



COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF
DENTAL SERVICE OF MASSACHUSETTS, INC.

Boston, Massachusetts

As of December 31, 2013

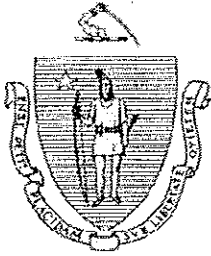
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DENTAL SERVICE OF MASSACHUSETTS, INC.

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COMMONWEALTH OF MASSACHUSETTS
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GARY D. ANDERSON
ACTING COMMISSIONER OF INSURANCE

March 30, 2015

Honorable Gary D. Anderson
Acting Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Law, Chapter 176E,
an examination has been made of the financial condition and affairs of

Dental Service of Massachusetts, Inc.

at its home office located at 465 Medford Street, Charlestown, Massachusetts 02129. The
following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Dental Service of Massachusetts, Inc., d/b/a Delta Dental of Massachusetts, Inc. ("Company" or "DSM") was last examined as of December 31, 2010 by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the three-year period from January 1, 2011 through December 31, 2013, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company, including corporate governance, identifying and assessing inherent risks within the company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's business policies and practices, corporate records, conflict of interest disclosure statements, fidelity bond and other insurance, employees' benefit plans, disaster recovery plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

The Company is audited annually by Ernst & Young LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2011 through 2013. A review and use of the Certified Public Accountants' workpapers were made to the extent deemed appropriate and effective. The Division did not retain an independent actuarial consulting firm. This assessment was based on previous examinations which used the work of the Company's independent actuary who prepared the Actuarial Opinion and the work performed by Ernst & Young LLP. An independent IT consulting firm, AGI Services, was retained by the Division to evaluate the adequacy and effectiveness of the IT systems controls to determine the level of reliance to be placed on the information generated by the data processing systems.

SUMMARY OF SIGNIFICANT FINDINGS

There have not been any significant findings noted during the current examination of the Company. The previous report of examination recommended the Company properly calculate the goodwill amortization for two subsidiaries and the Company has made the proper corrections. The previous examination recommended the Company approve all investment purchases and sales either by the Board of Directors or by the Finance and Investment Committee in accordance with Massachusetts General Law ("M.G.L"), Chapter 176A, Section 16. The current examination found the Company to be properly approving all investment transactions.

SUBSEQUENT EVENTS

In February 2014, DentaQuest, LLC signed a stock purchase agreement to acquire Pacific Dental Network, Inc. and its wholly owned subsidiary California Dental Network, Inc. On April 11, 2014, DentaQuest Group Inc. completed the acquisition by paying \$7.9 million.

During the second quarter of 2014, DSM invested \$5.04 million into its subsidiary DSM Investments, Inc. which then funded DSM Massachusetts Insurance Company, Inc. (MA domiciled, NAIC Code 15497). The newly established company was created to engage in dental insurance and dental benefits administration services to write a Massachusetts Exclusive Provider Organization ("EPO") product commencing January 1, 2015.

DSM also set up a new Community Care of Kentucky, Inc. in March, 2014 and a new Community Care of New Mexico, Inc. in August, 2014 under its subsidiary DentaQuest Care Group, Inc.

COMPANY HISTORY

General

Dental Service of Massachusetts, Inc. is a non-profit dental service company which initially was incorporated as the Massachusetts Dental Service Company. It was sponsored by the Massachusetts Dental Society ("Dental Society") through introduction of enabling legislation, M.G.L. Chapter 176E, enacted in July 1962. The Dental Society voted in January 1966 to provide \$25,000 for the Company's start up expenses and reserves and the Company was chartered in September 1966.

In March 1969, the Company entered into an agreement with Blue Cross and Blue Shield of Massachusetts, Inc. ("Blue Cross") by which Blue Cross provided enrollment, claims processing and other administrative services for the Company.

The Company's name was changed on September 3, 1974, to Dental Service of Massachusetts, Inc. The Company's enabling legislation was amended on July 17, 1981, and the amendment

changed the requirements for the bylaws of a dental service company by limiting the Dental Society's involvement in selecting members and Directors. The amendment separated DSM from the Dental Society. In March 1985, Blue Cross terminated the services agreement and the Company began to perform all administrative functions on its own.

At the examination date, DSM had two directly held subsidiaries: DSM Investments, Inc. ("DSM Investments") and DentaQuest Group, Inc. ("DentaQuest"). In addition, DSM was the sole member of two not-for-profit organizations, DentaQuest Care Group, Inc. ("DQ Care Group"), and DentaQuest Institute, Inc. ("DQ Institute").

DSM's wholly-owned subsidiary, DSM Investments, was established as a holding company. DSM Investments has two wholly-owned subsidiaries, DSM Insurance Services, Inc., and DentaQuest Oral Health Center, Inc. ("DQOHC"), which are operated on a for-profit basis for activities which do not come under the specific provisions of Chapter 176E. DSM and DSM Insurance Services share facilities and the services of certain members of management. DQOHC is a dental clinic in Westborough, Massachusetts, operated on a for-profit basis and its activities focus on treating the causes and risk factors of dental disease.

DentaQuest was established in 2001 as a subsidiary of the Company. DentaQuest was established to operate on a for-profit basis and was created to acquire business outside of Massachusetts. In 2001, DentaQuest acquired DentaQuest Mid-Atlantic, Inc., DentaQuest Virginia, Inc. and DentaQuest Management, Inc. In 2004, DentaQuest acquired all of the assets of DentaQuest, LLC ("DQ LLC") for approximately \$144 million. In 2013 the Company invested \$9.9 million in DentaQuest which then invested in DQ LLC. DQ LLC invested the funds in its subsidiary, DentaQuest USA Insurance Company, Inc. ("DQ USA") to fund the acquisition of Significa Insurance Group, Inc. which was renamed DSM USA Insurance Company, Inc. ("DSM USA"). DSM USA is a licensed life, accident and health insurer in thirty eight states and is domiciled in Pennsylvania.

In September 2013 the Company formed a not-for-profit organization, DQ Care Group. The Company is its sole member and elects all of its Directors. DQ Care Group is the sole member of Sarrell Regional Dental Center for Public Health, Inc. ("Sarrell") based in Alabama. Sarrell is a not-for-profit organization that provides quality dental and optical care to children who lack access to care. Effective December 17, 2013, DQ Care Group became the sole member of Dental Health Programs, Inc. ("Dental Health Programs") which is based in Texas. Dental Health Programs is a not-for-profit organization that provides quality dental care to safety net populations.

In October 2006, the DQ Institute was established under M.G.L. Chapter 180. The mission of the DQ Institute is to gather, analyze and disseminate data to improve the quality of oral health care delivery systems. Effective January 1, 2013, the composition of DQ Institute's Board of Directors changed and a majority of DQ Institute's Directors were either members of DSM's Board of Directors or employees of DentaQuest. DSM is the sole member of the DQ Institute, which had net assets of \$3.5 million at December 31, 2013. DSM has contributed \$3.7 million and \$3.6 million for the years 2013 and 2012, respectively to help the DQ Institute fulfill its mission.

In 2000, the DentaQuest Foundation, Inc. ("DQ Foundation") was established under M.G.L. Chapter 180. The DQ Foundation supports and promotes oral health in communities across the United States by connecting key stakeholders, raising awareness of oral health issues, and supporting solutions. The Company approved contributions to the DQ Foundation during 2012 of \$13.5million and no contributions were made in 2013. The results of DQ Foundation are not consolidated into those of DSM; DSM does not have an economic interest in DQ Foundation and a majority of the Directors of DQ Foundation do not participate on DSM's Board of Directors.

CORPORATE RECORDS

Board of Directors Minutes

The minutes of meetings of the Board of Directors and its Committees for the period under examination were read and they indicated that all meetings were held in accordance with the Company's bylaws and the laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at meetings of the Board of Directors.

Articles of Organization and Bylaws

The bylaws and articles of organization and amendments thereto were examined as part of this examination. The bylaws of the Company were amended and filed with the Division in December 2013. The bylaw amendments changed the definition of the members of the corporation and permitted remote electronic attendance for board and corporate members.

Conflict of Interest Procedures

The Company has a policy statement pertaining to conflict of interest. In support of its answer to Question 14 of Part 1 Common Interrogatories of the annual statement, the Company has an established procedure for the disclosure to the Board of Directors of any material interest or affiliation on the part of any officer or Director or responsible employee which is in or is likely to conflict with his/her official duties. Annually, each officer or Director or responsible employee completes a questionnaire disclosing any material conflicts of interests. The completed questionnaires were reviewed and no discrepancies were noted to contradict the Company's response to the General Interrogatory regarding conflicts of interests reported in the Company's 2013 Annual Statement.

Disaster Recovery and Business Continuity

The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with M.G.L. Chapter 175 Sections 180M-180Q.

MANAGEMENT AND CONTROL

The Company is a non-profit dental service company; therefore, members of the Company govern the affairs of the organization instead of stockholders. The members of the Company shall be the same persons as those serving as Directors of the Company.

In accordance with the amended and restated bylaws, effective December, 2013, the annual meeting of the members of the Company for the election of Directors shall be held each year at the principal office of the Company or at such other place as may be stated in the call of the meeting on such date in March or April as may be determined by the chairman of the board. In case the annual meeting is not held on the date specified, the chairman of the board or any five members of the Company may direct the clerk to call a special meeting in lieu of and for the purpose of such annual meeting, and all proceedings at such special meeting shall have the same force and effect as at the annual meeting. A majority of the members in office at the time shall constitute a quorum for the transaction of business, but a smaller number may adjourn from time to time. Each member of the Company shall be entitled to one vote. The minutes of the annual meeting indicate that a quorum was obtained at each annual meeting held during the examination period.

Board of Directors

According to the bylaws, the affairs, property and business of the Company shall be managed by a Board of nine Directors or such greater number as may be determined by the members of the Company at any annual or special meeting. The Board may exercise all such powers of the Company as are not by law or by these bylaws required to be otherwise exercised.

A majority of the Directors shall at all times be persons who are not providers of health services licensed under the laws of the Commonwealth of Massachusetts and who are or agree to be subscribers to the Company's non-profit dental service plan.

A majority of the Directors in office for the time being shall constitute a quorum for the transaction of business, but a smaller number may adjourn from time to time. Except as otherwise provided in specific cases by law, in the agreement of association or articles of organization of the corporation or in these bylaws, the vote of the majority of the Directors present and entitled to vote at a meeting shall be sufficient to decide any question brought before the meeting.

At December 31, 2013, DSM's Board of Directors consisted of the following ten members:

<u>Name of Director</u>	<u>Business Affiliation</u>
Fay Donohue	President and Chief Executive Officer, DSM
Edward Hjerpe, III	President and CEO of Federal Home Loan Bank of Boston
Thomas Galligan, III	Retired Chairman of Papa Gino's Holding Corp.
Raul Garcia, DMD	Professor and Chairman of the Department of Health Policy & Health Services Research at the Boston University Goldman School of Dental Medicine
Donald Kenney	Retired Chairman, President and CEO of EquiServe, Inc.

Roderick King, MD	Executive Director of the Florida Public Health Institute
Donald LeClair, DMD	Dentist in General Dentistry in Beverly
Karen Kaplan	President, Hill, Holliday, Connors, Cosmopolos, Inc.
Anne Page Palmer	John Hancock Life Insurance Company, Retired
Pamela Reeve	No Affiliation

Committees of the Board of Directors

All committees of the Board except the Executive Committee consist of at least three Directors who are appointed by the Board and the Board also names the committee chairperson annually. All committee members are to be free of any relationship that, in the opinion of the Board, would interfere with his or her exercise of independent judgment in matters that may be considered by a committee.

Audit Committee

The Audit Committee shall consist of at least three Directors, the supermajority (75% or more) of which shall be free of any relationship that, in the opinion of the Board, would interfere with his or her exercise of independent judgment. The Audit Committee is responsible for the appointment, compensation (including fees and terms), retention and oversight of the work of the Company's independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report. The Company's independent auditor shall report directly to the Audit Committee. The Committee is also responsible for the Company's internal audit function which includes, reviewing the activities of the department, including the proposed annual audit plan, periodic and interim progress reports, significant issues raised during the audit and management's response. The Committee shall review and monitor the Company's compliance with legal and regulatory requirements. At the date of examination, the following Directors were members of the Audit Committee: Pamela Reeve (Chair), Donald Kenney and Donald LeClair, DMD.

Executive Committee

The membership of the Executive Committee shall consist of the Chairman of the Board; Vice Chairman of the Board; Chair of the Audit Committee; Chair of the Compensation Committee; Chair of the Committee on Professional Quality; Chair of the Finance and Investment Committee and Chair of the Nominating and Governance Committee. The Board appoints the members of the Committee annually and the Chairman of the Board will serve as the Committee chairperson. The Committee provides assistance to the Board by reviewing significant and urgent matters related to the Company and, its for-profit subsidiaries. Additional responsibilities of the Committee include engaging and obtaining advice and assistance from third party or outside legal counsel. At the date of examination, the members of the Executive Committee were as follows: Ed Hjerpe, III (Chair), Rail Garcia, DMD, Donald Kenney, Karen Kaplan, Anne Page Palmer, (Vice Chair), Pamela Reeve, and Thomas Galligan, III.

Finance and Investment Committee

The Finance and Investment Committee reviews the investment policies, strategies, controls and guidelines, and approves investments on behalf of the Company in accordance with its investment policy. Additional responsibilities of the Committee include engaging and obtaining advice and assistance from third party or outside legal counsel. Also the Committee reviews and

provides guidance with regards to the capital structure of the Company and any adjustment to it, the Company's debt coverage and leverage ratios and any bank compliance issues, cash flow management and the Company's capital expenditure plan and budget. At the date of examination, the members of the Investment Committee consisted of the following Directors: Donald Kenney (Chair), Donald LeClair, DMD, and Thomas Galligan, III.

Nominating and Governance Committee

The Nominating and Governance Committee assists the Board in developing and overseeing the implementation of corporate governance guidelines and practices. The Committee also reviews the Committee charters, recommending director candidates, and evaluates incumbent directors. At the date of examination, the Committee consisted of the following Directors: Karen Kaplan (Chair), Raul Garcia, DMD, Roderick King, MD, and Anne Page Palmer.

Committee on Professional Quality

The role of the Committee of Professional Quality is to oversee the standards, policies, processes and metrics relating to the development and management of the provider networks of the Company and its for-profit subsidiaries. At the date of examination, the Committee consisted of the following members: Raul Garcia, DMD (Chair), Roderick King, MD, Thomas Galligan, III, Donald LeClair, DMD.

Compensation Committee

The Compensation Committee shall review and make recommendations to the Board for its approval of the terms of any employment agreement between the Company and chief executive officer. The Committee also reviews and makes recommendations to the Board of Directors with respect to the approval, amendment and termination of the Company's broad base bonus and incentive compensation plans, and administers such plans, consistent with the Committee's oversight responsibilities, including approval of the Company's annual merit and bonus pools. At the date of examination, the members of this Committee were the following Directors: Anne Page Palmer (Chair), Donald Kenney, Karen Kaplan, and Pamela Reeve.

Officers

According to the Company's bylaws, officers of the Company shall consist of a chief executive officer, a treasurer, a clerk, one or more vice presidents, one or more assistant treasurers, and such subordinate officers as the Board of Directors shall from time to time elect with such powers and duties and for such terms of office as the Directors may designate. The Chairman of the Board shall be chosen from among the Directors of the Company, but other officers need not be chosen from among the Directors of the Company.

Officers are elected by the Board of Directors at their annual meeting. All of the officers shall hold their respective offices for one year and thereafter until their successors are elected and qualified, unless a different term shall be designated by the Directors, subject to removal at any time by vote of a majority of the Board of Directors.

The Officers of the Company at December 31, 2013, are as follows:

<u>Name of Officer</u>	<u>Title</u>
Fay Donohue	President and Chief Executive Officer
David Abelman	Clerk
James E. Collins	Treasurer
Gregory P. Winn	Assistant Treasurer

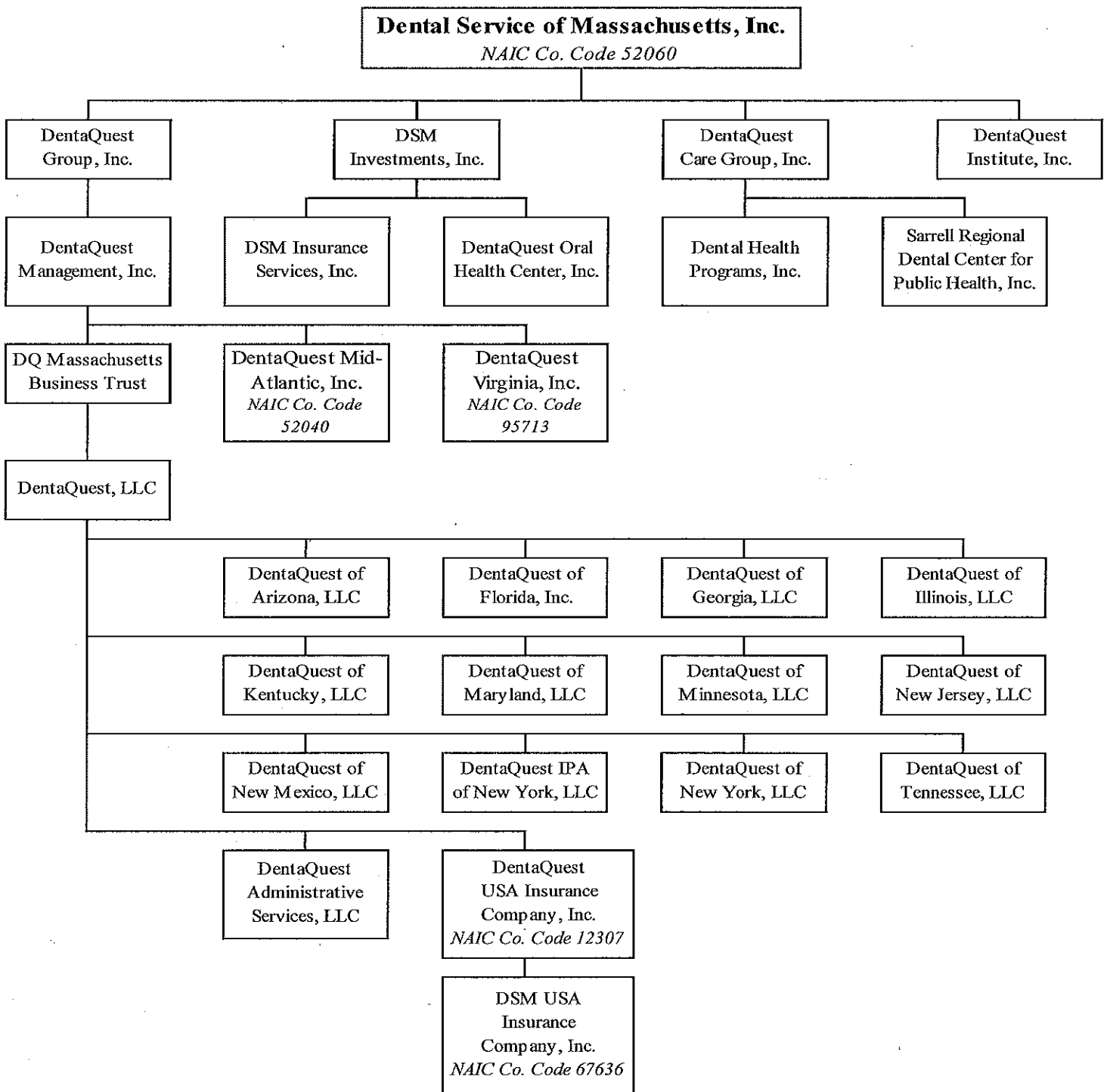
Affiliated Companies

The Company is the ultimate controlling entity in a hierarchy of numerous for-profit and not-for-profit subsidiaries and affiliates; however, in that it was formed and continues to operate under M.G.L. Chapter 176E, it claims exemption per Section 14 of such statute from the requirement to file the holding company system annual registration statements (Forms A, B, C, and D) as otherwise required by Section 206C of M.G.L. Chapter 175 and Regulation 211 CMR 7.00.

Dental Service of Massachusetts, Inc.

Organization Chart

At December 31, 2013, the following companies were part of the following organizational structure:



DentaQuest Foundation, Inc. is not shown in the organizational chart because the entity is not consolidated with the Company even though the Company is the sole member of entity. The entity is a charity organization which relies on DSM's charitable contributions to support their continued operations.

Transactions and Agreements with Subsidiaries and Affiliates

Service Agreement

DSM is party to a Service Agreement with its subsidiary DentaQuest, LLC ("DQ LLC") whereby DQ LLC provides services to market, sell, and administer all of the DSM's dental benefits as well as substantially all business support services required by DSM in the conduct of its business. The Agreement specifies compensation to the servicing entity based on services provided to DSM either at cost or cost-plus. Services compensated at cost include general support services such as information technology, accounting, human resources, and credentialing of providers. Services compensated at the cost-plus method include services specific and exclusive to the operation of DSM and its insurance business, such as executive, sales and marketing, underwriting and enrollment of members, and claims processing. Fees for the years ended December 31, 2013 and December 31, 2012 were \$43.5 million and \$46.8 million respectively.

Additionally, in November 2006 DQ LLC entered into a subcontract agreement with DSM to provide dental third party administrator services under a Massachusetts Medicaid dental program on behalf of DSM. Administrative service fee paid by DSM amounted to \$7.2 million in 2013.

DSM charged DQ LLC \$3.9 million for the use of internally developed software during 2013.

Credit Agreement

In February 2007, DQ LLC (formally, co-borrower with DentaQuest Ventures, LLC ("DQV") and DentaQuest Group, Inc. ("DQG"), as "Parent Guarantor" entered into a Credit Agreement with a group of lenders consisting of a \$200 million revolving credit facility and, together with all of the subsidiaries of DQG, a Guarantee and Collateral Agreement (together with the Credit Agreement, the "Credit Facility"). Substantially all of the assets of the Parent Guarantor, the Co-Borrowers, and their subsidiaries were pledged as collateral against any borrowings under the Credit Facility. Upon closing of the Credit Facility, DQV borrowed \$140 million and purchased the outstanding equity interest of an outside investor for \$110 million.

In July 2008, DSM became a party to the Credit Agreement, as amended, and to the Guarantee and Collateral Agreement, as amended. Under the amended Credit Facility, the Company became an additional guarantor of the obligations of the Co-Borrowers and pledged certain assets as security for such obligations. The assets pledged by DSM excluded: (a) all cash and cash equivalents other than proceeds of the pledged assets; (b) its investment portfolio, other than equity capital stock or debt of its subsidiaries or proceeds thereof; (c) any property (other than information technology systems) and intellectual property; (d) any membership interests in the Foundation or the Institute; and (e) any interest in DSM's Service Marks License Agreement with the Delta Dental Plan Association and licenses there under.

Effective January 1, 2011, DQV merged with and into DQV LLC in a statutory merger with DQ LLC as the surviving entity. The Credit Facility was amended to reflect the merger.

In June 2011, DQ LLC entered into an Amended and Restated Credit Agreement and an Amended and Restated Guarantee and Collateral Agreement with Bank of America. The amount of the Credit Facility was reduced to \$150 million. Under the terms of these amended and

restated agreements, each of DSM's four insurance company subsidiaries (DentaQuest Virginia, Inc., DentaQuest Mid-Atlantic, Inc., DentaQuest of Florida, Inc., and DQUSA) was newly defined as an "Excluded Insurance Subsidiary" and, as such, is no longer a guarantor of the obligations of DentaQuest, LLC and is no longer required to pledge its assets in support of the borrowers to the lenders. The stock of each Excluded Insurance Subsidiary remains pledged by DentaQuest, LLC or DentaQuest Management, Inc., as the case may be, as security for their obligations pursuant to the Amended and Restated Guarantee and Collateral Agreement. As of December 31, 2013, \$108 million was outstanding under the Credit Agreement.

Corporate Guarantee

In August 2011, DSM entered into a Corporate Guarantee to guarantee unconditionally the performance of all obligations under the Managed Care Contract between DQUSA and the Texas Health and Human Services Commission. By such contract, which became operational in March 2012, with an initial term through August 2015, DQUSA now provides dental benefits on a capitated basis to approximately 1.7 million participants in the Texas Medicaid and Children's Health Insurance Programs ("CHIP").

Surplus Notes

In February 2010, Florida's Office of Insurance Regulation ("FOIR") issued a consent order requiring DSM's downstream subsidiary DentaQuest of Florida, Inc. ("DQFL") to deposit \$5.7 million into a restricted account with the Florida Treasury Cash Deposit Trust Fund to satisfy certain statutory obligations regarding the pledge of assets under the Credit Facility. DSM funded this subsidiary through a \$4.2 million surplus note issued by DQFL. In June 2012, FOIR released DQFL from all requirements of the original order and all appropriate assets of DQFL subsequently were admitted. The surplus note was reported as an admitted asset of DSM with a receivable balance of \$4.2 million as of December 31, 2013.

In May 2010, the Texas Commissioner of Insurance issued a consent order requiring DSM's subsidiary DQUSA to make an initial deposit of \$7.1 million into a restricted account with the Texas Comptroller of Public Accounts to satisfy certain statutory obligations regarding a pledge of assets. In April 2012, a new consent order was issued releasing DQUSA from most of the requirements of the previous order and permitting DQUSA to withdraw approximately \$7.25 million of the approximate \$13.1 million on special deposit at that date. DSM has a surplus note receivable balance of \$4 million as of December 31, 2013.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer, consistent with M.G.L., Chapter 175, Section 60. The aggregate limit of liability exceeds the NAIC suggested minimum.

The Company has further protected its interests and property by policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts, and the policies were in force as of December 31, 2013.

PENSIONS AND INSURANCE PLANS

In accordance with the Services Agreement, the Company has no employees, therefore DSM does not have employee pension and insurance plans. All pension and insurance plans are maintained by the Company's affiliate DQ, LLC. Under the terms of the Services Agreement, the Company paid its proportionate share of the pension and 401(k) benefit expense. The Company paid for its share of health, dental, short-term disability or salary continuance benefits, long-term disability, and life insurance options to all full and qualified part-time employees providing services to the Company.

TERRITORY AND PLAN OF OPERATION

The Company's Certificate of Authority in Massachusetts was current and in force. The Company writes coverage provided through a small network of independent agents.

Policy Forms and Underwriting Practices

The Company provides dental insurance to groups and individuals. Although the Company currently is licensed to write business only in the Commonwealth of Massachusetts, it in effect provides coverage in numerous states through affiliated subsidiaries operating with slight distinguishing identities under the group name of DentaQuest in other jurisdictions.

Treatment of Policyholders

The Company has no unusual claim related litigation with any policyholders and has not experienced significant complaints regarding its claims practices. Procedures performed in conjunction with the claims test work indicated that the Company investigates and settles claims on a timely and equitable basis.

GROWTH OF COMPANY

The growth of the Company for the years 2011 through 2013 is shown in the following schedule, which was prepared from the Company's annual statements.

Year	Admitted Assets	Liabilities	Capital and Surplus	Premium Income	Member Months
2013	\$ 364,116,961	\$ 82,519,201	\$ 281,597,760	\$ 243,717,540	7,153,590
2012	259,509,893	84,936,773	174,573,120	268,650,816	7,972,022
2011	198,615,872	99,165,174	99,450,698	283,983,217	8,434,376

REINSURANCE

The Company did not participate in any reinsurance programs in the period under examination. DSM retains the underwriting risk of its policies and is solely responsible to policyholders and claimants for incurred losses, claims, claim adjustment expenses, and underwriting expenses.

ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires, interviews and through a review of the work performed by the Company's Independent Certified Public Accountants. No material deficiencies were noted.

The NAIC provides a questionnaire covering the evaluation of the controls in the IT systems environment. The questionnaire was completed by the Company and reviewed by the Division contracted computer audit specialist to evaluate the adequacy of the IT controls. In addition to the questionnaire, interviews with Company staff were conducted to gather supplemental information and corroborate the Company's responses to the questionnaire. A review was also made of the documentation supporting Management and Organization Controls, Application Systems Development and Maintenance Controls, Operating and Processing Controls, Logical and Physical Security Controls, Contingency Planning Controls, Personal Computer, Local Area Network (LAN), Wide Area Network (WAN) and Internet Controls. No material deficiencies were noted.

The Company maintains its accounts and records on an electronic data processing basis. All entries are input to this data processing system, which then generates general ledger and supporting reports as well as other reports common to the insurance industry. No material exceptions were noted.

The books and records of the Company are audited annually by Ernst & Young LLP, independent Certified Public Accountants, in accordance with 211 CMR 26.00.

STATUTORY DEPOSITS

DSM restricts its writings to businesses only in the Commonwealth of Massachusetts. The Company does not have any statutory deposits with the Commonwealth.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division of Insurance and by the NAIC as of December 31, 2013:

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2013

Statement of Revenue and Expenses for the Year Ended December 31, 2013

Statement of Surplus for the Year Ended December 31, 2013

Reconciliation of Capital and Surplus for Each Year in the Three-Year Period Ended December 31, 2013

Dental Service of Massachusetts, Inc.
Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2013

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination
Bonds	\$ 177,708,691	\$ 0	\$ 177,708,691
Common stocks	102,520,311		102,520,311
Cash, cash equivalents and short-term investments	47,625,828		47,625,828
Other invested assets	8,200,000		8,200,000
Receivables for securities	1,168,284		1,168,284
Aggregate write-ins for invested assets:			
Investment in DentaQuest, Inc.	(38,848,214)		(38,848,214)
Investment in DentaQuest Care Group, Inc.	5,394,659		5,394,659
Investment in DentaQuest Institute, Inc.	3,570,214		3,570,214
Subtotals, cash and invested assets	307,339,773		307,339,773
Investment income due and accrued	2,377,773		2,377,773
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	40,706,419		40,706,419
Electronic data processing equipment and software	8,419,573		8,419,573
Receivables from parent, subsidiaries, and affiliates	763,423		763,423
Aggregate write-ins for other than invested assets:			
Other receivables and assets	10,000		10,000
Management fee due from DentaQuest	4,500,000		4,500,000
Total Assets	\$ 364,116,961	\$ 0	\$ 364,116,961

Dental Service of Massachusetts, Inc.
Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2013

Liabilities	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Claims unpaid	\$ 10,751,860	\$ 0	\$ 10,751,860	(1)
Unpaid claims adjustment expenses	1,257,927		1,257,927	(1)
Aggregate health policy reserves	7,619,640		7,619,640	
Premiums received in advance	3,305,037		3,305,037	
General expenses due or accrued	3,309,108		3,309,108	
Amounts withheld or retained for the account of others	45,319,069		45,319,069	
Amounts due to parents, subsidiaries, and affiliates	3,317,772		3,317,772	
Payable for securities	6,694,735		6,694,735	
Aggregate write-ins for other liabilities:				
Management fee due to DentaQuest	259,100		259,100	
Other unapplied receipts	79,543		79,543	
Payable to DentaQuest, LLC	605,410		605,410	
Total Liabilities	82,519,201		82,519,201	
Unassigned funds (surplus)	281,597,760		281,597,760	
Total capital and surplus	281,597,760		281,597,760	
Total Liabilities, Capital, and Surplus	\$ 364,116,961	\$ 0	\$ 364,116,961	

Dental Service of Massachusetts, Inc.
Statement of Revenue and Expenses
As of December 31, 2013

	As Reported by the Company	Examination Changes	Per Statutory Examination
Net premium income	\$ 243,717,540	\$ 0	\$ 243,717,540
Hospital and medical: other professional services	184,859,428		184,859,428
Claim adjustment expenses	4,756,366		4,756,366
General administrative expenses	21,667,890		21,667,890
Total underwriting deductions	<u>211,283,684</u>		<u>211,283,684</u>
Net underwriting gain	<u>32,433,856</u>		<u>32,433,856</u>
Net investment income earned	5,070,005		5,070,005
Net realized capital gains (losses)	<u>(5,140,036)</u>		<u>(5,140,036)</u>
Net investment gains (losses)	<u>(70,031)</u>		<u>(70,031)</u>
Aggregate write-in for other income or (expenses):			
Charitable contributions	<u>(3,700,000)</u>		<u>(3,700,000)</u>
Total other income or (expenses)	<u>(3,700,000)</u>		<u>(3,700,000)</u>
Net income or (loss) after capital gains tax and before all other federal and foreign income taxes	28,663,825		28,663,825
Federal and foreign income taxes incurred	<u>0</u>		<u>0</u>
Net Income (Loss)	<u>\$ 28,663,825</u>	<u>\$ 0</u>	<u>\$ 28,663,825</u>

Dental Service of Massachusetts, Inc.
Statement of Surplus
For the Year Ended December 31, 2013

	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>
Capital and surplus, December 31, 2012	\$ 174,573,120	\$ 0	\$ 174,573,120
Net income (loss)	28,663,825		28,663,825
Change in net unrealized capital gains or (losses)	56,328,850		56,328,850
Change in non-admitted assets	22,031,964		22,031,964
Aggregate write-ins for gains or (losses) in surplus	<u>1</u>		<u>1</u>
Net change in capital and surplus for the year	<u>107,024,640</u>		<u>107,024,640</u>
Capital and surplus, December 31, 2013	<u>\$ 281,597,760</u>	<u>\$ 0</u>	<u>\$ 281,597,760</u>

Dental Service of Massachusetts, Inc.
Reconciliation of Capital and Surplus
For the Three Year Period Ended December 31, 2013

	<u>2 0 1 3</u>	<u>2 0 1 2</u>	<u>2 0 1 1</u>
Capital and surplus as of December 31, prior year	\$ 174,573,120	\$ 99,450,698	\$ 96,613,317
Net income or (loss)	28,663,825	40,613,072	23,397,032
Change in net unrealized capital gains or (losses)	56,328,850	9,427,694	(7,370,346)
Change in non-admitted assets	22,031,964	25,080,892	(13,189,636)
Miscellaneous adjustment	<u>1</u>	<u>764</u>	<u>331</u>
Net change capital and surplus for the year	<u>107,024,640</u>	<u>75,122,422</u>	<u>2,837,381</u>
Capital and surplus as of December 31, current year	<u><u>\$ 281,597,760</u></u>	<u><u>\$ 174,573,120</u></u>	<u><u>\$ 99,450,698</u></u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1: - Summary of Loss and Loss Adjustment Expense Reserves (Loss and LAE Reserves)

The Company retained the services of Milliman, Inc., Consultants and Actuaries, to develop the Company's year-end reserves and to provide the Actuarial Opinion on the reasonableness of the reserves carried by the Company as of December 31, 2013.

Ernst & Young LLP performed an independent actuarial review of the Company's reserves and the table below summarizes their reserve range estimates as of December 31, 2013:

DSM – Claims Unpaid & Unpaid Claims Adjustment Expenses	E&Y - Low Range	E&Y - Mid Range	E&Y - High Range
\$12,009,787	\$11,219,666	\$11,534,666	\$12,217,166

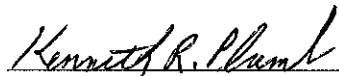
As part of the examination, the Examiners reviewed the reports and the Statement of Actuarial Opinion issued by Milliman, Inc., and performed, as they deemed appropriate, their own test work and evaluation of DSM's reserve liabilities as of December 31, 2013, with payment developments through September 30, 2014. Based on such reviews and with reliance on the professional judgment of the Appointed Actuary in his Statement of Actuarial Opinion as to the appropriateness of DSM's reserving methods and compliance with the requirements of Massachusetts statute, the Company's reserves were found to within the range of estimates.

ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by AGI Services and the following Massachusetts Division of Insurance examiner who participated in this examination hereby is acknowledged.

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