



**THE COMMONWEALTH OF MASSACHUSETTS**  
**OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION**

**Division of Insurance**

*Report on the Statutory Examination of the*

*Dentegra Insurance Company of New England*

*Boston, Massachusetts*

*As of December 31, 2009*

**NAIC GROUP CODE: 2479**

**NAIC COMPANY CODE: 12210**

**EMPLOYERS ID NUMBER: 30-0318743**

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**COMMONWEALTH OF MASSACHUSETTS**  
**Office of Consumer Affairs and Business Regulation**  
**DIVISION OF INSURANCE**

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May 27, 2011

Honorable Joseph Torti III, Chairman  
Financial Condition (E) Committee, NAIC  
Superintendent of Insurance  
State of Rhode Island  
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Honorable Joseph G. Murphy  
Commissioner of Insurance  
Commonwealth of Massachusetts  
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Honorable Commissioner and Superintendent:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of the

**DENTEGRA INSURANCE COMPANY OF NEW ENGLAND**  
**Boston, Massachusetts**

at its home office located at 185 Devonshire Street, Suite 770, Boston, Massachusetts 02110. The following report thereon is respectfully submitted.

## SCOPE OF EXAMINATION

Dentegra Insurance Company of New England (hereinafter referred to as "the Company") is an insurer, domiciled in the Commonwealth of Massachusetts that underwrites and administers group dental contracts. This represents the first examination of the Company since its inception. The current examination covers the period from January 1, 2005 through December 31, 2009, and any material transactions and/or events occurring subsequent.

The examination was conducted at the direction of and under the overall management and control of the examination staff of the Massachusetts Division of Insurance (the "Division") in accordance with standards established by the NAIC Financial Condition (E) Committee as well as with the requirements of the *NAIC Financial Condition Examiner's Handbook*, the examination standards of the Division and Massachusetts General Laws. Representatives from the firm of Examination Resources, LLC were engaged 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.

During the examination period and for the year ending December 31, 2009, the Company was audited annually by Armanino McKenna LLP ("AMLLP"), a Certified Public Accounting and Consulting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2005 through 2009. A review and use of AMLLP's work papers were made to the extent deemed appropriate and effective.

The principal focus of the examination was 2009 activities; however, transactions both prior and subsequent thereto were reviewed as deemed appropriate. The examination was conducted following the NAIC Risk Focused Examination Model. The examiners considered reliance on the Company's external auditors IT General Controls review, internal control evaluations and account balance testing conducted by AMLLP as part of our statutory compliance examination.

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, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, 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.

## HISTORY

On September 30, 2004, Delta Dental of California (DDC), a tax-exempt California corporation, purchased from Lumber Mutual Insurance Company, all the outstanding shares of SEACO Insurance Company (SEACO). The assets and liabilities were placed into the SEACO Liquidating Trust and the resulting "Clean Shell" and associated licenses were purchased by Delta Dental of California. SEACO's name was changed to Dentegra Insurance Company of New England at the time of sale. The stated purpose of the Company is to be a for-profit dental insurer in Massachusetts and other states that SEACO had been licensed in.

### Growth of Company

The growth of the Company for the years 2005 through 2009 is shown in the following schedule, which was prepared from the Company's Annual Statements.

<u>Year</u>	<u>Admitted Assets</u>	<u>Net Premiums</u>	<u>Capital and Surplus</u>
2009	\$ 6,064,400	\$ 715,284	\$ 5,799,722
2008	6,079,846	479,163	5,785,730
2007	6,019,902	204,535	5,786,996
2006	5,897,423	105,943	5,791,282
2005	5,812,387	0	5,798,902

### MANAGEMENT AND CONTROL

#### Annual Shareholders Meeting

In accordance with the Bylaws, the Annual Shareholders meeting shall be at the primary office of the Company in San Francisco, California, or at such other place as may be designated on a date and time to be set annually by the Board of Directors. A review of the minutes of the annual meetings indicated that an annual meeting was designated and held during each year under examination with the exception of 2005.

#### Board of Directors

The Bylaws of the Company provide that the Board of Directors shall consist of not less than three (3) nor more than nine (9) members who need not be shareholders of the Company. The Directors shall be elected by the shareholders at their annual meeting each year and shall hold their office until the next annual meeting of the shareholders and until their successors have been elected and qualified.

At December 31, 2009, the Board was comprised of six (6) Directors, which is in compliance with the Company's Bylaws. Directors duly elected and serving at December 31, 2009, with principal business affiliations, are as follows:

#### Director

Anthony S. Barth  
Charles Lamont, Esq.  
Kevin Jackson  
Michael J. Castro  
Gary D. Radine  
Patrick S. Steele

#### Business Affiliation

President of Delta Dental Insurance Company  
EVP and Chief Legal Officer of DDC  
Group VP Underwriting & Actuarial  
EVP/CFO of DDC  
President/CEO of Dentegra Group, Inc.  
EVP/CIO of DDC

### **Executive Committee**

At any meeting of the Board of Directors, the Directors may elect an Executive Committee which shall consist of at least three (3) members who are Directors. The Executive Committee shall have and exercise all of the rights and powers of the Company during the intervals between the meetings of the Board. As of December 31, 2009, the following Directors were appointed to the Executive Committee:

Gary D. Radine, Chairman  
Anthony S. Barth  
Michael J. Castro

### **Investment Committee**

The Company had an Investment Committee in place which meets 5-6 times a year to review and discuss the Company's investment portfolio and investment policies. The following individuals were duly appointed by the Board of Directors and serving as members of the Investment Committee as of December 31, 2009:

Michael J. Castro, Chairman  
Patrick S. Steele  
Anthony S. Barth  
Alicia F. Weber  
Joaquin L. Barrios

### **Audit Committee**

The Company maintained an Audit Committee, which reviews the internal and external audit reports, as well as establishes the internal audit plan for the Company. As of December 31, 2009, the Company's Board of Directors appointed the Audit Committee of Delta Dental of California to serve as the Audit Committee of the Company, which consisted of the following individuals:

Glen F. Bergert, Chairman  
Patricia A. Fujiwami  
Steven J. McCann  
Terry A. O'Toole  
Steven W. Voss

### **Finance Committee**

The Company maintained a Finance Committee, which reviews the annual and quarterly financial reports and submits such reports to the Board of Directors for approval. In addition, the Finance Committee reviews all management reports that accompany the financial statements. As of December 31, 2009, the Company's Board of Directors appointed the Finance Committee of Delta Dental of California to serve as the Finance Committee of the Company, which consisted of the following individuals:

David S. Walker, Chairman  
Glen F. Bergert

Patricia A. Fukami  
Steven F. McCann  
Terry A. O'Toole  
Steven W. Voss

### **Officers**

The Bylaws of the Company provide that the officers of the Company shall be a Chairman of the Board, a President, a Senior Vice President, one (1) or more vice presidents as may be determined by the Board of Directors, a Secretary, a Treasurer and one (1) or more assistant secretaries and assistant treasurers as the Board may determine. As of December 31, 2009, the following individuals were elected to the respective offices by the Board of Directors:

<b><u>Name</u></b>	<b><u>Title</u></b>
Gary D. Radine	Chairman of the Board and President
Anthony S. Barth	Vice Chairman
Michael J. Castro	Executive Vice President and Treasurer
Charles Lamont, Esq.	Executive Vice President and Secretary
Patrick S. Steele	Executive Vice President
Lowell G. Dunn, DDS	Senior Vice President
Michael B. Kaufman	Senior Vice President
Belinda Martinez	Senior Vice President

### **Conflict of Interest**

The Company maintains a formalized conflict of interest procedure, that indicates upon the acceptance of office or initiation of duties of the corporation, any Director or officer of the Company shall disclose to the Board of Directors any material interest or affiliation of such Director or officer, which is, or is likely to be or become, in conflict with his or her official duties with the Company. Such disclosure shall be set forth in a written statement, which shall be delivered to the General Counsel of the corporation for review by the Board of Directors, and revised annually prior to the annual meeting each year. With the exception of two officers in 2005, the completed questionnaires were reviewed for each year under examination indicating that this procedure was active and being complied with.

### **Articles of Incorporation and Bylaws**

The Examiners obtained and reviewed the Restated Articles of Organization amended October 18, 2004 and the Amended and Restated Bylaws amended November 6, 2006. The Examiner reviewed various state statutes and regulations and it appears that the Company was in compliance with Chapter 156B Certain Business Corporations and various Sections.

### **Board of Directors Minutes**

The minutes of the Board of Directors and Committee meetings for the period under examination were provided and reviewed and indicated that all meetings were held in accordance with the Company bylaws and the laws of the Commonwealth of Massachusetts.



### **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. c.175 § 180M-180Q.

### **SPECIAL DEPOSITS**

As of December 31, 2009, the Company maintained US Treasury Notes with the following states as special deposits:

State	Purpose of Deposit	Book Value	Fair Value	Par Value
Massachusetts	Benefit of all Policyholders	\$1,000,224	\$1,018,029	\$1,000,000
New Hampshire	Benefit of all Policyholders	\$274,783	\$279,692	\$275,000

### **TREATMENT OF POLICYHOLDERS AND RELATED PRACTICES**

The Company is a member of a group of related entities under common control. These entities provide services to each other and charge fees for those services, and the Company's financial position and results of operation might be different if it was operated as a stand-alone entity.

The stated purpose of the Company is to be a for-profit dental insurer that is licensed in Massachusetts, New Hampshire, Vermont, New York and Washington, DC. The Company underwrites and administers group dental contracts and as of December 31, 2009, underwrote one (1) group dental contract to AARP Dental Insurance Trust.

#### **Dividends to Policyholders**

A review of the company's Board of Directors meeting minutes and filed annual statements did not reveal any dividends declared or paid to policyholders during the period under examination.

### **REINSURANCE**

In the ordinary course of business, the Company seeks to limit its exposure to loss on claims by entering into reinsurance agreement with other insurers. As of December 31, 2009, the Company was a party to the following three (3) separate reinsurance agreements that ceded a specific percentage of premiums earned and claims incurred:

#### **Ceded – Delta Dental of California**

Effective January 1, 2006, the Company entered into a quota share reinsurance agreement with Delta Dental of California (DDC), an affiliate. Under the terms of the agreement, DDC agrees to assume a fifty-six percent (56%) quota share of the Company's claims arising out of their AARP contract.



### **Ceded – Hannover Life Reassurance Company of America**

Effective January 1, 2006, the Company entered into a quota share reinsurance agreement with Hannover Life Reassurance Company of America (Hannover). Under the terms of the agreement, Hannover agrees to assume a thirty-three percent (33%) quota share of the Company's claims arising out of their AARP contract.

### **Ceded – Renaissance Life and Health Insurance Company of America**

Effective January 1, 2006, the Company entered into a quota share reinsurance agreement with Renaissance Life and Health Insurance Company of America (RLHIC). Under the terms of the agreement, RLHIC agrees to assume a ten percent (10%) quota share of the Company's claims arising out of their AARP contract.

### **AFFILIATED AGREEMENTS**

In addition to the reinsurance agreement with DDC noted above, the Company was a party to the following agreements with affiliates as of December 31, 2009:

#### **Management and Service Agreement**

Effective January 1, 2005, the Company entered into a Management and Service Agreement with Delta Dental of California (DDC). Under the terms of the agreement, DDC acts as the sole and exclusive manager of all of the day to day operations of the Company.

#### **Administrative Services Agreement**

The Company underwrites the DeltaCare USA programs in certain jurisdictions while Delta Dental Insurance Company (DDIC) serves as the administrator for the DeltaCare USA programs. Effective January 1, 2007, the Company entered into an Administrative Services Agreement with DDIC. This agreement sets forth the terms in which DDIC collects premiums, establishes claims Payment Account for the Company and provides administrative support for the Company.

### **SUBSEQUENT EVENTS**

The Company became a direct subsidiary of DDC Insurance Holdings, Inc. (DDIH) in 2010. Delta Dental of California created DDIH primarily so that its lower tier subsidiary companies could file a consolidated tax return. Delta Dental of California is a nonprofit corporation and needed a taxable entity to act as the lead company for the consolidation.

According to the material that Delta Dental filed with the Division, the change in organization structure will not change the Company's federal income tax expense. The Division of Insurance approved the transaction on December 13, 2010, and agreed that the change did not represent a change in control and that a Form A filing was not required.

Effective January 1, 2011, the Company entered into a Federal Tax Sharing Agreement with DDIH.

Under the terms of the agreement, the Company assigns the responsibility for filing its Federal US tax returns and related activities to DDIH. The Company agrees to make period tax payments to DDIH in exchange for the services provided under the agreement.

## **ACCOUNTS AND RECORDS**

### **General Accounting**

All day to day functions and administrative operations of the Company are performed by the employees of Delta Dental of California. Company records include computerized general ledgers, a general journal plus cash disbursements and receipts journals. All general accounting operations of the Company are performed in San Francisco, California. The claims processing system in use by Delta Dental of California operates on an IBM based platform. The Company maintains adequate supporting workpapers that were reviewed by the Examiner.

### **Independent Accountants**

The firm of Armanino McKenna LLP (AMLLP) was retained by the Company to perform the statutory basis audit of its financial statements for each of the years ending December 31, 2005, 2006, 2007, 2008 and 2009. AMLLP concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Company at the respective audit dates.

### **Actuarial Opinion**

The policy reserves and related actuarial items were calculated by the Company and reviewed by Barthus J. Prien, F.S.A., M.A.A.A., President of the firm Prien Associates, Inc. Mr. Prien issued a statement of actuarial opinion, that the amounts carried in the balance sheet were computed in accordance with the accepted actuarial standards, fairly stated the Company unmatured obligations under its policies and met the requirements of the insurance laws of the State of Massachusetts. The identified actuarial items as of December 31, 2009 are:

Claims unpaid	\$ 1,717
Unpaid claims adjustment expenses	\$ 2,867
Aggregate health policy reserves	\$ 780
Premiums received in advance	\$ 5,392

## **FINANCIAL STATEMENTS**

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division and by the NAIC as of December 31, 2009.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2009

Statement of Operations for the Year Ended December 31, 2009

Statement of Changes in Capital and Surplus for the Year Ended December 31, 2009

Statement of Changes in Capital and Surplus for the Five Year Period Ended  
31, 2009

December

**Dentegra Insurance Company of New England**  
**Statement of Assets, Liabilities, Surplus and Other Funds**  
**As of December 31, 2009**

<b>Assets</b>	<b>As Reported by the Company</b>	<b>Examination Changes</b>	<b>Per Statutory Examination</b>
Bonds	\$ 1,275,007	\$ 0	\$ 1,275,007
Cash, cash equivalents and short-term investments	4,472,104		4,472,104
Subtotals, cash and invested assets	5,747,111		5,747,111
Investment income due and accrued	15,696		15,696
Reinsurance: Other amounts receivable under reinsurance contracts	146,493		146,493
Receivable from parent, subsidiaries and affiliates	155,100		155,100
Total Assets	<u>\$ 6,064,400</u>	<u>\$ 0</u>	<u>\$ 6,064,400</u>

**Dentegra Insurance Company of New England**  
**Statement of Assets, Liabilities, Surplus and Other Funds (Continued)**  
**As of December 31, 2009**

<b>Liabilities</b>	<b>As Reported by the Company</b>	<b>Examination Changes</b>	<b>Per Statutory Examination</b>
Claims unpaid	\$ 1,717	\$ 0	\$ 1,717
Unpaid claims adjustment expenses	2,867		2,867
Aggregate health policy reserves	780		780
Premiums received in advance	5,392		5,392
General expenses due or accrued	14,402		14,402
Ceded reinsurance premiums payable	228,210		228,210
Amounts due to parent, subsidiaries and affiliates	11,310		11,310
Total liabilities	<u>264,678</u>	<u>0</u>	<u>264,678</u>
Common capital stock	2,000,000		2,000,000
Gross paid in contributed surplus	4,450,000		4,450,000
Unassigned funds (surplus)	<u>(650,278)</u>		<u>(650,278)</u>
Total capital and surplus	<u>5,799,722</u>	<u>0</u>	<u>5,799,722</u>
Total liabilities, capital and surplus	<u>\$ 6,064,400</u>	<u>0</u>	<u>\$ 6,064,400</u>

**Dentegra Insurance Company of New England**  
**Statement of Operations**  
**For the Year Ended December 31, 2009**

	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>
Member months	33,773		33,773
Net premium income	\$ 715,284	\$ 0	\$ 715,284
Change in unearned premium reserves and reserve for rate credit	(842)		(842)
Total	<u>714,442</u>	<u>0</u>	<u>714,442</u>
Hospital/medical benefits	1,427,957		1,427,957
Subtotal	<u>1,427,957</u>	<u>0</u>	<u>1,427,957</u>
Net reinsurance recoveries	1,412,829		1,412,829
Total hospital and medical	<u>15,128</u>	<u>0</u>	<u>15,128</u>
Claims adjustment expenses	365,792		365,792
General administrative expenses	378,857		378,857
Total underwriting deductions	<u>759,777</u>	<u>0</u>	<u>759,777</u>
Net underwriting gain or (loss)	(45,335)		(45,335)
Net investment income earned	<u>59,327</u>		<u>59,327</u>
Net Income after capital gains tax and before federal income tax	13,992		13,992
Federal and foreign income taxes incurred	<u>0</u>	<u>0</u>	<u>0</u>
Net income	<u>\$ 13,992</u>	<u>\$ 0</u>	<u>\$ 13,992</u>

**Dentegra Insurance Company of New England**  
**Statement of Changes in Capital and Surplus**  
**For the Year Ended December 31, 2009**

	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>
Capital and surplus, December 31, prior year	\$ 5,785,730	\$ 0	\$ 5,785,730
Net income	13,992	0	13,992
Net change in capital and surplus for the year	13,992	0	13,992
Capital and surplus, December 31, 2009	<u>\$ 5,799,722</u>	<u>\$ 0</u>	<u>\$ 5,799,722</u>

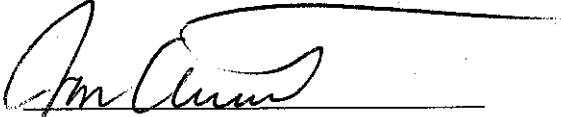
**Dentegra Insurance Company of New England**  
**Statement of Changes in Capital and Surplus**  
**For the Five Year Period Ended December 31, 2009**

	2009	2008	2007	2006	2005
Capital and surplus, December 31, prior year	\$5,785,730	\$5,786,995	\$5,791,282	\$5,798,902	\$3,799,948
Net income or (loss)	13,992	(1,264)	(4,287)	(8,076)	(590)
Change in non-admitted assets and related items		(416,250)		456	456
Capital Changes:					
Paid in					1,000,000
Surplus adjustments:					
Paid in		650,000			1,800,000
Aggregate write-ins for gains and (losses) in surplus		(233,751)			
Net change in capital and surplus for the year	13,992	(1,265)	(287)	(7,620)	1,998,954
Capital and surplus, December 31, current year	<u>\$5,799,722</u>	<u>\$5,785,730</u>	<u>\$5,786,995</u>	<u>\$5,791,282</u>	<u>\$5,798,902</u>



### ACKNOWLEDGEMENT

Acknowledgment is made of the cooperation and courtesies extended by the officers and employees of the Company to the examiners during the course of the examination.

  
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John A. Turchi, CPCU, CFE  
Examiner-in-Charge

Commonwealth of Massachusetts  
Division of Insurance

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