

REPORT ON EXAMINATION

of the

**DELTA DENTAL OF TENNESSEE
240 VENTURE CIRCLE
NASHVILLE, TENNESSEE 37228**

RECEIVED

JUN 16 2009

Dept. of Commerce & Insurance
Company Examinations

as of

DECEMBER 31, 2007

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

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Nashville, Tennessee
June 16, 2009

Honorable Leslie A. Newman
Commissioner
State of Tennessee
Department of Commerce and Insurance
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tennessee Insurance Laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination and market conduct review was made of the condition and affairs of the

DELTA DENTAL OF TENNESSEE
240 VENTURE CIRCLE
NASHVILLE, TENNESSEE 37228

hereinafter and generally referred to as the Company, and a report thereon is submitted as follows:

INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee on January 28, 2008. On-site examination work commenced on March 24, 2008. With the Company having authority to write business only in the State of Tennessee, the examination was not classified as an Association Examination under NAIC Guidelines. The examination was performed by duly authorized representatives of the Department of Commerce and Insurance, State of Tennessee ("TDCI").

SCOPE OF EXAMINATION

We have performed our single-state examination of the Company. The last exam was completed as of December 31, 2002 and signed on January 6, 2004. This examination covers the period of January 1, 2003 through December 31, 2007 and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the

Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with risk-focused examination processes. Test checks were made of income and disbursement items for selected periods. All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amount and potential impact on capital and surplus.

In addition, the following topics were reviewed:

- Company History
- Charter and Bylaws
- Management and Control
- Corporate Records
- Insurance Holding Company System
- Affiliated Companies
- Agreements with Affiliated Companies
- Fidelity Bonds and Other Insurance
- Territory (includes inforce/premium by state)
- Plan of Operation
- Market Conduct Activities (includes privacy statement)
- Reinsurance
- Retirement Plan and Other Employee Benefits
- Loss Experience
- Accounts and Records
- Statutory Deposits and Contingency Reserve
- Pecuniary Interest Tenn. Code Ann. § 56-3-103
- Commission Equity
- Dividends or Distributions
- Litigation
- Subsequent Events
- Financial Statement

The last previous examination report made two (2) recommendations which were incorporated as Directives pursuant to Commissioner's Order No.: 04-22 listed as follows:

1. The Company is directed to comply with Tenn. Code Ann. § 56-1-501(g) by preparing its financial statements in accordance with the National Association of

Insurance Commissioners' Accounting Practices and Procedures Manual, including, but not limited to, SSAP No. 26, paragraph 4, as to recording stock and bond purchases.

2. The Company is Directed to comply with Tenn. Code Ann. § 56-30-133 by maintaining its business records as data using any commercially acceptable electronic means.

The Company implemented control procedures in order to comply with both directives; however, review of the controls and subsequent testing during the current examination found that some bond purchases were still being recorded on "settlement date" rather than "trade date." This finding is discussed further under the headings, "Comments and Recommendations" and "Accounts and Records."

The Company now has an option concerning electronic business records maintenance resulting from the amending of Tenn. Code Ann. § 56-30-133 effective March 27, 2008 to state:

"Notwithstanding any other provision of law or regulation to the contrary, a dental service plan corporation may maintain some or all of its business records using commercially acceptable electronic means."

COMPANY HISTORY

The Company was incorporated on September 20, 1965 as the Tennessee Dental Service Corporation. It was organized pursuant to the "Dental Service Plan Law, 1961", Tenn. Code Ann. § 56-30-101 et seq. The Company was issued a Certificate of Authority on July 17, 1969, to commence the business of a dental service plan. On October 6, 1970, the Company's name was changed to Delta Dental Plan of Tennessee. The Company formed Delta Dental Service, a nonprofit corporation, on February 19, 1993. Effective June 29, 1993, Delta Dental Service and the Company merged and Delta Dental Plan of Tennessee became the surviving corporation.

Effective March 12, 2005, the Company changed its name to Delta Dental of Tennessee. A new Certificate of Authority was issued by the TDCI on August 2, 2005 authorizing the Company to transact the business of a "Nonprofit Dental Service Plan Corporation."

At December 31, 2007, the Company was licensed in one state, Tennessee.

The following exhibit depicts certain aspects of the growth and financial history of the Company since the previous examination, according to annual statements filed with the TDCI.

Date	Net Premium	Net Investment Income	Medical & Hospital Expenses	Claims & Admin. Expenses	Net Income (Loss)	Net Assets	Total Surplus
12/31/03	\$45,170,304	\$474,329	\$42,819,467	\$4,977,755	\$4,052,259	\$19,418,177	\$13,142,914
12/31/04	50,417,250	698,328	49,439,126	5,135,600	3,448,874	23,292,663	16,504,989
12/31/05	63,020,300	712,153	61,595,826	6,245,684	4,306,728	29,947,778	22,180,653
12/31/06	74,127,231	824,088	71,816,059	7,395,768	4,770,747	36,947,818	27,472,974
12/31/07	82,204,687	1,298,464	82,282,619	8,803,554	3,645,405	41,728,022	31,784,261

CHARTER AND BYLAWS

Charter:

The Company's original charter was filed and recorded with the Secretary of State, State of Tennessee on September 20, 1965. The original charter was amended and restated on June 29, 1993, pursuant to Title 48, Chapter 61 of the Tennessee Nonprofit Corporation Act. The restated charter established the Company as a nonprofit public benefit corporation and states the purpose for which the Company is formed is "to operate a dental service plan in accordance with Tennessee's Dental Service Plan Law, 1961, and to conduct any other lawful business." The charter established that the Company shall have membership. Additionally, the charter recites other general and specific powers in detail. These are usual in nature and consistent with statute.

On September 27, 1996, an amendment to the Company's charter was filed for the purpose of changing the name of the Company and changing the address to its current address at 240 Venture Circle, Nashville, Tennessee.

On June 29, 2005, an amendment to the Company's charter was filed with the Secretary of State, State of Tennessee changing the name of the Company to "Delta Dental of Tennessee". This amendment was approved by the TDCI on June 20, 2005.

Bylaws:

The Bylaws of the Company in effect at December 31, 2007 were approved by the Board at the December 7, 2007 meeting.

The Bylaws establish the rules which regulate the affairs of the Company. Said Bylaws contain thirteen (13) articles which govern the conduct and duties of its sole corporate member, directors and officers.

The Bylaws provide for an annual meeting of the Member at which time a Board is elected. Officers are elected by the Board at the Board meeting following any meeting of the Member.

The Bylaws are such as those generally found in corporations of this type and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company's officers, directors and members. The Bylaws may be repealed or amended by an affirmative vote of two-thirds (2/3) of the Board.

MANAGEMENT AND CONTROL

Management:

The Company's Bylaws state "that the business and affairs of the Company shall be directed by a Board of Directors consisting of not less than thirteen (13) or more than seventeen (17) directors." As of December 31, 2007, the Board was composed of the following:

<u>NAME</u>	<u>OCCUPATION</u>
Mr. John R. Collier, Jr.	Engineer/Hospital
Dr. Campbell Sowell, Jr.	Dentist
Mr. Leslie Sellers	Real Estate Appraiser
Dr. Joseph F. Rainey	Dentist
*Dr. Paul Bacon	Dentist
*Dr. Bruce Baird	Dentist
Mr. Andrew Beasley	Realtor
Dr. Victor Beck	Dentist
*Dr. Dan Bottomley	Dentist
Mr. L. C. Burkhalter	Retired Businessman
Dr. Terence R. Comar	Dentist
*Dr. Thomas J. Fleszar	Dentist
Ms. Jerre Harris	Retired Benefits Director
Dr. Wayne L. Johnson	Dentist
Dr. David C. Morton	Dentist
Dr. Carmen Reagan	Professor at Austin Peay State University
Mr. Pat Rice	Manager/Businessman
Mr. Drew Robinson	Assistant District Attorney General
Dr. James E. Sexton	Dentist
Ms. Laura O. Stearns	Vice President, Charitable Organization
*Dr. Philip A. Wenk	CEO, Delta Dental of Tennessee

*Exofficio Board Members

BOARD COMMITTEE ASSIGNMENTS

Executive and Compensation Committee

Mr. John R. Collier, Jr.	Chairman of the Board
Dr. Campbell Sowell, Jr.	Vice Chairman
Mr. Leslie Sellers	Secretary/Treasurer
Dr. Joseph F. Rainey	Immediate Past Chairman

Audit and Finance Committee

Mr. Leslie Sellers	Chairman of Committee
Dr. Paul Bacon	
Mr. John R. Collier, Jr.	
Dr. Carmen Reagan	
Mr. Pat Rice	

Nominating Committee

Mr. Drew Robinson	Chairman of Committee
Mr. Andrew Beasley	
Dr. Wayne L. Johnson	
Dr. James E. Sexton	

Investment Committee

Mr. J. Thomas Perry	Chairman of Committee
Mr. Andrew Beasley	
Mr. Bob Perry	
Dr. Philip A. Wenk	

Quality Assurance & Improvement Committee

Ms. Jerre Harris	Chairman of Committee
Dr. David C. Morton	
Dr. Philip A. Wenk	
Mr. Charles N. Young	

Ad Hoc Committee

Dr. Victor Beck	Chairman of Committee
Dr. Paul Bacon	
Dr. Dan Bottomley	
Dr. James E. Sexton	

Corporate Citizenship Committee

Dr. Carmen Reagan	Chairman of Committee
Dr. Philip A. Wenk	
Ms. Missy Acosta	
Ms. Pamela R. Dishman	

As of December 31, 2007, the following persons held office in the Company:

Dr. Philip A. Wenk	President
Mr. J. Thomas Perry	Senior Vice President and CFO
Ms. Donna K. Martin	Senior Vice President
Ms. Pamela R. Dishman	Senior Vice President
Mr. Charles N. Young	Senior Vice President
Ms. Missy Acosta	Vice President
Mr. Donald L. Beaty	Vice President
Ms. Melissa A. Huschke	Vice President
Dr. Henry S. Ramer	Vice President
Mr. Jerry R. Reavis	Vice President
Mr. Louis F. Turbeville	Controller
Ms. Kathy Fussell	Director Internal Control

Mr. Leslie Sellers serves as Secretary/Treasurer of the Board of Directors and is considered as Secretary/Treasurer of the Company.

The administrative and executive functions of the Company are performed by the home office staff.

Effective July 29, 2002 the Company entered into an agreement with Delta Dental Plan of Michigan (DDPMI) to provide computer services and related support allowing the Company to process dental claims. This agreement has remained in force since that time and is discussed in detail under the heading "Agreements With Affiliates."

At December 31, 2007, the Company retained the following professional services:

Auditing Services: Parker, Parker & Associates
1000 NorthChase Drive, Suite 260
Goodlettsville, Tennessee 37072

Legal Services: Waller Lansden Dortch & Davis
511 Union Street, Suite 2100
Nashville, Tennessee 37219

Actuarial Services: Delta Dental Plan of Michigan
P.O. Box 30416
Lansing, Michigan 48909

Control:

Control of the Company is vested in its members pursuant to Tenn. Code Ann. § 56-30-103. The sole member of the Company is Renaissance Health Service Corporation (“RHSC”) which is a Michigan nonprofit corporation that also is the sole member of other Delta Dental Plans located in other states. A further discussion of the relationship is contained under the headings, “Insurance Holding Company System and Affiliated Companies.”

The TDCI approved the Irrevocable Proxy of RHSC on February 13, 2006 stating that RHSC was not considered to control the Company or Delta Dental Plan of Michigan under Tenn. Code Ann. § 56-11-201(b)(3). Based upon this interpretation, indirect control rests with the Board of the Company.

An organizational chart is included at the last page of this examination report.

CORPORATE RECORDS

Minutes of meetings of the Board of Directors of the Company were reviewed for the period under examination as well as minutes for meetings of various committees. In general, such minutes appear to be in proper order and accurately report the proceedings of each respective meeting.

INSURANCE HOLDING COMPANY SYSTEM

The Company is not considered to be party to an insurance holding company system as defined by Tenn. Code Ann. § 56-11-201(b)(7)(D). The referenced statute specifically notes that “insurance company” does not include “nonprofit dental service corporations.” Additionally, a nonprofit dental plan is not subject to insurance statutes unless specifically defined as stated in Tenn. Code Ann. § 56-30-103 as follows:

“The laws of this state relative to insurance companies or to the business of insurance, and acts in amendment thereof or in addition thereto, do not apply to any nonprofit dental service corporation unless expressly so provided in such laws or acts.”

AFFILIATED COMPANIES

In late 2005, the Company entered an Affiliation Agreement with Delta Dental Plan of Michigan, Inc. (DDPMI), a Michigan nonprofit corporation and Dental Health Plan, Inc. (subsequently renamed "Renaissance Health Services Corporation," RHSC), a Michigan nonprofit corporation. In general, the purpose of the affiliation is to enable the companies to achieve certain long-term goals such as improved operational efficiencies and to allow for diversification through other affiliated for-profit companies.

Under the terms of the Affiliation Agreement, the Company remains a separate corporation with a separate board of directors. The Board of the Company will continue to designate the CEO and approve the budget and investments. Additionally, the Company retains its voting rights in Delta Dental Plans Association (DDPA).

As a condition of the Affiliation Agreement, the Company merged its subsidiary Gray Goose Holding Corporation with Renaissance Holding Company (RHC). RHC is a stock corporation that operates as a holding company for for-profit companies. RHC and the Company will become shareholders of RHC. This merger also transferred the 60% ownership of Group Benefit Association, a third party administrator owned by Gray Goose to DDPMI.

In early 2006, the Company formed FORE Holding Company. FORE will hold the Company's investment in RHC and hold the ownership of Premier Insurance Services, an insurance broker and Liquid Corn LLC, a shell corporation established for liability exposure purposes.

A holding company organizational chart is included at the last page of this examination report.

AGREEMENTS WITH AFFILIATES

Claims Processing:

Effective July 29, 2002 the Company entered into an agreement with Delta Dental Plan of Michigan (DDPMI) to provide computer services and related support allowing the Company to process dental claims. The term of the agreement begins January 25, 2000 and ends January 25, 2005 and can be automatically renewed annually on the anniversary of the effective date for one year terms. The current agreement remains in effect until January 25, 2009. It was agreed to by both parties as to the scope and nature of any and all work performed by DDPMI. DDPMI provides all needed management, technical capability, and other resources. DDPMI shall provide for Electronic Claims Submission (ECS) and Electronic Transmission (EFT) processing for the Company and any other company contracting with the Company for dental claims processing. However, DDPMI shall incur no expenses for the receipt of ECS claims or

EFT claims associated with the transaction.

The Company is to pay DDPMI monthly computer and support services, including use of the claims processing system at \$.90 per claim. The monthly charge will be based upon the claims volume shown on the monthly Group Activity Report. Any claims processed by a subsidiary or affiliate of the Company will count toward the Company's claims volume and will be billed at the same rate as the Company's. When the Company's volume exceeds 1,000,000 per calendar year, the rate for the claims processing system will be adjusted to \$.85 per claim. Starting with September 2002, these rates will be subject to review and may only be adjusted downwards during the five year term of the agreement or any automatic renewal. The Company will pay DDPMI's implementation costs not to exceed \$175,000. Such cost will be paid at the rate of \$.25 per claim starting when production claims are being processed on DDPMI's system and continuing until the implementation costs have been paid.

Actuarial:

On October 1, 1990, an agreement was entered into by and between DDPMI ("Actuary") and the Company for actuarial services in connection with its pre-paid dental plan. Payment to the actuary for services provided are set forth in the agreement. A new agreement was updated effective November 1, 2003 to more specifically define the services covered and define hourly fees.

Data Processing Fraud Detection:

Effective March 18, 2003, the Company entered an agreement with DDPMI for Data Processing Services and related services for the purpose of identifying suspected instances of dental health care fraud and abuse based on treatment and billing patterns. The agreement was for one (1) year and automatically renewed each year unless at least 90 days advance written notice was provided by either party. Fees are based on hourly rates and all associated costs

Administrative Services:

Effective June 1, 2007, the Company and DDPMI entered an Agreement whereby DDPMI would provide certain administrative services to the Company and the Company would pay the actual cost incurred and reasonably allocable cost associated with the services provided.

Effective June 1, 2007, the Company and Renaissance Holding Company (RHC) entered an Agreement whereby the Company would provide certain administrative services to RHC and RHC would pay the actual cost incurred and reasonably allocable cost associated with the services provided. The agreement is effected until terminated by either party giving 60 days written notice.

These agreements served to formalize the position that if work was done by one of the parties in the group for another party in the group, the recipient of the services would reimburse the provider for his costs.

The Company is not considered to be party to an insurance holding company system as defined by Tenn. Code Ann. § 56-11-201(b)(7)(D); therefore, the above Agreements with Affiliates do not require prior approval of the TDCI as stipulated by the statute.

FIDELITY BOND AND OTHER INSURANCE

Minimum fidelity bond coverage of \$600,000 to \$700,000 is suggested by guidelines published in the NAIC Financial Condition Examiners Handbook. The Company considers its coverage for employee dishonesty adequate in the amount of \$500,000 based on its total insurance package and surplus position. Their business package policy is outlined below:

<u>Type of Coverage</u>	<u>Coverage Limits</u>
1. Building	
Nashville	\$1,700,000
Contents	\$978,000
Memphis (contents)	\$5,300
Knoxville (contents)	\$5,300
Deductible	\$1,000
Business income/extra expense	actual loss for 12 months
2. General Liability	
General Aggregate	\$2,000,000
Product/Complete Operations Aggregate	\$2,000,000
Personal and Advertising Injury	\$1,000,000
Each Occurrence	\$1,000,000
Damages to Rented Premises	\$500,000
Medical Expense (any one person)	\$10,000
Employee Benefits	\$1,000,000
Employee Benefits Broaden to Each Employee	\$1,000,000
Aggregate	\$3,000,000
3. Umbrella Coverage	
Applies to GL, Auto Liability and Workers Compensation	\$4,000,000
4. Business Auto	
Liability	\$1,000,000
Medical Payment Each Accident	\$5,000

Uninsured Motorist	\$1,000,000
For Hire (rental cars)	\$50,000
Comprehensive Deductible	\$500
Collision Deductible	\$500
5. Employee Dishonesty	\$500,000
Deductible each claim	\$1,000
6. ERISA	\$500,000
Which covers the 401(K) up to	\$5,000,000
7. Accounts Receivable	\$200,000
Valuable Papers on Premises	\$100,000
Valuable Papers off Premises	\$50,000
8. Electronic Data Processing Coverage (in addition to property limits with premises coverage)	
Hardware	\$732,155 subject to (\$1,000 deductible)
Media/Data	\$221,000
Media/Data in transit	\$50,000
Extra Expense	\$10,000

Coverage is underwritten by Cincinnati Insurance Company which is licensed in Tennessee as a "Foreign Property and Casualty Insurer."

Additional Policies:

9. Professional Liability for Managed Care Errors and Omissions	
Directors and Officers	\$3,000,000
Employment Practices	\$3,000,000
Trustee and Fiduciary/Employee	
Benefit Coverage	\$3,000,000
Each Coverage Independent of the Other	

Coverage is underwritten by Cincinnati Insurance Company which is licensed in Tennessee as a "Foreign Property and Casualty Insurer."

10. Professional Liability	
Primary Care Errors and Omissions	\$2,000,000

Coverage is underwritten by the Homeland Insurance Company of New York which is licensed in Tennessee as a "Foreign Surplus Lines Insurer."

11. Flood Insurance	
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Building	\$500,000
Contents	\$473,000

Coverage is underwritten by the American Bankers Flood Insurance Company which is licensed in Tennessee as a "Foreign Property and Casualty Insurer."

12. Workers Compensation Excess Coverage

Workers compensation	Tennessee statutory limit
Specific retention	\$350,000 each accident, each employee
Employers liability	
Bodily injury by accident	\$500,000 each accident
Bodily injury by disease	\$500,000 policy limit
Bodily injury by disease	\$500,000 each accident

Coverage is underwritten by AmCOMP Assurance Corporation which is licensed in Tennessee as a "Foreign Property and Casualty Insurer."

TERRITORY

As of December 31, 2007, and as of the date of this examination report, the Company was licensed to transact business in the State of Tennessee. The Certificate of Authority for that jurisdiction was reviewed.

During 2007, the Company wrote total direct premium of \$82,204,687 entirely in Tennessee.

PLAN OF OPERATION

The Company provides dental plan administration for groups headquartered in Tennessee on a fully insured or self funded basis. The self funded groups are considered Administrative Services Only (ASO).

During, 2007, the Company processed \$103,465,374 of reimbursed claims for the ASO business for which it receives an agreed upon administration fee from the respected groups.

The Company offers two basic products: Delta Premier – a fee-for-service product and Delta PPO Preferred Option – a discounted PPO product. The usual term of coverage is for one year and all accounts are billed on a monthly basis. The Company markets its products via direct sales by its internal marketing department and through independent agents. During the period under review and through the date of this report,

all contract and subscriber certificate preparation was performed by the Company and was subject to the underwriting rules adopted by the Company and promulgated in accordance with approved rates. Claims are received from the providers at the Company's office by mail or electronically via FTP sites as well as by a variety of electronic means.

MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Company as of December 31, 2007, in conjunction with this examination. The following items were addressed:

Policy Forms and Underwriting Practices

A review was made of the Company's filed policy forms and underwriting policies. Tenn. Code Ann. § 56-30-110 states:

"No corporation subject to the provisions of this chapter may issue contracts until the commissioner has formally authorized such contracts to be issued."

No unusual findings were noted.

Advertising

The advertising file was reviewed and the advertising material appears to be in compliance with applicable statutes and regulations. The Company uses television spots and radio spots as well as print documents supplied directly to brokers and dentists. The main emphasis for television has been the Vol Network. The Company's website, www.deltadentaltn.com, also contains plan and enrollment information.

Claims Review

A sample of paid claim files reviewed during the examination indicated that claims were being paid in accordance with policy provisions and settlements were made properly upon receipt of proper evidence of the Company's liability.

Tenn. Code Ann. § 56-7-109, "Timely reimbursement of health insurance claims" does not specifically address dental plans; however, the Company exceeded the requirements of this statute during the period of examination.

The examiners tested a sample of the Company's claims and noted the Company processed 99% of its claims within 10 days of receipt. The processing results exceed the 30 calendar day standard for paper claims and the 21 day calendar standard for electronic claims.

Policyholder Complaints:

Inquiries made to the various sections within the Division of Insurance indicated no specific regulatory concerns with the Company during the period under examination. The Company's complaint register was also reviewed. No unusual practices or items warranting criticism of the Company were noted.

Privacy of Non-Public Personal Information

The Company's policy for the disclosure of privacy of non-public personal information was reviewed. The examiners noted no instances of non-compliance with Tenn. Comp. R. & Regs. 0780-1-72, "Privacy of Consumer Information Regulations." The Privacy Policy is printed on the membership card and is posted on the Company's website.

REINSURANCE

The Company was not a party to any reinsurance agreement at December 31, 2007. No reinsurance agreements have existed since the Company's inception.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

Profit Sharing Plan

The Company provides a profit-sharing plan for all eligible employees. The Company funds the plan at the rate of six percent (6%) of the employee's annual salary. The contributions vest to the employee as follows:

<u>Years of Service</u>	<u>Percentage Vested</u>
0-1	0%
2	20%
3	40%
4	60%
5	80%
6	100%

401 K Plan

The Company also offers a 401(k) deferred compensation plan for eligible employees. Employees may begin making contributions to this plan after completing one year of employment. The maximum amount that an employee can contribute is determined by federal law.

The company may or may not match the employee's contribution based on the profitability of the Company for the prior year. For 2007, the Company matched up to a maximum of six (6%) percent of the employee's annual salary.

The Company is the administrator of the plan.

Life Insurance

The Company provides a life insurance policy for full-time employees effective the first working day of the month following 30 days of employment. This coverage is written through Standard Insurance Company which is licensed in Tennessee as a "Foreign Life Insurer."

Long Term Disability Insurance

The Company provides for its full time employees long term disability insurance coverage at no cost to the employee. This coverage provides benefits to employees who become disabled while employed by the Company and is written through Standard Insurance Company.

Medical Insurance

The Company offers medical insurance for full-time employees on a contributory basis through BlueCross BlueShield of Tennessee effective the first working day of the month following 30 days of employment. The employee is additionally offered the opportunity of electing coverage for his or her spouse and/or dependents. BlueCross BlueShield is licensed in Tennessee as a "Tennessee Nonprofit Hospital and Medical Association."

Dental Insurance

The Company offers dental insurance for full time employees on a non-contributory basis through its own plans. The employee is offered the opportunity of electing coverage for his or her spouse and/or dependents on a contributory basis.

Longevity Pay Program

Employees who have completed at least three (3) consecutive years of service with the Company will receive a lump sum payment at the rate of \$25.00 per year on the next pay day following their anniversary date.

Other Benefits

Other benefits available for employees include holidays, sick leave, vacation leave, service awards and educational assistance.

LOSS EXPERIENCE

As developed from applicable amounts included in the Company's annual statements filed with the TDCI, the ratios of net losses incurred to net premiums earned for the period subject to this examination were as follows:

<u>Year</u>	<u>Medical Expenses Incurred</u>	<u>Net Premiums Earned</u>	<u>Loss Ratio</u>
2003	\$42,819,467	\$45,170,304	94.8%
2004	49,439,126	50,417,250	98.1%
2005	61,595,826	63,020,300	97.7%
2006	71,816,059	74,127,231	96.9%
2007	<u>82,282,619</u>	<u>82,204,687</u>	100.1%
Total	\$307,953,097	\$314,939,772	97.8%

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including substantial verification of postings, extensions and footings and reconciliation of subsidiary ledgers to control accounts where necessary. General ledger trial balances were reconciled with copies of annual statements for the years 2003, 2004, 2005, 2006, and 2007.

Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the Company at the date of examination.

The Company's Risk Based Capital Report was reviewed. The Company was in compliance with Tenn. Code Ann. § 56-46-101, *et seq.* (Risk Based Capital for Insurers).

The Company instituted controls in response to "Directives pursuant to Commissioner's Order No.: 04-22" in order to record the purchase and sales of securities at the trade date rather than the settlement date in compliance with the NAIC Accounting Practices and Procedures, SSAP #26. Testing during the current examination indicated that some purchases made in 2007 were still being recorded at settlement date. It is noted

that in the sample tested, the difference between the trade date and settlement was usually between one (1) and five (5) days.

Books and records of the Company are kept at the home office location:

240 Venture Circle
Nashville, Tennessee 37228

STATUTORY DEPOSITS AND CONTINGENCY RESERVE

The Company is not required to maintain a deposit with the TDCI based on the language contained in Tenn. Code Ann. § 56-30-103 which states:

“The laws of this state relative to insurance companies or the business of insurance, and acts in amendment thereof or in addition thereto, do not apply to any nonprofit dental service corporation unless expressly so provided in such laws or acts.”

The Company is required to maintain a Contingency Reserve pursuant to § 56-30-112(7) which is to be accumulated annually at the rate of not less than two and one-half percent (2.5%) of net premium income. “When the contingency reserves equal seventy-five thousand dollars (\$75,000), or fifty-five percent (55%) of the annual premium income (whichever is higher), further accumulations may be discontinued for any length of time not required to meet the above requirements.”

The Company exhibited \$10,292,312 as an “Aggregate Write-ins for Other Than Special Surplus Funds” in the 2007 annual statement which represents the Contingency Reserve. This amount was increased to \$12,347,429 during 2008 and is discussed under the heading “Subsequent Events.”

PECUNIARY INTEREST TENN. CODE ANN. § 56-3-103

The Company has a conflict of interest policy for its directors, officers and responsible employees adopted effective September 24, 2004 which complies with Tenn. Code Ann. § 56-3-103, prohibiting officers and directors from having pecuniary interest in investment or disposition of Company funds. The directors, officers and responsible employees file annual conflict of interest statements. This policy is in effect even though the referenced statute does not expressly reference a “nonprofit dental service corporation”.

COMMISSION EQUITY

The examiners noted no potential commission equity issues based on the review of contracts and agreements in place.

DIVIDENDS OR DISTRIBUTIONS

No dividends or distributions have been paid to the Member since the inception of the Company.

LITIGATION

As of December 31, 2007, the Company had no pending litigation which could have a material financial effect.

SUBSEQUENT EVENTS

During December 2007, the Company began offering an Individual Dental Product. Transactions for this product are being tracked with reports produced on a monthly basis. The annual audit of the Company indicated this small amount for the new product as an audit difference to be incorporated as an adjustment to the year end close which the Company subsequently recorded. Beginning January, 2008, the Company now records these transactions in its monthly ledger.

The Company and its custodian, First Tennessee Bank National Association, completed a new custodian agreement during the course of the examination to ensure compliance with the investment requirements of Tenn. Code Ann. § 56-30-113, and the technical requirements of Tenn. Comp. R. & Regs. ch. 0780-1-46-.03(2)(a), which became effective on July 12, 2005. The rule states:

“The custodial agreement required by this rule shall contain the following:

1. A provision stating that the standard of responsibility on the part of the custodian shall not be less than that of the responsibility of a bailee for hire or a fiduciary under statutory or case law of Tennessee;
2. A provision stating that the securities held by the custodian are subject to instructions of the insurance company;
3. A provision stating that the securities may be withdrawn immediately upon demand of the insurance company; and

4. A provision stating that the agreement is between the custodian and the insurance company, and not the parent or affiliate of the insurance company.”

The new agreement signed by the Company on May 19, 2008 exhibited language compliant with Tenn. Comp. R. & Regs. ch. 0780-1-46-03(2)(a).

The Company's prior Custodial Agreement with First Tennessee was dated October 20, 1999 which pre-dated the rule change.

As of December 31, 2007, First Tennessee held \$22,502,252 in net admitted bonds and \$5,704,942 in net admitted common stock.

The Company agreed to record the special reserves (2.5% of premiums) on line 28 of page 3 of the annual statement and made a reclassification of \$2,055,117 from Unassigned Funds to Aggregate Write-ins for Other Than Special Surplus Funds on May 22, 2008 following discussions with the TDCI. This reclassification resulted from the requirement that two and one half percent (2.5%) of premium income should be accumulated yearly as a contingency reserve in a special surplus account to comply with Tenn. Code Ann. § 56-30-112. The Company did not interpret annual statement instructions to require that the amount be segregated.

Tenn. Code Ann. § 56-30-112(7) states:

“Every such dental service corporation shall maintain at all times proper reserves, subject to the approval of the commissioner, for unearned subscription fees and unearned premiums, and for unpaid dental service bills, including provision for unreported and undischarged dental cases and other known liabilities. In addition, a contingency reserve shall be accumulated annually at the rate of not less than two and one-half percent (2.5%) of net premium income. When such contingency reserves equal seventy-five thousand dollars (\$75,000), or fifty-five percent (55%) of the annual premium income (whichever is higher), further accumulations may be discontinued for any length of time not required to meet the above requirements;”

Prior to the 2007 year, the Company had made the accrual to Aggregate Write- Ins for Other Than Special Surplus Funds. The Company further stated on May 22, 2008 that future accruals would be made to the special surplus account on a segregated basis.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of income at December 31, 2007, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$22,606,614		\$104,363	\$22,502,251
Common Stocks	9,841,843			9,841,843
Real estate: property occupied by company	1,341,712			1,341,712
Cash and short-term investments	2,587,033			2,587,033
Other invested assets (Schedule BA)	193,391			193,391
Investment income due and accrued	202,399			202,399
Uncollected premiums	1,007,208		71,515	935,693
Furniture and equipment	759,114		759,114	0
Aggregate write-ins for other than invested Assets (listed below)	<u>4,306,651</u>	<u>0</u>	<u>182,951</u>	<u>4,123,700</u>
Totals	<u>\$42,845,965</u>	<u>\$0</u>	<u>\$1,117,943</u>	<u>\$41,728,022</u>

Details of Write-Ins

Administrative fees receivable	\$184,778		\$4,758	\$180,020
Prepaid expenses	142,456		142,456	0
Other assets	36,731		36,731	0
Allowance for doubtful accounts	(79,366)		(79,366)	0
Paid claims receivable	3,114,567		78,372	3,036,195
Miscellaneous receivable	53,314			53,314
National accounts receivable	271,342			271,342
Unpaid claims receivable	<u>582,829</u>		<u> </u>	<u>582,829</u>
Summary of write-ins	<u>\$4,306,651</u>		<u>\$182,951</u>	<u>\$4,123,700</u>

LIABILITIES, SURPLUS, AND OTHER FUNDS

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$3,591,610		\$3,591,610
Accrued medical incentive pool and bonus amounts	0		0
Unpaid claim adjustment expenses	362,274		362,274
Aggregate health policy reserves	0		0
Premiums received in advance	892,585		892,585
General expenses due or accrued	3,361,321		3,361,321
Amounts withheld or retained for the account of others	751,197		751,197
ASC Unpaid Claims	<u>984,774</u>		<u>984,774</u>
Total Liabilities	9,943,761		9,943,761
Common capital stock			\$0
Gross paid in and contributed surplus			0
Surplus notes			0
Statutory Contingency Reserve			12,347,429
Unassigned funds (surplus)			<u>19,436,832</u>
Total capital and surplus			31,784,261
Totals			<u>\$41,728,022</u>

STATEMENT OF REVENUE AND EXPENSES

	Uncovered	Total
Member months		12
Net premium income		<u>\$82,204,687</u>
Total revenues		82,204,687
<u>MEDICAL AND HOSPITAL</u>		
Hospital/medical benefits		
Other professional services		
Emergency room and out of area		
Prescription drugs		
Aggregate write-ins for other medical and hospital (dental benefits)		82,282,619
Incentive pool, withhold adjustments and bonus amounts		
Subtotal		82,282,619
<u>LESS</u>		
Net reinsurance recoveries		
Total medical and hospital (dental benefits)		82,282,619
Claims adjustment expenses		1,419,722
General administrative expenses		7,383,832
Increase in reserves for accident and health contracts		<u>0</u>
Total underwriting deductions		91,086,173
Total underwriting gain or loss	0	(8,881,486)
Net Investment income earned	0	1,298,464
Net realized capital gains or losses	0	<u>(20,166)</u>
Net investment gains or losses	0	1,278,299
Aggregate write-ins for other income or expenses (Net ASO and other revenue, detail on pg. 24)		11,248,592
Net income or (loss) before income taxes		3,645,405
Federal income taxes incurred		<u>0</u>
Net income		<u>\$3,645,405</u>

Details of write-ins

Administrative Fee Income	\$19,165,162
Other income	56,155
Operating expenses	(8,350,286)
National Accounts Income	2,608,995
National Accounts Expense	<u>(2,231,435)</u>
Total aggregate for other income	<u>\$11,248,592</u>

**RECONCILIATION OF CAPITAL AND SURPLUS
FOR THE PERIOD UNDER EXAMINATION**

Surplus as regards policyholders December 31	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Previous Year	\$10,602,491	\$13,142,913	\$16,504,989	\$22,180,653	\$27,472,974
Net Income	4,052,259	3,448,874	4,306,728	4,770,747	3,645,405
Change in net unrealized capital gains (losses)	240,405	(35,467)	38,148	627,107	681,361
Change in net deferred income tax	0	0	0	0	0
Change in non-admitted assets	(1,752,241)	(51,331)	1,330,788	(105,533)	(15,478)
Cumulative effect of changes In accounting principles	0	0	0	0	0
Capital changes: Paid in	0	0	0	0	0
Surplus adjustments: Paid in	0	0	0	0	0
Aggregate write-ins for gains and losses in surplus	0	0	0	0	0
Rounding to \$	<u>(1)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1)</u>
Surplus as regards to policyholders December 31 current year	<u>\$13,142,913</u>	<u>\$16,504,989</u>	<u>\$22,180,653</u>	<u>\$27,472,974</u>	<u>\$31,784,261</u>

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS
RESULTING FROM EXAMINATION**

**Aggregate write-ins for other than surplus funds,
“Contingency Reserve”** **\$12,347,429**

The above amount is \$2,055,117 greater than the amount reported by the Company in its December 31, 2007 Annual Statement.

The Company is required to accumulate contingency reserves pursuant to Tenn. Code Ann. § 56-30-112(7) as follows:

“Every such dental service corporation shall maintain at all times proper reserves, subject to the approval of the commissioner, for unearned subscription fees and unearned premiums, and for unpaid dental service bills, including provision for unreported and undischarged dental cases and other known liabilities. In addition, a contingency reserve shall be accumulated annually at the rate of not less than two and one-half percent (2.5%) of net premium income. When such contingency reserves equal seventy-five thousand dollars (\$75,000), or fifty-five percent (55%) of the annual premium income (whichever is higher), further accumulations may be discontinued for any length of time not required to meet the above requirements;”

Prior to 2007, the Company made the accrual to the “Contingency Reserve” as required by statute. However, in 2007 the amount was recorded in Unassigned Funds. The Company made the necessary reclassification to correct this misstatement on May 22, 2008.

Unassigned funds (surplus) **\$19,436,832**

The amount of this item is \$2,055,117 less than the amount reflected in the Company’s annual statement. The decrease is the result of the changes in the above item.

COMMENTS AND RECOMMENDATIONS

Comments:

- The Company effected a new custodial agreement with its custodian, First Tennessee National Association (bank) during the course of the examination to ensure compliance with the technical requirements of Tenn. Comp. R. & Regs. ch. 0780-1-46-.03(2)(a), which became effective on July 12, 2005. The previous agreement with First Tennessee was dated October 20, 1999 prior to the rule change. The agreement was discussed previously in the report under the caption "Subsequent Events."

Recommendations:

- As a result of the previous examination, the Company was directed to comply with Tenn. Code Ann. § 56-1-501(g) by preparing its financial statements in accordance with NAIC Accounting Practices and Procedures Manual as to recording stock and bond purchases. The Company strengthened its controls in order to properly record security purchases at trade date rather than settlement date.

The examiners tested a sample of security purchases during the current examination to verify that the controls were functioning properly. The testing revealed that some purchases made during 2007 were still being recorded at the settlement date.

It is recommended that the Company institute additional strengthening of its controls as to recording stock and bond purchases and also test the controls to verify that they are functioning properly.

- As a result of discussions with the TDCI, the Company made a reclassification of \$2,055,117 from Unassigned Funds to Aggregate Write-ins for Other Than Special Surplus Funds on May 22, 2008. This reclassification was a result of the requirement of Tenn. Code Ann. § 56-30-112(7) concerning the annual accumulation of contingency reserves and was discussed under the headings of SUBSEQUENT EVENTS and ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS in this report. Accruing the reserve as a special line item is required by statute.

It is recommended that the Company continue to annually accumulate the contingency reserve as required pursuant to Tenn. Code Ann. § 56-30-112(7), and list this item on a segregated basis on financial statements.

- The Company records the net admitted asset value of their bonds for annual statement purposes at cost; however, NAIC Accounting Practices

and Procedures, SSAP No. 43, paragraph 8 states the following:

“For reporting entities that do not maintain an AVR, loan-backed securities designated highest quality and high quality securities (NAIC designations 1 and 2, respectively) shall be reported at amortized cost; loan-backed securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) shall be reported at the lower of amortized cost or fair value.”

The difference between the methods of valuing bonds is immaterial with respect to the financial condition of the Company at December 31, 2007; therefore, no adjustment is being made to the financial statements of this examination report. Furthermore, the balance as reported by the Company in its December 31, 2007 annual statement is more conservative which results from the Company's bond portfolio consisting of all "NAIC designations 1" which were purchased either at par value or at a discount from par value except one security. However, it is recommended that the Company comply with NAIC Accounting Practices and Procedures, SSAP No. 43 by recording the net admitted asset value of bonds at amortized cost. This is consistent with the Directive in Commissioner's Order No.: 04-22 which stated:

“The Company is directed to comply with Tenn. Code Ann. § 56-1-501(g) by preparing its financial statements in accordance with the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual, including, but not limited to, SSAP No. 26, paragraph 4, as to recording stock and bond purchases.”

CONCLUSION

Insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Delta Dental of Tennessee of Nashville, Tennessee.

In such manner, it was determined that, as of December 31, 2007, the Company had admitted assets of \$41,728,022 and liabilities, exclusive of a statutory contingency reserve and unassigned funds, of \$9,943,761. Thus, there existed for the additional protection of the policyholders, a statutory contingency reserve of \$12,347,429 and unassigned funds (surplus) of \$19,436,832.

The courteous cooperation of the officers and employees of the Company extended during the course of the examination is hereby acknowledged.

In addition to the undersigned, Insurance Examiners James T. Pearce, Jr. and Rebecca E. Walker participated in the work of this examination.

Respectfully submitted,



Keith M. Patterson
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

AFFIDAVIT

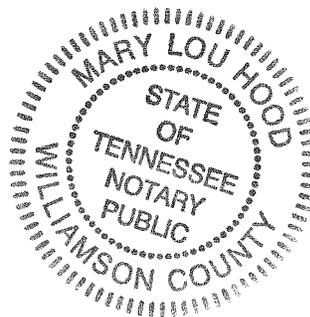
The undersigned deposes and says that he has duly executed the attached examination report of Delta Dental of Tennessee dated June 16, 2009, and made as of December 31, 2007, on behalf of the Department of Commerce and Insurance, State of Tennessee. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.


Keith M. Patterson
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me

this 16 day of
June, 2009

Notary Mary Lou Hood
County Williamson
State TN
Commission Expires 03/06/11



ORGANIZATIONAL CHART

