

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



REPORT OF FINANCIAL EXAMINATION

OF

OREGON DENTAL SERVICE
PORTLAND, OREGON

AS OF

FILED 6/27/2017 *ba*
DEPT. CONSUMER & BUSINESS SERVICES
INSURANCE DIVISION

DECEMBER 31, 2015

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

REPORT OF FINANCIAL EXAMINATION

OF

**OREGON DENTAL SERVICE
PORTLAND, OREGON**

NAIC COMPANY CODE 54941

AS OF

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SALUTATION

April 4, 2017

Honorable Laura Cali Robison, Commissioner
Department of Consumer and Business Services
Division of Financial Regulation
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Commissioner:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Financial Condition 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 "Company." The following report is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our full scope multi-state examination of the Oregon Dental Service. The last examination was completed as of December 31, 2012. This examination covers the period of January 1, 2013, to December 31, 2015.

Concurrent with this examination, two Oregon domestic insurance affiliates of the Company, Dentist Benefits Insurance Company and Moda Health Plan, Inc., and one Washington State domestic insurance affiliate, Northwest Dentists Insurance Company, were also examined as of December 31, 2015. There was a separate report of financial examination made for each company.

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 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.

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 (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report, but separately communicated to other regulators and the Company.

COMPANY HISTORY

The Company 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 Company received its Certificate of Authority as a domestic health care service contractor on July 23, 1962, under ORS Chapter 750. The Company adopted its current name on February 14, 1966.

The Articles of Incorporation provide for no capital stock and define the purpose of the Company 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 Company as a mutual benefit non-profit corporation.

On November 27, 2000, the Division of Financial Regulation approved a corporate reorganization in which the ODA, the ultimate controlling entity of the Company and sole shareholder of Moda, Inc. (MI) donated all of its outstanding MI stock to the Company. MI owns Moda Health Plan, Inc., which in turn owns Dentists Benefits Insurance Company. As a result, MI and all of its subsidiaries became a direct or indirect subsidiary of the Company.

Surplus Note

In December 2015, the Company issued surplus notes in the amount of \$3 million to Delta Dental of Minnesota at an interest rate of 5% with a due date of December 31, 2020. No interest payments were made as of December 31, 2015.

The note was approved by the director pursuant to the NAIC Statement of Statutory Accounting Practices (SSAP) No. 41.

CORPORATE RECORDS

Board Minutes

In general, the review of 2013 to 2015 Board meeting minutes of the Company, as well as the various committees authorized by the Board, indicated that the minutes support the transactions of the Company and clearly describe the actions taken by its directors and officers. A quorum met at all of the meetings held during the period under review. The Board maintained a quarterly meeting schedule.

The Board's compensation/governance committee approved officer salaries. The Company's Board then approved the committee's actions pursuant to ORS 732.320(3).

Articles of Incorporation

The Articles of Incorporation were restated August 16, 2013. Under the restated Article VII, the number, qualifications and term of directors will be set forth in the Bylaws of the Corporation. The Articles of Incorporation conformed to the Oregon Insurance Code.

Bylaws

Company Bylaws were last amended January 1, 2015. The number of directors shall be determined by a resolution of the Board and a majority shall be independent. The Bylaws conformed to Oregon statutes.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws vest management and control of the Company in a Board of Directors. Each director (other than the Chief Executive Officer) shall be appointed by ODA, acting by and through its Board of Trustees. A majority of the number of directors constitutes a quorum. The Board of Directors met all requirements of ORS 750.015.

Members of the Board of Directors, duly appointed and serving as of December 31, 2015, were:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Appointed</u>
Molly H. Bordonaro Portland, Oregon	Senior Vice President Gerding Edlen	2012
George J. Darke, DMD Vancouver, Washington	Retired Dentist	1998
Jill R. Eberwein Portland, Oregon 97258	Senior Vice President Mazama Capital Management	2011
Robert G. Gootee Portland, Oregon	Chief Executive Officer Oregon Dental Service	1998
David W. Howerton, DMD* Salem, Oregon	Dentist Oral & Maxillofacial Surgery	2004
Mark E. Jensen, DMD Bend, Oregon	Dentist	2005
George J. Passadore Portland, Oregon	Retired Chairman Wells Fargo	2004

*Chairman of the Board

Officers

Operating management of the Company as of December 31, 2015, was under the direction of the following principal officers:

<u>Name</u>	<u>Office</u>
Robert G. Gootee	President/Chief Executive Officer
Thomas J. Bikales	Vice President, General Counsel and Secretary
David W. Evans	Senior Vice President, CFO and Treasurer

All other management functions are provided through a management agreement with a subsidiary, Moda Inc., as described below.

Conflict of Interest

The Company 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, no material conflicts of interest were noted.

Corporate Governance Reporting and Internal Audit Function

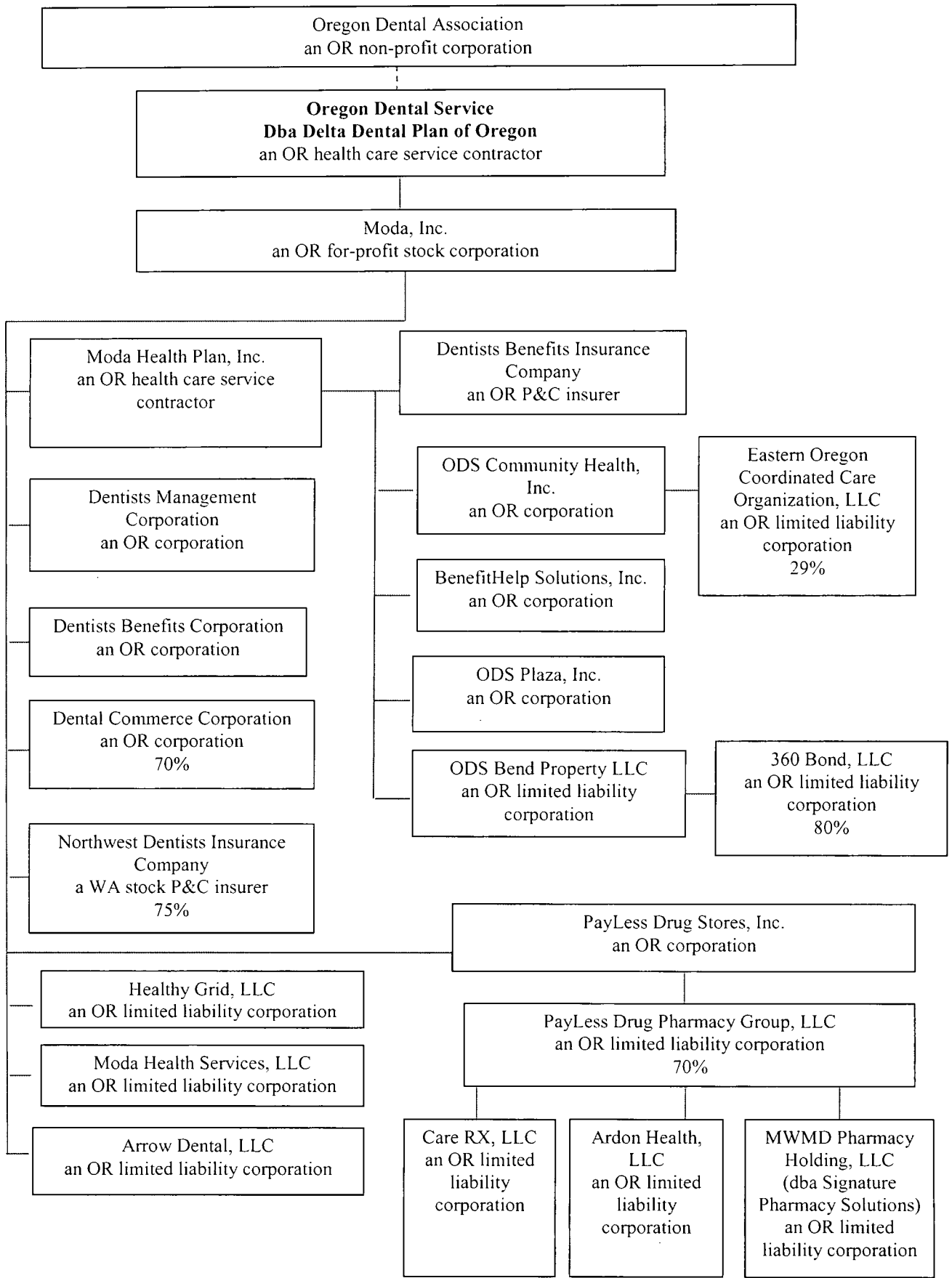
The ODS Group is currently developing and implementing its Enterprise Risk Management (ERM) program. This includes implementing the Group's Model Audit Rule (MAR), modeling and documenting its capital adequacy presentation and requirements, performing stress and scenario tests and models (including for pandemic risks) and documenting the results, identifying and ranking the prospective risks for the Group and its affiliates, and addressing and documenting various strategies and controls to mitigate their identified prospective risks that the Group and its affiliates has decided to undertake.

The organization is developing an independently functioning internal audit department that reports to the Board or to one of its committees. The ODS Group has an Internal Audit Director as of the examination date and it is currently working toward the completion of the developing and testing of internal control procedures (MAR) and ERM program.

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.

Insurance Company Holding System

The Company filed an insurance holding company registration statement on its behalf and on behalf of its insurance subsidiaries in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020. The holding company structure is comprised of the following entities:



Additional information relating to a number of key entities is address below:

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 Moda, Inc.'s (MI) Board, and would be considered the ultimate controlling entity.

Moda, Inc. (MI) (fka: Health Services Group) is an Oregon for-profit stock corporation formed in 1991 as a management company. It maintains all employees, facilities and operations used by the Company under a management agreement described below.

MI owns the following subsidiaries:

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.

Dentists Benefits Corporation (DBC) is an Oregon insurance agency formed on April 14, 1981. Its primary purpose is to market professional liability and other property and casualty coverages to dentists. DBC provides marketing services for the DBIC and NORDIC.

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

Northwest Dentists Insurance Company (NORDIC) is a Washington domiciled property and casualty insurer owned 75% by MI and 25% by the Washington State Dental Association. NORDIC writes property/general liability and professional liability coverages primarily in Washington and Idaho.

PayLess Drug Stores, Inc. (PayLess) owns 70% of PayLess Drug Pharmacy Group, LLC, which owns two Oregon based pharmacies; Care Rx, LLC which specializes in supplying pre-packaged drugs to long term care facilities and Ardon Health, LLC which sells specialty drugs to customers.

Healthy Grid, LLC is an Oregon corporation formed to serve the online consumer dental market and provide dentists with the resources they need to grow their practice.

Arrow Dental, LLC is an Oregon corporation formed to serve the Medicaid consumer dental market.

Moda Health Plan, Inc. (MHP) is a for-profit health care service contractor that received a Certificate of Authority from the Division of Financial Regulation in October 1999. MHP was created to handle the medical business formerly written by the Company and provides group and individual major medical, Medicare and pharmacy insurance coverage in Oregon, Washington, and Alaska.

Wholly owned subsidiaries of MHP include:

ODS Community Health, Inc. (OCH) was incorporated on November 5, 2003 for the purpose of handling business of the Oregon Health Plan, through the Division of Medical Assistance Programs (DMAP). It formed Eastern Oregon Coordinated Care Organization, LLC (EOCCO), an Oregon limited liability company which is owned 29% by ODS Community Health Inc. and the remainder by Greater Oregon Behavioral Health Inc. and other parties. EOCCO coordinates member care between providers and hospitals across eastern Oregon.

BenefitHelp Solutions (fka: BestChoice Administrators) is an Oregon corporation operating as a third party administrator and was incorporated on January 26, 1994.

ODS Plaza, Inc. is an Oregon business corporation, formed in 2005 to own and operate an office building located in Milwaukie, Oregon.

ODS Bend Property LLC is an Oregon limited liability corporation. This company was formed in 2007 to be a management company for an office building located in Bend, Oregon. ODS Bend Property owns an 80% interest in 360 Bond LLC, and is a managing member.

Dentists Benefits Insurance Company (DBIC) is a property and casualty insurer and was issued a Certificate of Authority from the Division of Financial Regulation on December 28, 1985. DBIC markets professional liability and commercial multi-peril coverages through DBC to dentists in nine states.

INTERCOMPANY AGREEMENTS

As of December 31, 2015, the Company was party to the following agreements with affiliates:

Management Agreement

The Company operates under a management agreement with MI dated January 1, 1995, and last amended September 1, 2002. The management agreement states that MI will provide all marketing, underwriting, claims, reinsurance, investment, financial and accounting, information systems and administrative functions to the Company. MI 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 include:

- The Company is to pay all costs and expenses that are directly attributable to its operations;
- Indirect expenses are to be pooled and allocated using a fair and reasonable method; and
- Those costs or expenses that inure to the sole benefit of MI and do not benefit the Company shall be borne by MI and shall not be subject to reimbursement.

The examiners noted the agreement did not specify a due date for payment. Sections 5.2 and 5.3 of the agreement allow MI to hold all cash, by means of a sweep account, of the Company and all its indirect subsidiaries. The Company uses zero balance accounts, with the balances being swept into the MI concentration account on a daily basis. At this point, the funds become the property of MI, and an intercompany receivable or payable is established, depending on the daily cash balance. Funds are swept back to the Company on an as needed basis, depending on its funding requirements. These funds are commingled and used to meet working capital needs. All 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.

Funds are required to be available to pay claims and obligations in accordance with SSAP 4. In addition, ORS 733.780, states an insurer shall not make investments (a) which at the time of purchase or acquisition are not interest-bearing or dividend or income-paying, or are in default in any respect or (b) from which the insurer is not entitled to receive for its exclusive account and benefit the interest, dividends or income.

I recommend the Company 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.

TERRITORY AND PLAN OF OPERATION

The Company 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 Company writes business in Oregon and Alaska.

The Company's dental insurance business is comprised primarily of commercial plans, 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 Company agrees to refund the excess, if any, of premium received over claims and administrative costs paid. The Company's fully insured dental business increased from 142,697 enrollees at December 31, 2012, to 198,919 enrollees at December 31, 2015, with net premium income of \$70,072,930 and \$103,131,325, respectively.

In addition to insurance business, the Company offers two non-insurance dental plans to employer groups. An Administrative Service Contract (ASC) business for self-insured groups provides for the collection of group's premiums and the processing of the group's claims, whereby the Company is paid a pre-determined management fee. The employer group retains all claim obligations, thus there is no insurance risk to the Company. A Minimum Premium Plan (MPP) is a product where the Company 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 Company covers claims incurred in excess of the maximum limit. During the examination period, the Company had increased reimbursement in the ASC and MPP plans.

GROWTH OF THE COMPANY

The growth of the Company over the last five years is reflected in the following schedule. The stated amounts were derived from the Company's filed annual statements, except in those years where a report of examination was published by the Oregon Division of Financial Regulation.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Total Capital and Surplus</u>	<u>Net Income/(Loss)</u>
2011	128,128,722	24,519,268	103,609,454	5,744,121
2012 *	131,539,042	25,942,263	105,596,779	4,846,756
2013	138,093,754	21,973,412	116,120,342	4,778,240
2014	192,187,437	29,927,886	162,259,551	3,111,105
2015 *	121,482,242	40,083,084	81,399,209	2,855,600

*Per examination

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Company over the last five years. The amounts were compiled from copies of the Company's filed annual statements.

<u>Year</u>	(1) <u>Total Revenues</u>	(2) <u>Total Hospital and Medical</u>	(2)/(1) <u>Medical Loss Ratio</u>	(3) <u>Claim Adjustment and General Expenses</u>	(2)+(3)/(1) <u>Combined Loss Ratio</u>
2011	74,694,734	60,799,972	81.4%	8,985,492	93.4%
2012 *	70,072,930	55,465,713	79.2%	10,720,635	94.5%
2013	70,683,977	55,118,410	78.0%	11,487,195	94.2%
2014	92,949,801	76,927,638	82.8%	13,578,768	97.4%
2015 *	103,131,325	87,788,007	75.1%	13,194,175	97.9%

*Per examination.

A combined loss incurred and expense to premium ratio of more than 100% indicates an underwriting loss. The Company reported underwriting gains in each of the past five years. In addition, in 2015, gross reimbursement for medical cost incurred in the amount of \$310,396,687 was received for its non-insurance Administrative Service Contracts (ASC) and Minimum Premium Plan (MPP) business, whereby the Company acts as a third-party administrator for self-insured and partially insured groups. The premiums and claims from this business are not included above, but the Company does collect a service fee which offsets a portion of the total expenses incurred on the insured business.

REINSURANCE

Assumed Business

The Company reported assumed business from Delta Dental of California. The premium related to this agreement was reported at \$15,793,439 in 2015. This is a risk-sharing agreement related to Tricare Retirement Dental Program (TRDP), where certain members (Delta Dental Plans) share in the underwriting gain or loss. Administration of the business is performed by Delta Dental of California.

I recommend that the Company record the TRDP or other risk sharing business as direct business and identify the Company as a party to the original contract and reflect the revenues and expenses in its financial statements in accordance with the NAIC financial statement instruction unless a traditional reinsurance agreement with customary reinsurance clauses is executed.

Ceded Business

The Company does not currently cede any reinsurance on contracts in effect because the policy limits on dental insurance do not exceed \$1,500 per enrollee per year, which is a minimal exposure. The Company 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

In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2015, 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 Company has a system in place to account for unclaimed funds and has filed the reports on abandoned property pursuant to the provisions of ORS 98.352.

Statutory Deposit

At year-end 2015, the Company had a \$59,000 (par value) FNMA bond on deposit with the Division of Financial Regulation for the benefit of Oregon policyholders only. The Company also reported a \$61,000 and a \$250,000 (par value) FNMA bond on deposit with the Division of Financial Regulation for the protection of all policyholders. These deposits were verified with the Division of Financial Regulation.

The Examiners noted that certain assets were pledged as collateral and restricted as part of the line of credit and were not identified as such in the Annual Statement. These assets would have been encumbered pursuant to ORS 733.560 and should have been reviewed to determine admitted or non-admitted status per SSAP No. 4, paragraph 6 and 7.

I recommend that the Company 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.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company's December 31, 2012 report did not have any comments or recommendations.

SUBSEQUENT EVENTS

On February 6, 2016, the Oregon Division of Financial Regulation issued an order to resolve the hazardous operating condition of the Company's downstream subsidiary, Moda Health Plan, Inc. Effective June 20, 2016, after MHP had reflected increased capital conditions and reduced its risk profile, the consent order was withdrawn by the Oregon Director of DCBS.

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 Company for the period ending December 31, 2015. 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 statement.

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

OREGON DENTAL SERVICE
ASSETS
As of December 31, 2015

ASSETS	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Bonds	\$ 16,178,925	\$ -	\$ 16,178,925	1
Common stocks	77,698,631	16,319,389	61,379,242	1
Properties occupied by company	5,480,812	-	5,480,812	
Cash and short-term investments	(5,429,272)	-	(5,429,272)	1
Other invested assets	13,000,000	-	13,000,000	2
Aggregate write-ins for invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal, cash and invested assets	<u>\$106,929,096</u>	<u>\$ 16,319,389</u>	<u>\$ 90,609,707</u>	
Investment income due and accrued	110,078	-	110,078	
Premiums and considerations:				
Uncollected premiums and agent's balances in the course of collection	584,767	-	584,767	
Amounts receivable relating to uninsured plans	6,250,479	-	6,250,479	3
Electronic data processing equipment and software	2,609,201	-	2,609,201	
Receivables from parent, subsidiaries, and affiliates	17,359,918	-	17,359,918	
Aggregate write-ins for other than invested assets	<u>3,958,143</u>	<u>-</u>	<u>3,958,143</u>	
Total Assets	<u>\$137,801,682</u>	<u>\$ 16,319,389</u>	<u>\$121,482,293</u>	

OREGON DENTAL SERVICE
LIABILITIES, CAPITAL AND SURPLUS
As of December 31, 2015

LIABILITIES, CAPITAL AND SURPLUS	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Claims unpaid	\$ 3,003,000	\$ -	\$ 3,003,000	3
Accrued medical incentive pool and bonuses	-	-	-	
Unpaid claims adjustment expense	150,150	-	150,150	3
Aggregate health policy reserves	3,844,677	-	3,844,677	3
Premiums received in advance	2,288,945	-	2,288,945	
General expenses due or accrued	950,568	-	950,568	
Amounts withheld or retained for account of others	957,273	-	957,273	
Amounts due to parent, subsidiaries, and affiliates	15,857,877	-	15,857,877	
Payable for securities	1,058,125	-	1,058,125	
Liability for amount held under uninsured plans	11,782,757	-	11,782,757	3
Aggregate write-ins for liabilities	<u>189,712</u>	<u>-</u>	<u>189,712</u>	
Total Liabilities	<u>\$ 40,083,084</u>	<u>\$ -</u>	<u>\$ 40,083,084</u>	
Aggregate write-ins for special surplus funds	1,098,180	-	1,098,180	
Surplus Notes	3,000,000	-	3,000,000	
Aggregate write-ins for other than special surplus funds	20,247,852	-	20,247,852	
Unassigned funds (surplus)	<u>73,372,566</u>	<u>16,319,389</u>	<u>57,053,177</u>	
Total capital and surplus	<u>97,718,598</u>	<u>16,319,389</u>	<u>81,399,209</u>	
Total liabilities, capital and surplus	<u>\$137,801,682</u>	<u>\$ 16,319,389</u>	<u>\$121,482,293</u>	

OREGON DENTAL SERVICE
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2015

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Net premium income	\$103,131,325	\$ -	\$103,131,325	
Change in unearned premium reserves and reserves for rate credits	<u>-</u>	<u>-</u>	<u>-</u>	
Total Revenues	<u>103,131,325</u>	<u>-</u>	<u>103,131,325</u>	
Hospital and Medical:				
Hospital/medical benefits	-	-	-	
Other professional services	71,839,951	-	71,839,951	
Outside referrals	-	-	-	
Emergency room and out-of- area	-	-	-	
Prescription drugs	-	-	-	
Incentive pool, withhold adjustments and bonus amounts	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal:	71,839,951	-	71,839,951	
Less:				
Net reinsurance recoveries	<u>(15,948,056)</u>	<u>-</u>	<u>(15,948,056)</u>	4
Total medical and hospital Non-health claims	87,788,007	-	87,788,007	
Claim adjustment expenses	6,193,296	-	6,193,296	
General administrative expenses	7,000,879	-	7,000,879	
Increase in reserves for life and accident and health contracts	<u>-</u>	<u>-</u>	<u>-</u>	
Total underwriting deductions	<u>100,982,182</u>	<u>-</u>	<u>100,982,182</u>	
Net underwriting gain or loss	<u>2,149,143</u>	<u>-</u>	<u>2,149,143</u>	
Net investment income earned	863,800	-	863,800	
Net realized capital gains or (losses)	<u>182,389</u>	<u>-</u>	<u>182,389</u>	
Net investment gains or (losses)	1,046,189	-	1,046,189	
Aggregate write-ins for other income or expense	<u>(339,732)</u>	<u>-</u>	<u>(339,732)</u>	
Net income or (loss) before federal income taxes	2,855,600	-	2,855,600	
Federal and foreign income taxes incurred	<u>-</u>	<u>-</u>	<u>-</u>	
Net Income (loss)	<u>\$ 2,855,600</u>	<u>\$ -</u>	<u>\$ 2,855,600</u>	

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

	2015	2014	2013
Capital and surplus, December 31, previous year	<u>\$ 162,259,551</u>	<u>\$ 116,120,342</u>	<u>\$105,596,779</u>
Net income	2,855,600	3,111,105	4,778,240
Change in net unrealized capital gains (losses)	(68,002,627)	45,113,657	6,041,192
Change in net deferred income tax	-	-	-
Change in nonadmitted assets	(2,393,926)	(2,085,553)	(259,869)
Change in unauthorized reinsurance	-	-	-
Change in surplus notes	3,000,000	-	-
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	-	-	-
Dividends to stockholders (cash)	-	-	-
Examination adjustment	(16,319,389)	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-
Net change in capital and surplus	<u>(80,860,342)</u>	<u>46,139,209</u>	<u>10,523,563</u>
Capital and surplus, December 31, current year	<u>\$ 81,399,299</u>	<u>\$162,259,551</u>	<u>\$116,120,342</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Investments

Most of the Company's long-term bond investments were in US government obligations, federal agency bonds, special revenue bonds, and corporate issues, with 99% invested in NAIC designations of 1 and 2.

Common stocks were comprised of investments in a wholly owned subsidiary, Moda, Inc. (MI), and six separate mutual funds, primarily small cap stocks, international equities, and stock index portfolios for a total of \$77,698,631. MI is the Company's largest stock holding, with an annual statement reported fair value of \$69,712,145, and was derived using Statutory Accounting based on underlying audited U.S. GAAP equity of the respective entity with adjustments required by Paragraph 9 of SSAP No. 97. The examiner made an adjustment to the statutory financial statement of Moda Health Plan, Inc., which is Moda, Inc. 100% owned subsidiary, in the amount of \$16,319,389, based on the examination findings. The fair value of all common stocks, including subsidiaries, after adjustment, is \$61,379,242.

Cash and short-term deposits consisted of cash on deposit, investments in a US Treasury Bill and First American Prime Obligation fund. Under the Company's cash management system, MI holds all of the Company's cash, as described earlier in this report.

A comparison of the investments as noted in the Plan's annual statement over the past five years is as follows:

<u>Year</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>Ratio</u>	<u>Ratio</u>	<u>Ratio</u>
	<u>Bonds</u>	<u>Common and Preferred Stocks</u>	<u>Cash and Short-term</u>	<u>A/ Total Assets</u>	<u>B/ Total Assets</u>	<u>C/ Total Assets</u>
2011	15,544,715	92,604,192	1,599,211	12.13%	72.27%	1.25%
2012	17,430,989	89,927,244	2,919,829	13.25%	68.37%	2.22%
2013	14,757,441	98,610,746	(7,611,807)	10.69%	71.41%	(5.51)%
2014	14,321,610	146,092,459	(5,521,954)	7.45%	76.02%	(2.87)%
2015	16,178,925	77,698,631	(5,429,272)	11.74%	56.38%	(3.94)%

Approval of investment transactions was performed by the finance committee of the Board of Directors, pursuant to ORS 733.740. As of December 31, 2015, sufficient assets were invested in amply secured obligations of the United States, the State of Oregon, or in FDIC insured cash deposits, so the Company was in compliance with ORS 733.580.

Effective April 1, 2006, the Company entered into a custodial agreement with the US Bank, NA. The agreement contains all of the relevant protections described in OAR 836-027-0200(4)(a) through (l).

Note 2 – Other Invested Assets (Schedule BA)

The Company is the holder of a \$13,000,000 surplus note issued by Moda Health Plan, Inc. effective December 31, 2015, interest is 4% per annum. The note has no specific maturity

date and approval of interest and principal payments by the Division of Financial Regulation is required before payments can be made.

Note 3 – Claims Unpaid and Unpaid Claims Adjustment Expense Reserves

David W. Reimer, FSA, MAAA, consulting actuary with Risk and Regulatory Consulting, LLC, contracted by the Oregon Division of Financial Regulation, reviewed the loss and loss adjustment expenses in the Company’s filed financial statements as of December 31, 2015. He reviewed the Statement of Actuarial Opinion prepared by the Company’s appointed actuary, David O. Thoen, FSA, MAAA, of Deloitte Consulting LLP in Minneapolis.

Mr. Reimer also reviewed the annual statement, the independent auditors’ report, and the management discussion and analysis filing. Mr. Reimer noted the following:

	Mr. Reimer’s Estimate	Annual Statement
Claims Unpaid	\$ 3,040,250	\$ 3,003,000
Accrued Medical Incentive Pool and Bonus Payments	-	-
Unpaid Claims Adjustment Expenses (CAE)	249,250	150,150
Aggregate Health Policy Reserves	3,844,677	3,844,677
Aggregate Write-ins for other liabilities	56,795	56,795
Uncollected Premium	1,000,000	1,000,000
Premium Deficiency Reserves	-	-
Total Actuarial Liabilities	<u>\$ 8,190,972</u>	<u>\$ 8,054,622</u>

Mr. Reimer concurred that the reserves for unpaid claims carried by the Company as of December 31, 2015, were reasonable.

Note 4 – Reinsurance Recoverable

The amount was reported as a contra receipt, as these are the amount reported by the administrator for the TRDP business, which the Company shares in the risk. See Reinsurance, assumed business, in the caption above and the recommendation for reporting these amounts in the financial statement.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The examiner reduced total capital and surplus \$16,319,389 from \$97,718,598 to \$81,399,209 as a result of this examination. The following comments and recommendations were made:

PAGE

- 9 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.
- 14 I recommend the Company 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.
- 17 I recommend that the Company record the 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.
- 18 I recommend that the Company 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.

CONCLUSION

During this examination's three-year period, Company surplus decreased from \$105,596,779, as presented in the December 31, 2012 examination report to \$81,399,209, as shown in this examination report. Comparative assets and liabilities are shown below:

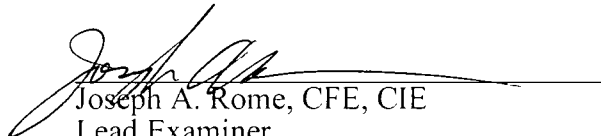
	December 31,		
	<u>2015</u>	<u>2012</u>	<u>Change</u>
Assets	\$121,482,293	\$131,539,042	\$(10,056,749)
Liabilities	<u>40,083,084</u>	<u>25,942,263</u>	<u>14,140,821</u>
Surplus	<u>\$ 81,399,209</u>	<u>\$105,596,779</u>	<u>\$(24,197,570)</u>

ACKNOWLEDGMENT

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

In addition to the undersigned, the Washington Office of Insurance Commissioner's IT Specialist, Mr. John Jacobson, and examiners Tarik Subbagh, MSBA, CPA, CFE, Property and Casualty Field Supervising Examiner, Randy Fong, CFE, Jim Gill, CPA, and Zairina Othman participated in the examination. Mr. David W. Reimer, FSA, MAAA, Consulting Actuary, Risk and Regulatory Consultants, LLC also participated in the examination.

Respectfully submitted,


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)

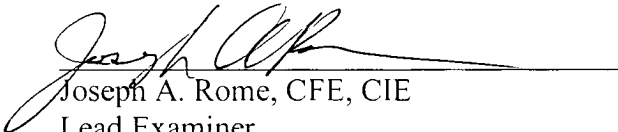
Joseph A. Rome, CFE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of 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, and 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.



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

Subscribed and sworn to me this 27 day of June, 2017.



Notary Public for the State of Oregon

My Commission Expires: 12/15/18

