



**THE 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, 2019**

**NAIC GROUP CODE 4512**

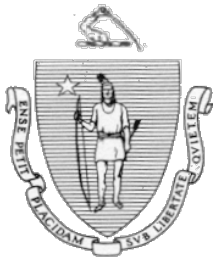
**NAIC COMPANY CODE 52060**

**EMPLOYER ID NUMBER 04-6143185**

# DENTAL SERVICE OF MASSACHUSETTS, INC.

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# COMMONWEALTH OF MASSACHUSETTS

## Office of Consumer Affairs and Business Regulation

### DIVISION OF INSURANCE

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May 21, 2021

Honorable Gary D. Anderson  
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, Section 9, 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, Boston, Massachusetts 02129. Due to the COVID-19 pandemic, the examination was conducted remotely. 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, 2016 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, 2017 through December 31, 2019, 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 examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify current and 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.

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 the Massachusetts General Laws, Chapter 176E, Section 9, 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/or the Company.

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 2017 through 2019. A review and use of the Certified Public Accountants’ workpapers were made to the extent deemed appropriate and effective.

This examination was conducted as part of a coordinated group financial examination in compliance with the *Coordination of Holding Company Group Exams* framework of the Handbook. The Texas Department of Insurance (“TDI”) acted as the Lead State, and the Division, acting as a participating state, coordinated with TDI.

## **SUMMARY OF SIGNIFICANT FINDINGS OF FACT**

There were no significant findings during the previous examination and there are no significant findings related to the current examination.

## **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, Massachusetts General Law ("M.G.L.") Chapter 176E, enacted in July 1962. The Dental Society voted in January 1966 to provide \$25,000 for the Company's startup 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.

On October 11, 2016, the Company formed Catalyst Institute, Inc. ("Catalyst"), a Massachusetts charitable corporation with no members and with a board of directors comprised of the same individuals serving on the Company's board. As such, Catalyst was effectively a sister entity to the Company. On January 11, 2017, Catalyst obtained its 501 (c) (4) exemption from the Internal Revenue Service. On January 1, 2018, Catalyst became the sole member of the Company.

DentaQuest Group, Inc. ("DentaQuest") was established in 2001 to operate on a for-profit basis and was created to acquire business outside of Massachusetts and to administer dental insurance business both within and outside of Massachusetts.

On June 6, 2018, as authorized by The Division, the Company transferred ownership of DentaQuest to its sole member, Catalyst. As such, Catalyst is now the ultimate parent company of the Company. The net accounting effect of this transfer was an increase in the Surplus of the Company in the amount of \$46,498,000, because prior to the transfer, the equity recorded for DentaQuest included non-admitted assets of \$159,116,000 and goodwill had been amortized against the Company's statutory surplus in the amount of \$104,035,000.

During 2018, the Division approved the transfer to Catalyst of funds for the operation of Catalyst. Effective January 1, 2019, the Division agreed to permanently waive any rights it may have to review any future transfers of assets or funds from the Company to Catalyst subject to maintaining a "regulatory account" with a minimum balance of \$35 million and a guaranty that the Company maintain capital and surplus in an amount equivalent to 400%

of the Authorized Control Level Risk-Based Capital (“RBC”). During 2019 and 2018, the Company transferred a total of \$335 million and \$77 million to Catalyst, respectively.

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 three non-profit organizations with operations: Sarrell Regional Dental Center for Public Health, Inc., based in Alabama, Dental Health Programs, Inc., based in Texas, and Community Care of Kentucky, Inc., based in Kentucky.

In October 2006, the DentaQuest Institute, Inc. (“Institute”) was established under M.G.L. Chapter 180. The mission of the Institute is to gather, analyze and disseminate data to improve the quality of oral health care delivery systems.

On January 1, 2018, the Company transferred sole membership of the two not-for-profit organizations, the Institute, and DQ Care Group, to its sole member, Catalyst. The Institute assets transferred amounted to \$457,000. The DQ Care Group assets transferred amounted to \$5,189,000.

Dental Service of Massachusetts has a wholly-owned subsidiary, DSM Investments, which was established as a holding company. DSM Investments has three wholly-owned subsidiaries, DSM Massachusetts Insurance Company, Inc. (“DSM Mass”) DSM Insurance Services, Inc. (“DSM Insurance”), and DentaQuest Oral Health Center, Inc. (“DQOHC”). DSM Insurance and DQOHC are operated on a for-profit basis for activities which do not come under the specific provisions of Chapter 176E. DSM and DSM Insurance 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.

DSM Mass is a stock company and was incorporated on May 16, 2014 in the Commonwealth of Massachusetts. DSM Mass was created to engage in dental insurance and dental benefits administration services by writing a Massachusetts Exclusive Provider Organization (“EPO”) product which commenced on January 1, 2015.

## **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. On January 1, 2018, Catalyst became the sole member of the Company.

In accordance with the amended and restated bylaws, effective June, 2019, 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

## Dental Service of Massachusetts, Inc.

meeting, and all proceedings at such special meeting shall have the same force and effect as at the annual meeting.

### Board of Directors

The Board of Directors (“Board”) of the Company shall be the individuals serving as the Directors of its sole member, Catalyst. 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, 2019, DSM’s Board of Directors consisted of the following twelve members:

<u>Name of Director</u>	<u>Business Affiliation</u>
Steven J. Pollock	President and Chief Executive Officer, DSM
Andrew Agwunobi	CEO & EVP Health Affairs, UConn Health Systems
Colleen Baldwin	President, Glantam Partners
Kathleen Betts	President, Prizm Advisors LLC
Linda Hall	Entrepreneur-In-Residence, University of Minnesota
Roderick King, MD	Chief Executive Officer, Florida Public Health Innovation
Todd Marshall, DDS	Independent Advisor and Consultant
Evelyn Henry Miller	Chief Financial Officer, TD Industries
William Mills	Chairman of the Board of Managers, Ascension Ventures IV
Pamela Reeve	Board Chair, Catalyst Institute
Robert Weyant, DMD	Professor and Chair, University of Pittsburgh
Jessica Zeaske	Partner, Echo Health Ventures

### Committees of the Board of Directors

All committees of the Board are with Catalyst and at year end 2019. The following committees were in place: Finance, Investment, Mergers and Acquisitions Committee, Audit Committee and Care Delivery Quality and Compliance Committee

### 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 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 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. Officers are subject to removal at any time by a majority vote of the Board.

The Officers of the Company at December 31, 2019, were as follows:

<u>Name of Officer</u>	<u>Title</u>
Dennis J. Leonard	President and Chief Executive Officer
Gregory P. Winn	Treasurer
James Hawkins	Clerk

### Affiliated Companies

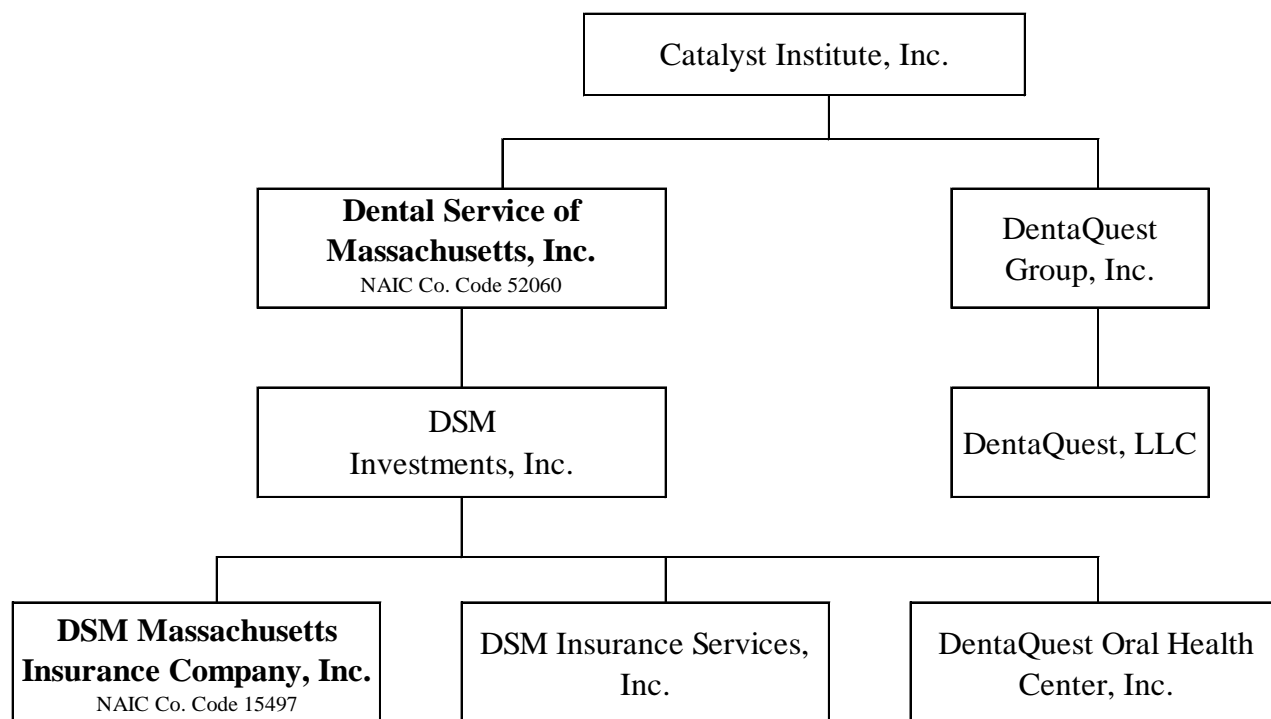
The Company is the ultimate controlling entity in a hierarchy of numerous for-profit and not-for-profit subsidiaries and affiliates; however, in that it was formed and continues to operate under M.G.L. Chapter 176E, it claims exemption per Section 14 of such statute from the requirement to file the holding 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.

### Organization Chart

The Company's insurance affiliates are shown on the organization chart below. The Company's other affiliates including various insurance agencies are not shown. At December 31, 2019, the Company is a member of the following organizational structure:



## Dental Service of Massachusetts, Inc.



### Transactions and Agreements with Subsidiaries and Affiliates

#### *Service Agreement*

DSM is party to a Service Agreement (“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, 2019 and December 31, 2018 were \$50.8 million and \$43.8 million respectively.

#### *Credit Agreement*

On June 10, 2016, DQ LLC entered into a Credit Agreement with Bank of America, N.A. as agent for itself and several other lenders. Under the terms of the Credit Agreement, the Company and certain subsidiaries served as guarantors of the obligations of DQ LLC. The amended Credit Agreement provides for a \$100 million term loan and a \$150 million revolving line of credit. The term loan has a five year maturity and will mature on June 10, 2021. On January 2, 2020 the Credit Agreement was terminated with the approval of the equity transaction between Catalyst and Centerbridge Partners.

*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 DQ USA and the Texas Health and Human Services Commission (“HHSC Contract”). By such contract, which became operational in March 2012, DQ USA provides dental benefits on a capitated basis to approximately 1.9 million participants in the Texas Medicaid and Children’s Health Insurance Programs. Effective August 31, 2020 the HHSC Contract and the Guarantee were terminated.

**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.

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.

**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.

**FINANCIAL STATEMENTS**

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2019. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2019

Statement of Revenue and Expenses for the Year Ended December 31, 2019

Reconciliation of Capital and Surplus for the Three-Year Period Ended December 31, 2019

Dental Service of Massachusetts, Inc.  
Statement of Assets, Liabilities, Capital and Surplus  
As of December 31, 2019

	As Reported by the Company
<b>Assets</b>	
Bonds	\$ 52,256,770
Common stocks	63,890
Cash, cash equivalents and short-term investments	14,497,994
Receivables for securities	579,168
Aggregate write-ins for invested assets:	
Investment in DSM Investments, Inc.	9,461,294
Subtotals, cash and invested assets	76,859,116
Investment income due and accrued	272,099
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	54,172,683
Electronic data processing equipment and software	1,743,665
Receivables from parent, subsidiaries, and affiliates	27,699
Aggregate write-ins for other than invested assets	3,000,000
Total Assets	<u>\$ 136,075,262</u>

Dental Service of Massachusetts, Inc.  
Statement of Assets, Liabilities, Capital and Surplus  
As of December 31, 2019

	As Reported by the Company
<b>Liabilities</b>	
Claims unpaid	\$ 9,673,000
Accrued medical incentive pool and bonus amounts	400,000
Unpaid claims adjustment expenses	1,220,475
Aggregate health policy reserves	513,000
Premiums received in advance	12,654,970
General expenses due or accrued	1,892,945
Amounts withheld or retained for the account of others	46,129,778
Amounts due to parents, subsidiaries and affiliates	2,254,530
Payable for securities	1,465,244
 Total Liabilities	 <u>76,203,942</u>
 Aggregate write-ins for special surplus funds	 2,328,000
Unassigned funds (surplus)	<u>57,543,320</u>
Total capital and surplus	<u>59,871,320</u>
 Total Liabilities, Capital, and Surplus	 <u>\$ 136,075,262</u>

Dental Service of Massachusetts, Inc.  
Statement of Revenue and Expenses  
As of December 31, 2019

	<u>As Reported by the Company</u>
Net premium income	\$ 239,264,493
Hospital and medical: other professional services	177,305,673
Claim adjustment expenses	5,679,771
General administrative expenses	<u>25,874,511</u>
Total underwriting deductions	<u>208,859,955</u>
Net underwriting gain	<u>30,404,538</u>
Net investment income earned	2,684,249
Net realized capital gains (losses)	<u>14,508</u>
Net investment gains (losses)	<u>2,698,757</u>
Net income or (loss) after capital gains tax and before all other federal and foreign income taxes	33,103,295
Federal and foreign income taxes incurred	<u>0</u>
Net Income (Loss)	<u>\$ 33,103,295</u>

Dental Service of Massachusetts, Inc.  
Reconciliation of Capital and Surplus  
For the Three Year Period Ended December 31, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Capital and surplus as of December 31, prior year	\$ 348,931,385	\$ 346,987,557	\$ 304,464,708
Net income or (loss)	33,103,295	32,019,770	21,640,566
Change in net unrealized capital gains or (losses)	14,063,459	(13,705,351)	29,710,530
Change in non-admitted assets	(846,292)	178,895,036	(8,828,246)
Aggregate write-ins for gains or (losses) in surplus	<u>(335,380,527)</u>	<u>(195,265,627)</u>	
Net change capital and surplus for the year	<u>(289,060,065)</u>	<u>1,943,828</u>	<u>42,522,850</u>
Capital and surplus as of December 31, current year	<u><u>\$ 59,871,320</u></u>	<u><u>\$ 348,931,385</u></u>	<u><u>\$ 346,987,557</u></u>

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE  
EXAMINATION**

There have been no changes made to the financial statements as a result of the examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

As a result of the examination, no significant issues with non-compliance, adverse findings, or material changes to the financial statements were identified.

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, 2019.

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, 2019:

DSM – Claims Unpaid & Unpaid Claims Adjustment Expenses	E&Y - Low Range	E&Y - Mid Range	E&Y - High Range
\$10,893,475	\$10,013,162	\$10,457,655	\$10,902,148

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, 2019, with payment developments through June 30, 2020. 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.

**SUBSEQUENT EVENTS**

In March 2020 the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there was significant uncertainty on the effect that the pandemic would have on the insurance industry, economy, and society at large. Any impact to the Company will take time to assess and will be specific to the class and mix of business they underwrite. The Division will continue to monitor how the pandemic might impact the Company.

During 2020 the Company made \$71 million of transfers to their parent company, Catalyst consisting of \$46 million cash and approximately \$25 million of other assets. In March 2021 Catalyst Institute, Inc. was rebranded to CareQuest Institute for Oral Health.



**SUMMARY OF RECOMMENDATIONS**

There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in this report.

**SIGNATURE PAGE**

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

Kenneth R. Plumb

Kenneth R. Plumb, CFE, CPA  
Supervising Examiner  
Commonwealth of Massachusetts  
Division of Insurance

Arthur C. Hughes

Arthur C. Hughes  
Examiner-In-Charge  
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