

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, 2022

NAIC GROUP CODE 4512

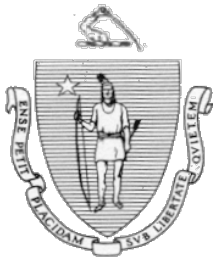
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EMPLOYERS ID NO. 04-6143185

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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January 9, 2024

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.

The Company's home office is located at 465 Medford Street, Boston, Massachusetts 02129. 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, 2019 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, 2020 through December 31, 2022, 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 2020 through 2022. A review and use of the Certified Public Accountants’ workpapers were made to the extent deemed appropriate and effective.

Representatives from the firm of Examination Resources, LLC (“Examination Resources”) were retained by the Division to assist in the examination by performing certain examination procedures at the direction of and under the overall management of the Division’s examination staff. The assistance included a review of accounting records, information systems, investment and actuarially determined loss and loss adjustment expense reserves.

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.

On October 11, 2016, the Company formed CareQuest Institute for Oral Health, Inc. ("CareQuest") (formerly known as Catalyst Institute, Inc.), 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, CareQuest was effectively a sister entity to the Company. On January 11, 2017, CareQuest obtained its 501 (c) (4) exemption from the Internal Revenue Service. On January 1, 2018, CareQuest 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, CareQuest. As such, CareQuest is now the ultimate parent company of the Company.

On June 1, 2022, CareQuest sold DentaQuest along with an affiliate of the Company, DentaQuest, LLC, which provided certain services to the Company under a management services agreement, to Sun Life Financial, Inc.

During 2018, the Division approved the transfer to CareQuest of funds for the operation of CareQuest. 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 CareQuest 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. During 2022 and 2021, the Company transferred a total of \$5 million and \$30 million to CareQuest, respectively.

Dental Service of Massachusetts, Inc.

Dental Service of Massachusetts has a wholly-owned subsidiary, DSM Investments, which was established as a holding company. DSM Investments has two wholly-owned subsidiaries, DSM Massachusetts Insurance Company, Inc. (“DSM Mass”) and DSM Insurance Services, Inc. (“DSM Insurance”). DSM Insurance is operated on a for-profit basis for activities which do not come under the specific provisions of Chapter 176E. DSM Mass and DSM Insurance share facilities and the services of certain members of management.

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 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, CareQuest 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 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, CareQuest. 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, 2022, DSM’s Board of Directors consisted of the following nine members:

Dental Service of Massachusetts, Inc.

<u>Name of Director</u>	<u>Business Affiliation</u>
Andrew Agwunobi	Interim President, UConn and CEO UConn Health Systems
Kathleen Betts	President, Prizm Advisors LLC
Roderick King, MD	Senior VP, University of Maryland Medical System
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, CareQuest Institute for Oral Health, Inc.
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 CareQuest and at year end 2022. The following committees were in place: Audit, Finance, and Investments Committee, Nominating and Governance Committee, Compensation Committee, and 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, 2022, were as follows:

<u>Name of Officer</u>	<u>Title</u>
Dennis J. Leonard	President and Chief Executive Officer
Patricia Ma	Secretary
Denise Marks	Treasurer
Gregory P. Winn	Assistant Treasurer

Affiliated Companies

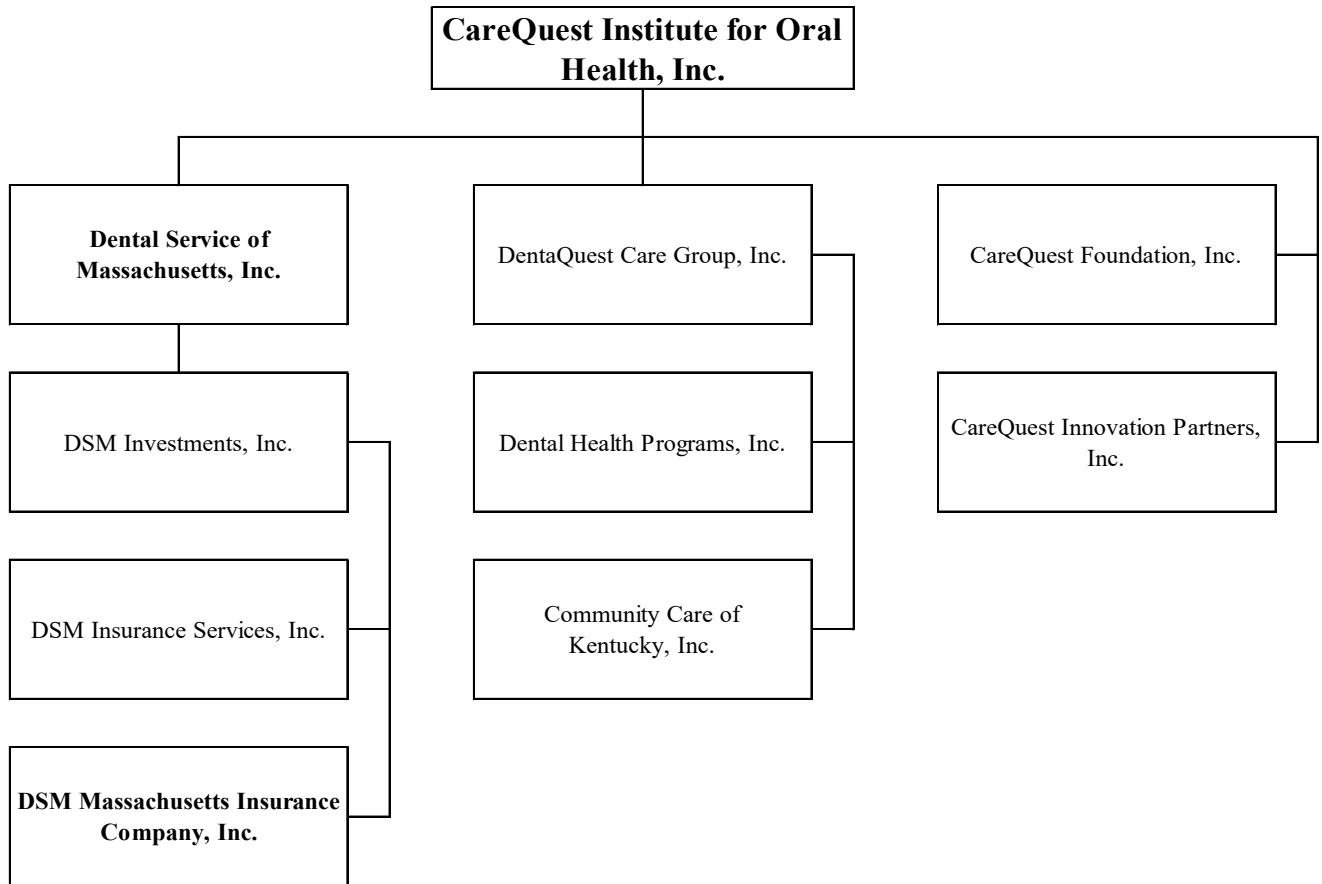
The Company is the ultimate controlling entity in a hierarchy of numerous for-profit and not-for-profit subsidiaries and affiliates; however, in that it was formed and continues to operate under M.G.L. Chapter 176E, it claims exemption per Section 14 of such statute from the requirement to

Dental Service of Massachusetts, Inc.

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, 2022, the Company is a member of the following organizational structure:



Transactions and Agreements with Subsidiaries and Affiliates

Service Agreement

The Company receives certain services from DentaQuest, LLC, a former affiliate. The Company is party to a Management Service Agreement (“DQ MSA”) with DentaQuest LLC, whereby DentaQuest LLC provides certain services to administer the Company's dental benefits, as well as substantial business support services required by the Company to conduct its business. Services performed by DentaQuest LLC primarily involve insurance policy administration activities such as enrollment, eligibility, claims processes, and customer servicing. The terms of the DQ MSA provide that compensation is based on the services provided by DentaQuest LLC to the Company

using either a cost based or cost-plus methodology. Separately, DentaQuest LLC also provides dental third party administrator (TPA) services, under a Massachusetts Medicaid dental program, on behalf of the Company. On June 1, 2022, the Company's parent, CareQuest, sold its ownership interest in DentaQuest ("Sale Transaction"), of which DentaQuest LLC is a wholly owned subsidiary, to Sun Life.

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, prior to the Sale Transaction it in effect provided coverage in numerous states through affiliated subsidiaries operating with slight distinguishing identities under the group name of DentaQuest in other jurisdictions.

Treatment of Policyholders

During the course of the examination, a general review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to members and claimants. This review was limited in nature and was substantially narrower than a full scope market conduct examination.

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, 2022. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2022

Statement of Revenue and Expenses for the Year Ended December 31, 2022

Reconciliation of Capital and Surplus for the Three-Year Period Ended December 31, 2022

Dental Service of Massachusetts, Inc.
Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2022

	As Reported by the Company
Assets	
Bonds	\$ 55,918,405
Common stocks	63,895
Cash, cash equivalents and short-term investments	(1,783,407)
Aggregate write-ins for invested assets:	
Investment in DSM Investments, Inc.	13,110,863
Subtotals, cash and invested assets	67,309,756
Investment income due and accrued	292,810
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	6,146,239
Amounts receivable relating to uninsured plans	53,287,931
Aggregate write-ins for other than invested assets	707,236
Total Assets	<u>\$ 127,743,972</u>

Dental Service of Massachusetts, Inc.
Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2022

	As Reported by the Company
Liabilities	
Claims unpaid	\$ 10,092,597
Unpaid claims adjustment expenses	251,000
Aggregate health policy reserves	2,962,000
Premiums received in advance	16,175,745
General expenses due or accrued	4,546,547
Amounts withheld or retained for the account of others	42,883,015
Amounts due to parents, subsidiaries and affiliates	2,440,658
Payable for securities	596,130
Aggregate write-ins for other liabilities	375,000
 Total Liabilities	 <u>80,322,692</u>
 Unassigned funds (surplus)	 <u>47,421,280</u>
Total capital and surplus	<u>47,421,280</u>
 Total Liabilities, Capital, and Surplus	 <u>\$ 127,743,972</u>

Dental Service of Massachusetts, Inc.
Statement of Revenue and Expenses
As of December 31, 2022

	<u>As Reported by the Company</u>
Net premium income	\$ 257,513,238
Hospital and medical: other professional services	185,081,694
Claim adjustment expenses	9,174,287
General administrative expenses	<u>41,793,975</u>
Total underwriting deductions	<u>236,049,956</u>
Net underwriting gain	<u>21,463,282</u>
Net investment income earned	823,987
Net realized capital gains (losses)	<u>(1,115,433)</u>
Net investment gains (losses)	<u>(291,446)</u>
Aggregate write-ins for other income or expenses	<u>(15,000,000)</u>
Net income or (loss) after capital gains tax and before all other federal and foreign income taxes	<u>6,171,836</u>
Federal and foreign income taxes incurred	<u>0</u>
Net Income (Loss)	<u>\$ 6,171,836</u>

Dental Service of Massachusetts, Inc.
Reconciliation of Capital and Surplus
For the Three Year Period Ended December 31, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Capital and surplus as of December 31, prior year	\$ 44,242,883	\$ 40,900,895	\$ 59,871,320
Net income or (loss)	6,171,836	33,236,265	38,681,393
Change in net unrealized capital gains or (losses)	5,127,352	218,688	(441,327)
Change in non-admitted assets	(3,120,791)	(112,965)	14,337,067
Aggregate write-ins for gains or (losses) in surplus	<u>(5,000,000)</u>	<u>(30,000,000)</u>	<u>(71,547,558)</u>
Net change capital and surplus for the year	<u>3,178,397</u>	<u>3,341,988</u>	<u>(18,970,425)</u>
Capital and surplus as of December 31, current year	<u>\$ 47,421,280</u>	<u>\$ 44,242,883</u>	<u>\$ 40,900,895</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., 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, 2022.

As part of their audit, the Group's external auditors, Ernst & Young LLP (EY), performed an independent analysis of the Group's reserves. EY's estimates were for combined IBNR, margin and unpaid claims adjustment expenses. We display booked reserves relative to EY's range in the table below.

DSM – Claims Unpaid & Unpaid Claims Adjustment Expenses	E&Y - Low Range	E&Y - High Range
\$7,966,000	\$7,198,454	\$8,477,697

As part of the examination, the examining actuaries reviewed the actuarial memorandum, the Statement of Actuarial Opinion issued by Milliman, Inc., audit workpapers and other supporting documentation and performed, as they deemed appropriate, their own test work and evaluation of DSM's reserve liabilities as of December 31, 2022, with consideration of runoff through September 30, 2023. Based on such reviews, the Company's reserves were found to be reasonably conservative in hindsight, as 2023 runoff has been more favorable than expected. The examining actuary found the booked reserves to be reasonable based on the information available at year-end.

SUBSEQUENT EVENTS

Effective January 1, 2023, Erik Montlack was appointed as President and replaced Dennis Leonard, who subsequently retired on March 31, 2023.

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.

The assistance rendered by Examination Resources who participated in the examination is hereby acknowledged.

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