

EXAMINATION REPORT
OF
DELTA DENTAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2019

Office of the
Commissioner



Delaware
Department of Insurance

REPORT ON EXAMINATION
OF
DELTA DENTAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2019

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in blue ink that reads "Trinidad Navarro".

Trinidad Navarro
Insurance Commissioner

Dated this 28 day of June, 2021

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May 27, 2021

Honorable Trinidad Navarro
Commissioner of Insurance
Delaware Department of Insurance
1351 West North Street, Suite 101
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority Number 20.024, dated March 26, 2020, an examination has been made of the affairs, financial condition and management of

DELTA DENTAL INSURANCE COMPANY

hereinafter referred to as the Company or DDIC. The Company was incorporated under the laws of the State of Delaware as a stock company with its registered office located at 1807 North Market Street, Wilmington, Delaware. Due to the COVID-19 Pandemic, the examination was conducted offsite. The administrative office of the Company is located at One Delta Drive, Mechanicsburg, Pennsylvania. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The last examination was conducted as of December 31, 2015 by the Delaware Department of Insurance (Department). This examination covered the period of January 1, 2016 through December 31, 2019. Our examination was performed as part of the multi-state coordinated examination of the Dentegra

Group (Group) of regulated entities wherein Delaware is the lead state. The examination was conducted concurrently with that of the Company's following affiliated companies:

Delta Dental Sub-group

<u>NAIC No.</u>	<u>Name</u>	<u>Domicile</u>
81396	Delta Dental Insurance Co (DDIC)	DE
11132	Delta Dental of Delaware Inc. (DDD)	DE
73474	Dentegra Insurance Co (DIC)	DE
55263	Delta Dental of New York (DDNY)	NY
54798	Delta Dental of Pennsylvania (DDP)	PA
12329	Delta Dental of West Virginia (DDWV)	WV
12210	Dentegra Insurance Co of New England (DICNE)	MA

Alpha Sub-Group

95366	Alpha Dental of Arizona Inc. (ADAZ)	AZ
47092	Alpha Dental of New Mexico Inc. (ADNM)	NM
11174	Alpha Dental of Utah Inc. (ADUT)	UT
95163	Alpha Dental Programs Inc. (ADP)	TX

To the fullest extent, the efforts, resources, project material and findings were coordinated and made available to all examination participants.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and

prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to the General Corporation Laws of the State of Delaware as required by 18 *Del. C.* §321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, Armanino LLP (Armanino). Certain auditor work papers of the 2019 Armanino audit of the Company have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination and in the area of risk mitigation and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material changes in financial statements as a result of this examination.

COMPANY HISTORY

The Company was originally organized and incorporated under the laws of the State of Illinois on February 9, 1970, as the Dental Service Plans Insurance Company. The Company was organized to supplement the services provided by Delta Dental Plans (individually called state plans); reinsure state plans; insure in states where no dental state plans existed, in conjunction with state plans' having multi-state contracts and serve as an underwriting vehicle in states where state plans do not operate or, because of financial or charter considerations, are unable to underwrite dental programs.

In 1980, the Company, with permission from the Illinois Director of Insurance, moved its administrative and executive offices from Chicago, Illinois to San Francisco, California. In 1982, the name of the Company was changed to Delta Service Plans Insurance Company. In 1991, the name was again changed to DDIC. Subsequently, effective September 27, 2002, the Company re-domesticated from the State of Illinois to the State of Delaware.

Common Capital Stock

The Company's Restated Certificate of Incorporation provides that the Company is authorized to issue 250,000 shares of common capital stock with a par value of \$25 per share. As of December 31, 2015, the Company had 65,863.17 shares of common stock issued and outstanding, resulting in common capital stock of \$1,646,579. The following table reflects ownership of the Company's common stock:

<u>Owners of DDIC Common Stock</u>	<u>Shares</u>	<u>Percentage</u>
DDC Insurance Holdings, Inc. *	59,972.58	91.06%
Delta Dental Plan of Michigan, Inc.	4,004.17	6.08%
Delta Dental of Washington	834.33	1.27%
Delta Dental of Illinois	333.67	0.51%
Delta Dental of Kentucky, Inc.	240.00	0.36%
Delta Dental Plan of Ohio, Inc.	167.00	0.25%
Delta Dental of Missouri	100.00	0.15%
Delta Dental of Pennsylvania *	81.42	0.12%
Alabama Owners	41.00	0.06%
Delta Dental of Virginia	35.00	0.05%
Delta Dental of Minnesota	34.00	0.05%
Louisiana Owners	20.00	0.03%
	<u>65,863.17</u>	<u>100.00%</u>

*affiliated entities

Preferred Capital Stock

As of December 31, 2019, the Company had 150,000 shares of cumulative non-voting preferred stock authorized, issued and outstanding, with a par value of \$70 per share, resulting in preferred capital stock of \$10,500,000. All of the Company's preferred stock is owned by immediate parent DDC Insurance Holdings, Inc. (DDCIH).

Dividends

The Company's Board of Directors (Board) did not approve or authorize any dividends during the exam period.

Surplus Notes

As of December 31, 2019, the Company had seven (7) surplus notes issued, totaling \$45,750,000 that were approved by the Department, as reflected below.

<u>Date Issued</u>	<u>Note Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
1/1/1984	\$ 750,000	None	N/A
6/1/2001	5,000,000	6%	N/A
9/6/2002	5,000,000	6%	N/A
11/10/2003	5,000,000	6%	N/A
8/1/2006	10,000,000	3%	7/31/2026
12/8/2008	10,000,000	3%	12/31/2023
12/31/2011	10,000,000	3%	12/31/2021
	<u>\$ 45,750,000</u>		

MANAGEMENT AND CONTROL

Directors

Pursuant to the General Corporation Laws of the State of Delaware, as implemented by the Company's Amended and Restated Articles of Incorporation and Restated Bylaws, all corporate powers are exercised by or under the direction of the Board. The bylaws, as amended and restated June 27, 2017, provide that the Company's business and affairs shall be under the control of its Board. The Board shall consist of five (5) directors. Each director shall hold office until the next annual meeting of the shareholders or until his successor shall have been elected and qualified. Directors shall be at least 21 years of age.

Directors duly elected and serving as of December 31, 2019, were as follows:

<u>Name</u>	<u>Principle Occupation</u>
Michael James Castro	CEO Delta Dental of California, Chair
Sarah Mays Chavarria	CPO Delta Dental of California
Michael Griffin Hankinson	General Counsel Delta Dental of California
Kevin Lee Jackson	Chief Growth Officer Delta Dental of California
Alica Frias Weber	CFO Delta Dental of California

Board Committees

The Company's bylaws state that the Board may designate one or more committees, including an Executive Committee, which shall consist of one or more directors of the Company.

The Executive Committee shall have and may exercise the powers of the Board in the management of the business and affairs of the Company. The members of that Board Committee were:

Executive Committee

Michael James Castro, Chair
Michael Griffin Hankinson
Alicia Frias Weber

In accordance with the provisions of the Management and Service Agreement between the Company and Delta Dental of California (DDC), to provide the audit-related oversight duties as are required by federal and Delaware State law, the Company utilizes the Audit Committee as designated by the DDC Board. Its members were:

Audit Committee

Glen F. Bergert, Chair
Roy A. Gonella
Steven F. McCann
Terry A. O'Toole
Andrew J. Reid
Heidi Yodowitz

Also, under the terms of the above agreement, the Company utilizes the DDC Finance Committee to perform financial oversight and governance duties on its behalf. Its members were:

Finance Committee

Terry A. O'Toole, Chair
Glen F. Bergert
Roy A. Gonella
Steven F. McCann
Andrew J. Reid
Heidi Yodowitz

Officers

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require election consist of a Chair of the Board, a Vice Chair, a Secretary and a Treasurer all of whom shall be elected at the annual meeting of the Directors and shall hold office

for a period of one year and until their successors are elected and qualified. The Board may also appoint such other officers and agents as they shall deem necessary for the prompt and efficient transaction of the corporation's business. The Board shall have the power to employ a President to administer the affairs of the Corporation under the Board. The primary officers serving as of December 31, 2019 were as follows:

<u>Name</u>	<u>Title</u>
Michael James Castro	Chair
Michael G. Hankinson, Esq.	President
Alica Frias Weber	Treasurer
Andrea M. Fegley	Secretary

Corporate Records

The recorded minutes of the shareholders and Board were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events including approval of investment transactions in accordance with 18 *Del. C.* §1304. In addition, review of Company files indicated that written correspondence was submitted to the Department with regards to the changes in officers and directors during the period under examination in compliance with 18 *Del. C.* §4919.

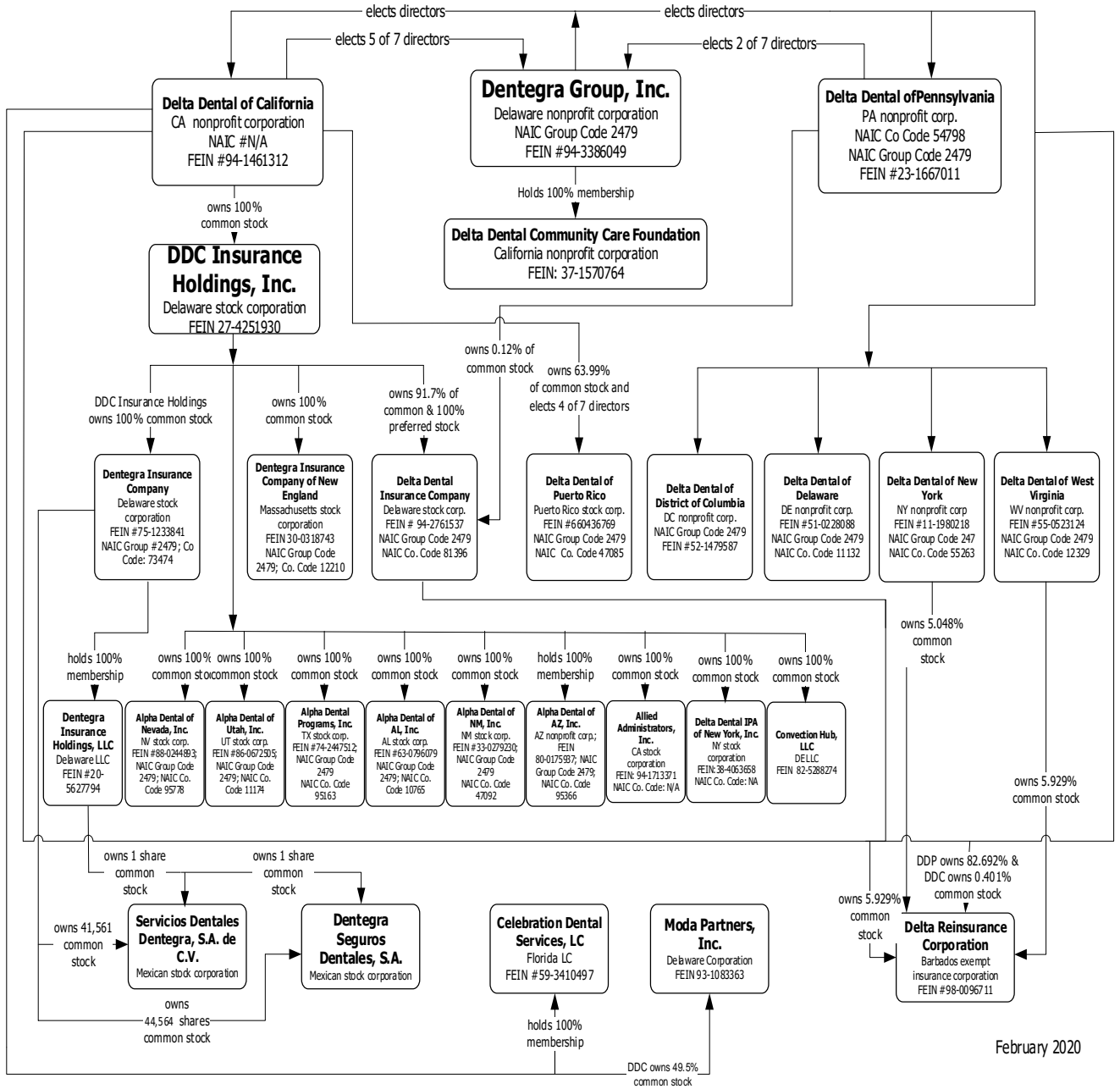
Insurance Holding Company System

The Company is a member of an insurance holding company system known as the Dentegra as defined under 18 *Del. C.* §5001 of the Delaware Insurance Code. DDC operates as the ultimate controlling entity. Dentegra is bifurcated into two (2) parent companies, DDC and DDP. DDC and DDP, operating as non-profit companies, combine their resources in an effort to eliminate duplication in the areas of market development and technology, to share best practices, develop economies of scale, increase competitiveness on a national scale and to bring new services to its subscribers, clients and partner dentists.

Certain companies within the holding company system are members of the Delta Dental Plans Association (DDPA). DDPA is a nationwide association of independently-operated dental health service plans which have a key feature of offering subscribers access to the national provider networks under the Delta USA program and access to the local provider networks maintained by Dentegra.

The following organizational chart reflects the identities and interrelationships between the entities within the holding company group:

**Insurance Holding Company System of
Delta Dental of California**



February 2020

Agreements with Affiliates

As of December 31, 2019, the Company was party to following affiliated agreements, which were disclosed in the annual Form B filings with the Department:

Amended and Restated General Agency Agreement

Effective December 31, 1997, as amended November 29, 2001, the Company entered into an Amended and Restated General Agency Agreement with DDNY, DDP, and PaCa Management LLC (PaCa), whereby DDNY acts as a general agent for DDIC in New York and DDP provides management services to DDNY.

Service Agreement

Effective January 1, 1998, as amended January 1, 2005, the Company entered into a Services Agreement with DeltaNet, Inc., which has been reassigned to DDC, whereby DDC provides software licensing, computer processing and software consulting services to the Company. Effective January 1, 2013, the Company entered into Amendment No. 1 to the January 1, 2005 Management and Service Agreement with its parent, DDC and its affiliate, to add DDIC as a signatory to the Agreement to indicate acceptance by the Company of any delegation of duties by DDC. Also, on March 1, 2016 the Company entered into Amendment No. 2 to add language required by 45 CFR 156.340, governing federally facilitated marketplace health plan issuers.

AARP Dental Insurance Plan Administrative Services Agreement

Effective May 1, 2004, the Company entered into an arrangement with DIC, whereby the Company acts as a third-party administrator on behalf of DIC in regard to two group dental insurance contracts issued by DIC to the AARP Dental Insurance Trust (AARP Trust). This arrangement was subsequently reflected in an Administrative Services Agreement.

AARP Dental Insurance Plan Marketing and Operations Support Agreement

Effective May 1, 2004, the Company entered into an arrangement with DDC, whereby DDC provides marketing and operations support services to the Company in respect to the AARP Dental Insurance Plan.

Administrative Services Agreement

Effective November 21, 2005, the Company entered into an Administrative Services Agreement with its parent, DDC, under which DDC provides administrative services in regard to a dental contract issued by The Company to the Texas Healthy and Human Service Commission.

Amended and Restated General Agency Agreement

Effective January 1, 2006, the Company entered into an Amended and Restated General Agency Agreement with DDP and DDD, whereby DDD will act as a general agent for the Company in Delaware and DDP provides management services to the Company and DDD.

Dental Administration Agreement

Effective January 1, 2006, as amended January 1, 2009, the Company entered into a Dental Administration Agreement with DDWV and DDP, whereby DDWV provides administrative services to the Company in West Virginia and DDP provides management services to DDWV and DDIC in order to assist the growth of prepaid dental programs in West Virginia.

Assumption Agreement

Effective February 1, 2006, the Company entered into an Assumption Agreement with DDWV under which the Company assigned to DDWV all West Virginia dental services contracts underwritten by the Company and assumed from DDWV all administrative services only contracts issued by DDWV. Effective January 1, 2009, the Company entered into an Amending Agreement with its affiliates DDWV and DDP to clarify the actual pre-fund collection account and payment arrangements.

Administrative Services Agreement

Effective April 1, 2006, the Company entered into an Administrative Agreement with DDC, whereby DDC provides administrative services in respect to a dental contract issued by the Company to the Texas Kids Health and Human Services Commission.

DeltaCare USA Administrative Service Agreement

Effective January 1, 2007, the Company entered into a DeltaCare USA Administrative Services Agreement with its affiliates and other Delta Dental Plan members, including Alpha Dental of Alabama, Inc. (ADAL), ADAZ, ADNM, Alpha Dental of Nevada (ADNV), ADUT, ADP, DDP, DDNY, DIC, and DICNE. In accordance with the terms of the agreement, DDIC will provide administrative services for DeltaCare USA programs underwritten by the Company. An Amendment dated April 1, 2016 clarified certain functions provided and the calculation of compensation.

Effective January 1, 2013, the agreement with ADNM was amended to be consistent with the *Statement of Statutory Accounting Principles No. 25*, and amended April 1, 2016, to clarify certain functions provided and the calculation of compensation. Effective August 1, 2015, the agreement with DDNY was amended to include mandatory language, as well as clarify the calculation of compensation.

DeltaCare USA Operations Support Agreement

Effective January 1, 2007, as amended January 1, 2015, the Company entered into a DeltaCare USA Operations Support Agreement with DDC, whereby DDC provides operations support for the DeltaCare USA programs administered by the Company.

Administrative Agreement

Effective May 7, 2007, the Company entered into an Administrative Agreement with

Servicios Dentales Dentegra, S.A. de C.V. (SDD), whereby DDIC provides administrative services for SDD. Effective April 1, 2008, the Company entered into an Assignment Agreement with SDD and Dentegra Seguros Dentales, S.A. (DSD), whereby the Company approved of the assignment of the Administrative Agreement with SDD to DSD. Effective January 1, 2014, the Administrative Agreement was amended to replace the “vertexing services” performed by DDIC with the optical character recognition program claims data correction services. Additionally, the agreement was amended effective July 1, 2015, to include DDC and DDP as parties to the agreement. Effective January 1, 2016, the Company entered into a Retainer Agreement with its affiliate DSD, in compliance with a Pennsylvania Department of Insurance directive to delete language from Amendment No. 2 that required the Company to maintain a retainer account for DSD.

Amended and Restated General Agency Agreement

Effective January 1, 2009, the Company entered into an Amended and Restated General Agency Agreement with Delta Dental of the District of Columbia, Inc. (DDDC), DDP and PaCa, whereby DDDC will act as a general agent for DDIC in the District of Columbia and DDP provides management services to the Company and DDDC. Further, DDP assigned certain rights and obligations under this agreement to PaCa.

Effective August 15, 2010, as amended January 1, 2014, the Company entered into an Administrative Services Agreement with DDC, whereby DDIC provides administrative services to DDC’s dental and vision products, DeltaCare USA and DeltaVision, respectively.

Federal Tax Sharing Agreement

Effective November 1, 2010, the Company entered into a Federal Tax Sharing Agreement with its parent, DDCIH and majority-owned or controlled subsidiaries.

In accordance with the terms of the agreement, DDCIH will prepare and file all tax returns

on behalf of the Group. The purpose of the Federal Tax Sharing Agreement is to provide the methodology and procedures for allocating the Group's consolidated Federal tax liability (or benefit) to and amongst the Group.

Administrative Services Agreement

Effective September 1, 2011, the Company entered into an Administrative Services Agreement with DDC, whereby DDC performs services on behalf of the Company in respect to the Texas Children's Health Insurance Program.

Management and Service Agreement

Effective January 1, 2005, as amended January 1, 2013, the Company entered into a Management and Service Agreement with its affiliates, including DDC, DIC, and DICNE, whereby DDC provides all management services required for the cost-effective and efficient operation of DIC and DICNE, by itself and through its subsidiary, DDIC. Effective March 1, 2016, the Company entered into Amendment No. 2 to add language required by 45 CFR 156.340, governing federally facilitated marketplace health plan issuers.

Intercompany Services Agreement

Effective January 1, 2012, the Company entered into an Intercompany Services Agreement with DDC and DDP, wherein the Company, DDC and DDP will perform from time-to-time, certain corporate service tasks for each other as members of the enterprise holding company system. The agreement replaces the March 1, 1997 Corporate Administration Agreement. Effective January 1, 2007, the Company entered into an Amendment to the Corporate Administration Agreement in effect March 1, 1997 under which additional language was added to comply with the SSAP 96 requirement. Effective January 1, 2013, the Company entered into Amendment No.1 to the January 1, 2012 agreement in order for the Company, as an enterprise member, to achieve certain operating economies and improve services to the mutual

benefit of all parties.

Administrative Services Agreement

Effective January 11, 2012, the Company entered into a Services Agreement with DDC and DDP, under which DDC and DDP shall perform services required of the optical character recognition program for all enterprise affiliates as part of the claims processing operations. This Services Agreement replaces the September 20, 2003 Administrative Agreement between the Company and DDP.

Administrative Services Agreement

Effective January 10, 2013, the Company entered into an Administrative Services Agreement with DDC, whereby DDC provides administrative services on behalf of the Company in respect to a dental contract issued by DDIC to the United States Public Health Service.

Services Agreement

Effective January 1, 2014, the Company entered into a Services Agreement with DDC, whereby DDC provides services and financial support on behalf of the Company in respect to the Federal Employees Dental and Vision Insurance Program (FEDVIP) and Veteran Affairs Dental Insurance Program (VADIP) Plans.

Administrative Agreement

Effective January 1, 2014, the Company entered into an Administrative Agreement with DIC, whereby the Company provides administrative services on behalf of the Company in respect to the FEDVIP and VADIP Plans.

Administrative Services Agreement

Effective October 1, 2015, the Company entered into an Administrative Services Agreement with DDC, DDP, and DDPR, whereby DDPR performs claims processing services as may be assigned by DDC, DDP, and DDIC.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2019, the Company was licensed to transact business in 32 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. No new jurisdictions were added during the examination period.

The Company is authorized as a stock insurer to transact the business of life, including annuities, and health insurance as defined in 18 *Del. C.* §902 "Life insurance" and 18 *Del. C.* §903 "Health insurance", with their principal office facilities located in Mechanicsburg, Pennsylvania.

Plan of Operation

As of December 31, 2019, approximately 68% of the Company's direct written premiums were produced in three (3) jurisdictions. The table below reflects the geographical breakdown of the Company's direct written premiums in 2019.

<u>Jurisdiction</u>	<u>Direct Written Premium</u>	<u>Percentage</u>
Florida	\$ 263,208,616	31%
Georgia	163,646,649	19%
Texas	157,169,605	18%
Mississippi	78,442,662	9%
Alabama	34,699,859	4%
Louisiana	32,469,921	4%
Other Jurisdictions	<u>129,948,117</u>	<u>15%</u>
Total	<u>\$ 859,585,429</u>	<u>100.0%</u>

The Company administers dental care programs under agreements with various subscriber groups/clients through affiliation with the DDPA, a national association that governs all Delta branded plans. These programs provide enrollees with quality, cost-effective dental benefits.

The Company offers a variety of local programs that range from managed fee-for-service and preferred-provider programs to dental health maintenance organizations, as well as customized

programs as needed. The products offered include the Delta Dental Premier®, Delta Dental PPO and DeltaCare USA.

Distribution System

The Company’s sales distribution system involves three key channels: direct sales to purchasers; coordination of sales to purchasers through independent brokers, consultants and general agents and sales to purchasers through co-marketing arrangements with other carriers.

REINSURANCE

The Company reported the following distribution of premiums written for the years ended December 31, 2019, and the prior examination date of December 31, 2015:

	<u>2019</u>	<u>2015</u>
Direct	\$ 859,585,429	\$ 754,224,448
Reinsurance assumed (from affiliates)	<u>8,422,208</u>	<u>5,752,610</u>
Total direct and assumed	\$ 868,007,637	\$ 759,977,058
Reinsurance ceded (to affiliates)	62,646,909	58,812,922
Reinsurance ceded (to non-affiliates)	<u>48,939,949</u>	<u>49,329,918</u>
Net premiums written	<u>\$ 756,420,779</u>	<u>\$ 651,834,218</u>

Assumed Reinsurance

In 2019, the Company’s assumed premium written was \$8,422,208 which was ceded to the Company by affiliate, Delta Dental of Puerto Rico (DDPR). Effective January 1, 1999, the Company, by means of a quota share reinsurance agreement, assumes 50% of the Covered Dental Care Service Contracts underwritten by affiliate DDPR. Covered Contracts is defined as all dental group service contracts providing dental benefits to members of groups composed of ten (10) or more primary members located in Puerto Rico.

Ceded Reinsurance

For the year ended December 31, 2019, the Company’s ceded business consisted of various quota share reinsurance agreements. The Company’s total ceded premium was approximately

\$111.5 million in 2019, of which \$52,098,186 was ceded to affiliate DDC. The Company also ceded premium to its Barbados affiliate, Delta Reinsurance Corporation (DRC) and affiliate DIC in the amounts of \$10,540,278 and \$8,445, respectively. The remaining \$48,939,949 was ceded to three (3) authorized non-affiliated reinsurers. As of December 31, 2019, the Company was party to the following ceded reinsurance agreements:

Affiliated

Effective July 1, 2013, the Company entered into a reinsurance agreement with affiliate DDC, under which DDC reinsures ninety percent (90%) of the dental contract risks the Company entered into with the State of Utah Department of Health (Utah Department) to provide insurance under the Utah Medicaid Dental Services Program through June 30, 2015. The Company was subsequently granted a one-year extension of this contract through June 30, 2016. The Department approved the reinsurance agreement on April 11, 2013.

Effective January 1, 2014, the Company entered into a reinsurance agreement with affiliate DDC, under which DDC reinsures one hundred percent (100%) of the dental contract risks the Company entered into with the FEDVIP and the VADIP. The Company entered into separate contracts with the United States Office of Personnel Management to offer benefits in the FEDVIP and with the United States Department of Veteran Affairs to provide benefits in the VADIP. The Company acts as the administrator for the FEDVIP, as well as the VADIP and will provide coverage for enrollees residing in New York, Puerto Rico and the Virgin Islands. The Department approved the reinsurance agreement on March 28, 2014.

Effective January 1, 2015, the Company entered into a reinsurance agreement with affiliate DDC, under which DDC reinsures one hundred percent (100%) of the dental contract risks the Company entered into with the United States Office of Comptroller of the Currency (OCC), which

offers benefits to OCC active employees, retirees and eligible dependents and their eligible dependents of the Office of Financial Research. The Department approved the reinsurance agreement on March 17, 2015.

Effective April 1, 2006, the Company entered into a reinsurance agreement with affiliate DDC, under which DDC reinsures fifty-six percent (56%) of the dental contract risks the Company entered into with the AARP Dental Insurance Trust regarding certain DeltaPreferred Option Dental Insurance Contracts.

Effective January 1, 1987, as amended October 1, 1988, March 1, 1990 and January 1, 1993, the Company entered into a reinsurance agreement with affiliate DRC, under which DRC reinsures ninety percent (90%) of the Company's dental contract risks in Washington, D.C. and the States of Delaware and New York.

Effective July 1, 1997, the Company entered into a reinsurance agreement with affiliate DRC, under which DRC reinsures ninety-five percent (95%) of the Company's group vision contract risks in West Virginia for vision services assigned to the Company by DDWV.

Effective January 1, 2003, the Company entered into a reinsurance agreement with affiliate DIC, under which DIC reinsures fifty percent (50%) of two (2) group dental contracts in the state of Florida.

Non-Affiliated

Effective December 1, 1995, the Company entered into a quota share reinsurance agreement with DRC, an unauthorized Bermuda subsidiary of Delta Dental of New Jersey, Inc.

(DDNJ), whereby the Company cedes ninety-five percent (95%) of the group dental contract risks underwritten in the State of Connecticut.

Effective January 1, 2001, as amended seven (7) times, with the latest amendment as of July 1, 2010, the Company is party to a quota share reinsurance agreement with authorized reinsurer, AmFirst Insurance Company (AFIC), whereby AFIC reinsures fifty percent (50%) of the dental contract risks entered into with Benefits Association, Inc. (BAI), a Mississippi association.

Effective May 1, 2002, as amended July 1, 2005, the Company entered into a reinsurance agreement with authorized reinsurer, Hannover Life Reassurance Company of America (Hannover Life), under which Hannover Life reinsures thirty-three percent (33%) of the dental contract risks the Company entered into with AARP.

Effective January 1, 2006, the Company entered into a reinsurance agreement with authorized reinsurer, Renaissance Life and Health Insurance Company of America (Renaissance Life), under which Renaissance Life reinsures ten percent (10%) of the dental contract risks the Company entered into with AARP.

FINANCIAL STATEMENTS

The following financial statements, as reported and filed by the Company with the Department, are reflected in the following:

- Statement of Assets as of December 31, 2019
- Statement of Liabilities, Capital and Surplus as of December 31, 2019
- Statement of Revenue and Expenses for the year ended December 31, 2019
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2015 to December 31, 2019

Statement of Assets
As of December 31, 2019

	Assets	Non admitted Assets	Net Admitted Assets
Bonds	\$ 141,519,065	\$ -	\$ 141,519,065
Common stocks	32,681,594		32,681,594
Cash	34,267,112		34,267,112
Cash equivalents	59,694,949		59,694,949
Subtotals, cash and invested assets	<u>\$ 268,162,719</u>	<u>\$ -</u>	<u>\$ 268,162,719</u>
Investment income due and accrued	1,303,804		1,303,804
Uncollected premiums and agents' balances in the course of collection	22,145,904	2,154,294	19,991,610
Amounts recoverable from reinsurers	7,784,639		7,784,639
Other amounts receivable under reinsurance companies	2,864,573	266,804	2,597,769
Amounts receivable relating to uninsured plans	34,214,844	10,007	34,204,837
Current federal and foreign income tax recoverable and interest thereon	3,116,220		3,116,220
Net deferred tax asset	1,700,331	1,700,331	-
Guarranty funds receivable or on deposit	6,842,900		6,842,900
Electronic data processing equipment	501,458	-	501,458
Furniture and equipment	504,969	504,969	-
Receivable from parent, subsidiaries and affiliates	14,735,869		14,735,869
Aggregate write-ins for other than invested assets	3,648,644	3,600,181	48,463
Totals	<u>\$ 367,526,874</u>	<u>\$ 8,236,586</u>	<u>\$ 359,290,288</u>

Statement of Liabilities, Capital and Surplus
As of December 31, 2019

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>	<u>Notes</u>
Claims unpaid (less \$4,487,377 reinsurance ceded)	\$ 32,482,623		\$ 32,482,623	1
Unpaid claims adjustment expenses	1,385,000		1,385,000	1
Aggregate health policy reserves	18,855		18,855	
Premiums received in advance	7,364,176		7,364,176	
General expenses due or accrued	48,864,218		48,864,218	
Net deferred tax liability	3,089,832		3,089,832	
Ceded reinsurance premium payable	13,014,566		13,014,566	
Amounts withheld or retained for the account of others	25,168		25,168	
Remittances and items not allocated	78,189		78,189	
Borrowed money and interest thereon \$37,447)	10,037,447		10,037,447	
Amounts due to parent, subsidiaries, and affiliates	32,538,980		32,538,980	
Reinsurance in unauthorized and certified (\$1,000,000 unauthorized companies)	1,000,000		1,000,000	
Liability for amounts held under uninsured plans	1,863,804		1,863,804	
Aggregate write-ins for other liabilities	1,331,120		1,331,120	
Total liabilities	<u>\$ 153,093,978</u>	<u>\$ -</u>	<u>\$ 153,093,978</u>	
Aggregate write-ins for special surplus funds			\$ 15,770,443	
Common capital stock			1,646,579	
Preferred capital stock			10,500,000	
Gross paid in and contributed surplus			7,297,853	
Surplus notes			45,750,000	
Unassigned funds (surplus)			125,232,635	
Less: treasury stock, at cost			<u>(1,200)</u>	
Surplus as regards policyholders			<u>\$ 206,196,310</u>	
Totals			<u>\$ 359,290,288</u>	

**Statement of Revenue and Expenses
For the Year Ended December 31, 2019**

	<u>Total</u>
Member months	<u>29,431,550</u>
Net premium income	\$ 756,420,779
Change in unearned premium reserves for rate credits	<u>(1,273,545)</u>
Total revenues	<u>\$ 755,147,234</u>
Hospital and medical:	
Hospital/medical benefits	622,163,969
Aggregate write-ins for other hospital and medical	<u>358,757</u>
Subtotal	<u>\$ 622,522,726</u>
Less:	
Net reinsurance recoveries	<u>81,378,234</u>
Total hospital and medical	<u>\$ 541,144,492</u>
Claims adjustment expenses, including \$11,225,350 cost containment expenses	47,532,098
General administrative expenses	<u>131,072,996</u>
Total underwriting deductions	<u>\$ 719,749,586</u>
Net underwriting gain or (loss)	35,397,648
Net investment income earned	6,192,072
Net realized capital gains (losses) less capital gains tax (0)	<u>16,245</u>
Net investment gains (losses)	<u>\$ 6,208,317</u>
Net gain or (loss) from agents or premiums balances charged off	(276,183)
Aggregate write-ins for other income or expenses	<u>(235,007)</u>
Net income or loss after capital gains tax and before all other federal income taxes	\$ 41,094,775
Federal and foreign income taxes incurred	<u>9,723,543</u>
Net income	<u>\$ 31,371,232</u>
 Capital and Surplus Account	
Capital and surplus prior reporting period	\$ 171,652,897
Net Income	31,371,232
Change in unrealized capital gains (losses)	6,102,051
Change in non admitted assets	<u>(2,929,870)</u>
Net change in capital and surplus	<u>\$ 34,543,413</u>
Capital and surplus end of reporting period	<u><u>\$ 206,196,310</u></u>

Reconciliation of Capital and Surplus
For the Period from the Prior Examination
As of December 31, 2015 to December 31, 2019

	Common Stock	Preferred Stock	Surplus Notes	Special Surplus Funds	Treasury Stock	Gross Paid In Capital	Unassigned Surplus
Opening Balance							
1/1/2016	1,646,579	10,500,000	45,750,000	14,618,158	(1,200)	7,297,853	22,934,953
2016 (1)							18,724,007
2017 (1)							32,129,208
2017 (2)				(357,991)			357,991
2018 (1)							19,402,198
2018 (2)							(1,348,859)
2018 (3)				(14,260,167)			14,260,167
2019 (1)							34,543,413
2019 (3)				15,770,443			(15,770,443)
Ending Balance	<u>1,646,579</u>	<u>10,500,000</u>	<u>45,750,000</u>	<u>15,770,443</u>	<u>(1,200)</u>	<u>7,297,853</u>	<u>125,232,635</u>

- (1) Change in non admitted assets – net income, Change in unrealized gain(loss) and Change in net deferred tax assets.
(2) Change in accounting principles.
(3) Change in special surplus, ACA.

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM
THE EXAMINATION**

There were no changes made to the Financial Statements as a result of this Examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1:

Claims unpaid	\$ 32,482,623
Unpaid claims adjustment expenses	\$ 1,385,000

The examination liability for the aforementioned items of \$32,482,623 and \$1,385,000 are the same as reported by the Company as of December 31, 2019. The examination analysis of Claims unpaid and unpaid claims adjustment expense reserves were conducted in accordance with Generally Accepted Actuarial Principles and Statutory Accounting Principles, including NAIC

Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles No. 55 (SSAP No. 55).

COMPLIANCE WITH PRIOR REPORT OF EXAMINATION

There were no recommendations in the prior report of examination.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic and national, state, and local governments have implemented a range of policies and actions to combat it. The extent of the impact of COVID-19 on world economies and the Company will depend on future developments, which are highly uncertain and difficult to predict, including the severity and duration of the pandemic and the actions taken by government authorities and other third parties to contain or address its impact. Various government officials, including U.S. state insurance commissioners, have taken actions to protect consumers from hardship caused by COVID-19 that, in the aggregate, may adversely impact the Company's results of operations in the near term. While it is likely that certain lines of business may experience increased loss activity due to COVID-19, there are also segments in which the Company operates that may benefit from improved loss experience due to reduced exposures. Company management will continue to monitor developments and their impacts on the Company including its operations, capital position (including the risk-based capital ratio), the fair value of investments and estimates reported in the financial statements and accompanying notes.

At the date of this report, the extent and severity of the COVID-19 pandemic is not yet fully clarified by the Company. The Company does not expect a material adverse effect on any specific lines of business or products and the Company was fully operational and providing services to its members.

The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position and continues to closely monitor any impact on the Company and will take necessary action if a solvency concern arises.

There were no other material subsequent events noted.

SUMMARY OF RECOMMENDATIONS

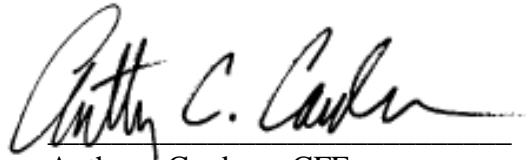
No examination report recommendations were noted as a result of this examination.

The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the consulting actuarial firm, INS Consultants, Inc., the consulting information systems specialist firm, INS Services, Inc., the Company's outside audit firm, Armanino, and the Company's management and staff is appreciated and acknowledged.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Habib Dwyer", written over a horizontal line.

Examiner In-Charge
State of Delaware

A handwritten signature in black ink, appearing to read "Anthony C. Cardone", written over a horizontal line.

Anthony Cardone, CFE
Supervising Examiner
State of Delaware

I, Hails Taylor, CFE, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to examination authority 20.024.

A handwritten signature in black ink, appearing to read "Hails Taylor", is written above a horizontal line.

Hails Taylor, CFE