# STATE OF OREGON

# DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

# DIVISION OF FINANCIAL REGULATION

REPORT OF LIMITED-SCOPE FINANCIAL EXAMINATION

OF

**OREGON DENTAL SERVICE**
**PORTLAND, OREGON**

AS OF

DEC. 31, 2022

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

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**NAIC COMPANY CODE 54941**

AS OF

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## SALUTATION

March 24, 2025

Honorable Andrew Stolfi, director
Department of Consumer and Business Services
Division of Financial Regulation
State of Oregon
350 Winter St. NE
Salem, OR 97301-3883

Dear Director Stolfi:

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 performed a limited-scope examination of the status of remediation of Management Letter and Exam Report issues from the 2019 financial examination of

**OREGON DENTAL SERVICE**
**601 SW Second Ave.**
**Portland, OR 97204**

**NAIC Company Code 54941**

Hereinafter referred to as the "plan." The following report is respectfully submitted.

## SCOPE OF EXAMINATION

We have performed a single-state, limited-scope, financial examination of Oregon Dental Service. The last examination of this health care service contractor was a full-scope examination completed as of Dec. 31, 2019. This limited-scope examination covers the three-year period of Jan. 1, 2020, through Dec. 31, 2022, on issues noted in the 2019 Management Letter and Exam Report.

We conducted our examination pursuant to ORS 731.300 and in accordance with ORS 731.302, which allows the examiners to consider the guidelines and procedures in the NAIC *Financial Condition Examiners Handbook*.

Accounts and activities of the plan specific to subsidiary valuations, intercompany agreements, and administrative services only (ASO) contracts and reporting were considered according to 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 effect of such an 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 and proprietary information), 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 Feb. 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 nonprofit corporation.

On Nov. 27, 2000, the Oregon Insurance Division approved a corporate reorganization in which ODA, the ultimate controlling entity of the company and sole shareholder of Health Services Group (HSG), donated all of its outstanding HSG stock to the company. HSG owned Oregon Dental Service Health Plan Inc. As a result, HSG and all of its subsidiaries became a direct or indirect subsidiary of the company. HSG underwent two name changes: The first was to Moda Inc. and the second to Moda Partners Inc.

The company began writing business in Alaska in 2009.

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 percent with a due date of Dec. 31, 2020.

On Feb. 28, 2019, Moda Inc. (MI), an Oregon corporation and a subsidiary of ODS, filed Articles of Conversion to reincorporate in the state of Delaware (dissolving its incorporation in the state of Oregon) under the new name of Moda Partners Inc. (herein referred to as MPI in replacement of MI or HSG). As part of the reincorporation of MI to Delaware, MPI had 40,000 authorized common stock shares, of which it replaced the shares ODS held of MI (per the Moda Inc. plan of conversion effective Feb. 27, 2019) with 1,000 nonvoting shares of Series A preferred stock and 10,100 shares of common stock of MPI. Additionally, ODS created a new wholly owned subsidiary, Moda Holdings Group Inc. (MHGI), and contributed its 10,100 shares of MPI to MHGI, immediately after the conversion. In connection with this transaction, ODA continues to be the ultimate controlling entity of ODS and MHGI through its right to appoint the boards of directors of ODS and MHGI.

As part of reincorporating MPI in the state of Delaware, MPI sold 9,900 of its authorized common stock to Delta Dental of California (DDCA). As consideration of the stock sale, DDCA converted debt of $94.9 million and cash of $56.2 million, net of transaction costs of $1.3 million. (The transaction costs were paid by MPI.) The cash received by MPI was paid to MHPI for settlement of an intercompany balance.

In September 2021, ODS contributed $100 million to MHGI. On Sept. 24, 2021, MHGI paid $100 million cash to DDCA, entered into a secured promissory note with DDCA in the amount of $42.9 million (payable in monthly installments of $299,000 beginning on Oct. 1, 2022, and ending on Sept. 1, 2033) and a second secured promissory note with DDCA in the amount of $48.0 million (interest accrues on the outstanding principal starting Sept. 24, 2021, until payment in full on Sept. 1, 2029, at the rate of 3 percent per annum, compounded annually) for a total of

$91 million in secured promissory notes in form and substance agreed to by both parties, duly executed by MHGI and DDCA in DDCA's favor, to purchase DDCA's 9,900 shares of MPI. MHGI wrote up its existing investment in MPI to a fair value of $200.9 million for a total fair market valuation of $407.2 million, on a generally accepted accounting principles (GAAP) basis, and recorded a gain of $9.9 million on the transaction.

***Capitalization***

The articles of incorporation provide for no capital stock and defined 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 nonprofit 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 | | |

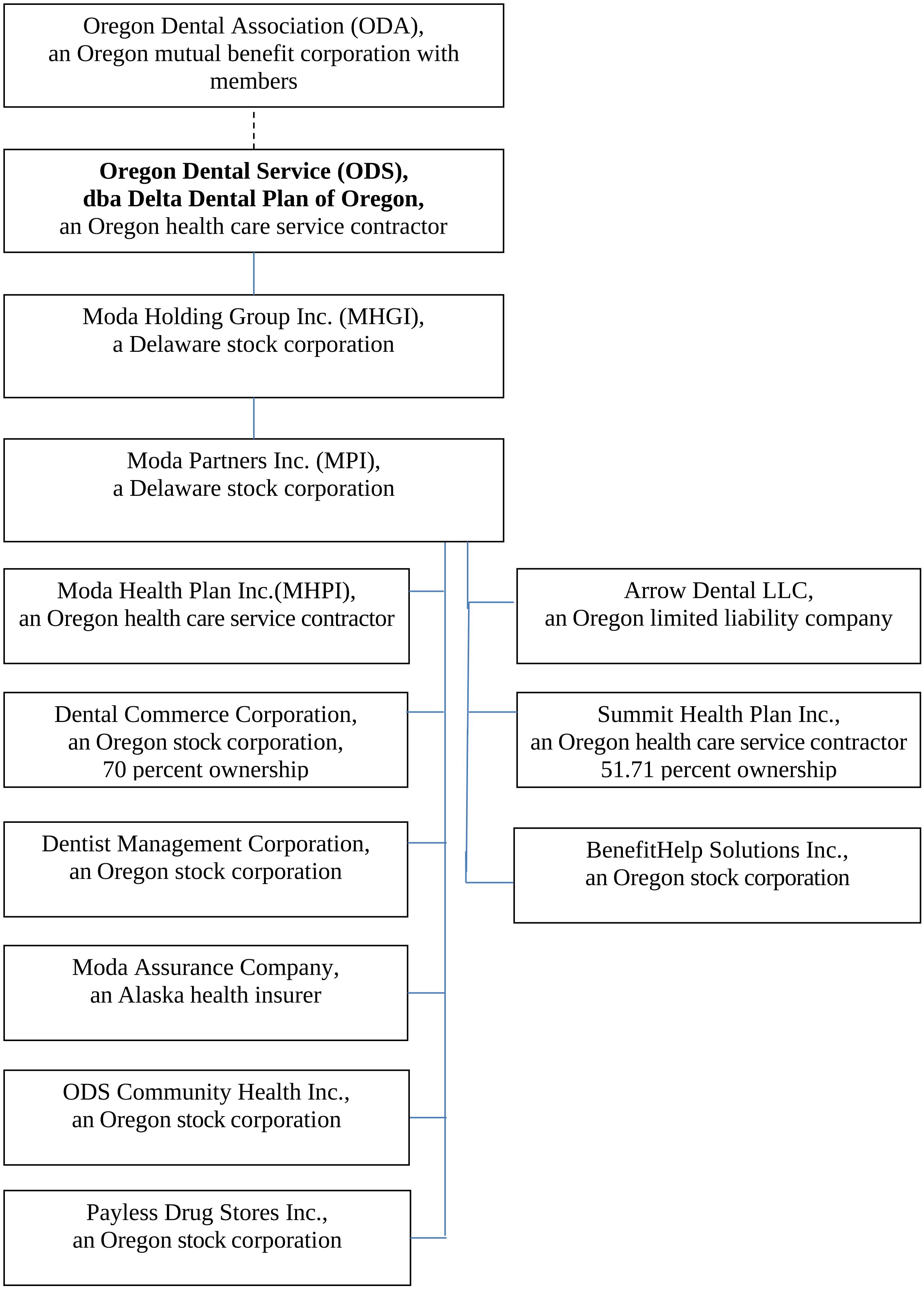
The note was approved by the Oregon Division of Financial Regulation and each payment of interest of the surplus notes was made only with the prior approval of the director of the Department of Consumer and Business Services, in compliance with Statement of Statutory Accounting Principles (SSAP) No. 41. The note requires interest only payments of $150,000, due on Dec. 31 of each year. The note was paid in full in December 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.

## INSURANCE COMPANY HOLDING SYSTEM

An insurance holding company registration statement was filed by the plan according to 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 percent unless otherwise indicated):


Oregon Dental Association (ODA),
an Oregon mutual benefit corporation with members
Oregon Dental Service (ODS),
dba Delta Dental Plan of Oregon,
an Oregon health care service contractor
Moda Holding Group Inc. (MHGI),
a Delaware stock corporation
Moda Partners Inc. (MPI),
a Delaware stock corporation
Moda Health Plan Inc.(MHPI),
an Oregon health care service contractor
Dental Commerce Corporation,
an Oregon stock corporation,
70 percent ownership
Dentist Management Corporation,
an Oregon stock corporation
Moda Assurance Company,
an Alaska health insurer
ODS Community Health Inc.,
an Oregon stock corporation
Payless Drug Stores Inc.,
an Oregon stock corporation
Arrow Dental LLC,
an Oregon limited liability company
Summit Health Plan Inc.,
an Oregon health care service contractor
51.71 percent ownership
BenefitHelp Solutions Inc.,
an Oregon stock corporation

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 ODA Board of Trustees appoints all but one of the directors of the plan's board and could be considered the ultimate controlling entity.

Moda Holdings Group Inc. (MHGI) is a Delaware stock corporation formed in 2019 to hold an investment in Moda Partners Inc., subsequent to the acquisition of 49.5 percent of Moda Partners Inc. by Delta Dental of California.

Moda Partners Inc. (MPI) (fka Moda Inc.) is Delaware for-profit stock corporation formed in 1991 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 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 Aug. 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 Jan. 1, 2020.

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

ODS Community Health Inc. was incorporated in December 2003 for the purpose of handling business of the Oregon Health Plan, through the Division of Medical Assistance Programs (now the Oregon Health Authority). With other partners, it formed Eastern Oregon Coordinated Care Organization (EOCCO) LLC.

Payless Drug Stores Inc. (Payless) is a stock corporation. It serves as a holding company for standalone pharmacy entities. Payless' majority-owned subsidiary is Ardon Holdings, LLC (Ardon Holdings). Ardon Holdings' wholly owned subsidiaries are Ardon Health, LLC (Ardon) and Emerging Health, LLC (Emerging). Ardon is a retailer of specialty pharmaceuticals, offering a wide range of medications, such as injectables and oncology therapies. Emerging is a pharmacy and infusion center, providing pharmacy services and in-office or at-home infusion services.

Summit Health Plan Inc. is a stock corporation licensed in Oregon. It was formed in 2019 but ultimately incorporated in 2020 and began writing Medicare Advantage business in eastern Oregon in 2021.

Benefit Health Solutions is an Oregon corporation operating as a third-party administrator and was incorporated on Jan. 26, 1994.

## INTERCOMPANY AGREEMENTS

The limited-scope examination reviewed the following related party agreements:

Amended and Restated Management and Services Agreement

The plan was directed in the 2019 Financial Exam Report to amend the Management Services Agreement to correct several sections. The limited-scope examination noted an Amended and Restated Management Services Agreement between Moda Partners Inc. and multiple entities, effective Jan. 1, 2023, but found it was not filed with the Division of Financial Regulation for approval until May 8, 2023. The plan is in violation of ORS 732.574(2)(a) for not filing a Form D for intercompany agreements at least 30 days before the effective date of the agreement.

**It is recommended the plan implement policies and procedures to ensure all intercompany agreements have a Form D filed with the Division of Financial Regulation at least 30 days before the execution of the agreement in compliance with ORS 732.574(2)(a).**

The limited-scope exam noted the following agreements were not timely filed with the Division of Financial Regulation 30 days before the effective date, in violation of ORS 732.574(2)(a), which requires all intercompany agreements to be filed with DFR no later than 30 days before the effective date of the agreement:

Provider Agreement, between ODS and EOCCO, effective Jan. 1, 2023, and filed with the Division of Financial Regulation for approval on Nov. 6, 2023.

Provider Agreement, between ODS and Arrow Dental Clinic LLC, effective Jan. 1, 2023, and May 1, 2023, and filed with the Division of Financial Regulation for approval on June 1, 2023.

**It is recommended the plan implement policies and procedures to ensure the timely filing of all intercompany agreements to be in compliance with ORS 732.574(2)(a).**

## 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 also contracts with various Oregon Coordinated Care Organizations, including related party Eastern Oregon Care Organization, LLC, on the administration of dental Medicaid benefits. On Jan. 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 noninsurance dental plans to employer groups as follows:

1) Administrative services only (ASO) business for self-insureds, where ODS, as an administrator, provides for the collection of the group's premiums and the processing of the group's claims, whereby the plan is paid a predetermined management 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, 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.

## ACCOUNTS AND RECORDS

In general, the plan's records and source documentation supported the amounts presented in the plan's Dec. 31, 2022, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170.

## COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

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

1. I recommend the Plan amend the Management Services Agreement as follows per the requirements of Statement of Statutory Accounting Principles (SSAP) No.25, paragraph 15, 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 that 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.

**The plan updated the Management Services Agreement but failed to file a timely Form D with the Division of Financial Regulation for this intercompany agreement. The plan is in violation of ORS 732.574(2)(a). Refer to the Intercompany Agreements section, Page 12.**

2. 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).

   **The Plan amended its Management Services Agreement. Refer to the Intercompany Agreements section, Page 12.**

3. 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 that ensure all transactions between affiliated entities are in compliance with SSAP No. 25, paragraph 10, and ORS 732.574(2).

   **The plan did amend the Management Services Agreement and replaced it with the Amended and Restated Management Services Agreement between Moda Partners Inc. and multiple entities. However, the plan did not timely file a Form D with the Division of Financial Regulation as required under ORS 732.574(2)(a). Refer to the Intercompany Agreements section, Page 12.**

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

   **The plan did amend the Management Services Agreement and replaced it with the Amended and Restated Management Services Agreement between Moda Partners Inc. and multiple entities. However, the plan did not timely file a Form D with the Division of Financial Regulation as required under ORS 732.574(2)(a). Refer to the Intercompany Agreements section, Page 12.**

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

   **The plan was found to have failed to properly report equity investments in subsidiaries. Refer to Note 1 – Investment in Subsidiary, Page 22.**

## SUBSEQUENT EVENTS

On Dec. 12, 2023, the Alaska Division of Insurance conducted a hearing regarding a request from Moda Assurance Company (MAC), an Alaska domiciled company, to merge with Moda Health Plan Inc. (MHPI), an Oregon domiciled company. As there were no comments or objections to the merger, the Alaska Division of Insurance approved the merger on Dec. 27, 2023. Under the Agreement of Merger, on January 1, 2024 MAC was merged with and into MHPI, with MHPI being the surviving insurer. All of the issued and outstanding shares, assets, liabilities, and policyholders of MAC will be contributed to MHPI. MHPI, which is licensed to transact insurance in Alaska, will continue to transact health insurance in Alaska following the merger. It is noted this event has no effect on the limited-scope examination.

## 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 Dec. 31, 2022. The financial statements are prepared by management and therefore, the responsibility of management. 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 Dec. 31, 2022

| Assets | Net admitted assets |
|---|---|
| Bonds | $ 31,673,715 |
| Common stocks | 178,681,074 |
| Cash, cash equivalents, and short-term investments | 27,390,753 |
| Aggregate write-ins for invested assets | - |
| Subtotal, cash and invested assets | 237,745,542 |
| | |
| Investment income due and accrued | 138,529 |
| Premiums and considerations | |
| Uncollected premiums, agents' balances in course of collection | 580,858 |
| Amounts receivable related to uninsured plans | 3,135,043 |
| EDP Equipment and software | 3,601,264 |
| Receivable from parent, subsidiaries, and affiliates | 4,252,392 |
| Aggregate write-ins for other than invested assets | 1,049,292 |
| Total assets | $ 250,502,920 |

# OREGON DENTAL SERVICE
# STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS
# As of Dec. 31, 2022

| | Current year total |
|---|---|
| Claims unpaid | $ 5,367,037 |
| Accrued medical incentive pool and bonus amounts | - |
| Unpaid claims adjustment expense | 220,550 |
| Aggregate health policy reserves | 8,024,344 |
| Premiums received in advance | 2,590,999 |
| General expenses due or accrued | 2,578,143 |
| Remittances and items not allocated | 197,948 |
| Amounts due to parent, subsidiaries, and affiliates | 5,409,790 |
| Liability for amounts held under uninsured plans | 7,708,842 |
| Aggregate write-ins for liabilities | 8,348,983 |
| Total liabilities | $ 40,446,636 |
| Aggregate write-ins for special surplus funds | $ - |
| Surplus notes | - |
| Aggregate write-ins for other than special surplus funds | 19,247,852 |
| Unassigned funds (surplus) (1) | 190,808,432 |
| Surplus as regards policyholders | $ 210,056,284 |
| Total liabilities, surplus, and other funds (1) | $ 250,502,920 |

## OREGON DENTAL SERVICE
## STATEMENT OF REVENUE AND EXPENSES
## For the Year Ended Dec. 31, 2022

| | Current year total |
|---|---|
| **Revenue** | |
| Net premium income | $ 199,383,452 |
| Aggregate write-ins for health care related revenues | 883,168 |
| Total revenue | 200,266,620 |
| Hospital and medical: | |
| Hospital/medical benefits | - |
| Other professional services | 155,864,080 |
| 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 | 155,864,080 |
| Less: | |
| Net reinsurance recoveries | - |
| Total medical and hospital | 155,864,080 |
| Non-health claims | - |
| Claim adjustment expenses | 8,451,022 |
| General administrative expenses | 22,835,066 |
| Increase in reserves for life and accident and health contracts | - |
| Total underwriting deductions | 187,150,168 |
| Net underwriting gain or (loss) | 13,116,452 |
| Net investment income earned | 784,719 |
| Net realized capital gains (losses) | 224,668 |
| Net investment gains (losses) | 1,009,387 |
| Net gain or (loss) from agents' or premium balances charged off | - |
| Aggregate write-ins for other income or expense | 1,046,542 |
| Federal income taxes incurred | - |
| Net income | $ 15,172,381 |

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

| | 2022 | 2021 | 2020 | 2019* |
|---|---|---|---|---|
| Surplus as regards policyholders, Dec. 31, previous year | $194,398,457 | $205,167,757 | (1) 155,133,516 | $144,196,347 |
| Net income (loss) | 15,172,381 | (57,898,017) | 135,895,087 | 4,883,032 |
| Change in net unrealized capital gains or (losses) | (1,360,724) | 10,800,524 | 41,249,378 | 4,336,970 |
| Change in net deferred income tax | - | - | - | - |
| Change in non-admitted assets | 1,846,170 | (879,957) | (2,724,892) | 2,217,167 |
| Change in provision for reinsurance | - | - | - | - |
| Change in surplus notes | - | - | (3,000,000) | - |
| Cumulative effects of changes in accounting principles | - | 37,208,150 | (2) (121,385,332) | - |
| 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 | | | | (142,591,051) |
| Aggregate write-ins for gains and losses in surplus | | - | - | (500,000) |
| Change in surplus as regards policyholders for the year | 15,657,827 | (10,769,300) | 50,034,241 | (131,653,882) |
| Surplus as regards policyholders, Dec. 31, current year | $ 210,056,284 | $194,398,457 | $205,167,757 | $ 12,542,465 |

* Per examination

**NOTES:**

(1) The difference in the surplus 2019 ending amount and 2020 beginning amount was due to the 2019 examination adjustment not reported on the plan's 2019 annual statement but adjusted in the amount of $121,385,332 in the plan's 2020 annual statement.

(2) The difference between the examination adjustment of $142,592,051 and the Company's adjustment in 2020 of $121,385,332 relates to balances that had already been collected by the time the adjustment was made.

## ANALYSIS OF CHANGES TO SURPLUS (1)*

| | | | |
|---|---|---|---|
| Surplus at Dec. 31, 2022, per annual financial statement | | | $210,056,284 |
| | **Increase** | **Decrease** | |
| Statement line item – common stocks | | $18,029,100 | |
| Net increase (decrease) | | | $ (18,029, 100) |
| Surplus at Dec. 31, 2022, after adjustment | | | $192,027,184 |

## NOTES TO FINANCIAL STATEMENTS

***Note 1 – Investment in subsidiary***

ODS maintained a carrying value for its affiliated common stock ownership in MHG of $162,207,700 as of Dec. 31, 2022. MHG directly owns 100 percent of MPI and indirectly owns insurance entities and noninsurance entities.

a. MPI valuation

In February 2019, ODS/MHG entered into a sale of 9,900 shares of MPI common stock representing 49.5 percent ownership with Delta Dental of California (DDCA). At this time, ODS/MHG retained ownership of 10,100 shares of MPI common stock representing 50.5 percent ownership. In September 2021, ODS/MHG repurchased the 9,900 shares of MPI common stock from DDCA.

ODS/MHG had treated the sale and repurchase of the MPI common stock to and from DDCA as a Business Combination under SSAP No. 68 and recognized goodwill based upon the transactions.

MHG's sale to DDCA in February 2019 of 9,900 shares of MPI common stock represented 49.5 percent of MPI's outstanding common stock, while MHG retained control of 50.5 percent of MPI's common stock. Upon the sale of MPI stock to DDCA, MHG controlled three of the five MPI Board seats, while DDCA had two of the five board seats. Further, no management changes at MPI transpired upon the sale of MPI common stock to DDCA.

Exam Team concluded the 2019 and 2021 DDCA transactions did not constitute business combinations or change in control events and the resulting goodwill that was included in management's calculation at the 10% limit per SSAP 68 should be removed in its entirety. ODS' subsidiaries should be valued in accordance with the provisions of SSAP No. 97 – Investments in Subsidiary, Controlled and Affiliated Entities, paragraph 22.e., which provides as follows:

> "Any other assets and/or liabilities of the downstream holding company (not addressed in paragraphs 22.a. through 22.d.) shall be valued in accordance with the applicable SSAP."

The examination valuation for MPI utilizing SSAP No. 97, paragraph 22.e., was $23,698,000 on a statutory basis as of Dec. 31, 2022, representing an exam decrease of $18,029,100 from the $41,727,100 reported by the company. The exam decrease in MPI's reporting value was due to the disallowance of goodwill, prepaid expenses, and right-of-use assets.

The examiners recalculated MHG's statutory valuation of downstream SCA entities as of Dec. 31, 2022, pursuant to the provisions of SSAP No. 97, by adjusting the GAAP to SAP difference for MPI of $18,029,100 for a total exam decrease of $18,029,100. The examination statutory valuation of MHG resulted in a decrease of ODS's carrying value as of Dec. 31, 2022, from $162,207,700 to $144,178,600. It also lowered the total value of common stock reported in the ODS Annual Statement from $178,681,074 to $160,651,974. Additionally, total admitted assets were reduced from $250,502,920 to $232,473,820, and the surplus was reduced from $210,056,284 to $192,027,184.

**It is recommended the plan implement policies and procedures to ensure the subsidiary valuation calculation is accurate, complete, and in compliance with SSAP No. 97.**

## <u>SUMMARY OF COMMENTS AND RECOMMENDATIONS</u>

The examination resulted in a $18,029,100 reduction in the surplus amount reported by the plan as of Dec. 31, 2022. The following is a summary of the recommendations made in this report of examination:

Page

12 The plan was directed in the 2019 Financial Exam Report to amend the Management Services Agreement to correct several sections, and file a Form D with the Division of Financial Regulation for the Business Associate Agreement with Moda Health Plan Inc. The limited-scope examination noted the plan did execute an Amended and Restated Management Services Agreement that was effective Jan. 1, 2023. However, the Form D was not filed with the division until May 8, 2023. The Form D for the Business Associate Agreement with Moda Health Plan Inc. still has not been filed with the division. Additionally, the limited-scope examination found that a provider agreement between the plan and an indirect subsidiary, EOCCO, effective Jan. 1, 2023, was not filed with the division until Nov. 6, 2023. Another provider agreement, effective Jan. 1, 2023, between the plan and an indirect subsidiary, Arrow Dental Clinic LLC, was not filed with DFR until June 1, 2023. The plan is in violation of ORS 732.574(2)(a) for not filing a Form D for intercompany agreements at least 30 days before the effective date of the agreement.

**It is recommended the plan implement policies and procedures to ensure that all intercompany agreements have a Form D filed with the Division of Financial Regulation at least 30 days before the execution of the agreement in compliance with ORS 732.574(2)(a).**

13. The limited-scope exam noted the following agreements were not timely filed with the Division of Financial Regulation 30 days before the effective date, in violation of ORS 732.574(2)(a), which requires all intercompany agreements to be filed with the division no later than 30 days before the effective date of the agreement:

<u>Provider agreement</u>, between ODS and EOCCO, effective Jan. 1, 2023, and filed with the Division of Financial Regulation for approval on Nov. 6, 2023.

Provider agreement, between ODS and Arrow Dental Clinic LLC, effective Jan. 1, 2023 and May 1, 2023, and filed with the Division of Financial Regulation for approval on June 1, 2023.

**It is recommended the plan implement policies and procedures to ensure the timely filing of all intercompany agreements to be in compliance with ORS 732.574(2)(a).**

23 The plan was not reporting its investments in subsidiaries in accordance with SSAP No. 97. This resulted in a reduction of the reported subsidiary investments by the examiners of $18,029,100.

**It is recommended the plan implement policies and procedures to ensure the subsidiary valuation calculation is accurate, complete, and in compliance with SSAP No. 97.**

**The ODS exam differences are associated with the disallowance of assets due to SSAP requirements. Going forward, ODS is directed to value all of its subsidiaries pursuant to SSAP 97 with 1) no goodwill or other intangible assets for the repurchase of MPI stock from DDCA. This reporting requirement will start with the filing of the 2024 annual statement filing, due March 1, 2025, and all subsequent statutory filings.**

**Further, ODS is directed to provide their subsidiary calculations with the annual statement filing to show that they have calculated the value of subsidiaries appropriately pursuant to SSAP 97. The goodwill adjustment needs to be noted in the Notes to the Financial Statement and show the adjustment to the surplus.**

## CONCLUSION

During the three-year period covered by this examination, the surplus of the plan has increased from $12,542,465, as presented in the Dec. 31, 2019, report of examination, to $192,027,184 as shown in this report. The comparative assets and liabilities are:

| | Dec. 31, 2022* | Dec. 31, 2019* | Change |
|---|---|---|---|
| Assets (1) | $ 232,473,820 | $ 46,134,989 | $ 186,338,831 |
| Liabilities | 40,446,636 | 33,592,524 | 6,854,112 |
| Surplus (1) | $ 192,027,184 | $ 12,542,465 | $ 179,484,719 |

* Per Examination

## 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, Barbara A. Bartlett, CPA (retired), MBA, CFE, senior manager; James Davis, CFE, associate; and Jan Moenck, CFE, partner of Risk & Regulatory Consulting LLC; participated in this examination.

Respectfully submitted,

_/s/ Mark 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 A. Giffin, CFE, 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 limited-scope 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 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 __6th__ day of __May__, 2025.

_/s/ Cindy Engle__________________________________________
Notary Public in and for the State of Oregon

My commission expires: _7/9/2027________