

**STATE OF OREGON
DEPARTMENT OF
CONSUMER & BUSINESS SERVICES
DIVISION OF FINANCIAL
REGULATION**



REPORT OF FINANCIAL EXAMINATION

OF

**ADVANTAGE DENTAL PLAN, INC.
REDMOND, OREGON**

AS OF

DECEMBER 31, 2016

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

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REDMOND, OREGON

NAIC COMPANY CODE 47006

AS OF

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SALUTATION

October 25, 2017

Honorable Cameron Smith, Interim 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, we have examined the business affairs and financial condition of

**ADVANTAGE DENTAL PLAN, INC.
442 SW Umatilla Avenue, Suite 200
Redmond, Oregon 97756**

NAIC Company Code 47006

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

SCOPE OF EXAMINATION

We have performed our regular, full-scope, multi-state examination of Advantage Dental Plan, Inc. The last examination of this health care service contractor was completed as of December 31, 2013. The current examination covers the period of January 1, 2014, to December 31, 2016.

We completed 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 National Association of Insurance Commissioners (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 Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively. Exam coordination among insurers of a group or holding company system is critical for effective solvency regulation with the goal to gain efficiencies and prevent duplication of testing wherever possible. The coordination was not deemed appropriate for this examination period due to size of the Plan and acquisition happening so late in the examination cycle.

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

This examination report includes significant findings of fact, 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, are not included within the examination report, but separately communicated to other regulators and the Company.

PLAN HISTORY

The Plan was incorporated on October 13, 1994, under the laws of the State of Oregon as RDS Dental Plan, Inc. On March 3, 1995, the Plan received a Certificate of Authority to transact business as a health care service contractor, restricted to dental service only, pursuant to ORS Chapter 750. On November 20, 1996, the Plan changed its name to Advantage Dental Plan, Inc.

Capitalization

The Plan was originally capitalized with the issuance of 1,000 shares of no par common stock to Roseburg Dental Services, LLC, at \$10 per share. Since the initial funding, the Plan has sold additional shares of voting and nonvoting common capital stock.

Advantage Community Holding Company, LLC (Community), was organized on April 19, 2007, for the purpose to direct the operations of Advantage Dental and its affiliates. In addition, on May 21, 2007, Advantage Consolidated, LLC (Consolidated) was formed to provide a mechanism for dental professionals and certain affiliates to own Holdings. The reorganization shifted ownership of the Plan to Consolidated.

On April 11, 2008, the Division of Financial Regulation approved a reorganization of the Plan's ownership structure to create a consolidated holding company. The Plan was authorized to issue 1,000,000 shares of voting common stock of which 800,000 shares were

issued and outstanding and 4,000,000 nonvoting shares of common stock of which 1,482,900 were issued and outstanding.

During the period under examination, the 800,000 shares voting common stock issued and outstanding and the 1,482,900 nonvoting shares issued and outstanding were owned by Consolidated. Through September 30, 2016, Consolidated was the sole owner of Community and Community was the sole owner of the Plan.

On August 1, 2016, the Oregon Division of Financial Regulation approved the acquisition of 80% of the Plan's direct parent, Community, by Dental Quest Care Group Management, LLC (DQCGP). The acquisition was effective September 30, 2016. Consolidated maintains ownership of the remaining 20%.

As of December 31, 2016, the Plan reported common capital stock of \$1,000,000 and gross paid in and contributed surplus of \$1,176,151. These amounts did not change during the period under examination.

Dividends and Other Distributions

During the period under examination, the Plan paid no dividends and made no distributions to its direct parent.

CORPORATE RECORDS

The corporate records, including the Board of Director minutes, Articles of Incorporation, Bylaws, and insurance holding company registration statements, were reviewed for the period under examination.

Board Minutes

In general, the review of the Board meeting minutes of the Plan indicated the minutes support the transactions of the Plan and clearly describe the actions taken by its directors. A quorum, as defined by the Plan's Bylaws, met at all of the meetings held during the period under review.

The Plan's Bylaws authorize a Finance Committee and any other committee the Board may appoint to advise and assist in managing the corporation's affairs. The minutes indicated the Board approves officer salaries through the executive and compensation committees to comply with the provisions of ORS 732.320(3).

Articles of Incorporation

The Articles of Incorporation were originally filed with the Oregon Secretary of State on October 13, 1994. There were no changes to the Plan's Articles of Incorporation during the period under examination. The Articles of Incorporation conformed to the Oregon Insurance Code.

Bylaws

There were three changes to the Plan's Bylaws during the period under examination. Effective, October 1, 2016, the Bylaws were amended to read: Paragraph 3.2: The number of directors shall be three; Paragraph 3.11: Removal of directors from office provisions; Paragraph 4: the Board may elect officers and assign in writing, titles without limitation, (chair, vice-chair, president, vice-president, secretary and treasurer). The Bylaws conformed to Oregon statutes.

MANAGEMENT AND CONTROL

Board of Managers

The Bylaws, in Paragraph 3.1, state all corporate powers of the corporation shall be exercised by or under the authority of the Board of Directors and the Board shall control the business and affairs of the corporation. Paragraph 3.2 states the number of directors shall be three. As of December 31, 2016, the Plan was governed by a six member Board of Directors, and thus is out of compliance with its own bylaws. During the review of the Board Minutes, evidence of the election of the six board members listed on the Jurat page of the December 31, 2016 annual statement was not provided.

I recommend the plan ensure the number of directors elected agree with its bylaws and are accurately reflected in the annual statement in accordance with ORS 731.574.

The six Board of Directors listed as of December 31, 2016 were:

| <u>Name and Address</u> | <u>Affiliation</u> | <u>Member Since</u> | <u>Representation</u> |
|---|---|---------------------|--------------------------|
| Steve J. Pollock Concord, Massachusetts | President & CEO DentaQuest, LLC | 2017 | Ownership |
| Todd R. Cruse * Nashville, Tennessee | Vice President, Public Affairs-Government Relations DentaQuest, LLC | 2017 | Ownership |
| James E. Collins Westwood, Massachusetts | Actuary & Finance Professional DentaQuest, LLC | 2017 | Ownership |
| James P. Hawkins Belmont, Massachusetts | Attorney DentaQuest, LLC | 2017 | Ownership |
| R. Michael Shirtcliff Redmond, Oregon | Owner, Vice-President Advantage Dental Plan, Inc. | 1998 | Ownership/ Management |
| Jerald Kyle House Hood River, Oregon | Owner/Provider Pediatric Dentistry | 2007 | Ownership |

*Chairman

The current members of the board are either executives of the Plan or are employed by the owner of the Plan. Four of the members are employees of DentaQuest, LLC, which currently controls 80% of the Plan. The Plan is not in accordance with ORS 750.015(1), which requires at least one-third of the Board shall be representatives of the public who are not practicing doctors or employees or trustees of a participating hospital.

I recommend the Plan ensure compliance with ORS 750.015, which requires one-third of the board members to be representatives of the public who are not practicing doctors or employees or trustees of a participant hospital.

Officers

Operating management of the Plan as of December 31, 2016, was under the direction of the following principal officers:

| <u>Name</u> | <u>Office</u> |
|--------------------------|----------------------|
| Todd R. Cruse | President |
| James P. Hawkins | Secretary |
| James E. Collins | Treasurer |
| Ralph M. Shirtcliff, DMD | Vice President |

Conflict Of Interest

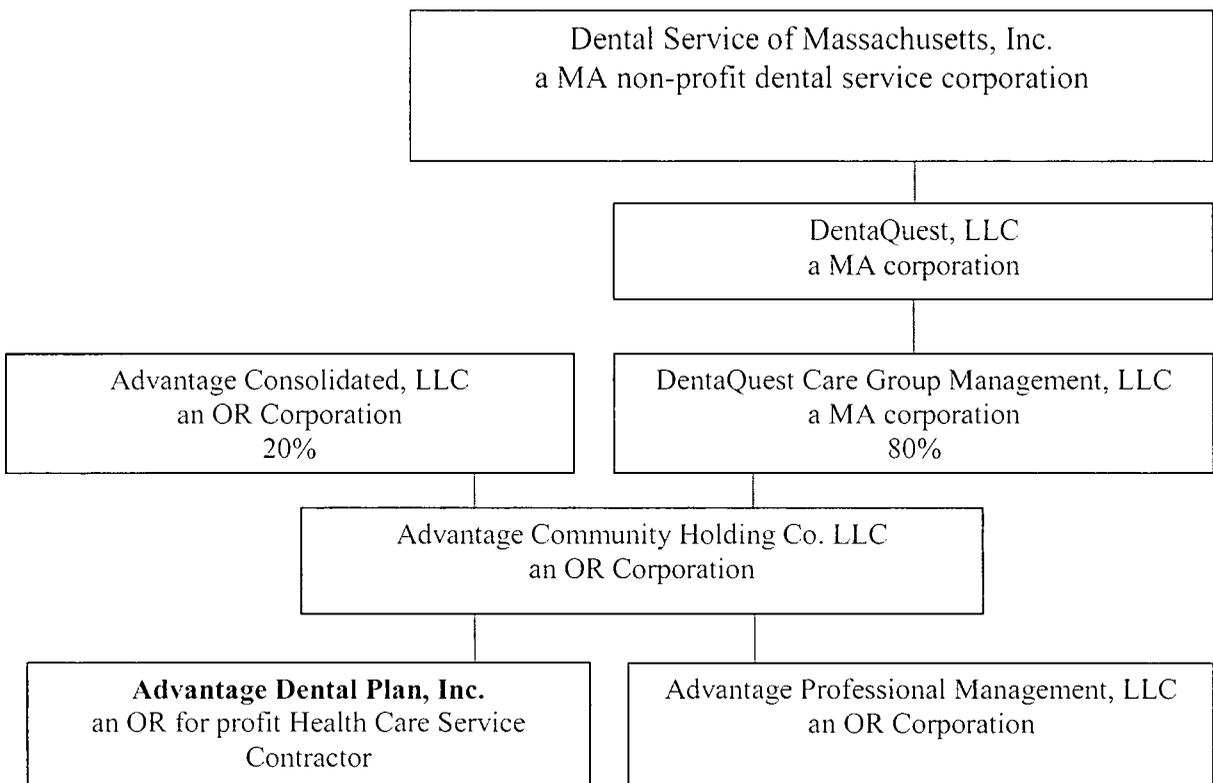
The Plan's Board adopted its ultimate controlling entity's Principles of Responsibility, a system-wide code of conduct. This requires all employees to notify the Plan if a conflict of interest arises. In addition, the Plan policy requires all Board members, senior officers and key employees to annually sign a conflict of interest declaration. From a review of the completed conflict of interest questionnaires, the Plan's personnel performed due diligence in completing the conflict of interest statements. No material conflicts of interest were noted.

Insurance Company Holding System

The Plan is a member of an Insurance Company Holding System with Dental Service of Massachusetts Inc. (DSM), a non-profit member-based corporation domiciled in Massachusetts, is the ultimate controlling entity for plans and insurers in Arizona, California, Florida, Georgia, Illinois, Kentucky, Maryland, Minnesota, New Jersey, New York, Tennessee, Texas, Oregon and Texas.

The Plan filed an insurance holding company registration statement in accordance with the provisions of ORS 732.552, ORS 732.554, and OAR 836-027-0020(1).

The following is an abbreviated organization chart (all subsidiaries of Advantage Community Holding Co. LLC are 100% owned or controlled)



Advantage Community Holding Co. LLC (Community): directly and indirectly owns and controls additional subsidiaries that operate approximately 40 dental clinics in Oregon and

contracts to administer and arrange for dental services with sixteen Coordinated Care Organizations throughout the state of Oregon.

Advantage Professional Management, LLC (APM): APM, formerly known as Northwest Professional Management, Inc., was incorporated on June 5, 1998, and subsequently changed from an incorporated business to a Limited Liability Company (LLC) in July 2007. APM provides management and administrative services to dental groups and dental insurance companies, including the Plan.

INTERCOMPANY AGREEMENTS

Management and Staffing Agreement

The Plan entered into an agreement with Advantage Professional Management, LLC (APM) on August 1, 2002. The agreement was replaced with another Management and Staffing Agreement on January 1, 2008. The agreement calls for APM to provide all management, administrative, and marketing services to the Plan as required for assisting in the performance of its business as a dental insurance company. The agreement requires APM to receive 14% of gross monthly premiums received by the Plan, unless the parties agree otherwise. Payment shall be made on the 15th business day of each month, based on the total gross premiums of the prior month.

The examiners could not find evidence the Plan submitted the January 2008 agreement with the Division of Financial Regulation. As noted in the Compliance with Prior Examination Recommendations later in this report, the Plan was required to file a Form D – Prior Notice of a Transaction to the Division of Financial Regulation for approval prior to engaging in business under the agreement. The Plan submitted a hand written Form D. A request by the Oregon DFR for additional support information was never provided by the Plan and the Form

D was not approved. In 2017, a Form D for a new management and staffing agreement with APM was submitted to and subsequently approved by the Division of Financial Regulation.

Call System Management Agreement

Effective January 1, 2008, the Plan entered into a Call System Management Agreement in order to ensure availability of emergency dental care (Call System). Under the terms of the agreement, Advantage Consolidated, LLC (“Consolidated”) is responsible for providing dentists for the call system and the Plan is responsible for the management of the Call System, including but not limited to staffing, equipment and maintaining the call schedule. The agreement requires APM to pay each “Consolidated” member dentist an amount and in a manner agreed upon by “Consolidated” and APM on behalf of the Plan and Advantage Dental Services, LLC’s Division of Medical Assistance Program emergency (DMAP) call pay. In August 2012, the Board of Managers approved a motion to allocate a portion of the emergency call pay to the Plan. The Plan is currently assessed 50% of the emergency call pay for participating dentists.

The Plan failed to include the agreement in its Form B in accordance with ORS 732.552 and also failed to file a Form D for this agreement in accordance with ORS 732.574.

Loan Agreements

Effective September 30, 2009, ADP entered into a loan agreement with Advantage Professional Management, LLC for \$750,000.00. A hand written Form D was filed March 15, 2010 with the Division of Financial Regulation. APM has not made payments on the loan principal for a number of years. The promissory note balance at December 31, 2016 was \$578,575 and was non-admitted by the Plan in the 2016 annual statement.

An affiliate, American Financial Services, Inc. (AFS), was formed for the purpose of providing dentists with a financing system to allow the dentist to provide financing to patients for dental treatment. Although not listed in the abbreviated chart above, it is a subsidiary of Advantage Support Services, LLC, one of a number of dental support subsidiaries of Advantage Community Holding Co., LLC. Effective December 8, 2009, ADP enter into promissory notes with AFS for a total loan amount of \$336,515.37. A Form D for the notes was submitted to Division of Financial Regulation on March 15, 2010 and approved. The invested asset promissory note to AFS was non-admitted by the Plan in the 2014 and 2015 annual statements. During 2016, the note was paid in full.

The Plan failed to provide the cancellation documents for the pay off with American Financial Services, Inc. and the approval allowing Advantage Professional Management, LLC to discontinue amortized payments on its loan in 2012.

I recommend the Plan ensure it timely files Form Ds with the Division of Financial Regulation to seek approval to enter into all related party agreements pursuant to ORS 732.552(1)(c)(E), ORS 732.574 and OAR 836-027-0160.

I recommend the Plan implement a control process in place for management to have evidence available of its approval relating to any payments or changes to related party agreements. This recommendation is to ensure the operations of the agreement, including settlements are in accordance with the agreements as required by ORS 731.308.

FIDELITY BOND AND OTHER INSURANCE

The examination of insurance coverages involved a review of adequacy of limits and retentions, the authority to write in the State of Oregon, and the solvency of the insurers

providing the coverages. The policy is issued to Dental Service of Massachusetts, Inc. (DSM), with the Plan included as a named insured. At December 31, 2016, the Plan was insured up to \$10,000,000 per occurrence against losses from employee dishonesty, forgery, or alterations after a \$100,000 per occurrence deductible.

DSM, including the Plan, has director's and officer's liability coverage up to \$5,000,000, subject to a maximum retention of \$150,000 retention. DSM carried additional insurance coverages related to the Plan's operation as follows:

- Managed Care Liability E&O
- 1st and 2nd Excess Management Liability
- Cyber Liability & Network Risk
- Commercial property liability
- Commercial general liability
- Employee benefits liability
- Employed Lawyers Professional Liability
- Aircraft Liability
- Managed care errors & omissions
- Fiduciary Liability

TERRITORY AND PLAN OF OPERATION

The Plan is authorized to write dental insurance to commercial and ASO (Administrative Services Only) groups in Oregon, Idaho and Washington. During the examination period, the Plan only wrote business in Oregon and only for employees of its affiliated entities. The Plan also received revenue for the use of its networks from PacificSource Health Plans (PacificSource).

The Plan reported total enrolled members over the past five years as follows:

| Line of Business | 2016 | 2015 | 2014 | 2013 | 2012 |
|-------------------------|---------------|--------------|--------------|--------------|-------------|
| Dental only | 11,030 | 4,884 | 3,643 | 2,805 | 404 |
| Other | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total enrollment | <u>11,030</u> | <u>4,884</u> | <u>3,643</u> | <u>2,805</u> | <u>404</u> |

GROWTH OF THE PLAN

The following tables reflect the growth of the plan over the last five years, reflected in the following schedule. Amounts were derived from the Plan's annual statements, except for years in which the Oregon Division of Financial Regulation issued a report of examination.

| <u>Year</u> | <u>Admitted Assets</u> | <u>Liabilities</u> | <u>Surplus</u> | <u>Net Income</u> |
|-------------|------------------------|--------------------|----------------|-------------------|
| 2012 | \$ 1,520,492 | \$ 59,016 | \$ 1,461,476 | \$ 25,231 |
| 2013* | 1,549,647 | 38,229 | 1,511,418 | 65,823 |
| 2014 | 1,789,979 | 140,714 | 1,649,265 | 95,345 |
| 2015 | 1,631,363 | 37,218 | 1,594,145 | 12,563 |
| 2016* | 2,093,909 | 157,941 | 1,935,968 | 216,105 |

*Per Examination

LOSS EXPERIENCE

The following exhibit reflects the underwriting results of the Plan over the past five years. The amounts were compiled from the Plan's annual statements, except in those years where a report of examination was published by the Oregon Division of Financial Regulation.

| <u>Year</u> | <u>A</u> <u>Total Revenues</u> | <u>B</u> <u>Total Hospital and Medical</u> | <u>B/A</u> <u>Claims Ratio</u> | <u>C</u> <u>CAE and Admin Expenses</u> | <u>(B+C)/A</u> <u>Combined Ratio</u> |
|-------------|-----------------------------------|---|-----------------------------------|---|---|
| 2012 | \$ 374,554 | \$ 203,541 | 54.3% | \$ 175,208 | 101.1% |
| 2013* | 418,186 | 176,314 | 42.2% | 200,597 | 90.1% |
| 2014 | 949,677 | 114,789 | 12.1% | 756,264 | 91.7% |
| 2015 | 648,397 | 140,452 | 21.7% | 514,113 | 101.0% |
| 2016* | 899,802 | 318,293 | 35.4% | 262,976 | 64.6% |

*Per Examination

A combined claims and expense to premiums ratio more than 100% indicates an underwriting loss, which the Plan experienced in two of the past five years. The high administrative expense ratio is due to the Plans low membership (insuring only its employees), although augmented by revenue from a network service agreement. The third party auditing, actuarial and other consulting fees included in the administrative expense that

is charged to the Plan annually are disproportionately higher as a percentage of revenue than plans with a much higher premium base.

REINSURANCE

The Plan does not currently have any reinsurance contracts in effect due to the low coverage limits offered relative to the minimum capital requirements. The Plan is in compliance with the provisions of ORS 731.504, which limits the risk on any one subject to 10% of surplus.

ACCOUNTS AND RECORDS

All records were made available to the examiners in compliance with the provisions of ORS 733.170. Assets are maintained in accordance with the provisions of ORS 732.245; however, the following examination issues were noted for financial statement reporting.

Accounting

The 2016 health annual statement instructions published by the NAIC have not been followed in all cases. Several errors were found during the examination.

1. The examiner was not able to reconcile the trial balance for the federal income taxes amount to the December 31, 2016 annual statement, Page 4, Line 31. The December 31, 2016 trial balance account reflected \$113,000 and the annual statement reflected \$116,440 for the taxes incurred amount, a Federal Income Tax incurred difference of \$3,440. The examiner also noted that the Plan paid \$11,031 for 2016's estimated federal income tax but did not reduce the total amount payable by the estimate paid amount.
2. The examiner could not reconcile the beginning retained earning plus net income and other changes to capital & surplus to arrive at the current retained earnings amount of \$(20,697) which in part is due to the \$3,440 Federal Income Tax incurred difference.

3. The annual statement, Part 2C-Development of Paid and Incurred does not provide accurate net cumulative paid amounts in each of the years examined.

I recommend the Plan follow the NAIC Annual Statement Instruction Manual for Health in preparing its annual statements filed with the Oregon Division of Financial Regulation per the requirements of ORS 733.170 and ORS 733.210.

I recommend that the Plan's general ledger include a GAAP to STAT worksheet as part of its accounts and records in order to validate the amounts reported in the Statutory Financial Statements.

Statutory Deposit

As of the date of the examination, the Plan maintained a deposit with the Oregon Division of Financial Regulation, Department of Consumer and Business Services, pursuant to the provisions of ORS 750.045(3). The deposit consisted of cash of \$108,000. The deposit was verified from the records of the Division of Financial Regulation. The Plan did not reflect the classification of its invested asset correctly due to the maturity of its bonds held on deposit. Once it matured, it should have been reflected as cash on deposit with the State of Oregon in Schedule E, Part 1. In addition, the Plan omitted reporting the deposit in Schedule E – Part 3 of the annual statement. These are required in accordance with the NAIC annual statement instructions for health. This is a recurring issue.

I recommend the Plan accurately report the amount and type of investments owned and include the special deposit held in Oregon on Schedule E – Part 3 of the annual statement in accordance with the NAIC Annual Statement Instruction Manual for Health in preparing its annual statements filed with the Oregon Division of Financial Regulation pursuant to the requirements of ORS 733.170 and ORS 733.210.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There was a \$29,305 surplus adjustment made to the Plan's surplus and four recommendations or comments made as a result of the prior examination as of December 31, 2013. A follow-up review was not performed for this company. The prior exam adjustments were passed through in the following year and our examination did not find them to be reoccurring in this exam period.

As regard to recommendations in the prior examination period, our review noted three of the four recommendations were not remedied by the Plan. These recommendations have been incorporated as new issues in our current examination.

SUBSEQUENT EVENTS

The Plan has submitted a Form D filing in conjunction with a proposed Management and Staffing Agreement in 2017. See "Intercompany Agreements" above.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the company with the Oregon Division of Financial Regulation and present the financial condition of the Plan as of December 31, 2016. 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.

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

ADVANTAGE DENTAL PLAN, INC.
ASSETS, LIABILITIES, CAPITAL AND SURPLUS
As of December 31, 2016

| Assets | Balance per Plan | Examination Adjustments | Balance per Examination | Notes |
|--|---------------------|----------------------------|----------------------------|-------|
| Cash, cash equivalents and short-term investments | \$ 2,139,129 | \$ (219,486) | \$ 1,919,643 | 1 |
| Aggregate write-ins for invested assets | <u>0</u> | <u>-</u> | <u>0</u> | |
| Subtotal, cash and invested assets | <u>2,139,129</u> | <u>(219,486)</u> | <u>1,919,643</u> | |
| Investment income due and accrued | 43 | - | 43 | |
| Net deferred tax asset | 112,522 | - | 112,522 | |
| Health care receivable | 61,700 | - | 61,700 | 2 |
| Aggregate write-ins for other than invested assets | <u>-</u> | <u>-</u> | <u>-</u> | |
| Total Assets | <u>\$ 2,313,395</u> | <u>\$ (219,486)</u> | <u>\$ 2,093,909</u> | |
| Liabilities, Capital and Surplus | | | | |
| Claims unpaid | 21,763 | - | 21,763 | 3 |
| Unpaid claims adjustment expenses | 377 | - | 377 | 3 |
| Current federal and foreign income tax payable | 116,440 | - | 116,440 | |
| Amounts due to parent, subsidiaries and affiliates | <u>19,361</u> | <u>-</u> | <u>19,361</u> | |
| Total Liabilities | <u>157,941</u> | <u>-</u> | <u>157,941</u> | |
| Common capital stock | 1,000,000 | - | 1,000,000 | |
| Gross paid in and contributed surplus | 1,176,151 | - | 1,176,151 | |
| Unassigned funds (surplus) | <u>(20,697)</u> | <u>(219,486)</u> | <u>(240,183)</u> | |
| Total capital and surplus | <u>2,155,454</u> | <u>(219,486)</u> | <u>1,935,968</u> | |
| Total Liabilities, Capital and Surplus | <u>\$ 2,313,395</u> | <u>\$ (219,486)</u> | <u>\$ 2,093,909</u> | |

ADVANTAGE DENTAL PLAN, INC.
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2016

| Revenue | Balance per Company | Examination Adjustments | Balance per Examination | Notes |
|---|------------------------|----------------------------|----------------------------|-------|
| Net premium income | \$ 443,168 | \$ - | \$ 443,168 | |
| Change in unearned premium reserves and reserves for rate credit | - | - | - | |
| Fee-for-service | - | - | - | |
| Risk revenue | - | - | - | |
| Aggregate write-ins for health care related revenues | <u>456,633</u> | <u>-</u> | <u>456,633</u> | |
| Total revenue | 899,802 | - | 899,802 | |
| Hospital and Medical: | | | | |
| Hospital/medical benefits | 318,293 | - | 318,293 | |
| Other professional services | - | - | - | |
| 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 | <u>-</u> | <u>-</u> | <u>-</u> | |
| Subtotal | 318,293 | - | 318,293 | |
| Less: | | | | |
| Net reinsurance recoveries | <u>-</u> | <u>-</u> | <u>-</u> | |
| Total medical and hospital | 318,293 | - | 318,293 | |
| Non-health claims | - | - | - | |
| Claim adjustment expenses | 4,099 | - | 4,099 | |
| General administrative expenses | 258,877 | - | 258,877 | |
| Increase in reserves for life and accident and health contracts | <u>-</u> | <u>-</u> | <u>-</u> | |
| Total underwriting deductions | <u>581,269</u> | <u>-</u> | <u>581,269</u> | |
| Net underwriting gain or (loss) | <u>318,532</u> | <u>-</u> | <u>318,532</u> | |
| Net investment income earned | 14,013 | - | 14,013 | |
| Net realized capital gains (losses) | <u>-</u> | <u>-</u> | <u>-</u> | |
| Net investment gains (losses) | 14,013 | - | 14,013 | |
| Net gain or (loss) from agents' or premium balances charged off | - | - | - | |
| Aggregate write-ins for other income or expense | - | - | - | |
| Federal income taxes incurred | <u>116,440</u> | <u>-</u> | <u>116,440</u> | |
| Net income | <u>\$ 216,105</u> | <u>\$ -</u> | <u>\$ 216,105</u> | |

ADVANTAGE DENTAL PLAN, INC.
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31,

| | 2016 | 2015 | 2014 |
|---|---------------------|---------------------|---------------------|
| Capital and surplus December 31, previous year | <u>\$ 1,594,145</u> | <u>\$ 1,649,265</u> | <u>\$ 1,540,723</u> |
| Net income | 216,105 | 12,563 | 99,345 |
| Change in net unrealized capital gains or (losses) | - | - | - |
| Change in net unrealized foreign exchange capital gain or (loss) | - | - | - |
| Change in net deferred income tax | 112,522 | - | - |
| Change in non-admitted assets | 232,679 | (67,682) | 9,198 |
| 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) | - | - | - |
| Transferred from capital | - | - | - |
| Distributions to parent (cash) | - | - | - |
| Change in treasury stock | - | - | - |
| Examination adjustment | (219,486) | - | - |
| Aggregate write-ins for gains and losses in surplus | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in surplus as regards policyholders for the year | <u>341,820</u> | <u>(55,119)</u> | <u>108,543</u> |
| Capital and surplus December 31, current year * | <u>\$ 1,935,965</u> | <u>\$ 1,594,145</u> | <u>\$ 1,649,265</u> |

*The difference is due to rounding.

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Investments

At year-end 2016, the Plan held no long term investments in its investment portfolio. All invested assets were in certificates of deposit and bank accounts held in various banks and credit unions.

As of December 31, 2016, sufficient 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.

Investment transactions were approved by the finance committee and its actions were approved by the Board pursuant to ORS 733.740.

As noted in the “Special Deposit” section of the report, the Plan classified cash held on deposit for the State of Oregon at US Bank as short-term investments as its US Treasury Bill matured December 15, 2016. The short term investments are carried on the same annual statement line item as cash and therefore a reclassification was not necessary.

The Plan held a number of accounts at Pacific Continental Bank at December 31, 2016 for a total investment in one institution of \$450,826. This balance exceeded the limitation of ORS 733.770 which allows a maximum of 10% investment in any one entity. The account exceeded that limit by \$219,486 and as a result of this excess; the examiner adjusted the admitted asset balance.

I recommend the Plan properly diversify its investments to ensure compliance with the limitation in ORS 733.770.

As part of our cash and investment reconciliation review, one of the Plan’s bank accounts reflected a \$500,000 transfer to APM. The funds were returned within 16 days and the Plan noted it was a cash expenditure mistake. The Plan also failed to record the transaction in its general ledger.

I recommend that the Plan ensure its cash transactions are reviewed and approved prior to execution and any related party transactions are not entered into without prior approval by the Oregon Division of Financial Regulation. Oregon Revised Statutes require accurate reporting in accordance with ORS 732.245 and related party notification requirements in accordance with ORS 732.574.

Note 2 – Healthcare Receivables

The December 31, 2016, balance was comprised of fees due from PacificSource Health Plans under a Dental Services Panel Agreement. The Plan reported a balance receivable of \$233,047 included a \$171,348 amount over 90 days due that the Plan non-admitted. The admitted balance of \$61,700 was accepted for purposes of this examination.

Note 3 – Claims Unpaid and Claims Adjustment Expenses

The examiners performed a hindsight review, which included sampling the 2017 paid population of claims through June 30, 2017. Considering the amount of business and type of business, the inherent risk of material misstatement was assessed as moderate. Given the population of claims paid and unpaid, and the limitations in the dental policies, the hindsight review approach performed by the examiners was considered reasonable.

Based on our hindsight review, the run-out of paid claims in 2017 for those claims incurred in 2016 and prior resulted in \$19,099 paid. The short term nature of the claims cycle and the affiliations with its provider dentist and claim reporting structure, the examiner would consider the Plan's \$21,763 estimate to be reasonable.

In addition, the claims adjustment expense (CAE) reserve was 1.7% of claims reserve. Based on the CAE incurred expense in 2016, in the amount of \$4,099, on claims of \$318,293, that percentage appears reasonable.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The examiners made an adjustment to surplus as a result of this examination, decreasing surplus by \$219,486. The examiners made the following recommendations in this report of examination:

Page

- | | |
|----|---|
| 8 | I recommend the plan ensure the number of directors elected agree with its bylaws and are accurately reflected in the annual statement in accordance with ORS 731.574. |
| 9 | I recommend the Plan ensure compliance with ORS 750.015, which requires one-third of the board members to be representatives of the public who are not practicing doctors or employees or trustees of a participant hospital. |
| 13 | I recommend the Plan ensure it timely files Form Ds with the Division of Financial Regulation to seek approval to enter into all related party agreements pursuant to ORS 732.552(1)(c)(E), ORS 732.574 and OAR 836-027-0160. |
| 13 | I recommend the Plan implement a control process in place for management to have evidence available of its approval relating to any payments or changes to approved agreements. This recommendation is to ensure the operations of the agreement, including settlements are in accordance with the agreements as required by ORS 731.308. |
| 17 | I recommend the Plan follow the NAIC Annual Statement Instruction Manual for Health in preparing its annual statements filed with the Oregon Division of Financial Regulation per the requirements of ORS 733.170 and ORS 733.210. |
| 17 | I recommend that the Plan's general ledger include a GAAP to STAT worksheet as part of its accounts and records in order to validate the amounts reported in the |

Statutory Financial Statements in accordance with ORS 731.308.

- 17 I recommend the Plan accurately report the amount and type of investments owned and include the special deposit held in Oregon on Schedule E – Part 3 of the annual statement in accordance with the NAIC Annual Statement Instruction Manual for Health in preparing its annual statements filed with the Oregon Division of Financial Regulation pursuant to the requirements of ORS 733.170 and ORS 733.210.
- 22 I recommend the Plan ensure its investments comply with the Oregon Revised Statutes' limitation in accordance with ORS 733.770.
- 22 I recommend that the Plan ensure its cash transactions are reviewed and approved prior to execution and any related party transactions are not enter into without prior approval by the Oregon Division of Financial Regulation. Oregon Revised Statutes require accurate reporting in accordance with ORS 732.245 and notification requirements in accordance with ORS 732.574.

CONCLUSION

During the three-year period covered by this examination, the Plan's surplus increased from \$1,511,418, as presented in the December 31, 2013, report of examination, to \$1,935,968, as shown in this examination report. Assets, liabilities and surplus are compared below:

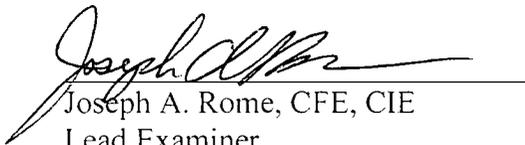
| | December 31, | | |
|-------------|---------------------|---------------------|----------------------|
| | <u>2016</u> | <u>2013</u> | <u>Change</u> |
| Assets | \$ 2,093,909 | \$ 1,549,647 | \$ 544,262 |
| Liabilities | <u>157,941</u> | <u>38,229</u> | <u>119,712</u> |
| Surplus | <u>\$ 1,935,968</u> | <u>\$ 1,511,418</u> | <u>\$ 424,550</u> |

ACKNOWLEDGMENT

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

In addition to the undersigned, information technology specialist, Michael P. Phillips, CPA, CFE, AES, Tho Le, and Brandon Lau, insurance examiners for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, participated in the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Joseph A. Rome", is written over a horizontal line.

Joseph A. Rome, CFE, CIE
Lead Examiner
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

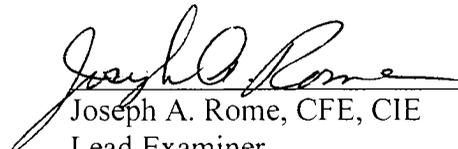
AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Joseph A. Rome, CFE, being duly sworn, states as follows:

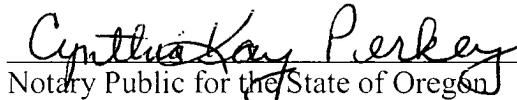
1. I have authority to represent the state of Oregon in the examination of Advantage Dental Plan, Inc., Redmond, Oregon.
2. The Division of Financial Regulation of the Department of Consumer and Business Services of the State of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report. The examination of Advantage Dental Plan, Inc. was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.



Joseph A. Rome, CFE, CIE
Lead Examiner
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to me this 10th day of January, 2018.



Notary Public for the State of Oregon

My Commission Expires: 4/29/18

