptable letter of credit on file with the Commissioner's office. The amount of the deposit or letter of credit shall not be less than \$75,000. The letter of credit must be payable to the Commissioner whenever liquidation or rehabilitation proceedings are initiated against the company.
3. Compulsory surplus	Not less than the greater of: 3% of the premiums earned by the company in the previous 12 months or \$75,000  The Commissioner may accept the deposit or letter of credit under par. 2. to satisfy the compulsory surplus requirement if the company demonstrates to the satisfaction of the Commissioner that all risk for loss has been transferred to the providers.
4. Security surplus	The company should maintain a security surplus to provide an ample margin of safety and clearly assure a sound operation. The security surplus should not be less than 110% of compulsory surplus.

In 2002, an order modifying the company's compulsory surplus requirement was issued. The order requires the company to maintain a compulsory surplus in the amount equal to \$75,000 plus the company's unearned premium liability at the end of the reporting period. As of December 31, 2011, the company reported an unearned premium liability of \$890,911, which means the company is required to maintain surplus of \$965,911. As of December 31, 2011, the company had a \$1,150,000 surety bond outstanding to satisfy the compulsory surplus requirement.

## **VII. CONCLUSION**

The company's assets and liabilities have increased by 6% over the five-year period under examination. A decrease in enrollment was reported in two out of the five years under examination. Reported enrollment in 2011 was 62,897, which is slightly greater than it was five years ago. The financial results of the company show no net profit or loss and no change in surplus during the examination period, a result of the company's agreements with Dental Associates Ltd. of Wisconsin, which were discussed in the "Management and Control" section above.

The examination resulted in five recommendations and no adjustments to surplus. The recommendations related to the areas of management and control, depository accounts, unearned premium, advance premium, and income taxes. The company had complied with all four of the prior recommendations.

### VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 15 - Management and Control—It is recommended that the company comply with s. 613.12, Wis. Stat., and file amendments to its bylaws with the Office of the Commissioner of Insurance within 60 days of adoption.
2. Page 15 - Depository Accounts—It is recommended that the company hold its deposits in the name of Care-Plus Dental Plans, Inc., in accordance with s. 610.23, Wis. Stat.
3. Page 15 - Unearned Premium—It is recommended that the company comply with SSAP No. 54, paragraph 12, by properly recording individual unearned premium amounts and the corresponding effective dates of policies.
4. Page 16 - Advance Premium—It is recommended that the company report its advance premium as required by SSAP No. 54, paragraph 6.
5. Page 16 - Income Taxes—It is recommended that the company file the correct tax forms with the appropriate state and federal agencies.

## IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
Ana Careaga	Insurance Financial Examiner
Thomas Houston	IT Specialist

Respectfully submitted,

Margaret Callahan  
Examiner-in-Charge