

Report
of the
Examination of
Dental Com Insurance Plan, Inc.
Marshfield, Wisconsin
As of December 31, 2012

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

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August 23, 2013

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Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
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Commissioner:

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

DENTAL COM INSURANCE PLAN, INC.
Marshfield, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Dental Com Insurance Plan, Inc. (Dental Com or the company) was conducted in 2008 as of December 31, 2007. The current examination covered the intervening period ending December 31, 2012, and included a review of such 2013 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

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 annual statement compilation and federal and state tax return 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

The Dental Com Insurance Plan, Inc., is described as a for-profit, group model limited service health organization (LSHO) insurer. A 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 systems.

The company was incorporated August 6, 2003, and commenced business February 18, 2004. The company is owned by Dental Clinic of Marshfield, S.C. (Dental Clinic).

The company provides primary and specialty dental care through its contract with its sole provider, the Dental Clinic of Marshfield, S.C. The Dental Clinic performs a variety of dental services. Covered services include routine dental services, orthodontics, oral surgery and emergency service. Covered services are defined in the Group Policy, which is negotiated with each group for the benefit of its enrollees. The Group Policy is discussed below in greater detail.

The company has entered into a Provider Agreement with the Dental Clinic. The Provider Agreement contains two hold harmless provisions concerning those services covered in the Group Policy. The first hold harmless provision protects the enrollee (i.e., the policyholder) from being charged for covered services provided by the Dental Clinic. The second hold harmless provision protects Dental Com from all claims, liabilities, damages, judgments, charges, or assessments which arise out of covered services provided by the Dental Clinic. In return for providing these covered services, the Dental Clinic is paid 90% of the premiums received by the company.

The agreement includes hold harmless provisions for the protection of policyholders. The agreement has a one-year term and may be terminated. The agreement will be automatically renewed for one-year terms unless renegotiated or terminated. Either party may

terminate the agreement with or without cause at the end of a term by giving the other party at least 90 days' prior written notice.

The company also has an Administrative Services Agreement with the Dental Clinic. This agreement compensates the Dental Clinic for providing various administrative services, such as marketing, accounting, legal, and information technology services. In return for these administrative services the Dental Clinic is paid 10% of premiums received by the company. In total, the Dental Clinic receives 100% of the premiums received by the company.

Both the Provider and Administrative Services Agreements were effective on August 7, 2003.

According to its business plan, the company's service area is comprised of the following counties: Wood, Clark, Portage, Marathon and Taylor.

The Group Policy is negotiated between Dental Com and each group for the benefit of its members. The Group Policy defines the level of covered services, claim determinations, grievance procedures, premium payments, due dates, co-payments, enrollment, COBRA continuation, Medicare coverage, disenrollment, and exclusions for each group.

The company offers both dental and a limited range of oral health care coverage in the Group Policy which may be changed by riders to include deductibles and co-payments. The following basic services are offered to the groups:

- (1) Clinical Oral Evaluations
- (2) Radiographs
- (3) Tests and Laboratory Exams
- (4) Dental Prophylaxis
- (5) Topical Fluoride Treatment
- (6) Space Maintenance
- (7) Amalgam Restorations
- (8) Composite Restorations
- (9) Inlay / Onlay Restorations
- (10) Crowns, Pulp Capping
- (11) Endodontic Therapy and Pretreatment
- (12) Apexification / Recalcification
- (13) Surgical Procedures
- (14) Non-Surgical Periodontal
- (15) Dentures
- (16) Prosthesis, Implants
- (17) Extractions / Surgical Extractions
- (18) Alveoloplasty
- (19) Surgical Excision of Soft Tissue Lesions
- (20) Excision of Bone Tissue

- (21) Surgical Incision
- (22) TMJ
- (23) Repair of Traumatic Wounds
- (24) Comprehensive Orthodontic Treatment
- (25) Anesthesia
- (26) Professional Consultation

Limitations include services not specifically covered, congenital malformations, bleaching for cosmetic purposes, laboratory charges, replacement of crowns prior to five years, replacement of removable partial dentures whether lost, stolen, or damaged, duplicate prosthetic devices, dental or emergency services covered by worker's compensation or employer liability insurance, non-emergency dental treatments received at other facilities, hospital or physician services, services resulting from injuries as a result of war, and services received from employer dental department.

The company conducts its own marketing through its agent, Neil Armitage. As of the date of this report the company has a total of 15 groups. No marketing commissions are paid to Mr. Armitage who is compensated through the Dental Clinic. The company also has Bill Eggebrecht as a back-up agent. Mr. Armitage and Mr. Eggebrecht are both licensed agents with the state of Wisconsin. External agents for new and renewal business are not utilized.

By a decision of its management, Dental Com does not use an actuary when determining its premium rates. In determining rate adjustments, Neil Armitage, the Administrator, utilizes a combination of group size, group longevity and previous rates of return to determine renewal rates. With smaller groups, the company tries to blend the smaller group market together so that it does not see extreme increases which may be the result of one patient. Larger groups are rated on their own merit and past rate of returns while taking into account the potential fee increases with general fees. New groups are rated based on ages of employees, number of family and single policies that are possible within the group, and utilizing any history they have with any of the potential members.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 17 members who are all shareholders of the company. There are no outside directors on the board. All directors are full-time dentists working at the Dental Clinic of Marshfield, S.C. There are no expiration dates for the director's terms. They will serve as directors until they are no longer employed full-time at the Dental Clinic of Marshfield, S.C. The boards of directors of Dental Com and the Dental Clinic are comprised of the same individual members. The board members currently receive no compensation for serving on the board but are compensated by the Dental Clinic.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Mark Baumgartner Marshfield, Wisconsin	Periodontist	N/A
William Berry Marshfield, Wisconsin	General Dentist	N/A
Michael Gibson Marshfield, Wisconsin	General Dentist	N/A
William Horton Marshfield, Wisconsin	Pediatric Dentist	N/A
Paul Bruce Marshfield, Wisconsin	General Dentist	N/A
Timothy Coen Marshfield, Wisconsin	General Dentist	N/A
Dennis Godar Marshfield, Wisconsin	General Dentist	N/A
Curtis Kracht Marshfield, Wisconsin	General Dentist	N/A
Andrea McNeely Marshfield, Wisconsin	General Dentist	N/A
Kevin McEwen Marshfield, Wisconsin	General Dentist	N/A
Mike Murrell Marshfield, Wisconsin	General Dentist	N/A

Name and Residence	Principal Occupation	Term Expires
Jose Rodriguez Marshfield, Wisconsin	General Dentist	N/A
Donald Routier Marshfield, Wisconsin	Orthodontist	N/A
Steven Larson Marshfield, Wisconsin	General Dentist	N/A
Rick Mueller Marshfield, Wisconsin	General Dentist	N/A
Christopher Raasch Marshfield, Wisconsin	General Dentist	N/A
Cynthia Suarez Marshfield, Wisconsin	General Dentist	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	2012 Compensation*
Timothy Coen	President	\$0
Kevin McEwen	Vice President	0
Paul Bruce	Secretary/Treasurer	0

* Officers are compensated by the Dental Clinic.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The company currently has an Executive Committee which is comprised of the 3 officers and an Audit Committee which is comprised of its 17 board of directors. The company has no other committees.

Dental Com has no employees. Necessary staffing is provided through the Administrative Services Agreement with the Dental Clinic of Marshfield, S.C.

IV. AFFILIATED COMPANIES

Dental Com Insurance Plan, Inc., is a member of a holding company system. Its ultimate parent is the Dental Clinic of Marshfield, S.C. Dental Com has 10,000 authorized and outstanding shares of \$0.01 par value stock which are owned 100% by the Dental Clinic. The company has no subsidiaries. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of the Dental Clinic of Marshfield, S.C., follows the organizational chart.

**Holding Company Chart
As of December 31, 2012**



The Dental Clinic is a Wisconsin service corporation. Its Articles of Incorporation were filed on June 27, 1967, with the Office of the Secretary of State of Wisconsin. The Dental Clinic is owned by its shareholders. The Dental Clinic is authorized to issue up to 25 common shares, each having a par value of \$1,000. As of the year ending December 31, 2012, the Dental Clinic's unaudited financial statement reported total assets of \$3,621,190, liabilities of \$3,316,072, and stockholders' equity of \$307,977. Operations for the fiscal year ending December 31, 2012, produced Profit from Operations of \$5,376,638 and Net Corporate Profit of \$2,859.

The Dental Clinic has two small affiliates (not pictured) in addition to Dental Com. The first affiliate, Promac (Professional Management Company), was created by several of the Dental Clinic's partners. Promac employs a lab technician who is located at the Dental Clinic to process lab work. The second affiliate is an investment of the Dental Clinic known as the Dental Clinic Realty of Marshfield, LLC., a limited liability company which was formed to buy and sell property and is outside of the main business purpose of the Dental Clinic.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2012, 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.

Dental Com Insurance Plan, Inc.
Assets
As of December 31, 2012

	Assets	Nonadmitted Assets	Net Admitted Assets
Cash, cash equivalents and short-term investments	<u>\$16,034</u>	<u>\$0</u>	<u>\$16,034</u>
Total Assets	<u>\$16,034</u>	<u>\$0</u>	<u>\$16,034</u>

Dental Com Insurance Plan, Inc.
Liabilities and Net Worth
As of December 31, 2012

Amounts due to parent, subsidiaries and affiliates	\$16,034
Total capital and surplus	<u>0</u>
Total Liabilities, Capital and Surplus	<u>\$16,034</u>

**Dental Com Insurance Plan, Inc.
Statement of Revenue and Expenses
For the Year 2012**

Net premium income		\$2,855,064
Medical and administrative:		
Other professional services	\$2,569,558	
General administrative expenses	<u>285,506</u>	
Total underwriting deductions		<u>2,855,064</u>
Net Income (Loss)		<u>\$ 0</u>

**Dental Com Insurance Plan, Inc.
Statement of Cash Flows
As of December 31, 2012**

Premiums collected net of reinsurance		\$2,855,064
Benefit- and loss-related payments	\$2,569,558	
Commissions, expenses paid and aggregate write-ins for deductions	<u>285,506</u>	
Net cash from operations		<u>2,855,064</u> <u>0</u>
Other cash provided (applied)		7,566
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>8,468</u>
End of Year		<u>\$ 16,034</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
2012	\$16,034	\$16,034	\$0	\$2,855,064	\$2,569,558	\$0
2011	8,468	8,468	0	2,766,983	2,490,285	0
2010	8,724	8,724	0	2,677,345	2,409,610	0
2009	6,924	6,924	0	2,543,942	2,289,548	0
2008	6,036	6,036	0	2,461,135	2,215,022	0

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Enrollment	Change in Enrollment
2012	0.0%	90%	10%	7,389	1.7%
2011	0.0	90	10	7,266	1.0%
2010	0.0	90	10	7,195	3.6%
2009	0.0	90	10	6,943	-4.5%
2008	0.0	90	10	7,269	

Per Member Per Month Information

	2012	2011	Percentage Change
Premium	<u>\$32.91</u>	<u>\$32.02</u>	2.8%
Expenses:			
Other professional services	\$29.62	\$28.82	2.8
General administrative expenses	<u>3.29</u>	<u>3.20</u>	2.8
Total Underwriting Deductions	<u>\$32.91</u>	<u>\$32.02</u>	2.8

The company has a Provider and Administrative Services Agreement with the Dental Clinic, in which the provider fees equal 90% of the earned premium and the administrative fee equals 10% of earned premium (less any direct expenses paid by the company). The Provider and Administrative Services Agreements result in no net income or loss to the company. Premiums are received monthly from each group and entered into the Dental Com checking

account. Once a month these premiums are transferred from Dental Com to the Dental Clinic under the two agreements noted above.

All expenses for covered services are paid directly by the Dental Clinic, which recognizes expenses on a cash basis of accounting, and does not submit claims to Dental Com for reimbursement according to the Provider Agreement. Therefore, there are no unpaid claims or loss reserves reported on Dental Com's annual statements. All other expenses are paid through the Dental Clinic on a cash basis according to the Administrative Services Agreement. The Provider and Administrative Services Agreements properly eliminates the need for all year-end expense accruals for Dental Com.

Dental Com's financial condition has not experienced much change since the previous examination due to its risk arrangement with the Dental Clinic. The company has experienced growth of its revenue over the past five years by 16% from \$2.46 million to \$2.86 million. The company's total medical and hospital expenses has increased by 16% from \$2.22 million to \$2.57 million and its total administrative expenses by 16% from \$246 thousand to \$286 thousand. Its total member months have remained around 86 thousand from 2008 to 2012. Dental Com is expected to continue this steady growth in the foreseeable future.

Reconciliation of Capital and Surplus per Examination

The current examination resulted in no adjustments to capital and surplus or reclassifications of balance sheet accounts.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were seven 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. Reporting of Changes in Officers and Directors—It is recommended that the company properly indicate changes in directors, officers and trustees in accordance with the NAIC Annual Statement Instructions - Health.

Action—Compliance

2. Conflict of Interest—It is recommended that each of the company's officers, directors, and key employees annually make conflict of interest disclosure to the company and that the company retain the disclosures in the company's records from examination to examination, in compliance with the directive from the Commissioner of Insurance dated March 9, 1989.

Action—Compliance

3. Advance Premiums—It is recommended that the company report all premiums received in advance of the valuation date, but which are due after the valuation date, as an advanced premium liability, in accordance with SSAP No. 54 of the NAIC Accounting Practices and Procedures Manual.

Action—Compliance

4. Letter of Credit—It is recommended that the company provide a letter of credit which meets the requirements as defined in s. Ins 9.01 (1), Wis. Adm. Code.

Action—Compliance

5. Cash—It is recommended that the company retain all voided checks in a secure location to ensure that all checks written are properly accounted for.

Action—Compliance

6. Appointment and Listing of Agents—It is recommended that the company use agents who are appointed by the company to procure business and are listed with the State of Wisconsin, Office of the Commissioner of Insurance, in accordance with s. 628.11, Wis. Stat., and s. Ins 6.57 Wis. Adm. Code.

Action—Compliance

7. Capital and Surplus—It is recommended that the company consummate the sale of its common stock as contemplated by the Stock Subscription Agreement.

Action—Compliance

Summary of Current Examination Results

Administrative Service Fee

Upon reviewing the Administrative Services Agreement provided by the company as part of the initial request, the examiners noted that according to Attachment A, "In exchange for providing administrative expenses, Company shall pay to Administrator 10% of premium earned and collected by the Company through sales of the Company's prepaid dental plans." The examiners determined that some expenses are paid through the company's own bank account and the company only paid administrative service fees to the parent for 10% of premium less expenses paid directly by the company.

It is recommended that the company update their Administrative Services Agreement to accurately reflect the payment of the administrative service fee.

Financial Requirements

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

	Amount Required
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.

The company's calculation as of December 31, 2012, is as follows:

Assets	\$ 16,034	
Irrevocable letter of credit	<u>125,000</u>	
Amount available to satisfy surplus requirements	141,034	
Less:		
Liabilities		
Examination adjustments	<u>16,034</u>	
Net amount available to satisfy surplus requirements		\$125,000
Net premium earned	2,855,064	
Compulsory factor	<u>3%</u>	
Compulsory surplus		<u>85,651</u>
Compulsory Excess/(Deficit)		<u>\$ 39,349</u>
Net amount available to satisfy surplus requirements		\$125,000
Compulsory surplus	85,651	
Security surplus factor	<u>140%</u>	
Security surplus		<u>119,911</u>
Security Excess/(Deficit)		<u>\$ 5,089</u>

VII. CONCLUSION

Dental Com Insurance Plan, Inc., is a limited service health organization operating in five counties in the Marshfield area. It is owned by the Dental Clinic of Marshfield, S.C., and commenced business February 18, 2004.

The company has a Provider and Administrative Services Agreement with the Dental Clinic, in which the provider fees equal 90% of the earned premium and the administrative fee equals 10% of earned premium (less any direct expenses paid by the company). The Provider and Administrative Services Agreements result in no net income or loss to the company. Premiums are received monthly from each group and entered into the Dental Com checking account. Once a month these premiums are transferred from Dental Com to the Dental Clinic under the two agreements noted above.

The examination made one recommendation listed on the following page. There were no adjustments to the company's reported capital and surplus.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 15 - Administrative Service Fee—It is recommended that the company update their Administrative Services Agreement to accurately reflect the payment of the administrative service fee.

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:

Name	Title
Stephanie Falck	Insurance Financial Examiner
Tom Houston	IT Specialist

Respectfully submitted,

Rachel Liu
Examiner-in-Charge