

Report of the Examination of
American Dental Plan of Wisconsin, Inc.
Madison, Wisconsin
As of December 31, 2020

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March 3, 2022

Honorable Nathan Houdek
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs
and financial condition of:

AMERICAN DENTAL PLAN OF WISCONSIN, INC
Madison, WI

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of American Dental Plan or Wisconsin (the company, or ADP) was conducted in 2016 as of December 31, 2015. The current examination covered the intervening period ending December 31, 2020, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Affiliated Companies
- Growth of the Company
- Financial Statements
- Accounts and Records
- Information Technology
- Enrollee Complaint Procedure
- Underwriting

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is exempt from being annually audited by an independent accounting firm under s. Ins 50.18 (1), Wis. Adm. Code.

II. HISTORY AND PLAN OF OPERATION

The American Dental Plan of Wisconsin, Inc., is described as a for-profit individual practice association (IPA) model limited service health organization (LSHO) insurer. An LSHO insurer is defined by s. 609.01 (3), Wis. Stat., as ". . . a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, a limited range of health care services performed by providers selected by the organization." Under the IPA model, the company provides care through contracts with otherwise independent physicians operating out of their separate offices. LSHOs compete with traditional fee-for-service health care delivery.

The company was incorporated November 23, 1993, and commenced business March 1, 1994. The start-up costs of the corporation were funded through the subscription of American Dental Plan of Wisconsin, Inc., stock by certain dental service corporations and individual dentists who are also providers for the company. Stock proceeds totaled \$56,000 (\$1,000 per share) at year-end 2020. The 56 outstanding shares of stock were owned by 33 different dental providers. The company has 71 shares (\$71,000) of treasury stock.

On January 21, 1994, shortly after incorporation, the company assumed 187 of Professional Dental Plan Inc.'s 188 group policies. The company provides dental insurance to 169 groups as of the date of this examination.

The company provides subscriber-group enrollees with covered dental services through contracts with 118 dentists. An enrollee designates one of the company's dentists to provide the enrollee's dental care. The dentist agrees to provide covered dental benefits in exchange for the monthly capitation amount paid to the dentist by the company for each assigned enrollee. Separate capitation amounts are set for general dentistry, periodontics, orthodontics, endodontics, and oral surgery.

Dental providers enter into a Dentist or Corporate Participating Agreement with the company, governing services provided to general commercial groups. Dentist and Corporate Participating Agreements have an initial one-year term on a calendar-year basis. The contracts automatically renew for successive one-year terms unless written notice of nonrenewal is given by either party at least 180 days

prior to the renewal date. The company can terminate this agreement immediately if cause exists for the termination of the dentist. The provider contracts contain the following hold-harmless provision:

Provider agrees to accept the fee and compensation specified in this Section III as full compensation for Covered Dental Services provided to Enrollees and agrees not to bill Enrollees for Covered Dental Services, except any applicable deductibles and copayments. Provider further agrees that in no event, including but not limited to nonpayment by ADP, the insolvency of ADP, or breach of this Agreement by ADP, shall Provider bill, charge, collect a deposit from, seek compensation, remuneration, or reimbursement from, or have any recourse against an Enrollee who receives Covered Dental Services under this Agreement, except with respect to applicable deductibles and copayments. Provider further agrees that this provision shall survive the termination of this Agreement with respect to Covered Dental Services rendered prior to the termination of this Agreement.

The company offers five different coverage plans. Plan One covers diagnostic and preventative care, Plan Two covers restorative care, and Plans Three through Five offer variations of comprehensive coverage. The five plans provide one or more of the following services:

- Diagnostic
- Preventative
- Restorative
- Cosmetic Dentistry
- Orthodontics
- Oral Surgery
- Endodontics
- Periodontics
- Major Restorative
- Prosthodontics

Plan coverages are contingent on nonemergency services being rendered on the basis of dental necessity by the designated ADP dentist or on the referral of a designated dentist. Emergency dental care is available within the ADP service area from an enrollee's designated dentist or an alternative ADP dentist. The delivery of emergency services outside the designated dentist's service area is covered by the dental plan subject to conditions and limitations. ADP will directly reimburse the eligible person for actual costs subject to a \$25 maximum.

According to its business plan, the company's service area is comprised of the following counties:

Columbia	Iowa	Rock
Dane	Jefferson	Sauk
Dodge	Richland	Waukesha
Grant		

The company currently markets to groups only. The company has marketing agreements with 61 agents in 33 separate agencies. Agents are paid commissions on each employer group for which the company has issued a policy. The company's premium rates charged and capitation rates paid are developed by the board of directors based on analysis of market factors. The rates are reviewed by a financial consultant for reasonableness and are adjusted annually by the board of directors.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of six members. Three directors are elected annually to serve a two-year term. Officers for the board are elected at the board's annual meeting. The board members currently receive \$500 per month for serving on the board. The President receives \$650 per month.

Currently, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Eric Teduits, DDS Fitchburg, Wisconsin	Dentist	2020
Patrick Tepe, DDS Middleton, Wisconsin	Dentist	2021
Michael Grode, DDS Middleton, Wisconsin	Dentist	2021
Scott Johnson, DDS Madison, Wisconsin	Dentist	2020
Tanner McKenna, DDA Sun Prairie, Wisconsin	Dentist	2020
Allen Skibba, DDS Madison, Wisconsin	Dentist	2020

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office
Eric Teduits	President
Michael Grode	Treasurer
Tanner McKenna	Secretary
Tom Reid	Vice-President

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors.

The one committee at the time of the examination is listed below:

Premium and New Business Committee

Eric Teduits, Chair

Patrick Tepe

Tom Reid

Tanner McKenna

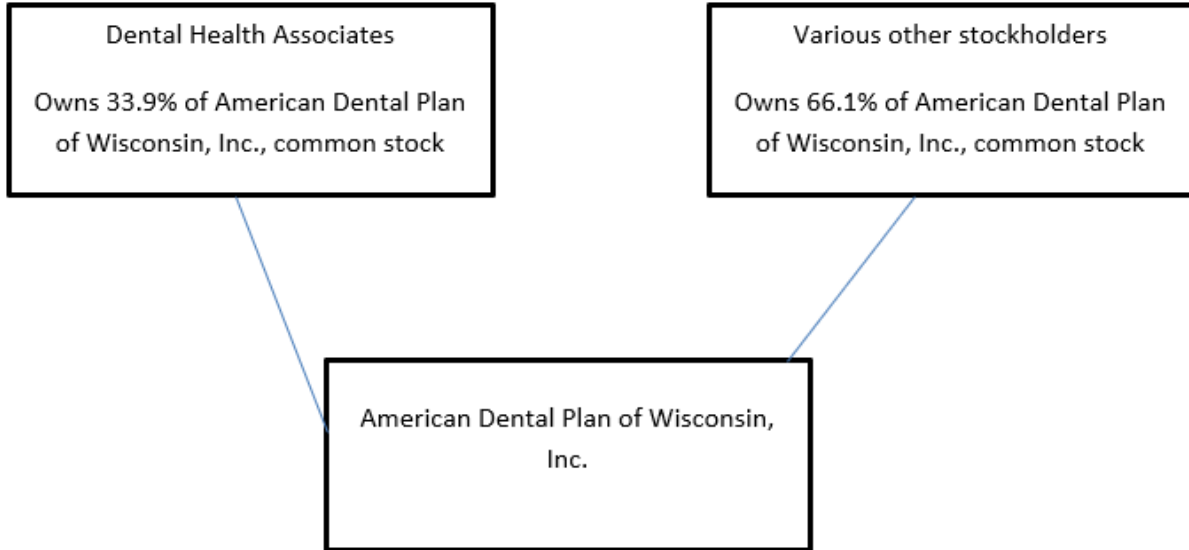
The company has no employees. Necessary staff is provided through an administrative service agreement with SVA Diversified Services, Inc. (SVA), under which SVA agrees to provide administrative services which include: maintaining group contract and renewal information, and enrollment database; produce billing statements and monthly commission statements, post premium payments, maintain agent/agency contracts and provider database and contracts, enrollment and benefit support; facilitate annual fee survey and maintain system fee information; process monthly capitation reports, ortho and specialty claims, input and process claims, produce utilization reports for provider, maintain visual claims software; and assemble and present documentation relevant to agenda items for the board of directors.

SVA provides accounting services which include: payment of all accounts payable checks; maintain banking records including monthly bank reconciliation; compilation of monthly financial statements; prepare forms 1099 and 1096; obtain annual quote for Directors E&O insurance policy; prepare federal and Wisconsin corporate income tax returns through separate tax engagement letter; and semiannual capitation/bonus check calculations. SVA is paid a fee of 8% of ADP's revenue each month for administrative services and \$1,150 per month for accounting services. Any other services requested and provided other than those identified as administrative and accounting services will be billed at the current hourly rates. Such services may include, but not be limited to, representation for OCI or other governmental agency audits. This agreement commenced January 1, 2016, and shall remain in effect for a one-year term, unless terminated earlier. The agreement shall automatically renew after the term and be extended for subsequent terms of one year each. The agreement may be terminated by either party with 90 days' written notice prior to the expiration of the term.

IV. AFFILIATED COMPANIES

American Dental Plan of Wisconsin, Inc., has 56 shares of outstanding stock which is owned by 33 different dental providers. Dental Health Associates is the majority shareholder owning 19 shares.

Holding Company Chart As of December 31, 2020



V. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2020, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Capital and Surplus per Examination." Also included in this section are schedules that reflect the growth of the company for the period under examination.

American Dental Plan of Wisconsin, Inc. Assets As of December 31, 2020

	Assets	Nonadmitted Assets	Net Admitted Assets
Cash, cash equivalents and short-term investments	\$153,793		\$153,793
Uncollected premiums and agents' balances in the course of collection	3,332		3,332
Aggregate write-ins for other than invested assets	<u>8,436</u>	<u>8,436</u>	
Total Assets	<u>\$165,561</u>	<u>\$8,436</u>	<u>\$157,125</u>

American Dental Plan of Wisconsin, Inc. Liabilities and Net Worth As of December 31, 2020

Claims unpaid			
Accrued medical incentive pool and bonus payments			
Unpaid claims adjustment expenses			
Aggregate health policy reserves			\$ 46,481
Premiums received in advance			10,258
General expenses due or accrued			<u>29,617</u>
Total Liabilities			86,356
Aggregate write-ins for special surplus funds			
Common capital stock		\$127,000	
Unassigned funds (surplus)		14,768	
Less treasury stock, at cost			
Common shares		<u>71,000</u>	
Total Capital and Surplus			<u>70,768</u>
Total Liabilities, Capital and Surplus			<u>\$157,124</u>

**American Dental Plan of Wisconsin, Inc.
Statement of Revenue and Expenses
For the Year 2020**

Net premium income		<u>\$804,438</u>
Total revenues		804,438
Medical and Hospital:		
Total medical and hospital	578,308	
General administrative expenses	<u>220,357</u>	
Total underwriting deductions		<u>798,665</u>
Net underwriting gain or (loss)		5,773
Net investment income earned		115
Net Income (Loss)		<u>\$ 5,888</u>

**American Dental Plan of Wisconsin, Inc.
Capital and Surplus Account
For the Five-Year Period Ending December 31, 2020**

	2020	2019	2018	2017	2016
Capital and surplus, beginning of year	\$73,963	\$ 80,933	\$74,366	\$78,769	\$92,519
Net income (loss)	5,887	5,644	6,925	547	250
Change in non-admitted assets	(1,783)	(614)	(208)		
Change in treasury stock	(3,000)	(12,000)	(4,150)	(7,000)	(14,000)
Change in surplus notes					
Surplus adjustments:					
Paid in			4,000	5,000	
Transferred to capital					
Transferred from capital			3,150		
Dividends to stockholders	<u>(4,300)</u>	<u> </u>	<u>(3,150)</u>	<u>(2,950)</u>	<u> </u>
Capital and Surplus, End of Year	<u>\$70,767</u>	<u>\$73,963</u>	<u>\$80,933</u>	<u>\$74,366</u>	<u>\$78,769</u>

**American Dental Plan of Wisconsin, Inc.
Statement of Cash Flows
As of December 31, 2020**

Premiums collected net of reinsurance		\$837,231
Less:		
Benefit- and loss-related payments	\$578,308	
Commissions, expenses paid and aggregate write-ins for deductions	<u>220,357</u>	
Dividends paid to policyholders		
Total		<u>798,665</u>
Net cash from operations		38,566
Net gains (losses) on cash, cash equivalents, and short-term investments	\$115	
Net cash from investments	115	
Cash Provided/Applied:		
Surplus notes, capital notes		
Capital and paid-in surplus, less treasury stock	(3,000)	
Borrowed funds received		
Dividends to stockholders	4,300	
Other cash provided (applied)	<u>914</u>	
Net cash from financing and miscellaneous sources		<u>(6,386)</u>
Net Change in Cash, Cash Equivalents, and Short-Term Investments		32,295
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>121,498</u>
End of Year		<u>\$ 153,793</u>

Growth of the Company

The following schedules reflect the growth of the company during the examination period:

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2020	\$157,125	\$86,356	\$70,768	\$804,438	\$578,308	\$5,888
2019	129,690	55,727	73,963	1,138,996	889,196	5,644
2018	156,223	75,290	80,933	1,357,762	1,075,455	6,925
2017	140,900	66,533	74,366	1,416,191	1,122,735	547
2016	148,325	69,556	78,769	1,451,697	1,170,285	250
2015	153,279	60,759	92,519	1,380,801	1,139,437	418

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Enrollment	Change in Enrollment
2020	0.7%	71.9%	27.4%	1,790	-38.1%
2019	0.5	78.1	21.6	2,894	-1.3
2018	0.5	79.2	20.4	2,934	-15.3
2017	0.0	79.3	20.7	3,464	-3.9
2016	0.0	80.6	19.4	3,606	-54.6
2015	0.0	85.8	14.4	7,947	-2.4

Per Member Per Month Information

	2020	2019	Percentage Change
Premium	<u>\$35.60</u>	<u>\$31.71</u>	12.26%
Expenses:			
Hospital/medical benefits	25.59	24.75	3.39
General administrative expenses	<u>9.75</u>	<u>6.84</u>	42.54
Total underwriting deductions	<u>\$35.34</u>	<u>\$31.59</u>	11.87

The company's premium income has decreased by 41.74% largely due to a 77% decrease in enrollment since 2015. The company has lost some large groups largely due to competition. The company's administrative expenses are largely contained due to the SVA administrative service contract. Administrative expenses per member per month increased by 42.54% due to the loss of membership and some administrative fees are fixed expenses. The company's claims are largely contained by the capitation agreements with providers. The company's commission expenses are tied to premiums so those expenses are contained.

Financial Requirements

The financial requirements for an LSHO under s. Ins 9.04, Wis. Adm. Code, are as follows:

Amount Required

- | | |
|---|--|
| 1. Minimum capital or permanent surplus | Not less than \$75,000 |
| 2. Security deposit | Each LSHO is required to maintain a deposit of securities with the state treasurer or an acceptable letter of credit on file with the Commissioner's office. The amount of the deposit or letter of credit shall not be less than \$75,000. The letter of credit must be payable to the Commissioner whenever liquidation or rehabilitation proceedings are initiated against the company. |
| 3. Compulsory surplus | Not less than the greater of:
3% of the premiums earned by the company in the previous 12 months
or
\$75,000

The Commissioner may accept the deposit or letter of credit under par. 2 to satisfy the compulsory surplus requirement if the company demonstrates to the satisfaction of the Commissioner that all risk for loss has been transferred to the providers. |
| 4. Security surplus | The company should maintain a security surplus to provide an ample margin of safety and clearly assure a sound operation. The security surplus should not be less than 110% of the compulsory surplus. |

The company's calculation as of December 31, 2020, as modified for examination adjustments is as follows:

Assets	\$157,125	
Irrevocable letter of credit	<u>75,000</u>	
Amount available to satisfy surplus requirements	232,125	
Less:		
Liabilities	<u>86,356</u>	
Net amount available to satisfy surplus requirements		\$145,769
Net premium earned	804,438	
Compulsory factor	<u>3%</u>	
Compulsory surplus		<u>75,000</u>
Compulsory Excess (Deficit)		<u>\$ 70,769</u>
Net amount available to satisfy surplus requirements		\$145,769
Compulsory surplus		<u>75,000</u>
Security surplus factor		<u>140%</u>
Security surplus		<u>105,000</u>
Security Excess (Deficit)		<u>\$ 40,769</u>

An LSHO which provides hospital services must demonstrate that, in the event of insolvency, enrollees hospitalized on the date of insolvency will be covered until discharge. This does not apply to this LSHO.

Reconciliation of Capital and Surplus per Examination

No adjustments were made to surplus as a result of this examination. The amount of capital and surplus reported by the company as of December 31, 2020 is accepted.

Examination Reclassifications

There were no examination reclassifications as a result of this examination.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were three specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Management and Control—It is recommended that the company comply with its Bylaws as regards approval of minutes of preceding meeting.

Action—Compliance.

2. Premiums Received in Advance—It is recommended that the company periodically review the premium received in advance account and correct anomalies to avoid duplicate entries.

Action—Compliance.

3. Provider Contracts—It is recommended that the company maintain documents for as long as they are in force as a matter of best practice.

Action—Compliance.

Summary of Current Examination Results

There were no significant findings as a result of the examination.

VII. CONCLUSION

American Dental Plan of Wisconsin, Inc., is a for-profit individual practice association (IPA) model limited service health organization (LSHO) insurer. The company was incorporated November 23, 1993, and commenced business March 1, 1994. The company provides subscriber-group enrollees with covered dental services through contracts with 118 dentists.

The company's assets and liabilities have remained relatively unchanged since the last examination. Premium has fallen by 41.74% largely due to a 77% decrease in enrollment since 2015. The company has lost several large groups due to strong competition.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no recommendations made as a result of this examination.

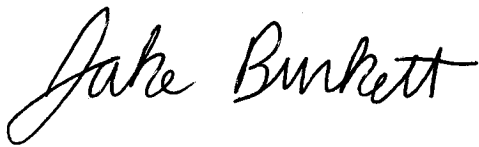
IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Yi Xu	Insurance Financial Examiner
Nicholas Siskoff	Insurance Financial Examiner
Junji Nartatez	IT Specialist
Nick Hartwig	Quality Control Specialist

Respectfully submitted,



Jacob Burkett
Examiner-in-Charge