STATE OF OREGON

DEPARTMENT OF CONSUMER & BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

REPORT OF FINANCIAL EXAMINATION

OF

OREGON DENTAL SERVICE
PORTLAND, OREGON

AS OF

DECEMBER 31, 2019

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

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OF

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PORTLAND, OREGON

NAIC COMPANY CODE 54941

AS OF

DECEMBER 31, 2019

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SALUTATION

December 30, 2020

Honorable Andrew Stolfi, Director
Department of Consumer and Business Services
Division of Financial Regulation
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Director:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

OREGON DENTAL SERVICE
601 SW Second Avenue
Portland, Oregon 97204

NAIC Company Code 54941

hereinafter referred to as the "Plan." The following report is respectfully submitted.

SCOPE OF EXAMINATION

We have performed a regular, single-state, full-scope financial examination of Oregon Dental Service. The last examination of this health care service contractor was completed as of December 31, 2015. This examination covers the four-year period of January 1, 2016, through December 31, 2019.

We conducted our examination pursuant to ORS 731.300 and in accordance with ORS 731.302(1), which allows the examiners to consider the guidelines and procedures in the NAIC *Financial Condition Examiners Handbook.* The handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Plan 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 Plan 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 Plan's financial statements.

This examination report includes significant findings of fact, as mentioned in ORS 731.302 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report, but separately communicated to other regulators and the Plan.

COMPANY HISTORY

The Plan was incorporated in 1961 under the laws of the State of Oregon and under the sponsorship of the Oregon Dental Association (ODA) as the Oregon Dental Health Foundation, a nonprofit corporation. The Plan received its Certificate of Authority as a domestic health care service contractor on July 23, 1962, under ORS Chapter 750. The Plan adopted its current name on February 14, 1966.

Capitalization

The Articles of Incorporation provide for no capital stock and define the purpose of the Plan as the promotion and improvement of dental health and dental hygiene in the State of Oregon without profit to the corporation. The Oregon Secretary of State Corporation Division registered the Plan as a mutual benefit non-profit corporation. The Plan did not receive any paid in or contributed surplus amounts during the period under examination.

Surplus Notes

The Plan reported issuance of one surplus note, as follows:

Purchaser	Issued	Principal	Rate	Maturity
Delta Dental of Minnesota	12/31/2015	$ 3,000,000	5.00%	12/31/2020
Total		$ 3,000,000		

The note was approved by the Oregon Division of Financial Regulation and each payment of interest of the surplus notes was made only with the prior approval of the Director, in compliance with SSAP No. 41. The note requires interest only payments of $150,000, due on December 31 of each year. The note was paid in full in December of 2020.

Dividends to Stockholders and Other Distributions

During the period under examination, the Plan did not declare or pay any dividends or make any distributions to its direct parent.

CORPORATE RECORDS

Board Minutes

In general, the review of 2016 to 2019 Board meeting minutes of the Plan, as well as the various committees authorized by the Board, indicated that the minutes support the transactions of the Plan and clearly describe the actions taken by its directors and officers. A quorum, as defined by the Plan's bylaws, was met at all of the meetings held during the period under review. The Board maintained a quarterly meeting schedule.

The Compensation/Governance Committee, approves the compensation of the Plan's officers and complies with the provisions of ORS 732.320(3).

Articles of Incorporation

The Plan last amended its Articles of Incorporation on December 22, 2013. The Articles of Incorporation conformed to the Oregon Insurance Code.

Bylaws

The Plan's Bylaws were last amended September 8, 2018. The corporation is a nonprofit corporation organized under the Oregon Nonprofit Corporation Act. The corporation has the authority to operate one or more educational institutions with the purpose of providing education and instruction in the field of dental health. All corporate powers shall be exercised by or under the authority of the Board of Directors, including the business and affairs of the corporation. The Bylaws conformed to Oregon statutes.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws vest management and control of the Plan in a Board of Directors. One of the directors shall include the Chief Executive Officer. Each director (other than the Chief Executive Officer) shall be appointed by the Oregon Dental Association (ODA), acting by and through its Board of Trustees. The term of each director (other than the CEO) shall be one year. The directors shall continue to serve until his or her successor is appointed and qualified. Directors need not be residents of the State of Oregon. The number of directors shall be determined by a resolution of the Board and the Board shall consist of a majority of persons who are independent. A majority of the number of directors constitutes a quorum. The Board of Directors met all requirements of ORS 750.015. On December 31, 2019, the Plan was governed by a seven member Board of Directors as follows:

Name and Address	Principal Affiliation	Representative	Member Since
Kenneth Lee Allen Beaverton, Oregon	Retired Executive Director AFSCME	Public	2018
George Jim Drake Vancouver, Washington	Retired Dentist	Public	1998
Jill Ronne Eberwein Portland, Oregon	Co-Founder Mazama Capital Management	Public	2011
Robert Glenn Gootee Portland, Oregon	Chief Executive Officer Moda Health Plan, Inc.	Company	1988
David Wesley Howerton * Portland, Oregon	Self Employed Oral & Maxillofacial Surgeon	ODA	2004

Name and Address	Principal Affiliation	Representative	Member Since
Mark Edward Jensen Bend, Oregon	Self Employed Dentist	ODA	2005
George Joseph Passadore Portland, Oregon	Retired Bank Chairman	Public	2004

* Board Chair

The Directors as a group have experience in insurance, accounting and management, in accordance with the provisions of ORS 731.386. ORS 750.015(1) requires not less than one-third of the group of persons vested with the management of the affairs of a health care service contractor be representatives of the public who are not practicing doctors, employees, or trustees of a participant hospital. The Board of Directors was in compliance with this requirement.

Officers

Principal officers serving at December 31, 2019, were as follows:

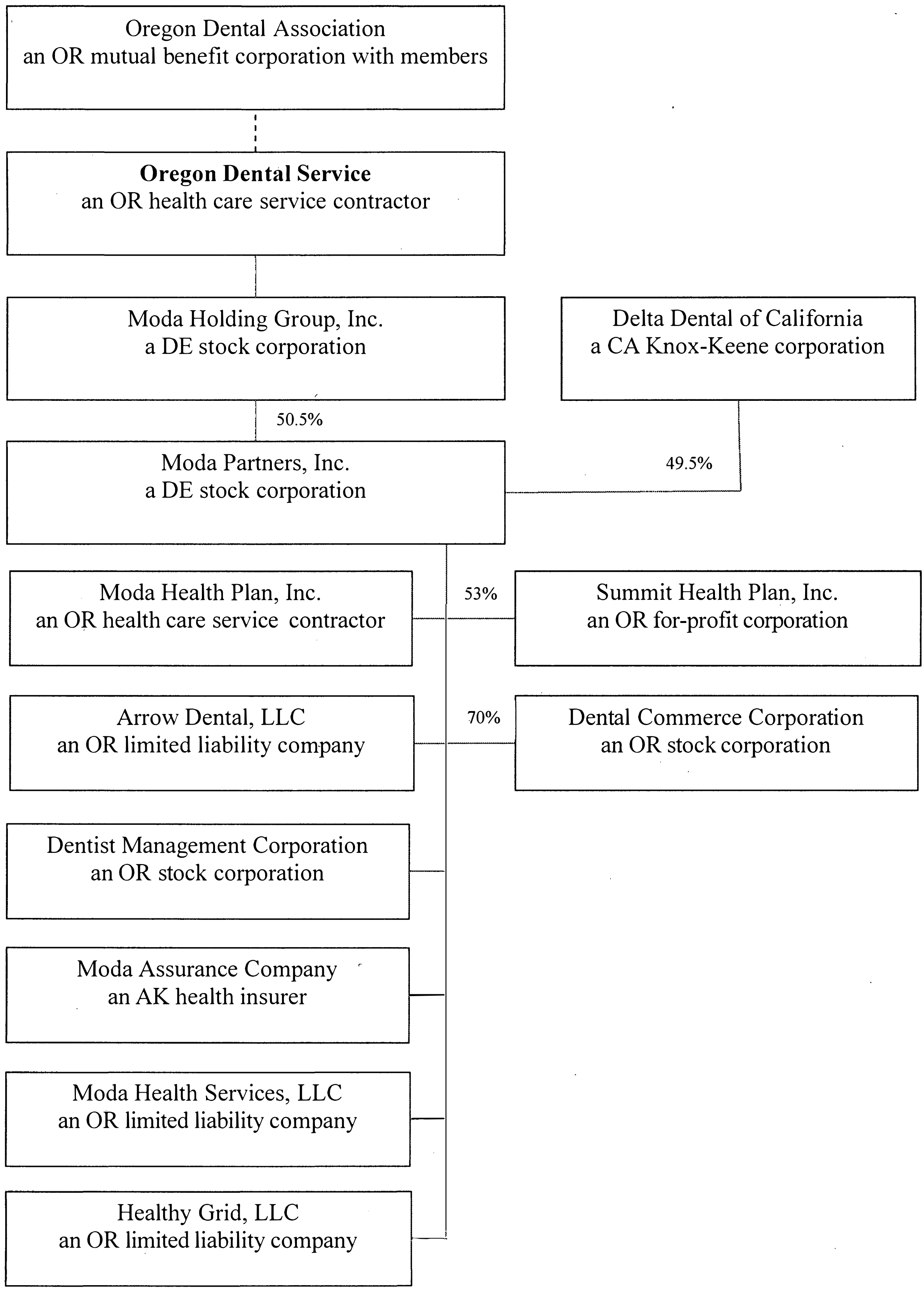
Name	Title
Robert Glenn Gootee	Chief Executive Officer and President
David Wayne Evans	Chief Financial Officer and Treasurer
Thomas James Bikales	Secretary

Conflict of Interest

The Plan provided its conflict of interest policy. Board members, senior officers and key employees are required to annually sign a conflict of interest declaration. From a review of the completed conflict of interest questionnaires, it appeared that the affected personnel performed due diligence in completing the conflict of interest statements. No material conflicts of interest were noted.

Insurance Company Holding System

An insurance holding company registration statement was filed by the Plan in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020(1). The following abbreviated organizational chart depicts the relationship between the related entities of the Plan (Ownership is 100% unless otherwise indicated):


Oregon Dental Association
an OR mutual benefit corporation with members
Oregon Dental Service
an OR health care service contractor
Moda Holding Group, Inc.
a DE stock corporation
Delta Dental of California
a CA Knox-Keene corporation
50.5%
49.5%
Moda Partners, Inc.
a DE stock corporation
Moda Health Plan, Inc.
an OR health care service contractor
53%
Summit Health Plan, Inc.
an OR for-profit corporation
Arrow Dental, LLC
an OR limited liability company
70%
Dental Commerce Corporation
an OR stock corporation
Dentist Management Corporation
an OR stock corporation
Moda Assurance Company
an AK health insurer
Moda Health Services, LLC
an OR limited liability company
Healthy Grid, LLC
an OR limited liability company

A description of the direct entities above is as follows:

Oregon Dental Association (ODA) is an Oregon nonprofit professional association formed in 1949. It is one of the five constituent dental societies that comprise the American Dental Association's Eleventh Trustee District. ODA members are dentists licensed in Oregon. The Board of Trustees of the ODA appoints all but one of the directors of the Plan's Board, and would be considered the ultimate controlling entity.

Moda Holdings Group, Inc. (MHG) is a Delaware stock corporation formed in 2018 to hold an investment in Moda Partners, Inc., subsequent to the acquisition of 49.5% of Moda Partners, Inc. by Delta Dental of California.

Delta Dental of California (DDCA) is a California nonprofit corporation and 49.5% owner of Moda Partners, Inc., appointing two of the five Board seats. DDC owns 100% of the common stock of DDC Insurance Holdings, Inc. and 100% of the common stock of eight insurance companies and five non-insurance entities as part of the Dentegra Group (a Delaware nonprofit corporation). DDC is the nation's leading provider of dental insurance and maintains a national network of Delta Dental companies, offering dental coverage in all 50 states, Puerto Rico and other U.S. territories.

Moda Partners, Inc. (MPI) is a Delaware for-profit stock corporation formed in 2016 as a management company. It maintains all employees, facilities and operations used by the Plan under a management agreement described below.

Moda Partners, Inc. owns the following subsidiaries:

Arrow Dental LLC (ADC) is an Oregon limited liability company formed to serve the Medicaid consumer dental market.

Dental Commerce Corporation (DCC) is an Oregon corporation incorporated on May 2, 2011. Its purpose is to finance dentist offices and equipment purchases.

Dentists Management Corporation (DMC) is an Oregon corporation incorporated on August 4, 1981. Its primary function is to market a dental practice management system known as DAISY.

Moda Assurance Company (MAC) is a stock corporation and a licensed health insurer in Alaska. The entity was formed in 2019 and began to write major medical policies for individual insurance coverage on January 1, 2020.

Moda Health Services, LLC (MHS) is a limited liability company and a professional employer organization for dental offices. During 2020, subsequent to the period under examination, (MHS was dissolved.

Healthy Grid, LLC (HGL) is a limited liability company licensed in Oregon. It was formed to serve the online consumer dental market and provide dentists with the resources they need to grow their practice.

Summit Health Plan, Inc. (SHP) is a stock corporation licensed in Oregon. It was formed in 2019 but ultimately incorporated in 2020 and will begin writing Medicare Advantage business in eastern Oregon in 2021.

Moda Health Plan, Inc. (MHPI) is an Oregon for-profit health care service contractor formed in 1988 under the laws of the Oregon Insurance Code. The Company is licensed in 6 states but only actively writes in Alaska and Oregon providing medical insurance to individuals and groups.

Intercompany Agreements

The Plan operated as of December 31, 2019, under the following related party agreements:

Amended and Restated Management Services Agreement

Effective January 1, 1995, and last amended on December 3, 2019, the Plan entered into a management and service agreement with Moda Partners Inc. (MPI). The management agreement states that MPI will provide all marketing, underwriting, claims, reinsurance, investments, financial and accounting systems and financial reporting, information systems and data processing, administration functions to the Plan. MPI will provide all equipment, computer software, furniture, fixtures and all tangible personal property used to transact business, as well as all employees and staff. Terms of the agreement states the Plan is to pay all costs and expenses that are directly attributable to its operations, and indirect expenses are to be pooled and allocated using a fair and reasonable method.

The agreement did not specify a due date for payment. Sections 5.2 of the agreement states that all intercompany activities as well as intercompany loans shall be permitted only if separate, accurate and verifiable accounting is maintained. All such transactions are reconciled monthly, and balances held more than 90 days are paid interest equal to the 90-day US T-Bill rate as of the last business day of the month. Additionally, MPI and the Plan shall mutually agree in good faith regarding reasonable expense reimbursements for amounts paid or incurred by MPI in connection with management services performed, including compensation, benefits, and payroll taxes paid or incurred by MPI for its employees. If not mutually agreed upon, other expense reimbursements shall be invoiced by MPI from time to time (not more frequently than monthly) and shall be paid within 15 business days after the delivery of such invoice.

The Agreement did not specify any specific cost allocation methodologies in various sections of the Agreement, including Section 3.1: Use of Leased Property by the Affiliated Companies; Section 6.3: requirement that the Manager and Plan mutually agree upon reasonable expense reimbursements for amounts paid or incurred by the Manager for the benefit of the Plan; and Section 6.4: Reasonable Rent for the Leased Property. As a result, there is no basis to conclude that allocation would be fair and reasonable per the requirements of ORS 732.574(1)(a). Further, the affiliated companies are not signatories to the Agreement, as some of the companies included no longer exist, while others included in the holding company system are not listed.

Section 7.3 allows for the immediate suspension or termination of the Agreement in the event that Oregon DCBS initiates litigation or regulatory action regarding the provisions of the Agreement. However, there is no clarification that essential services to policyholders may not be immediately suspended or terminated without approval from the Oregon Division of Financial Regulation.

I recommend the Plan amend the Management Services Agreement as follows per the requirements of SSAP No.25, paragraph 8, and ORS 732.574(1)(a) through (d):

- **Have all parties to the agreement, including affiliated companies, sign the agreement;**
- **Have the Agreement specifically state that it is between Moda Partners, Inc. and the Affiliated Companies so it is clear what applies to the Plan and what applies to affiliated companies;**
- **Have the allocation methodologies for indirect expenses specifically outlined in the agreement;**
- **Have sections of the agreement which are vague and general be made more specific or made into separate agreements, (i.e. clarification on required insurance coverages);**

- **Have the Agreement clarify that essential services to policyholders may not be immediately suspended or terminated without the approval of the Division of Financial Regulation;**
- **Have the Agreement specify due dates for payments in regards to all intercompany activities and intercompany loans;**
- **Amend the Agreement to include an accurate listing of existing affiliated companies of MPI;**
- **Amend the Agreement to reflect the name change of an affiliate from ODS Health Plan, Inc. to Moda Health Plan, Inc.**

I further recommend the Plan incorporate into the Administrative Services Agreement for a Lease/Rental provision between Moda Partners, Inc. and each named affiliated company which specifies rent charges or at least the rent allocation methodology to be used, settlement dates, and consequences if settlement is not made by the due date, pursuant to the requirements of SSAP No. 25 and ORS 732.574(1)(a) through (d).

<u>Administrative Services Agreement – Medicare Dental Services</u>

Effective January 1, 2019, the Plan entered into an Administrative Service agreement with Moda Health Plan, Inc. Under the agreement, the arrangement between MHPI and the Plan includes the following:

- The Plan will administer MHPI's Medicare Advantage and Part D Prescription Drug (MAPD) plans dental benefit as provided for in this Agreement for Members following any applicable requirements imposed by the CMS, federal Medicare rules, or laws including, without limitation.

- MHPI shall pay the Plan an administrative fee per Member per Month (PMPM) for each Member enrolled in a MHPI MAPD Plan with a dental benefit as provided.

- The Plan agrees to maintain for 10 years the books, records, documents, and other evidence of accounting procedures and practices.

- The Plan shall for valid claims for dental services on the Plan's MAPD Plans, process claims for payment.

- The Plan maintains a network of contracted dental providers.

- MHPI retains the right to approve, suspend, or terminate any such arrangement with any Participating Dental Provider as to services for its Members.
- The Plan shall credential all Participating Dental Providers who provide dental services to Members.
- The Plan shall provide customer service functions to the Plan's Members.
- The Plan shall maintain a health information system that collects, analyzes and integrates the data necessary to implement its quality improvement program.

The agreement states MHPI shall pay the Plan a stated PMPM amount for each Member enrolled on MHPI's MAPD plan with a dental benefit.

<u>First Amendment to ASA Medicare Dental Services</u>

The agreement was amended effective January 1, 2020. The amendment was made to include the Dental Benefit Administration Fee. MHPI will pay the Plan a stated PMPM amount for each Member enrolled in MHPI's MAPD plan with a dental benefit.

The Examiners noted the following transactions were being performed without a written agreement in place:

<u>Failure to Have an Agreement for Intercompany Pre-Settlements</u>

In a review of intercompany expenses and settlements, there were pre-settlements in the amount of $3 million and $12 million paid by MHPI to Moda Partners, Inc. and the Plan, respectively. There is no contract in place that addresses Moda Health Plan, Inc. paying monies to Moda Partners, Inc. or ODS in advance for any expenses incurred by either entity on MHP's behalf. The Plan is found to be in violation of SSAP No. 25, paragraph 8 which states *transactions between related parties must be in the form of a written agreement. The written agreement must provide for timely settlement of amounts owed, with a specified due date.* Additionally, the lack of agreements on these transactions is in violation of ORS 732.574(2)(a)-(B) which states *A domestic insurer and any person in the domestic insurer's insurance holding company system may enter into a transaction described in this subsection, including an amendment to or modification of an affiliate agreement that is subject to standards set forth in this section, only if: (A) the domestic insurer has notified the director of the domestic insurer's intention to enter into the transaction in writing and not later than the 30th day before the transaction, or within a shorter period the director allows; and (B) the director does not disapprove the transaction within the period.*

I recommend the Plan either amend its Management Service Agreement with MPI to include intercompany expense allocations and any pre-settlements, or file a new agreement under a Form D for approval by the Division of Financial Regulation. Additionally, I recommend the Plan adopt and implement policies and procedures which ensure all transactions between affiliated entities are in compliance with SSAP No. 25, paragraph 8 and ORS 732.574(2).

Failure to Have A Written and Filed Agreement for Intercompany Reimbursement

It was noted in review of financial reporting and related party documents that there were several transactions in which the Plan made payments on behalf of subsidiaries and then billed the subsidiaries for the direct and indirect expenses that were paid on its behalf. Due to the fact there is no specific written agreement between ODS and all of the subsidiaries in the holding company system regarding these transactions, the Plan is in violation of SSAP No. 25 – Related Parties, paragraph 8, described above.

I recommend the Plan prepare a written agreement and submit a Form D Filing for approval with the Division of Financial Regulation an expense payments agreement between the Plan and the subsidiaries it pays expenses on behalf of and then receives reimbursement once

billed to the applicable subsidiaries, in accordance with the requirements of ORS 731.302(1) and SSAP No. 25.

FIDELITY BOND AND OTHER INSURANCE

The examination of insurance coverages involved a review of adequacy of limits and retentions, and the solvency of the insurers providing the coverages. The insurance coverages are provided through insurance policies issued by unaffiliated carriers. ODS and its subsidiaries are insured up to a $15,000,000 aggregate limit, including single loss limits of $7,500,000 with a $100,000 deductible against losses from acts of dishonesty and forgery by its employees and agents. Fidelity bond coverage was found to meet the coverage recommended by the NAIC.

Other insurance coverages in force at December 31, 2019, were found to be adequate, and included:

Cyber	Excess Managed Care Errors and Omissions
Terrorism	Directors and Officers liability
Medical Professional Liability	Employment Practices Liability
Workers Compensation	Property
Managed Care Errors and Omission	Umbrella

TERRITORY AND PLAN OF OPERATION

The Plan is a member of the Delta Dental Plan Association, comprised of 39 independent plans operating in all 50 states, the District of Columbia and Puerto Rico to provide dental coverage to its subscribers. The Plan is licensed in Alaska and Oregon but the majority of business is written in Oregon. The dental insurance business is comprised primarily of commercial plans, both in the small and large-group employer markets, as well as individual plans. Some of the commercial business is written on a retention basis whereby the Plan agrees to refund the excess, if any, of premium received over claims and administrative costs paid. The Plan began writing Medicaid

Dental transferred from its indirectly wholly owned subsidiary, ODS Community Health, Inc. (ODSCH) on 01/01/2016. On January 1, 2019, the Plan began offering a dental benefit as part of the Moda Health Plan, Inc. Medicare Advantage Plan. In addition to insurance business, the Plan offers two non-insurance dental plans to employer groups.

1) Administrative Services Only (ASO) business for self-insureds where ODS, as an administrator, provides for the collection of group's premiums and the processing of the group's claims, whereby the Plan is paid a pre-determined administration fee. The employer group retains all claim obligations, and pre-funds the Plan for claims paid out by the Plan, thus there is no insurance risk to the Plan.

2) A Minimum Premium Plan (MPP) is a partially insured product where the Plan charges a group a minimum premium per person per month to cover the administrative costs of processing claims. The insured is responsible for the claim payments up to a maximum limit established by the contract. The Plan covers claims incurred in excess of the maximum limit.

During the last five years, the Plan reported total enrolled members as follows:

Line of Business	**2015**	**2016**	**2017**	**2018**	**2019**
Dental Only	198,919	191,620	181,745	181,146	184,381
Medicare	-	-	-	-	10,885
Medicaid	-	139,120	143,900	191,947	202,892
Total enrollment	198,919	330,740	325,645	373,093	398,158

GROWTH OF THE COMPANY

The growth of the Plan over the past five years is reflected in the following table. The stated amounts were obtained from the Plan's filed annual statements, except for those years in which the Division of Financial Regulation published the examination.

Year	Assets	Liabilities	Capital and Surplus	Net Income
2015 *	$ 121,482,242	$ 40,083,084	$ 81,399,209	$ 2,855,600
2016	116,334,969	26,881,193	89,453,776	11,131,028
2017	146,306,923	33,607,051	112,699,872	7,848,388
2018	178,963,189	34,766,842	144,196,347	158,499,387
2019 *	46,134,989	33,592,524	12,542,465	4,883,032

*Per examination

The net income amount for 2018 is based on the Plan's recorded amount of the realized gain in its investment in Moda Holdings Group, Inc. and Moda Partners, Inc. as a result of the DDCA purchase of MPI on February 28, 2019, that was recognized as a subsequent event as of December 31, 2018.

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Plan over the past five years. The amounts were obtained from copies of the Plan's filed annual statements and, where indicated, from the previous examination reports.

Year	(1) Total Revenues	(2) Total Hospital and Medical	(2)/(1) Medical Loss Ratio	(3) Claim Adjustment and General Expenses	(2)+(3)/(1) Combined Loss Ratio
2015 *	103,131,325	87,788,007	85.1%	13,194,175	97.9%
2016	150,388,022	117,329,074	78.0%	23,301,382	93.5%
2017	153,153,455	125,344,133	81.8%	22,313,067	96.4%
2018	159,627,825	130,232,688	81.6%	26,726,469	98.3%
2019 *	170,068,013	140,881,046	82.8%	24,273,838	97.1%

*Per examination

A combined claims and expense to premium ratio in excess of 100% typically indicates an underwriting loss. The Plan reported underwriting gains in each year under examination.

REINSURANCE

Assumed

None.

Ceded

None

ACCOUNTS AND RECORDS

In general, the Plan's records and source documentation supported the amounts presented in the Plan's December 31, 2019, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170.

The Plan has a system in place to account for unclaimed funds and the Plan has filed the reports on abandoned property pursuant to the provisions of ORS 98.352.

STATUTORY DEPOSIT

As of the date of the examination, the Plan maintained deposits with the Oregon Division of Financial Regulation, Department of Consumer & Business Services, totaling $620,000 (par value) in accordance with ORS 750.045(2). The deposit was verified from the records of the Division of Financial Regulation and was properly listed in the 2019 annual statement, Schedule E – Part 3. The deposit was comprised of three FNMA U.S. Special Revenue bonds.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were four recommendations made from the prior examination performed by the Division of Financial Regulation as follows:

1. I recommend that the ODS Group formulate a written Enterprise Risk Management process that includes modeling risk scenarios and Model Audit Rule compliant organization that

includes an independent internal audit department that reports to the Board or committee thereof. The Examiners noted that this structure has been subsequently developed but not reviewed during the examination process.

2. I recommend the Plan modify its use of the Zero Balance Account (ZBA) structure with Moda, Inc.'s sweep/concentration account and maintain ownership and existence of its cash in the name of ODS in accordance with SSAP No. 4 and ORS 733.780.

3. I recommend that the Plan record the Tricare Retirement Dental Program (TRDP) or other risk sharing business as direct business and reflect the revenues and expenses in its annual statements in accordance with the NAIC financial statement instructions as required by ORS 731.574.

4. I recommend that the Plan enhance its processes to ensure proper disclosure of restricted assets and its financial statements are completed in accordance with NAIC Annual and Quarterly Statement instructions as required by ORS 731.574.

The examination uncovered the following in regards to the prior exam recommendations:

1. The Plan has been in the process of improving its Enterprise Risk Management process and modeling risk scenarios as part of its Group ORSA process. The Internal Audit Manager reports directly to the Audit Committee.

2. The Plan's December 2019 bank statements indicated ownership and existence of its cash in the name of Oregon Dental Service. The Plan no longer has a cash sweep account.

3. The Plan now records TRDP, described above, as direct business on the filed financial Statements submitted to the Division.

4. The 2019 Annual Statement – Note 5 – Investments, Part L – Restricted Assets disclosed the Plan has $621,856 on deposit with the Oregon Division of Financial Regulation and $1,074, 068 on deposit with the Oregon Health Authority. The exam team confirmed the statutory deposit par value amount with the Oregon Division of Financial Regulation. The Plan is not involved in securities lending nor has any other pledged collateral.

SUBSEQUENT EVENTS

On March 11, 2020, the Novel Coronavirus Disease, COVID-19, was declared a pandemic by the World Health Organization. On March 13, 2020, a national emergency was declared in the United States concerning the COVID-19 outbreak. After those developments, the Plan shifted its workforce to a remote work-from-home model, that Plan management has predicted will last through at least the end of 2020. The change has not immediately impacted Plan financials but could see future cost fluctuations related to infrastructure, employee expenses related to productivity, and network/security expenses.

On September 23, 2020, the Plan received a dividend in the amount of $118,945,079 from Moda Partners, Inc., in settlement of outstanding preferred stock. This dividend payment was associated with Moda Health Plan, Inc.'s August 2020 receipt of the $248.9 million Risk Corridor settlement from the US Judiciary Fund, which was received subsequent to an 8-1 ruling by the U.S. Supreme Court in favor of insurers collecting the Risk Corridor dollars owed under the Affordable Care Act.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Plan with the Division of Financial Regulation and present the financial condition of the Plan for the period ending December 31, 2019. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements. These statements include:

Statement of Assets
Statement of Liabilities, Capital and Surplus
Statement of Revenue and Expenses
Reconciliation of Surplus since the Last Examination

OREGON DENTAL SERVICE
STATEMENT OF ASSETS
As of December 31, 2019

Assets	Balance per Plan	Examination Adjustments	Balance per Examination	Notes
Bonds	$ 10,654,425	$ -	$ 10,654,425	1
Common stocks	164,176,234	(142,591,051)	21,585,183	2
Cash, cash equivalents and short-term investments	3,468,403	-	3,468,403	1
Aggregate write-ins for invested assets	-	-	-	
Subtotal, cash and invested assets	178,299,062	(142,591,051)	35,708,011	
Investment income due and accrued	41,419	-	41,419	
Premiums and considerations				
Uncollected premiums, agents' balances in course of collection	653,208	-	653,208	
Amounts receivable related to uninsured plans	1,408,095	-	1,408,095	
EDP Equipment and software	2,493,183	-	2,493,183	
Receivable from parent, subsidiaries and affiliates	5,204,818	-	5,204,818	
Aggregate write-ins for other than invested assets	626,255	-	626,255	
Total Assets	$ 188,726,040	(142,591,051)	$ 46,134,989	

OREGON DENTAL SERVICE
STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS
As of December 31, 2019

	Balance per Plan	Examination Adjustments	Balance per Examination	Notes
Claims unpaid	$ 3,824,000	$ -	$ 3,824,000	3
Accrued medical incentive pool and bonus amounts	-	-	-	
Unpaid claims adjustment expense	191,200	-	191,200	3
Aggregate health policy reserves	1,270,131	-	1,270,131	3
Premiums received in advance	2,609,260	-	2,609,260	
General expenses due or accrued	5,924,633	-	5,924,633	
Amounts withheld or retained for the account of others	2,186,709	-	2,186,709	
Amounts due to parent, subsidiaries and affiliates	9,379,999	-	9,379,999	
Liability for amounts held under uninsured plans	7,560,314	-	7,560,314	
Aggregate write-ins for liabilities	646,278	-	646,278	
Total Liabilities	$ 33 592,524	$ -	$ 33,592,524	
Aggregate write-ins for special surplus funds	$ 1,864,676	$ -	$ 1,864,676	4
Surplus notes	3,000,000	-	3,000,000	
Aggregate write-ins for other than special surplus funds	19,247,852	-	19,247,852	
Unassigned funds (surplus)	131,020,988	(142,591,051)	(11,570,063)	
Surplus as regards policyholders	$ 155,133,516	(142,591,051)	$ 12 542,465	
Total Liabilities, Surplus and other Funds	$ 188,726,040	(142,591,051)	$ 46,134,989	

OREGON DENTAL SERVICE
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2019

	Balance per Plan	Examination Adjustments	Balance per Examination	Notes
Revenue				
Net premium income	$ 170,068,013	$ -	$ 170,068,013	
Aggregate write-ins for health care related revenues	-	-	-	
Total revenue	170,068,013	-	170,068,013	
Hospital and Medical:				
Hospital/medical benefits	-	-	-	
Other professional services	140,881,046	-	140,881,046	
Outside referrals	-	-	-	
Emergency room and out-of-area	-	-	-	
Prescription drugs	-	-	-	
Aggregate write-ins for other hospital and medical	-	-	-	
Incentive pool, withhold adjustments and bonus amounts	-	-	-	
Subtotal	140,881,046	-	140,881,046	
Less:				
Net reinsurance recoveries	-	-	-	
Total medical and hospital	140,881,046	-	140,881,046	
Non-health claims	-	-	-	
Claim adjustment expenses	8,069,835	-	8,069,835	
General administrative expenses	16,204,003	-	16,204,003	
Increase in reserves for life and accident and health contracts	-	-	-	
Total underwriting deductions	165,154,884	-	165,154,884	
Net underwriting gain or (loss)	4,913,129	-	4,913,129	
Net investment income earned	163,050	-	163,050	
Net realized capital gains (losses)	147,043	-	147,043	
Net investment gains (losses)	310,093	-	310,093	
Net gain or (loss) from agents' or premium balances charged off	-	-	-	
Aggregate write-ins for other income or expense	(340,190)	-	(340,190)	
Federal income taxes incurred	-	-	-	
Net income	$ 4,883,032	$ -	$ 4,883,032	

OREGON DENTAL SERVICE
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31,

	2019	2018	2017	2016
Surplus as regards policyholders, December 31, previous year	$144,196,347	$112,699,872	$ 89,453,776	$97,718,598
Net income (loss)	4,883,032	158,499,387	7,848,388	11,131,028
Change in net unrealized capital gains or (losses)	4,336,970	(77,418,060)	17,996,134	(10,343,736)
Change in net deferred income tax	-	-	-	-
Change in non-admitted assets	2,217,167	(4,774,615)	11,354,907	(8,552,114)
Change in provision for reinsurance	-	-	-	-
Change in surplus notes	-	-	-	-
Cumulative effects of changes in accounting principles	-	-	-	-
Capital changes:				
Paid in	-	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-	-
Transferred to surplus	-	-	-	-
Surplus adjustments:				-
Paid in	-	-	-	-
Transferred to capital (Stock Dividend)	-	(44,810,237)	(13,953,333)	-
Transferred from capital	-	-	-	-
Distributions to parent (cash)	-	-	-	-
Change in treasury stock	-	-	-	-
Examination adjustment	(142,591,051)	-	-	-
Aggregate write-ins for gains and losses in surplus	(500,000)	-	-	(500,000)
Change in surplus as regards policyholders for the year	(131,653,882)	31,496,475	23,246,096	(8,264,822)
Surplus as regards policyholders, December 31, current year	$ 12,542,465	$144,196,347	$112,699,872	$89,453,776

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

At year-end 2019, the Plan's long-term bond investments were in US government obligations, US special revenue issuer obligations, US special revenue residential mortgage backed securities, and corporate issues. All of the bonds except one had NAIC designations of 1 or 2.

Common stocks were mainly comprised of the underlying audited U.S. GAAP equity investment in a wholly owned subsidiary, Moda Holdings Group, Inc. (See Note 2 below). The Plan also had investments in five separate mutual funds with a reported fair value of $5,022,627.

Cash was comprised of deposits held at US Bank of Oregon. Cash equivalents were comprised of one money market mutual fund. The Plan did not hold any short-term investments.

A comparison of the investment classes over the past five years is as follows:

	A	B	C	Ratio	Ratio	Ratio
Year	Bonds	Common and Preferred Stocks	Cash and Short-Term	A/ Total Assets	B/ Total Assets	C/ Total Assets
2015 *	$ 16,178,925	$ 77,698,631	(5,429,272)	11.7%	9.2%	(5.9)%
2016	8,722,137	64,159,393	(12,720,350)	7.5%	11.6%	(0.6)%
2017	7,423,798	82,354,922	(12,271,799)	5.1%	15.6%	2.8%
2018	7,815,483	159,296,213	(13,735,679)	4.4%	13.9%	16.2%
2019 *	10,654,425	21,585,183	3,468,403	24.6%	46.8%	8.0%

* Balance per examination

Approval of investment transactions was performed by the Finance Committee of the Board of Directors in accordance with the requirements of ORS 733.730. As of December 31, 2019, sufficient invested assets were invested in amply secured obligations of the United States, the State of Oregon, or in FDIC insured cash deposits, and the Plan was in compliance with ORS 733.580.

Effective September 9, 2019, the Plan entered into a custodial agreement with US Bank, NA. The agreement contains all of the relevant protections described in OAR 836-027-0200(4)(a) through (l).

Note 2 – Investment in Subsidiary

The Plan was found to have overstated the reported valuation of its subsidiary in each of the years under examination. SSAP No. 97, paragraph 8, requires the Plan use a value based on the balance sheet equity of the subsidiary, which is audited by an independent CPA. The examiners created the following table:

	2016	2017	2018	2019
Subsidiary value per Deloitte	$ 14,980,000	$ 62,612,000	$ (84,462,000)	$ 74,790,000
Consolidating adjustments	(9,661,042)	(6,157,623)	(2,098,994)	-
Net equity value	$ 5,318,958	$ 56,454,377	$ (86,560,994)	$ 74,790,000
Plan ownership	$ 5,318,968	$ 56,454,377	$ (43,713,302)	$ 37,768,950
Value reported in filed A/S	$ 59,252,873	$ 76,548,875	$ 155,464,251	$ 159,153,607

Consolidating adjustments relate to goodwill and a difference in a subsidiary's audited equity to the value included in the annual statement. The Plan ownership reflects the 50.5% retained by MPI in 2018 and 2019 after the sale of 9,900 shares to Delta Dental of California. As shown in the table above, the Plan's holding value exceeded the amount allowed under SSAP No. 97 in each year under examination, with an overstatement totaling $121,384,657 at December 31, 2019.

During 2018, the Plan created an intermediate holding company and contributed to it 10,100 shares of Moda Partners, Inc. capital stock. The formation of MHG was accounted for as a statutory purchase according to SSAP No. 68, despite under paragraph 1, "this statement does not include guidance for stock of an affiliated company received as a capital contribution, rather than through a purchase." Stock received as a capital contribution is addressed in SSAP 25. The Plan paid $1 for the capital stock of MHG, whereupon it then transferred as a capital contribution its common stock shares of MPI. The transaction should have been accounted for under SSAP No. 25, specifically as it was a non-economic transaction. Therefore, the Plan should have used the net equity method in accordance with SSAP No. 97, paragraph 8(b)(ii), for 2018 and 2019 at 50.5% of MPI's balance sheet equity for the valuation reported in the Annual Statement, as well as adjusting for statutory accounting differences, as if it had continued to own the subsidiary investment directly.

I recommend the Plan ensure its Annual Statements reflect the actual equity investment in subsidiaries not to exceed the equity method in accordance with the requirements of ORS 731.302(1), ORS 733.210(2) and be in compliance with SSAP No. 25. Additionally, the Plan shall utilize SSAP No. 97, paragraph 8(b)(ii) and apply all statutory adjustments described in SSAP No. 97, paragraph 9, in all filed financial statements submitted to the Division.

Concurrently with the examination of the Plan, the Examiners also conducted a financial examination of a downstream subsidiary, Moda Health Plan, Inc. This examination resulted in a decrease in surplus of $41,992,860 to that health care service contractor, which should be reflected in the balance sheet equity of MPI prepared under SSAP standards. Pursuant to ORS 733.020(4), this resulted in an additional decrease of $21,206,394 in the value of Moda Holding Group and the Plan's surplus to policyholders.

Note 3 – Actuarial Reserves

A review of the claims unpaid, unpaid claim adjustment expenses, and aggregate health policy reserves for the Plan was performed by Andrew D. Bux, ASA, MAAA, Life & Health Actuary for the Oregon Division of Financial Regulation. As part of the review, he examined the Statement of Actuarial Opinion and Actuarial Memorandum prepared by David O. Thoen, FSA, MAAA, of Deloitte Consulting, LLP, consulting actuary for the Plan. Mr. Bux also reviewed underlying claims data testing collected by the financial examiners.

Mr. Bux performed an independent analysis of the reserve calculations in the 2019 financial statements, as supported by the Actuarial Memorandum. He concluded that the reserves held were developed according to Actuarial Standards of Practice and were within a reasonable range to be sufficient to cover expected liabilities. Based on his review, he determined the following:

	Exam Estimate	Annual Statement
Claims Unpaid	$ 3,824,000	$ 3,824,000
Unpaid Claim Adjustment Expenses (CAE)	191,200	191,200
Aggregate Health Policy Reserves	1,270,131	1,270,131
Premium Deficiency Reserves	-	-
Total Actuarial Liabilities	$ 5,285,331	$ 5,285,331

The appointed actuary opined that the reserves for unpaid claims and CAE carried by the Plan as of December 31, 2019, were reasonable. For other actuarial items where an independent estimate wasn't needed, he reviewed the memorandum and exhibits for reasonability of the methodology and assumptions and ultimately had no concerns.

Note 4 - Aggregate Write-Ins for Special Surplus Funds

The Plan is subject to an annual fee under Section 9010 of the ACA. This annual fee is allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance issuer's portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1, 2016. As of December 31, 2019, the Plan has written health insurance subject to the ACA assessment, and the surplus appropriated for the ACA Section 9010 fee was $1,864,676. The Plan recorded the assessment accurately in its aggregate write-ins for special surplus funds.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The examination resulted in a $142,591,051 reduction in surplus amounts reported by the Plan as of December 31, 2019. The following is a summary of the recommendation made in this report of examination:

Page

14 I recommend the Plan amend the Management Services Agreement as follows per the requirements of SSAP No.25, paragraph 8, and ORS 732.574(1)(a) through (d):

- Have all parties to the agreement, including affiliated companies, sign the agreement;
- Have the Agreement specifically state that it is between Moda Partners, Inc. and the Affiliated Companies so it is clear what applies to the Plan and what applies to affiliated companies;
- Have the allocation methodologies for indirect expenses specifically outlined in the agreement;
- Have sections of the agreement which are vague and general be made more specific or made into separate agreements, (i.e. clarification on required insurance coverages);
- Have the Agreement clarify that essential services to policyholders may not be immediately suspended or terminated without the approval of the Division of Financial Regulation;
- Have the Agreement specify due dates for payments in regards to all intercompany activities and intercompany loans;
- Amend the Agreement to include an accurate listing of existing affiliated companies of MPI;
- Amend the Agreement to reflect the name change of an affiliate from ODS Health Plan, Inc. to Moda Health Plan, Inc.

15 I further recommend the Plan incorporate into the Management Services Agreement for a Lease/Rental provision between Moda Partners, Inc. and each named affiliated company which specifies rent charges or at least the rent allocation methodology to be used, settlement dates, and consequences if settlement is not made by the due date, pursuant to the requirements of SSAP No. 25 and ORS 732.574(1)(a) through (d).

17 I recommend the Plan either amend its Management Service Agreement with MPI to include intercompany expense allocations and any pre-settlements, or file a new agreement under a Form D for approval by the Division of Financial Regulation. Additionally, I recommend the Plan adopt and implement policies and procedures which ensure all transactions between affiliated entities are in compliance with SSAP No. 25, paragraph 8 and ORS 732.574(2).

17 I recommend the Plan prepare a written agreement and submit a Form D Filing for approval with the Division of Financial Regulation an expense payments agreement between the Plan and the subsidiaries it pays expenses on behalf of and then receives reimbursement once billed to the applicable subsidiaries, in accordance with the requirements of ORS 731.302(1) and SSAP No. 25.

29 I recommend the Plan ensure its Annual Statements reflect the actual equity investment in subsidiaries not to exceed the equity method in accordance with the requirements of ORS 731.302(1), ORS 733.210(2) and be in compliance with SSAP No. 25. Additionally, the Plan shall utilize SSAP No. 97, paragraph 8(b)(ii) and apply all statutory adjustments described in SSAP No. 97, paragraph 9, in all filed financial statements submitted to the Division.

CONCLUSION

During the four-year period covered by this examination, the surplus of the Plan has decreased from $81,399,209 as presented in the December 31, 2015, report of examination, to $12,542,465 as shown in this report. The comparative assets and liabilities are:

	December 31,		
	2019	**2016**	**Change**
Assets	$ 46,134,989	$ 121,482,293	$ (75,347,304)
Liabilities	33,592,524	40,083,084	(6,490,560)
Surplus	$ 12,542,465	$ 81,399,209	$ (68,856,744)

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Plan during the examination process are gratefully acknowledged.

In addition to the undersigned, Tho Le, CFE, APIR, and Lori A. Kirschmann, insurance examiners, and Andrew D. Bux, ASA, MAAA, Life & Health Actuary for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, and Barbara A. Bartlett, CPA, MBA, CFE, Senior Manager Risk & Regulatory Consulting, LLC. participated in this examination.

Respectfully submitted,

/s/ Mark A. Giffin

Mark A. Giffin, CFE
Senior Insurance Examiner
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)

County of Marion)

Mark Giffin, CFE, APIR, being duly sworn, states as follows:

I have authority to represent the state of Oregon in the examination of Oregon Dental Service, Portland, Oregon.

2. The Division of Financial Regulation of the Department of Consumer and Business Services of the State of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

3. I have reviewed the examination work papers and examination report. The examination of Oregon Dental Service was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

/s/ Mark A. Giffin

Mark A. Giffin, CFE
Senior Insurance Examiner
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to before me this 25th day of October, 2021.

/s/ Lauren Nicole Bodine

Notary Public in and for the State of Oregon

My Commission Expires: 1/22/22

OFFICIAL STAMP
LAUREN NICOLE BODINE
NOTARY PUBLIC - OREGON
COMMISSION NO. 970483
MY COMMISSION EXPIRES JANUARY 22, 2022