

Report
of the
Examination of
Delta Dental of Wisconsin, Inc.
Stevens Point, 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

August 24, 2012

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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:

DELTA DENTAL OF WISCONSIN, INC.
Stevens Point, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Delta Dental of Wisconsin, Inc. (DDW 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
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing
- Enrollee Complaint Procedure
- Underwriting

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.

II. HISTORY AND PLAN OF OPERATION

Delta Dental of Wisconsin, Inc., is described as a non-stock, nonprofit service insurance corporation, licensed under ch. 613, Wis. Stat., established to provide dental care plans. DDW offers a variety of benefit plans, on both insured and self-insured basis, including: a) traditional indemnity plans and b) preferred provider option. These plan types are further discussed in the description of benefit plans later in this section.

The company was incorporated on May 17, 1962, and commenced business on January 1, 1967. The company was initially named Wisconsin Dental Service, Inc. It changed its name to Delta Dental Plan of Wisconsin in 1978. In May 2005 the company amended its Articles of Incorporation to change its name to that presently used. In April 2008 the company amended its bylaws to refine its committee structure ensuring that the Executive Committee had alternating directors, expanding the duties of the Nominating and Governance Committee, establishing a Compensation Committee, and clarifying the succession plan in the event the chairperson can no longer serve. The company is part of the nationwide Delta Dental Plan System. The Delta Dental Plan Association provides centralized advertising, business consulting, and other services to member plans.

DDW utilizes two network systems to carry out its task of providing dental services—Delta Dental Premier and Delta Dental PPO. A traditional indemnity program is delivered through the Delta Dental Premier network. DDW has contracts with 2,837 providers, approximately 90% of Wisconsin dentists. Under a participating dentist contract, providers agree to accept payment for services based on the lesser of the actual billed fee or the Maximum Allowable Charge (MAC) established by DDW for each procedure. Enrollees are free to see both contracted and noncontracted providers and no referrals are necessary to seek treatment from a specialist.

In addition to contracted arrangements with providers for its indemnity plans, the company also has a preferred provider option (PPO) network which includes 1,137 contracting providers. Under the PPO contracts, dentists agree to reimbursement according to a schedule designed to be significantly below the average fee charged per procedure. DDW has separate

rate schedules for general dentistry and specialists in endodontics, periodontics, oral surgery, and orthodontics.

Delta Dental Premier and PPO networks are available on both insured and self-insured Administrative Services Only (ASO) plans. Currently, approximately 70% of DDW's book of business is ASO. Under ASO plans, an employer establishes benefits, rights and privileges for participating employees and their dependents. DDW processes benefit payments and collects per-member-per-month administrative fees from the employer for service rendered.

Pooled plans for small groups (2 to 49 employees) are available utilizing the Delta Dental Premier and PPO networks. Plans for groups with 2 or more employees can be offered without any employer contribution.

The provider contracts for both the Delta Dental Premiere and PPO networks include hold-harmless provisions for the protection of policyholders. Under these contracts, the dentist agrees that an eligible patient shall not be liable for any amount payable by DDW under the terms of the applicable dental care contract, whether or not payment has been made by DDW. Provider contracts may be terminated by either party giving not less than 30 days' written notice to the other party prior to the desired effective date of termination.

Group Insurance Coverage

The company markets its group insurance plans throughout Wisconsin. The company offers a limited range of dental care coverage that may be changed by riders to include deductibles and coinsurance. The following basic dental-care coverages are provided:

- Diagnostic and preventive services (dental exams, bitewing x-rays, teeth cleaning, topical fluoride treatment for dependents to age 19).
- Basic restorative services (emergency treatment to relieve pain; extractions and other oral surgery; fillings).
- Major restorative services (root canal and gum disease treatment, oral surgery, crowns, complete and partial dentures, fixed bridges, repairs and adjustments).
- Orthodontic treatment – optional.

Deductibles usually range from \$0 to \$100 per person per calendar year. Dependent coverage is generally provided to age 26 for dependents and full-time students. Benefit maximums vary by plan type, usually ranging from \$300 to \$2,000 per person per Benefit

Accumulation Period. Under the PPO plans, use of the PPO network is encouraged by plan design and by additional out-of-pocket costs for going off-network. Coinsurance percentages may apply.

The company markets to groups and individuals. Nearly all of DDW's group dental plans can be offered at any level of employer contribution. Group business is marketed using outside agencies supported by in-house account executives. Agent commissions range from 1% to 10% of annual premium, varying by product. Individual business is marketed by Encara Corp. on behalf of DDW but is administered by DDW.

Individual Dental Coverage

Delta Dental of Wisconsin, Inc., has two Individual plan options, standard and enhanced, created exclusively for single enrollees (single plan), single enrollee plus one dependent (two-person plan), or single enrollee plus multiple dependents (family plan). The deductible for individual dental coverage is the same for the enhanced and standard plans. A \$50 deductible applies to single coverage and for each individual in two-person plans. For family coverage, the deductible is \$150 for the entire family. The deductible is annual, based on a calendar year. The deductible does not apply to benefits covered at 100%.

The diagnostic and preventative services¹ offered in the individual dental coverage is 100%² for the enhanced plan and 80%² for the standard plan. Diagnostic and preventative services include the following:

- Exams (at six-month intervals)
- Cleanings (at six-month intervals)
- Bitewing x-rays (once in twelve months)
- Other x-rays (full mouth every five years)
- Topical fluoride (once in twelve months through age 19)
- Space maintainers (through age 15)
- Sealants (through age 13)

¹ There are no waiting periods for diagnostic and preventive services, and emergency treatment of dental pain. There is a 6-month waiting period for fillings and extractions and for all other services there is a 12-month benefit waiting period. The waiting period is waived if you were covered under a comprehensive dental plan within 60 days of the start of your coverage under this policy. Waiting periods must be satisfied if there has been a lapse in coverage or for new members who are added to this policy.

² Payment for services under these plans is based on Delta Dental of Wisconsin's MAC fee schedule. If you see a Delta Dental PPO dentist, then the percentages shown will reflect your actual benefit, after the deductible is satisfied. However, if the dentist you see is not a member of the Delta Dental PPO network, your out-of-pocket costs may be higher, as the dentist may bill you for the amount between his/her fee and the Delta Dental MAC.

Other services¹ offered in the individual dental coverage is 50%² for the enhanced plan and 50%² for the standard plan and include the following:

- Emergency treatment to relieve pain
- Crowns
- Simple extractions
- Root canal therapy
- Periodontics
- Replacement of missing teeth

The annual maximum benefit for the individual plans is \$1,000 for the enhanced plan and the standard plan and there is a vision discount program included.

The company uses an actuarially determined base as a beginning point in premium determination. This rate is adjusted to reflect the age, 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 annually for inflation and other trending factors.

DDW is a member of the Delta Dental Plans Association (DDPA). DDPA, headquartered in Oak Brook, Illinois, is an association of independent service corporations from around the country. The DDPA coordinates activity among the Delta Dental plans. Examples of DDPA activities include advertising programs, DeltaUSA products, and setting of national standards for such issues as grievance procedures and contract language. DDW's President, Dennis Brown, is a member of the DDPA board of directors.

DDW maintains a strategic alliance with the DDPA member companies of Iowa, Illinois and Arizona, which it refers to as the Advantech partnership. DDW provides the members of the alliance with certain information technology services for dental-benefit administration. These services include the conversion of a member's data from its existing third-party vendor's system to DDW's system, software development and implementation, online processing services, and training and consulting. The members of the partnership reimburse DDW for its service on a volume-based fixed charge per claim, subject to a minimum monthly charge. In addition, the development costs of any new enhancement to the system are split between the partners that are participating in the project.

As part of its business operations, DDW provides financial support to various organizations that promote oral health of the Wisconsin residents. In large part, this support is directed toward people in rural and underserved urban areas. In 2012, the company distributed more than \$4.8 million in grants and scholarships for dental-related causes.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members, with the company president serving for the length of his term and the remaining eight directors being elected annually to serve a three-year term, subject to the three-term limit. Officers for the board are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. All board members not employed by DDW currently receive \$700 per meeting compensation. Members not employed by DDW receive monthly compensation in a range from \$2,973 to \$3,864 for serving on the board. The company pays expenses for meals and lodging. Board members living outside a 10-mile radius of Stevens Point are reimbursed for mileage at the current IRS rates.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
David H. Bretting Ashland, WI	President and CEO C.G. Bretting Manufacturing Co. Inc.	2012
Vincent P. Lyles Milwaukee, WI	President and CEO Boys and Girls Clubs of Greater Milwaukee	2012
Dr. Monica Hebl, DDS Milwaukee, WI	Practicing Dentist Burleigh Dental, SC	2013
Charles Nason Stevens Point, WI	Retired - Book Publisher	2014
Karen Ordinans Milwaukee, WI	Consumer Advocate Childrens Health Alliance of WI	2014
Christopher Queram Middleton, WI	Health Care Executive The WI Collaborative for Healthcare Quality	2014
Eugene R. "Pepi" Randolph Milwaukee, WI	Chief Executive Officer Potawatomi Business Development	2012
Dr. Timothy R. Kinzel, DDS Madison, WI	Practicing Dentist Children's Dental Center of Madison, SC	2013
Dennis L. Brown Stevens Point, WI	President and CEO, Delta Dental of Wisconsin, Inc.	N/A

Officers of the company

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

Name	Office	2011 Compensation
Dennis Brown	President	\$696,943
Dennis Peterson	Secretary	509,273
Douglas Ballweg	Treasurer	387,716

Committees of the Board

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

Executive Committee

Chuck Nason, Chair
Dennis Brown, President
Karen Ordinans
Chris Queram
Eugene "Pepi" Randolph

Finance and Audit Committee

Vincent Lyles, Chair
Chuck Nason, Board Chairperson
Dr. Timothy Kinzel
David Bretting

Nominating and Governance Committee

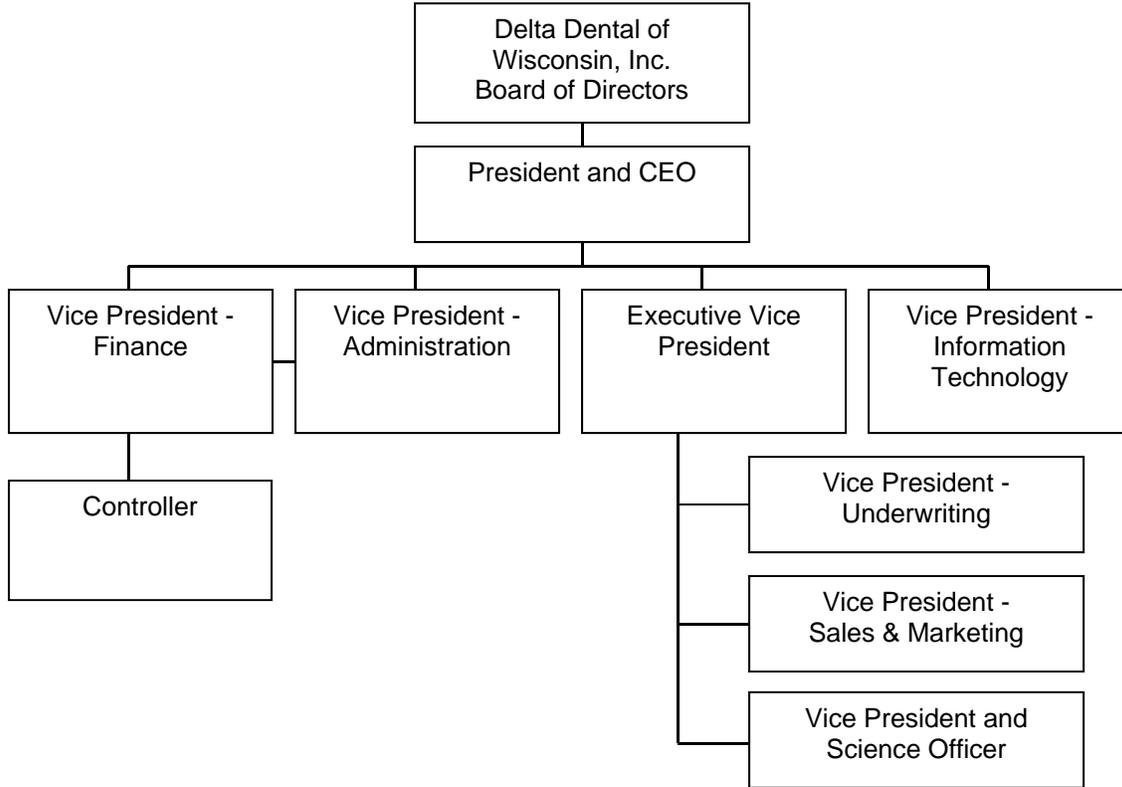
Karen Ordinans, Chair
Chuck Nason, Board Chairperson
Eugene "Pepi" Randolph
Dr. Timothy Kinzel

Compensation Committee

Chris Queram, Chair
Chuck Nason, Board Chairperson
Vincent Lyles
Dr. Monica Hebl

The company has its own employees. The organizational and principal officers of the company are reflected in the chart below.

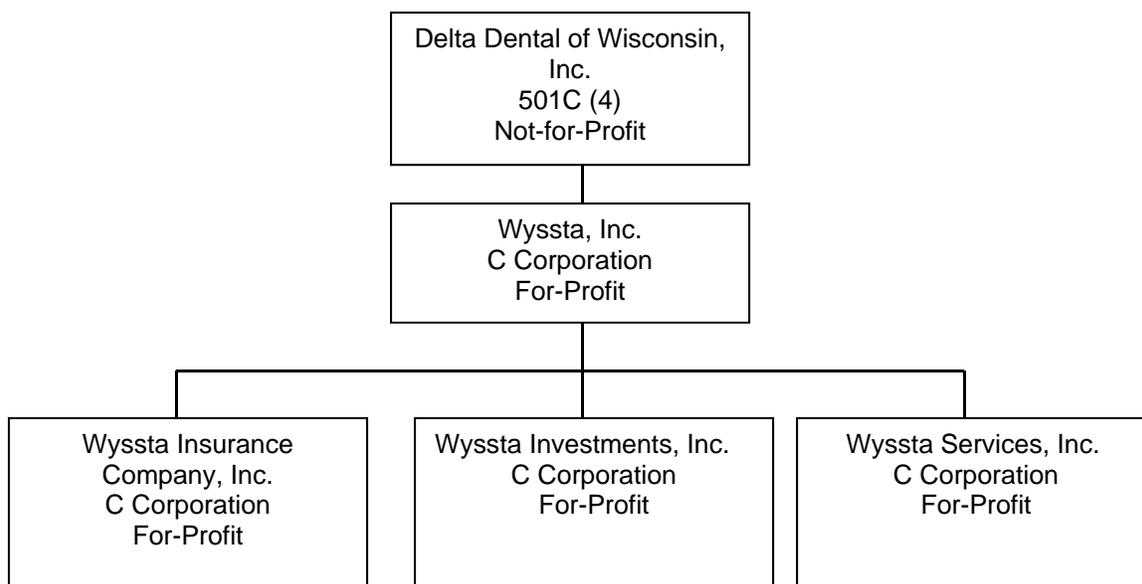
**Delta Dental of Wisconsin, Inc.
Organizational Chart**



IV. AFFILIATED COMPANIES

Delta Dental of Wisconsin, Inc., is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. All members on the holding company chart are domiciled in Wisconsin. A brief description of the significant affiliates of Delta Dental of Wisconsin, Inc., follows the organizational chart.

Holding Company Chart As of December 31, 2011



Wyssta, Inc.

Wyssta, Inc., became a part of the holding company system on June 30, 2005, on which date it was incorporated. Wyssta, Inc., was formed to operate as a holding company for its parent, Delta Dental of Wisconsin, Inc., and it is wholly owned by DDW. Wyssta, Inc., has three wholly owned subsidiaries, Wyssta Insurance Company, Inc., Wyssta Investments, Inc., and Wyssta Services, Inc. Wyssta, Inc., has 100,000 shares of no par value common stock authorized and 4,070 shares issued and outstanding. As of December 31, 2011, the Wyssta, Inc., and Subsidiaries audited financial statement reported total consolidated assets of \$13,498,363, total consolidated liabilities of \$865,370, and total consolidated stockholder's equity

of \$12,632,993. Operations for 2011 produced a consolidated net loss of \$3,935,528 on total consolidated premium earned of \$4,600,944.

Wyssta, Inc., has a service agreement with Delta Dental of Wisconsin, Inc., dated January 1, 2008, according to which DDW provides to Wyssta, Inc., administrative, managerial, and professional services. In addition, DDW maintains premises and employees sufficient to provide Wyssta, Inc., with space and services necessary for Wyssta, Inc., to carry out its operations. Wyssta, Inc., reimburses DDW for all costs and expenses incurred by DDW for employees, equipment, facilities and other items in connection with DDW performing services on behalf of Wyssta, Inc.

Wyssta Insurance Company, Inc.

Wyssta Insurance Company, Inc., became a part of the holding company system on June 30, 2005, on which date the company was incorporated. The company was organized under ch. 611, Wis. Stat. Wyssta Insurance Company, Inc., provides group vision policies offered through a partnership with EyeMed Vision Care, Inc. Wyssta Insurance Company, Inc., has 50,000 shares of \$25 par value common stock authorized, issued, and outstanding which are indirectly owned by DDW. As of December 31, 2011, the Wyssta, Inc., and Subsidiaries audited financial statement reported total assets of \$6,808,023, total liabilities of \$855,850, and total stockholder's equity of \$5,952,173 for Wyssta Insurance Company, Inc. Operations for 2011 produced net income of \$606,071 on total revenues of \$4,766,063.

Wyssta Insurance Company, Inc., has a service agreement with DDW, dated January 1, 2008, according to which DDW provides to Wyssta Insurance Company, Inc., administrative, managerial, and professional services. In addition, DDW maintains premises and employees sufficient to provide Wyssta Insurance Company, Inc., with space and services necessary for Wyssta Insurance Company, Inc., to carry out its operations. Wyssta Insurance Company, Inc., reimburses DDW for all costs and expenses incurred by DDW for employees, equipment, facilities and other items in connection with DDW performing services on behalf of Wyssta Insurance Company, Inc.

Wyssta Services, Inc.

Advantech Dental Administration, Inc., was established in 1998 to provide various dental-administrative services. Wyssta Services, Inc., became the new name of Advantech Dental Administration, Inc., effective January 11, 2006. Wyssta Services, Inc., has 9,000 shares of \$1.00 par value common stock authorized and 3,500 shares issued and outstanding which are indirectly owned by DDW. As of December 31, 2011, the Wyssta, Inc., and Subsidiaries audited financial statement reported total assets of \$231,445, total liabilities of \$5,599, and total stockholder's equity of \$225,846 for Wyssta Services, Inc. Operations for 2011 produced net income of \$15,263 on total revenues of \$97,596.

DDW has a service agreement with Wyssta Services, Inc., dated January 1, 2008, according to which DDW provides administrative and managerial services necessary for Wyssta Services, Inc., to conduct its normal business operations as a third-party administrator. The services include providing general management, information and personnel to perform third-party processing services. Wyssta Services, Inc., reimburses DDW for the actual cost of these services.

Wyssta Investments, Inc.

Wyssta Investments, Inc., became a part of the holding company system on August 18, 2006. Wyssta Investments, Inc., was created for the purpose of holding an investment in a start-up biotechnology company, C3 Jian, Inc. (C3 Jian). But since this time the company has added an investment in Healthentic, Inc. (Healthentic) and an investment in Encara Corporation (Encara).

- C3 Jian—A biotech firm out of Marina Del Rey, California, which conducts research projects related to dental cavity treatments. In prior years Wyssta Investments, Inc., has invested \$11,000,000 in C3 Jian, resulting in a 32% ownership as of December 31, 2011. There is an additional \$10,000,000 commitment which will be paid in 2012. Employees of DDW held two of the eight board positions of C3 Jian as of December 31, 2011. Under the equity method of accounting the Wyssta Investments, Inc., share of the equity in C3 Jian was \$3,462,945 as of December 31, 2011, and \$6,562,801 as of December 31, 2010. This investment resulted in losses being recognized of \$3,099,856 (2011) and \$1,590,515 (2010), respectively.
- Healthentic—Based in Seattle, Washington, this firm promotes wellness by offering a tool to help benefit managers control health care costs and outcomes. Wyssta Investments, Inc., was approximately an 18% owner in Healthentic as of December 31, 2011. In 2010 Wyssta Investments, Inc., invested \$400,000 in Healthentic and in 2011 an additional \$900,000 with a remaining commitment of \$300,000 that will be invested when certain milestones are met.

Total investment as of December 31, 2011, is \$2,150,000. Under the equity method of accounting the Wyssta Investments, Inc.'s share of the equity in Healthentic was \$676,443 as of December 31, 2011, and \$479,116 as of December 31, 2010. This investment resulted in losses being recognized of \$702,673 (2011) and \$362,253 (2010), respectively.

- Encara—A joint venture effort with three members of the Delta Dental Plan Association (Virginia, Washington, and New Jersey) to devise a dental insurance product for offering in the individual health exchanges to be created by national health care reform. In 2011, Wyssta Investments, Inc., has invested \$2,000,000 in Encara and has a remaining commitment of \$1,000,000. Wyssta Investments, Inc., held a 25% ownership interest and held one of four board seats as of December 31, 2011. Under the equity method of accounting the Wyssta Investments, Inc., share of the equity in Encara was \$1,351,239 as of December 31, 2011. This investment resulted in losses being recognized of \$648,761 (2011).

As of December 31, 2011, the Wyssta, Inc., and Subsidiaries audited financial statement reported total assets of \$5,986,543, total liabilities of \$5,983, and total stockholder's equity of \$5,980,560 for Wyssta Investments, Inc. Operations for 2011 produced a net loss of \$4,523,919.

DDW has a service agreement with Wyssta Investments, Inc., dated January 1, 2008, according to which DDW provides administrative and managerial services necessary for Wyssta Investments, Inc. The services include general management, information and personnel to perform duties. Wyssta Investments, Inc., reimburses DDW for the actual cost of these services.

V. REINSURANCE

Effective December 31, 1995, DDW entered into a joint venture agreement with Wisconsin Physicians Service Insurance Corporation (WPS). Under the agreement, DDW “will underwrite and issue group dental coverage under one of its group dental plans to eligible participants enrolled by WPS and will also process, investigate, settle, and issue benefit payments for such plan participants.” WPS’ duties include marketing and premium collection. The joint venture agreement defines fees relevant to the joint venture policies and indicates that fees are to be split monthly so that 80% is earned by DDW as its administrative fee and 20% is earned by WPS as its marketing fee. Both marketing and administrative fees are subject to specified per-member-per-month minimum earning level. The agreement was non-cancellable for the initial three-year term after which it can be automatically renewed for additional one-year terms. All policies issued under the WPS/DDW joint venture agreement are reinsured under a quota-share reinsurance agreement, which is outlined below:

Reinsurer: Wisconsin Physicians Service Insurance Corporation
 Type: Quota-Share Reinsurance
 Effective date: January 1, 1996; policy is for an initial three-year term and automatically renewing for additional one-year terms thereafter

Policy Coverage Reinsured:	Reinsurance Quota Share	Company's Quota Share	Ceding Allowance
1) Group dental policies originally issued by WPS and then transferred to DDW policy forms in accordance with the 1995 joint venture agreement	100%	None	None
2) Group dental policies solicited by WPS and issued on DDW policy form with initial effective dates of January 1, 1996, or later	50%	50%	None
3) Group dental policies solicited by and originally issued on DDW policy forms who elect to enter the Joint Venture agreement	None	100%	100%

Termination: Either party may terminate the agreement by giving the other party written notice of such intention to terminate at least 180 days in advance of the effective date of termination

The quota-share reinsurance agreement contains a proper insolvency clause.

On February 1, 2000, DDW entered into a reinsurance assumption agreement with seven members of the Delta Dental Plan Association (DDPA). The purpose of the agreement is to share the underwriting risk under the TRICARE Retiree Dental Program (TRDP). The TRDP contract was awarded to Delta Dental Plan of California (DDP of CA) by the United States Department of Defense to provide dental benefits to certain military personnel retired from the U.S. Military Services and their dependents. All functions and operations required to be performed by the TRDP contract are performed by DDP of CA. The Delta Dental Plan Association members participating in the agreement share any underwriting gain or loss sustained under the TRDP contract according to their contractual percentages. DDW participates in the agreement with a 1.91% share.

VI. 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."

Delta Dental of Wisconsin, Inc.
Assets
As of December 31, 2011

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 73,277,402	\$ 0	\$ 73,277,402
Stocks:			
Common stocks	51,337,199	0	51,337,199
Real estate:			
Properties occupied by the company	4,836,718	0	4,836,718
Cash, cash equivalents and short-term investments	14,569,493	0	14,569,493
Other invested assets	200,000	200,000	0
Investment income due and accrued	862,125	0	862,125
Uncollected premiums and agents' balances in the course of collection	958,218	339	957,879
Funds held by or deposited with reinsured companies	152,961	0	152,961
Amounts receivable relating to uninsured plans	682,541	0	682,541
Electronic data processing equipment and software	310,868	24,560	286,308
Furniture and equipment, including health care delivery assets	155,225	155,225	0
Aggregate write-ins for other than invested assets	<u>1,916,544</u>	<u>342,739</u>	<u>1,573,806</u>
Total Assets	<u>\$149,259,293</u>	<u>\$722,862</u>	<u>\$148,536,431</u>

Delta Dental of Wisconsin, Inc.
Liabilities and Net Worth
As of December 31, 2011

Claims unpaid	\$ 5,899,000
Unpaid claims adjustment expenses	389,403
Premiums received in advance	3,476,579
General expenses due or accrued	5,606,892
Amounts due to parent, subsidiaries and affiliates	335,829
Liability for amounts held under uninsured plans	737,448
Aggregate write-ins for other liabilities	<u>10,528,699</u>
Total liabilities	26,973,850
Unassigned funds (surplus)	<u>121,562,581</u>
Total Liabilities, Capital and Surplus	<u>\$148,536,431</u>

**Delta Dental of Wisconsin, Inc.
Statement of Revenue and Expenses
For the Year 2011**

Net premium income		\$132,402,584
Medical and hospital:		
Other professional services	\$108,418,922	
Less:		
Net reinsurance recoveries	(3,109,635)	
Claims adjustment expenses	2,024,585	
General administrative expenses	<u>14,207,237</u>	
Total underwriting deductions		<u>127,760,379</u>
Net underwriting gain or (loss)		4,642,205
Net investment income earned	2,612,326	
Net realized capital gains or (losses)	<u>3,852,039</u>	
Net investment gains or (losses)		6,464,365
Sundry		<u>96,655</u>
Net Income (Loss)		<u>\$ 11,203,225</u>

**Delta Dental of Wisconsin, Inc.
Capital and Surplus Account
As of December 31, 2011**

Capital and surplus prior reporting year		\$116,693,362
Net income or (loss)	\$11,203,225	
Net unrealized capital gains and losses	(6,102,682)	
Change in nonadmitted assets	<u>(231,324)</u>	
Net change in capital and surplus		<u>4,869,219</u>
Capital and Surplus End of Reporting Year		<u>\$121,562,581</u>

Delta Dental of Wisconsin, Inc.
Statement of Cash Flows
As of December 31, 2011

Premiums collected net of reinsurance		\$132,854,481
Net investment income		3,064,720
Miscellaneous income		<u>96,654</u>
Total		136,015,855
Less:		
Benefit- and loss-related payments	\$111,714,557	
Commissions, expenses paid and aggregate write-ins for deductions		<u>12,241,340</u>
Total		<u>123,955,897</u>
Net cash from operations		12,059,958
Proceeds from investments sold, matured or repaid:		
Bonds	\$11,479,459	
Stocks		<u>19,240,996</u>
Total investment proceeds		30,720,454
Cost of investments acquired—long-term only:		
Bonds	15,449,001	
Stocks	16,809,834	
Real estate	42,521	
Other invested assets		<u>100,000</u>
Total investments acquired		<u>32,401,356</u>
Net cash from investments		(1,680,902)
Cash provided/applied:		
Other cash provided (applied)		<u>(501,240)</u>
Net change in cash, cash equivalents, and short-term investments		9,877,816
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>4,691,676</u>
End of Year		<u>\$ 14,569,493</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	\$148,536,431	\$26,973,850	\$121,562,581	\$132,402,584	\$111,528,557	\$11,203,225
2010	139,743,277	23,049,915	116,693,362	119,376,439	102,492,050	10,157,153
2009	135,236,705	30,837,291	104,399,414	110,002,696	94,773,739	(2,063,408)
2008	117,750,310	17,231,883	100,518,427	106,025,103	88,612,829	7,530,836
2007	120,705,237	18,091,269	102,613,978	107,074,147	87,762,877	10,268,338

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Enrollment	Change in Enrollment
2011	8.1%	84.2%	11.7%	189,613	7.7%
2010	8.1	85.9	9.7	176,012	6.2
2009	(1.8)	86.2	18.4	165,627	(0.4)
2008	7.2	83.6	8.8	166,367	(5.7)
2007	9.1	82.0	13.0	176,347	0.4

Per Member Per Month Information

	2011	2010	Percentage Change
Premium	\$59.73	\$57.09	4.6%
Expenses:			
Medical expenses	50.31	49.01	2.6
Claims adjustment expenses	0.91	1.19	(23.5)
General administrative expenses	<u>7.32</u>	<u>5.80</u>	<u>26.2</u>
Total underwriting deductions	<u>\$58.54</u>	<u>\$56.00</u>	<u>5.1%</u>

Premium earned generally grew steadily during the examination period from \$107.1 million in 2007 to \$132.4 million in 2011. Premium earned declined in 2008 due to a decline in enrollment which was generally driven by the economic downturn, despite record sales for the company in that year. While the number of groups increased by 162 (6%), the total number of employees covered declined by 11,453 (6%). The reductions in workforce in 2008 accounted for a portion of this decline in enrollment for certain employer-paid groups.

Additionally, decreasing participation in the voluntary plans offered by other groups accounted for the remaining portion. Therefore, with the exception of 2008, the growth in premiums has been strong for this company and medical expenses incurred have grown proportionately to the growth in premiums earned and enrollment.

The fluctuations in the administrative expense ratio in 2007 and 2009 relate to the board's decision to provide supplemental retirement plans for long-term members of the executive management team. The decision resulted in one-time charges to net income of \$5,332,576 in 2007 and \$12,366,407 in 2009. With the exception of these two nonrecurring charges, the company's administrative expenses have grown proportionately to premium and enrollment gains over the examination period.

The company's operating results were profitable each year with the company reporting a profit margin between 8.1% and 9.1%, with the exception of 2009, when the company recorded a \$2.1 million net operating loss attributable to the supplemental retirement charge discussed above. Surplus grew 18% over the examination period. Also, assets increased 23% and liabilities increased 49% during the examination period. The increase in assets contributed to the growth in surplus due to an increase in the invested assets base.

Reconciliation of Capital and Surplus per Examination

There were no adjustments to the company's surplus as a result of this examination.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were 11 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. Custodial Agreement—It is recommended that the company maintain its custodial agreement in accordance with the requirements set forth in the NAIC Financial Condition Examiners Handbook.

Action—Compliance.

2. Management and Control—It is recommended that the company properly file biographical sketches in accordance with s. Ins 6.52 (5), Wis. Adm. Code.

Action—Compliance.

3. Uninsured Plans—It is suggested that the company report balances relating to uninsured plans in accordance with the NAIC Annual Statement Instructions – Health.

Action—Compliance.

4. Bonds and Stocks—It is again recommended that the company calculate amortization of bond premium or discount using the scientific interest method in accordance with SSAP No. 26, paragraph 6, and correctly disclose the amortization method used in the notes to the financial statements.

Action—Compliance.

5. Bonds and Stocks—It is recommended that the company properly fill out Schedule D – Part 1, in accordance with the NAIC Annual Statement Instructions – Health.

Action—Compliance.

6. Bonds and Stocks—It is recommended that the company obtain and maintain adequate records and documentation to support the rating designation and filing status of their securities in accordance with s. Ins 6.80 (4), Wis. Adm. Code.

Action—Compliance.

7. Real Estate—It is recommended that the company properly fill out Schedule A, Part 1, on all future financial statements.

Action—Compliance.

8. Reinsurance—It is recommended that the company report the gross amount of claim payments in line 1.1 and include reinsurance recovered during the year in line 1.3 on Underwriting and Investment Exhibit, Part 2, in accordance with the NAIC Annual Statement Instructions – Health.

Action—Compliance.

9. Affiliates—It is recommended that the company correctly fill out Schedule Y, Part 1, per the NAIC Annual Statement Instructions – Health on all future financial statements.

Action—Compliance.

10. Affiliates—It is recommended that the company disclose all commitments it made to any member of the holding company system in accordance with SSAP No.8, paragraph 29.

Action—Compliance.

11. Affiliates—It is recommended that the company comply with the requirements of s. Ins 40.04 (2) (d), Wis. Adm. Code, and file all service contracts with its affiliates at least 30 days before the contracts become effective.

Action—Compliance.

Summary of Current Examination Results

The current examination resulted in no exam recommendations, reclassifications, or surplus adjustments.

Financial Requirements

The company's calculation of compulsory and security surplus under s. Ins 51.80, Wis. Adm. Code, as of December 31, 2011, is as follows:

Total Assets		\$139,353,447
Less: Investments in insurance subsidiaries		(5,827,934)
Plus: Security surplus excess of insurance subsidiaries		<u>3,027,934</u>
Total assets for compulsory/security surplus		136,553,447
Liabilities		<u>22,737,454</u>
Subtotal – Surplus adjusted for compulsory/security surplus		<u>\$113,815,993</u>
Net amount available to satisfy surplus requirements		\$113,815,993
Net premium earned	\$132,402,584	
Compulsory factor	<u>20%</u>	
Compulsory surplus (not less than \$2,000,000)		<u>26,480,516</u>
Compulsory Excess/(Deficit)		<u>\$ 87,335,477</u>
Net amount available to satisfy surplus requirements		\$113,815,993
Compulsory surplus	\$ 26,480,516	
Security surplus factor	<u>137%</u>	
Security surplus		<u>36,278,306</u>
Security Excess/(Deficit)		<u>\$ 77,537,687</u>

VIII. CONCLUSION

Delta Dental of Wisconsin, Inc., is a non-stock, nonprofit service insurance corporation, established to provide dental care plans. Approximately 90% of Wisconsin dentists have a participating dental contract with DDW.

DDW's financial statements reported assets of \$148,536,431, liabilities of \$26,973,850, and surplus of \$121,562,581. Operations for 2011 produced a net income of \$11,203,225. Total assets increased 23%, liabilities increased 49%, and surplus increased 18% in the past five years. Premiums increased 24% during the examination period. The company had a favorable net income in four of the five years under examination, with the exception of 2009, when the company took a one-time, nonrecurring charge related to a supplemental retirement plan.

The prior examination resulted in 11 recommendations. The company complied with all prior examination recommendations. The current examination resulted in no recommendations, reclassifications, or surplus adjustments.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The current examination resulted in no exam recommendations, reclassifications, or surplus adjustments.

X. 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:

Name	Title
Vickie Ostien	Insurance Financial Examiner
Raymond Kangogo	Insurance Financial Examiner
Thomas Houston, CPA, CFE	IT Specialist

Respectfully submitted,

Gene M. Renard, CFE
Examiner-in-Charge