

Report
of the
Examination of
Dental Protection Plan, Inc.
West Allis, Wisconsin
As of December 31, 2010

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

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January 30, 2012

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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 PROTECTION PLAN, INC.
West Allis, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Dental Protection Plan, Inc. (DPPI or the company) was conducted in 2006 as of December 31, 2005. The current examination covered the intervening period ending December 31, 2010, and included a review of such 2011 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

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 not annually audited by an independent public accounting firm. The company filed a CPA Audit Exemption Affidavit as prescribed by s. Ins 50.16, Wis. Adm. Code.

II. HISTORY AND PLAN OF OPERATION

DPPI can be described as a nonprofit network 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 network model, the LSHO provides care through contracts with clinics and otherwise independent physicians operating out of their separate offices. LSHOs compete with traditional fee-for-service health care delivery.

DPPI was incorporated March 27, 1987, and commenced business January 19, 1988. The administration of DPPI is conducted at the West Allis Dental Care Clinic.

Subscribers enroll in the DPPI coverage plan for a yearly fee. Current fees are \$35 for single and \$45 for family coverage. The plan documents state that anyone can participate in the plan. The DPPI policy also states that there are no exclusions for preexisting conditions.

DPPI currently enrolls individual subscribers and families only. There are no group contracts. DPPI has two agents. Agents receive no commission. Eastern Wisconsin is DPPI's service area. Dental practices that participate are found in the Milwaukee metropolitan area and Fox Valley area.

To receive benefits, an enrollee must use a designated DPPI provider. DPPI currently contracts with seven primary care practices and one specialist.

DPPI coverage is a 20% discount on fees regularly charged. The following is a comprehensive list of benefits DPPI offers:

- Diagnostic
- Preventive
- Ancillary
- Restorative
- Oral, excluding Maxillofacial Surgery
- Endodontics
- Periodontics
- Prosthodontics
- Orthodontics

DPPI enrollees oftentimes carry alternative, primary dental coverage through another health provider. In these instances, DPPI coverage is limited to the amount exceeding the primary coverage. This may be less than the 20% stated above. For example, if the primary insurer covers 90% of the charges, DPPI's portion is limited to 10%.

Providers agree to bill enrollees for standard dental service fees, less amounts covered under the DPPI policy and other policy coverage. There is no provider reimbursement made by DPPI. The aggregate maximum benefit under the DPPI policy is unlimited.

The company currently contracts with the following clinics and providers:

Clinics:

- West Allis Dental Care
- Bay View Dental Care
- Family Dental Center
- Oklahoma Dental/Smith Dental
- Barnes & Assoc. Dentistry
- Harvey Dental
- Wisconsin Orthodontic Specialists

Independent Provider:

- William Fink, D.D.S.

The contracts include hold-harmless provisions for the protection of policyholders. The provider agrees to charge policyholders fees that are usual and customary for services rendered and also agrees to accept payment for services provided that are usual and customary less the total of any benefits the policyholder is entitled to. The provider contracts have a continuous term and may be terminated by either party with 30 days' advance written notice. Similar contracts are executed for both primary care providers and specialists.

DPPI has made provisions in provider agreements for the inspection of its primary care providers' operations. No inspections have been made to date.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members. Every three years, five directors are elected to serve a three-year term. Officers for the board are elected at the board's annual meeting. The board members currently receive \$150 per year for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Douglas J. Persich Menomonee Falls, WI	President/Treasurer Dental Protection Plan Dentist/Owner West Allis Dental Care	April 2014
Charles Konkol Greenfield, WI	Accountant	April 2014
Barbara Pipia Brookfield, WI	Events Coordinator	April 2014
William Fink River Hills, WI	Dentist	April 2014
Douglas Persich III Wauwatosa, WI	Accountant	April 2014

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	2010 Compensation
Douglas J. Persich	President/Treasurer	\$6,500*
Robert Popp	Secretary	0
Charles Konkol	Vice-President	2,230

* The company also pays all health insurance premium (\$18,650) for the President

Committees of the Board

The board has not appointed any committees.

At the present time the company has two employees—the President, Douglas Persich, and the Business Manager whose duties include data entry, bookkeeping and general filing.

IV. AFFILIATED COMPANIES

On August 26, 1992, Dental Protection Plan, Inc., was granted a waiver from the filing requirements which may have been imposed under Wisconsin's holding company regulations. Due to the waiver granted, it was never determined if DPPI is actually a part of a holding company system.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2010, 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 Net Worth per Examination."

Dental Protection Plan, Inc.
Assets
As of December 31, 2010

	Assets	Nonadmitted Assets	Net Admitted Assets
Cash, cash equivalents and short-term investments	<u>\$32,004</u>	<u>\$</u>	<u>\$32,004</u>
Total Assets	<u>\$32,004</u>	<u>\$0</u>	<u>\$32,004</u>

Dental Protection Plan, Inc.
Liabilities and Net Worth
As of December 31, 2010

Unearned premium	\$ 1,115		
Premiums received in advance	25,294		
General expenses due or accrued	<u>153</u>		
Total liabilities			\$26,562
Unassigned funds (surplus)	<u>5,442</u>		
Aggregate write-ins for other than special surplus funds			<u>5,442</u>
Total Liabilities, Capital and Surplus			<u>\$32,004</u>

**Dental Protection Plan, Inc.
Statement of Revenue and Expenses
For the Year 2010**

Net premium income		\$63,740
Total medical and hospital expenses	\$ 0	
General administrative expenses	<u>61,374</u>	
Total underwriting deductions		<u>61,374</u>
Net underwriting gain or (loss)		<u>2,367</u>
Net income or (loss) before federal income taxes		<u>2,367</u>
 Net Income (Loss)		 <u>\$ 2,367</u>

**Dental Protection Plan, Inc.
Capital and Surplus Account
As of December 31, 2010**

Capital and surplus prior reporting year	\$3,075
Net income or (loss)	<u>2,367</u>
 Capital and Surplus End of Reporting Year	 <u>\$5,442</u>

**Dental Protection Plan, Inc.
Statement of Cash Flows
As of December 31, 2010**

Premiums collected net of reinsurance	\$62,850
Total	
Less:	
Commissions, expenses paid and aggregate write-ins for deductions	<u>61,340</u>
Net cash from operations	<u>1,241</u>
Net change in cash, cash equivalents, and short-term investments	1,241
Cash, cash equivalents, and short-term investments:	
Beginning of year	<u>30,763</u>
 End of Year	 <u>\$32,004</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
2010	\$32,004	\$26,562	\$ 5,442	\$63,740	\$0	\$ 2,366
2009	30,763	27,688	3,075	58,032	0	(7,910)
2008	36,149	25,164	10,985	62,677	0	7,957
2007	31,602	28,574	3,028	61,791	0	(65)
2006	31,827	28,734	3,093	61,047	0	2,635
2005	27,803	27,344	459	63,903	0	7,751

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Enrollment	Change in Enrollment
2010	3.7%	0.0%	96.3%	1,882	7.9%
2009	-13.6	0.0	113.6	1,744	1.0
2008	12.7	0.0	87.3	1,726	-3.6
2007	-0.1	0.0	100.1	1,791	1.1
2006	4.3	0.0	95.7	1,772	-4.5
2005	12.1	0.0	87.9	1,856	-7.0

Enrollment has increased 1.4% since the prior examination. The company reported profits in three of the past five years.

Examination Reclassifications

	Debit	Credit
Premiums received in advance	\$25,294	\$
Aggregate health policy reserves		(25,294)
Aggregate health policy reserves	1,115	
Premiums received in advance		(1,115)
Aggregate write-ins for other than special surplus funds		
	5,442	
Unassigned funds (surplus)	<u> </u>	<u>(5,442)</u>
Total Reclassifications	<u>\$31,851</u>	<u>\$(31,851)</u>

Reconciliation of Net Worth per Examination

The following schedule is a reconciliation of net worth between that reported by the company and as determined by this examination:

Net worth December 31, 2010, per annual statement			\$5,442
	Increase	Decrease	
Premium received in advance	\$	\$ (450)	
General expense due or accrued	<u> </u>	<u>(4,420)</u>	
Net increase or (decrease)	<u>\$</u>	<u>\$(4,870)</u>	<u>(4,870)</u>
Net Worth December 31, 2010, Per Examination			<u>\$ 572</u>

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were ten 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. Internal Controls—It is recommended that the company put controls in place to monitor the dentist's issuance of policies.

Action—Compliance.

2. Management and Control—It is recommended that the company execute a written management/administration agreement with West Allis Dental Care and file it with the Commissioner for approval as required by s. 613.67, Wis. Stat.

Action—Noncompliance; see comments in the "Summary of Current Examination Results."

3. Fidelity Bonds and Other Insurance—It is recommended that the company secure fidelity coverage to at least the minimum required by the NAIC Financial Condition Examiners Handbook.

Action—Partial compliance; see comments in the "Summary of Current Examination Results."

4. Fidelity Bonds and Other Insurance—It is recommended that the company perform a risk assessment to determine whether insurance coverage is required.

Action—Compliance.

5. Accounts and Records—It is recommended that the company print and save or store electronically a policyholder list at the end of each year.

Action—Compliance.

6. Territory and Plan of Operations—It is recommended that the company discontinue its practice of utilizing its accounts for non-insurance related business.

Action—Compliance.

7. Financial Reporting—It is recommended that the company retain annual statement work papers that enable the trial balance to be tied to the annual statement for each year.

Action—Compliance.

8. Financial Reporting—It is recommended that the company accrue for known expenses at year-end and report them on the annual statement.

Action—Noncompliance; see comments in the "Summary of Current Examination Results."

9. Financial Reporting—It is recommended that the company report unassigned funds (surplus) on the correct line of the annual statement in accordance with the NAIC Annual Statement Instructions.

Action—Noncompliance; see comments in the “Summary of Current Examination Results.”

10. Financial Reporting—It is recommended that the company correctly report unearned premiums in accordance with SSAP No. 54.

Action—Noncompliance; see comments in the “Summary of Current Examination Results.”

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.

Corporate Compliance

The examination found that the board of directors had not authorized the salaries of either employee of the company. Certain payments may have been bonuses but this is not clear and bonuses have not been authorized. It is recommended that the board of directors authorize all salaries and bonus payments to officers and directors of the company as required by Sec. 2.13 of the company's bylaws.

Section 611.67 (3), Wis. Stat. (as referenced by s. 613.67, Wis. Stat.) states:

“An insurer that offers a health maintenance organization, limited service health organization or preferred provider plan may delegate management authority with regard to the health maintenance organization, limited service health organization or preferred provider plan to a person other than an officer, director or employee of the insurer if the person exercises the management authority according to the terms of a written contract between the insurer and the person and if the contract is filed with the commissioner and not disapproved by the commissioner.”

The Commissioner may disapprove a contract within a 30-day period after the date of filing.

The examination found that DPPI has a written management/administration agreement with West Allis Dental Care but that there is no evidence that it had been filed with the Commissioner for approval. It is again recommended that the company execute a written management/administration agreement with West Allis Dental Care and file it with the Commissioner for approval as required by s. 613.67, Wis. Stat.

Fidelity Bonds and Other Insurance

The examination found that West Allis Dental Care (WADC) and DPPI intended both companies to be covered by common policies paid for by WADC. A review of the policy related to fidelity bonds shows that the policy did not explicitly add DPPI as a covered company to the employee dishonestly line, but the agent from whom they purchased the coverage assured the companies that DPPI was covered. It is recommended that the company get either a separate

fidelity bond for DPPI or have the current policy identify DPPI specifically as covered by the policy with a specific guarantee that \$25,000 will be protected for DPPI in any claim.

Financial Reporting

The examination found from a review of the general ledger report that contained receipts and disbursements for January 2011 that in addition to the accrued expenses reported on the annual statement, Cheri Graffenius and Dr. Douglas J. Persich were both paid their salaries on January 5, 2011, totaling \$4,580 for work done primarily in 2010. Ms. Graffenius's pay period ran through January 4, 2011, and approximately \$420 should have been accrued at year-end 2010. Dr. Persich's total salary of \$4,000 should have been accrued at year-end.

Examiner calculated accrued expenses at year-end	\$4,573
Company reported accrued expense at year-end	<u>153</u>
Difference between actual and reported	<u>\$4,420</u>

Due to the material nature of this unreported accrued expense, an adjustment is being made to the company's 2010 capital and surplus. It is again recommended that the company accrue for known expenses at year-end and report them on the annual statement.

The examination again found the company reported the 2010 capital and surplus on the line entitled "Aggregate write-ins for other than special surplus funds." The National Association of Insurance Commissioners (NAIC) Annual Statement Instructions - Health require that this amount be reported on the line entitled "Unassigned funds (surplus)." The examination has reclassified the balances in this account. This reclassification is included in the section of this report captioned "Examination Reclassifications." It is again recommended that the company report unassigned funds (surplus) on the correct line of the annual statement in accordance with the NAIC Annual Statement Instructions - Health.

The examination found that the company had again failed to report unearned premium reserves on Line 1 of Part 2D – Aggregate Reserve for Accident and Health Contracts Only as instructed by Statement of Statutory Accounting Principle (SSAP) No. 54 and the NAIC Annual Statement Instructions - Health. The company did report \$1,115 of advanced premium on the line instead of the \$25,294 of unearned premium that should have been included there. Unearned premium reserves would be the only entry on this schedule for DPPI and the total of

this schedule is brought forward to line 4 on the Liabilities, Capital and Surplus schedule. The examination has reclassified \$25,294 from advanced premium to unearned premium and \$1,115 from unearned premium to advanced premium. These reclassifications are included in the section of this report captioned "Examination Reclassifications." It is again recommended that the company correctly report unearned premium reserves, along with premiums received in advance, in accordance with SSAP 54 and the NAIC Annual Statement Instructions - Health.

Executive Compensation Reporting

The examination noted that the company did not report the money paid to Charles Konkol for the accounting services he provided to the company. It is recommended that the company include consulting expenses in the Report on Executive Compensation as the instructions require.

Accounts and Records

The examination was unable to reconcile the total premium reported in the general ledger and on the annual statement with the detail records for policies in force provided in the policyholder listing. It is recommended that the company keep an accurate record of policies in force and premiums received by policyholder that is consistent with the premiums reported in the general ledger.

Premium

The examination obtained deposit slip reports that list the policyholder's name, address, policy type, and their effective date for each deposit in 2010. A review of October, November, and December 2011 reports disclosed that 28 single policies (at \$35 each—\$980 total) and 13 family policies (at \$45 each—\$585 total) that should be reported as advanced premium.

Amount of Advanced Premiums reported on 2010 A/S	\$1,115
Amount of Advanced Premiums calculated by examiner	<u>1,565</u>
Total Difference in Reported and Actual	<u>\$(450)</u>

It is recommended that the company properly calculate and record advanced premiums.

The examination noted that premium refunds were treated as expenses by the company rather than decreases in premium received and earned. No account reclassifications

were made because the amount was not significant and it only affected the revenue and expenses of the income statement. It is recommended that the company decrease premium by the amount of premium refunded rather than report premium refunds as operating expenses.

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, 2010, as modified for examination adjustments is as follows:

Assets	\$ 32,004	
Irrevocable letter of credit	<u>105,000</u>	
Amount available to satisfy surplus requirements	137,004	
Less:		
Liabilities	26,562	
Examination adjustments	<u>4,870</u>	
Net amount available to satisfy surplus requirements		\$105,572
Net premium earned	63,740	
Compulsory factor	<u>3%</u>	
	1,912	
Compulsory surplus (minimum of \$75,000)		<u>75,000</u>
Compulsory Excess/(Deficit)		<u>\$ 30,572</u>
Net amount available to satisfy surplus requirements		\$105,572
Compulsory surplus	75,000	
Security surplus factor	<u>140%</u>	
Security surplus		<u>105,000</u>
Security Excess/(Deficit)		<u>\$ 572</u>

During the examination, the examiners noted that the letter of credit provided by the company does not fit the definition of "acceptable letter of credit" provided in s. Ins. 9.01 (1), Wis.

Adm. Code:

"Acceptable letter of credit" means a clean, unconditional, irrevocable letter of credit issued by a Wisconsin bank or any other financial institution acceptable to the commissioner which renews on an annual basis for a 3-year term unless written notice of nonrenewal is given to the commissioner and the limited service health organization at least 60 days prior to the renewal date.

The letter of credit presented was not valid for the required 3-year term. It is recommended that the company obtain a letter of credit which renews on an annual basis for a 3-year term unless written notice of nonrenewal is given to the Commissioner and the limited service health organization at least 60 days prior to the renewal date.

VII. CONCLUSION

Dental Protection Plan, Inc., is a nonprofit network model limited service health organization (LSHO) serving the Milwaukee area. There were eleven recommendations, two adjustments to surplus, and three reclassifications as a result of this examination. The company complied with five of the prior examination recommendations, partially complied with one and did not comply with four of the prior examination recommendations.

Annual charges are \$35 for single and \$45 for family dental coverage. These rates have not changed since the prior examination. Coverage is a 20% discount on a comprehensive list of dental procedures.

Enrollment has remained relatively stable, increasing just over 1% in the past five years. The company reported profits in three of the past five years.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 14 - **Corporate Compliance**—It is recommended that the board of directors authorize all salaries and bonus payments to officers and directors of the company as required by Sec. 2.13 of the company's bylaws.
2. Page 14 - **Corporate Compliance**—It is again recommended that the company execute a written management/administration agreement with West Allis Dental Care and file it with the Commissioner for approval as required by s. 613.67, Wis. Stat.
3. Page 14 - **Fidelity Bonds and Other Insurance**—It is recommended that the company get either a separate fidelity bond for DPPI or have the current policy identify DPPI specifically as covered by the policy with a specific guarantee that \$25,000 will be protected for DPPI in any claim.
4. Page 15 - **Financial Reporting**—It is again recommended that the company accrue for known expenses at year-end and report them on the annual statement.
5. Page 15 - **Financial Reporting**—It is again recommended that the company report unassigned funds (surplus) on the correct line of the annual statement in accordance with the NAIC Annual Statement Instructions - Health.
6. Page 16 - **Financial Reporting**—It is again recommended that the company correctly report unearned premium reserves, along with premiums received in advance, in accordance with SSAP 54 and the NAIC Annual Statement Instructions - Health.
7. Page 16 - **Executive Compensation Reporting**—It is recommended that the company include consulting expenses in the Report on Executive Compensation as the instructions require.
8. Page 16 - **Accounts and Records**—It is recommended that the company keep an accurate record of policies in force and premiums received by policyholder that is consistent with the premiums reported in the general ledger.
9. Page 16 - **Premium**—It is recommended that the company properly calculate and record advanced premiums.
10. Page 17 - **Premium**—It is recommended that the company decrease premium by the amount of premium refunded rather than report premium refunds as operating expenses.
11. Page 18 - **Financial Requirements**—It is recommended that the company obtain a letter of credit which renews on an annual basis for a 3-year term unless written notice of nonrenewal is given to the Commissioner and the limited service health organization at least 60 days prior to the renewal date.

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
Amanda Schroeder	Insurance Financial Examiner

Respectfully submitted,

David Jensen
Examiner-in-Charge