



**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, 2016**

**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**  
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November 13, 2017

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. 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, 2013 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, 2014 through December 31, 2016, 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 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 175, Section 4, 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 2014 through 2016. A review and use of the Certified Public Accountants' workpapers were made to the extent deemed appropriate and effective. Representatives from the firm of Risk and Regulatory Consulting, LLC were 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 OF FACT**

The examination included a review to verify the current status of findings commented upon in the Report of Examination as of December 31, 2013. 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 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 three directly held subsidiaries: DSM Investments, Inc. ("DSM Investments"), DentaQuest Group, Inc. ("DentaQuest") and DentaQuest Holding Company, LLC. In addition, DSM was the sole member of three not-for-profit organizations, DentaQuest Care Group, Inc. ("DQ Care Group"), the DentaQuest Institute, Inc. ("DQ Institute") and the DentaQuest Foundation, Inc. ("DQ Foundation").

DSM's wholly-owned subsidiary, DSM Investments, 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.

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

## Dental Service of Massachusetts, Inc.

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 Texas.

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. The Company does not have an economic interest in the Institute however, on January 1, 2016, a majority of DQ Institute’s Directors were either members of DSM’s Board of Directors or employees of DentaQuest LLC. DSM is the sole member of the DQ Institute and DSM contributed \$6.4 million and \$4.7 million for the years 2016 and 2015, respectively to help the DQ Institute fulfill its mission.

In 2000, 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 2015 of \$10 million and no contributions were made in 2016. 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.

### **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 March, 2014, 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

## Dental Service of Massachusetts, Inc.

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, 2016, DSM's Board of Directors consisted of the following fourteen members:

<u>Name of Director</u>	<u>Business Affiliation</u>
Steven J. Pollock	President and Chief Executive Officer, DSM
Colleen Baldwin	President, Glantam Partners
Kathleen Betts	Retired
Sarah Dirks, DDS	CEO and Owner, Geriatric Dental Group
Thomas Galligan, III	Retired Chairman of Papa Gino's Holding Corp.
Mayur Gupta	Vice President, Spotify
Linda Hall	Entrepreneur-In-Residence, University of Minnesota
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
Todd Marshall, DDS	Park Dental
Evelyn Henry Miller	Chief Financial Officer, TD Industries
Pamela Reeve	Self Employed
Robert Weyant, DMD	Professor and Chair, University of Pittsburgh

### 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

## Dental Service of Massachusetts, Inc.

interfere with his or her ability to exercise independent judgment in matters that may be considered by a 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 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. Officers are subject to removal at any time by a majority vote of the Board of Directors.

The Officers of the Company at December 31, 2016, were as follows:

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

### Affiliated Companies

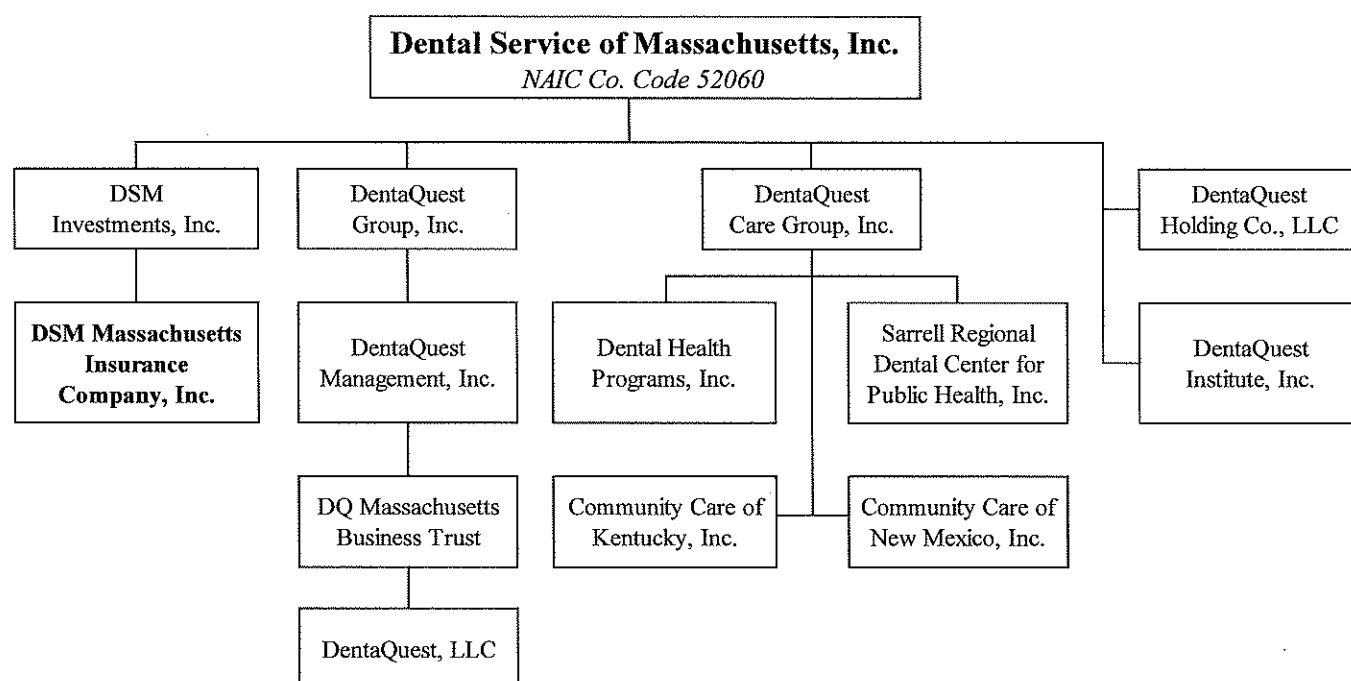
The Company is the ultimate controlling entity in a hierarchy of numerous for-profit and not-for-profit subsidiaries and affiliates; however, in that it was formed and continues to operate under M.G.L. Chapter 176E, it claims exemption per Section 14 of such statute from the requirement to file the holding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

### 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, 2016, 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 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, 2016 and December 31, 2015 were \$44.8 million and \$38.3 million respectively.

DSM charged DQ LLC \$12.9 million for the use of internally developed software during 2016.

#### *Credit Agreement*

On June 10, 2016, DQ LLC entered into a Third Amended and Restated Credit Agreement with Bank of America, N.A. as agent for itself and several other lenders. Under the terms of the amended and restated agreement, the Company and certain subsidiaries remain 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

## Dental Service of Massachusetts, Inc.

and will mature on June 10, 2021. As of December 31, 2016 \$97.5 million was outstanding under the term loan portion of 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 DQ USA and the Texas Health and Human Services Commission. By such contract, which became operational in March 2012, with a current term through August 2017, DQ USA now provides dental benefits on a capitated basis to approximately 1.7 million participants in the Texas Medicaid and Children's Health Insurance Programs.

### *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, 2016.

## **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, 2016. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2016

Statement of Revenue and Expenses for the Year Ended December 31, 2016

Statement of Capital and Surplus for the Year Ended December 31, 2016

Reconciliation of Capital and Surplus for the Three-Year Period Ended December 31, 2016

Dental Service of Massachusetts, Inc.  
Statement of Assets, Liabilities, Capital and Surplus  
As of December 31, 2016

<b>Assets</b>	<u>As Reported by the Company</u>
Bonds	\$ 189,044,693
Common stocks	71,028,423
Cash, cash equivalents and short-term investments	38,145,844
Other invested assets	56,862,967
Aggregate write-ins for invested assets:	
Investment in DentaQuest Group, Inc.	(56,501,294)
Investment in DentaQuest Care Group, Inc.	5,944,966
Investment in DSM Investments, Inc.	8,097,243
Other invested assets	528,595
Subtotals, cash and invested assets	<u>313,151,437</u>
Investment income due and accrued	1,279,702
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	55,765,180
Electronic data processing equipment and software	8,868,141
Receivables from parent, subsidiaries, and affiliates	720
Aggregate write-ins for other than invested assets	7,711,102
Total Assets	<u>\$ 386,776,284</u>

Dental Service of Massachusetts, Inc.  
Statement of Assets, Liabilities, Capital and Surplus  
As of December 31, 2016

	As Reported by the Company
<b>Liabilities</b>	
Claims unpaid	\$ 10,518,151
Unpaid claims adjustment expenses	1,057,588
Aggregate health policy reserves	1,373,057
Premiums received in advance	12,718,631
General expenses due or accrued	2,535,478
Amounts withheld or retained for the account of others	44,156,678
Amounts due to parents, subsidiaries and affiliates	2,860,493
Payable for securities	1,973,701
Aggregate write-ins for other liabilities:	
Management fee due to DentaQuest	4,285,703
Other unapplied receipts	11,062
Payable to DentaQuest, LLC	821,033
 Total Liabilities	 <u>82,311,576</u>
 Unassigned funds (surplus)	 <u>304,464,708</u>
Total capital and surplus	<u>304,464,708</u>
 Total Liabilities, Capital, and Surplus	 <u>\$ 386,776,284</u>

Dental Service of Massachusetts, Inc.  
Statement of Revenue and Expenses  
For The Year Ended December 31, 2016

	As Reported by the Company
Net premium income	\$ 249,435,896
Hospital and medical: other professional services	192,371,799
Claim adjustment expenses	5,657,285
General administrative expenses	25,772,078
Total underwriting deductions	223,801,162
Net underwriting gain	25,634,733
Net investment income earned	4,896,531
Net realized capital gains (losses)	1,610,837
Net investment gains (losses)	6,507,368
Aggregate write-in for other income or (expenses):	
Charitable contributions	(6,351,276)
Total other income or (expenses)	(6,351,276)
Net income or (loss) after capital gains tax and before all other federal and foreign income taxes	25,790,825
Federal and foreign income taxes incurred	0
Net Income (Loss)	\$ 25,790,825

Dental Service of Massachusetts, Inc.  
Statement of Capital and Surplus  
For the Year Ended December 31, 2016

	<u>As Reported by the Company</u>
Capital and surplus, December 31, 2015	\$ 351,870,904
Net income (loss)	25,790,825
Change in net unrealized capital gains or (losses)	11,940,451
Change in non-admitted assets	<u>(85,137,472)</u>
Net change in capital and surplus for the year	<u>(47,406,196)</u>
Capital and surplus, December 31, 2016	<u>\$ 304,464,708</u>



Dental Service of Massachusetts, Inc.  
Reconciliation of Capital and Surplus  
For the Three Year Period Ended December 31, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Capital and surplus as of December 31, prior year	\$ 351,870,904	\$ 315,942,189	\$ 281,597,760
Net income or (loss)	25,790,825	23,735,581	28,323,756
Change in net unrealized capital gains or (losses)	11,940,451	15,192,937	19,243,920
Change in non-admitted assets	(85,137,472)	(2,999,804)	(12,126,652)
Miscellaneous adjustment	<u>1</u>	<u>1</u>	<u>(1,096,595)</u>
Net change capital and surplus for the year	<u>(47,406,196)</u>	<u>35,928,715</u>	<u>34,344,429</u>
Capital and surplus as of December 31, current year	<u>\$ 304,464,708</u>	<u>\$ 351,870,904</u>	<u>\$ 315,942,189</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, 2016.

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, 2016:

DSM – Claims Unpaid & Unpaid Claims Adjustment Expenses	E&Y - Low Range	E&Y - Mid Range	E&Y - High Range
\$11,575,739	\$10,907,872	\$11,449,739	\$11,9922,071

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, 2016, with payment developments through June 30, 2017. 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**


There were no subsequent events noted by the examination.

**SUMMARY OF RECOMMENDATIONS**

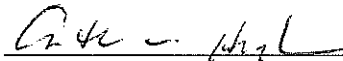
There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in this report.

**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, CFE, CPA  
Supervising Examiner  
Commonwealth of Massachusetts  
Division of Insurance



Arthur C. Hughes  
Examiner-In-Charge  
Commonwealth of Massachusetts  
Division of Insurance