Report

of the

Examination of

Dental Protection Plan, Inc.

West Allis, Wisconsin

As of December 31, 2015

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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July 14, 2016

Honorable Theodore K. Nickel
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:

DENTAL PROTECTION PLAN, INC.
West Allis, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Dental Protection Plan, Inc. (DPPI or the company) was conducted in 2011 as of December 31, 2010. The current examination covered the intervening period ending December 31, 2015, and included a review of such 2016 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
Growth of the Company
Financial Statements
Accounts and Records

This examination was conducted using the risk-focused approach for small companies in accordance with the NAIC Financial Condition Examiners Handbook and Wisconsin statutes and regulations. The company is a stand-alone company and not a member of any holding company system.

Emphasis was placed on the audit of 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 not annually audited by an independent public accounting firm. Therefore, documents and information provided by the company were used to perform examination procedures based on the NAIC Financial Condition Examiners Handbook as deemed applicable.

II. HISTORY AND PLAN OF OPERATION

DPPI is described as a nonprofit network 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 network model, the company provides care through contracts with clinics and otherwise independent physicians operating out of their separate offices. LSHOs compete with traditional fee-for-service dental care delivery.

The company was incorporated March 27, 1987, and commenced business January 19, 1988. It was granted a waiver on August 6, 1992, from the filing requirements which may have been imposed under Wisconsin's Holding Company regulations (ch. 617, Wis. Stat., and s. Ins 12.01, Wis. Adm. Code). The administration of DPPI is conducted at the West Allis Dental Care Clinic.

DPPI provides insurance coverage on dental care to individual subscribers and families only. There are no group contracts. Subscribers enroll in the DPPI Supplemental Plan (the Plan) for a yearly fee of $35 for Individual Plan and $45 for Family Plan. Anyone can participate in the Plan. There are no exclusions for preexisting conditions. For those who have a primary dental insurance benefit from an employer or other source, the Plan provides limited dental insurance for a small premium which covers a wide range of dental services and reduces premiums for primary dental services up to 20%. DPPI coverage is a 20% discount on fees regularly charged.

DPPI writes business in eastern Wisconsin through two agents who are not paid with commissions. Dental practices that participate are found in West Allis, Milwaukee, Appleton, Waupaca, and Brookfield. There is no coverage for out-of-area service. To receive benefits, an enrollee must use a designated DPPI provider. DPPI currently contracts with eight dental care providers/clinics and one individual specialist.

Clinics:
- West Allis Dental Care
- Bay View Dental Care
- Family Dental Center
- Oklahoma Dental
- Smith Dental
- Barnes & Assoc. Dentistry
- Harvey Dental
- Prestige Dental

Independent Provider:
- William Fink, D.D.S.

Comprehensive Benefits:
- Diagnostic
- Preventive
- Ancillary
- Restorative
- Oral, excluding Maxillofacial Surgery
- Endodontics
- Periodontics
- Prosthodontics
- Orthodontics

Aside from the comprehensive coverage listed above, services include emergency or urgent care. The aggregate maximum benefit per subscriber is unlimited. PPO/HMO plan holders are not eligible for this supplemental insurance.

DPPI enrollees oftentimes carry alternative, primary dental coverage through another health provider. In these instances, DPPI coverage is limited to the amount exceeding the primary coverage. This may be less than the 20% stated above. For example, if the primary insurer covers 90% of the charges, DPPI's portion is limited to 10%. Providers bill enrollees for standard dental service fees, less amounts covered under the DPPI policy and other policy coverage. There are no provider reimbursements or fees to be paid by DPPI to the providers.

The provider contracts include hold-harmless provisions for the protection of policyholders. The provider agrees to charge policyholders fees that are usual and customary for services rendered and also agrees to accept payment for services provided that are usual and customary less the total of any benefits the policyholder is entitled to. The provider contracts have a continuous term and may be terminated by either party with 30 days' advance written notice. Similar contracts are executed for both primary care providers and specialists.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members. Every three years, five directors are elected to serve a three-year term. Officers of the board are elected at the board's annual meeting. The board members currently receive $250 per year for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Douglas J. Persich Menomonee Falls, WI	President/Treasurer Dental Protection Plan, Inc. Dentist/Owner West Allis Dental Care	April 2017
Charles Konkol Greenfield, WI	Accountant	April 2017
Barbara Pipia Brookfield, WI	Retired	April 2017
William Fink River Hills, WI	Dentist	April 2017
Douglas Persich III Sussex, WI	Accountant	April 2017

Officers of the company

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

Name	Office	2015 Compensation
Douglas J. Persich	President/Treasurer	$44,404*
William Fink	Vice-President	0
Charles Konkol	Secretary/Accountant	2,040**
Douglas Persich III	Treasurer	0

* This amount includes insurance premiums of $24,404 paid by the company for the benefit of Douglas Persich, the President.

** This amount represents the accounting fees paid to Charles Konkol for the preparation of 2015 tax returns and annual statements.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The board has not appointed any committees at the time of examination.

Company Organization

The company has only two employees, Douglas Persich, the company President, and an office manager. Dr. Persich performs major decision making and oversees bookkeeping. The office manager performs bookkeeping, data entry and general filing. Personnel from West Allis Dental Care may fill in for data entry when necessary, without charge.

IV. AFFILIATED COMPANIES

DPPI is not a member of a holding company system. On August 26, 1992, the company was granted a waiver from the filing requirements. Due to the waiver granted, it was determined that DPPI is not part of a holding company system.

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, 2015, 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 which reflect the growth of the company for the period under examination.

Dental Protection Plan, Inc.
Assets
As of December 31, 2015

	Assets	Nonadmitted Assets	Net Admitted Assets
Cash, cash equivalents and short-term investments	$27,994	$0	$27,994
Total Assets	$27,994	$0	$27,994

Dental Protection Plan, Inc.
Liabilities and Net Worth
As of December 31, 2015

Aggregate health claim reserves	$32,928	
Premiums received in advance	1,600	
General expenses due or accrued	97	
Total liabilities		$34,625
Unassigned funds (surplus)	(6,631)	
Total capital and surplus		(6,631)
Total Liabilities, Capital and Surplus		$27,994

Dental Protection Plan, Inc.
Statement of Revenue and Expenses
For the Year 2015

Net premium income	$78,488
General administrative expenses	78,546
Net Income (Loss)	$ (58)

Dental Protection Plan, Inc.
Capital and Surplus Account
For the Five-Year Period Ending December 31, 2015

	2015	2014	2013	2012	2011
Capital and surplus, beginning of year	$(6,573)	$(4,672)	$ 4,750	$ (222)	$ 5,442
Net income (loss)	(58)	(1,901)	(9,422)	4,972	(5,664)
Surplus, End of Year	$(6,631)	$(6,573)	$(4,672)	$4,750	$ (222)

Dental Protection Plan, Inc.
Statement of Cash Flows
As of December 31, 2015

Premiums collected net of reinsurance	$77,011
Less:	
Commissions, expenses paid and aggregate write-ins for deductions	78,562
Net cash from operations	(1,551)
Cash, cash equivalents, and short-term investments:	
Beginning of year	29,545
End of Year	$27,994

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	Net Income
2015	$27,994	$34,625	$(6,631)	$78,488	$ (58)
2014	29,545	36,118	(6,573)	73,546	(1,901)
2013	29,820	34,492	(4,672)	72,974	(9,422)
2012	37,396	32,646	4,749	68,973	4,972
2011	29,360	29,582	(222)	61,254	(5,644)
2010	32,004	26,562	5,442	63,740	2,366

Year	Profit Margin	Administrative Expense Ratio	Enrollment	Change in Enrollment
2015	-0.1%	100.1%	2,356	4.3%
2014	-2.6	102.6	2,258	3.4
2013	-12.9	112.9	2,183	4.5
2012	7.2	92.8	2,088	10.7
2011	-9.2	109.2	1,886	0.2
2010	3.7	96.3	1,882	7.9

Enrollment has increased 25.2% since the prior examination. The company reported net losses in four of the past five years.

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 compulsory surplus.

The company's calculation as of December 31, 2015, as modified for examination adjustments is as follows:

Assets	$ 27,994	
Irrevocable letter of credit	105,000	
Amount available to satisfy surplus requirements		$132,994
Less:		
Liabilities	34,625	
Examination adjustments	3,175	37,800
Net amount available to satisfy surplus requirements		95,194
Net premium earned	78,488	
Compulsory factor	3%	
	2,355	
Compulsory surplus (minimum of $75,000)		75,000
Compulsory Excess/(Deficit)		$ 20,194
Net amount available to satisfy surplus requirements		$ 95,194
Compulsory surplus	$ 75,000	
Security surplus factor	140%	
Security surplus		105,000
Security Excess/(Deficit)		$ (9,806)

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. That requirement does not apply to this LSHO.

Reconciliation of Capital and Surplus per Examination

The following schedule is a reconciliation of capital and surplus between that reported by the company and as determined by this examination:

	Increase	Decrease	
Capital and surplus December 31, 2015, per annual statement			$(6,631)
Unemployment tax payable	$ (21)		
Unearned premiums	(3,154)		
Net increase or (decrease)			$(3,175)
Capital and Surplus December 31, 2015, per Examination			$(9,806)

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were 11 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. Corporate Compliance—It is recommended that the board of directors authorize all salaries and bonus payments to officers and directors of the company as required by Sec. 2.13 of the company's bylaws.

   Action—Partial compliance; see comments in the "Summary of Current Examination Results."[1]

2. Corporate Compliance—It is again recommended that the company execute a written management/administration agreement with West Allis Dental Care and file it with the Commissioner for approval as required by s. 613.67, Wis. Stat.

   Action—Compliance.

3. Fidelity Bonds and Other Insurance—It is recommended that the company get either a separate fidelity bond for DPPI or have the current policy identify DPPI specifically as covered by the policy with a specific guarantee that $25,000 will be protected for DPPI in any claim.

   Action—Compliance.

4. Financial Reporting—It is again recommended that the company accrue for known expenses at year-end and report them on the annual statement.

   Action—Compliance.

5. Financial Reporting—It is again recommended that the company report unassigned funds (surplus) on the correct line of the annual statement in accordance with the NAIC Annual Statement Instructions - Health.

   Action—Compliance.

6. Financial Reporting—It is again recommended that the company correctly report unearned premium reserves, along with premiums received in advance, in accordance with SSAP 54 and the NAIC Annual Statement Instructions - Health.

   Action—Partial compliance; see comments in the "Summary of Current Examination Results."[2]

7. Executive Compensation Reporting—It is recommended that the company include consulting expenses in the Report on Executive Compensation as the instructions require.

   Action—Compliance.

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[1] See "Corporate Compliance" in p. 17
[2] See "Unearned Premium" in p. 17

8. Accounts and Records—It is recommended that the company keep an accurate record of policies in force and premiums received by policyholders that is consistent with the premiums reported in the general ledger.

   Action—Noncompliance; see comments in the "Summary of Current Examination Results."[3]

9. Premium—It is recommended that the company properly calculate and record advanced premiums.

   Action—Compliance.

10. Premium—It is recommended that the company decrease premium by the amount of premium refunded rather than report premium refunds as operating expenses.

    Action—Compliance.

11. Financial Requirements—It is recommended that the company obtain a letter of credit which renews on an annual basis for a 3-year term unless written notice of nonrenewal is given to the Commissioner and the limited service health organization at least 60 days prior to the renewal date.

    Action—Compliance.

[3] See "Accounts and Records" in p. 18

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Corporate Governance

By a directive of the Commissioner, officers and directors are required to complete Conflict of Interest Statements annually and the statements are to be kept by the company as corporate records. The company is required to provide these records at the request of the Commissioner within a reasonable period of time pursuant to s. Ins 6.80 (4) (c) 2., Wis. Adm. Code. Review of Conflict of Interest Statements noted no conflicts were disclosed. However, review of the company’s responses to the Exhibit B questionnaire noted that two of the directors are service providers of DPPI, and that one director is related to one of the officers of the company. It appears that potential conflicts of interest exist. It is recommended that the company officers and directors properly complete and disclose potential conflicts in the Conflict of Interest Statements.

Unearned Premium

DPPI reported unearned premium reserves of $32,928 and a liability for advanced premium of $1,600 in the Liabilities, Capital and Surplus section of the annual statement. Underwriting and Investment Exhibit Part 2D of the annual statement also reported a total of $32,928 in aggregate reserves for accident and health contracts; however, that amount consisted of $31,328 of unearned premium reserves and $1,600 of advance premiums. The examination determined the company complied with the prior examination recommendation by reporting unearned premium reserves in the Underwriting and Investment Exhibit Pat 2D, but advance premiums should not be included in this exhibit. It is recommended that only unearned premiums and any additional policy reserves be included when reporting aggregate reserve for A&H contracts in the Underwriting and Investment Exhibit Part 2D of the annual statement in accordance with the NAIC Annual Statement Instructions – Health.

The examination determined the unearned premiums as of December 31, 2015, to be $36,082. Therefore, the amount reported at year-end is understated by $3,154. Statement of Statutory Accounting Principles (SSAP) No. 54 requires reporting of unearned premium reserves for all accident and health contracts for which premiums have been reported for a period beyond the date of valuation (December 31, 2015, in this case) other than premiums paid in advance. The minimum unearned premium reserve that applies to the premium period beyond the valuation date shall be based on the valuation of net modal premium if contract reserves are required and the gross modal unearned premium reserve if contract reserves are not required. It is recommended that the company establish an appropriate methodology in calculating unearned premium reserves accurately in accordance with SSAP No. 54. An exam adjustment of $3,154 was applied as an increase to unearned premium reserves and is reflected in the section of this report captioned "Reconciliation of Capital and Surplus per Examination."

Accounts and Records

The company provided a list of premium receipts extracted from the WADC Provider Report system. However, the company cannot provide an inventory of policies that would tie out the earned and unearned premiums to the annual statements schedules. The company did not comply with the prior exam recommendation on maintaining a record of policies in force that would agree with the annual statement schedules. It is again recommended that the company keep an accurate record of policies in force and premiums received by policyholders that is consistent with the premiums reported in the general ledger.

Other Expenses Reporting

Review of expenses reported in Underwriting and Investment Exhibit Part 3 and on the corresponding details in the GL noted that a few of the expenses were incorrectly reported in Exhibit Part 3, as follows:

1. Directors fees paid were reported in Exhibit Part 3 as board, bureaus and associations fees. These should be reported as salaries, wages and other benefits.

2. Park Bank fee of $1,050 for renewal of Letter of Credit was reported in Exhibit Part 3 as aggregate write-ins (misc. administration). It should be reported in Exhibit Part 3 as collection and bank service charges.

3. Meals and entertainment reimbursed to the director was reported in Exhibit Part 3 as aggregate write-ins (misc. administration). It should be reported as salaries, wages and other benefits.

It is recommended that the company report expenses correctly in the Underwriting and Investment Exhibit Part 3 of the annual statements in accordance with NAIC Annual Statement Instructions – Health.

Corporate Compliance

In response to a prior examination recommendation the board of directors approved salaries and bonuses as documented in the minutes of the board meeting held on May 3, 2012. The current examination reviewed the officers' and directors' compensation based on the Report on Executive Compensation for the years 2010 to 2015 and noted that the annual director's compensation had increased from $200 in 2012 to $250 starting in 2014. It was also noted that the President's bonuses had varied over the years: $6,000 in 2012, $19,000 in 2013, $8,000 in 2014, and $12,000 in 2015. These increases and changes in salaries and bonuses from 2013 to 2015 were not approved by the board. The company partially complied with the prior exam recommendation on board approval of salaries and bonuses. It is recommended that the board of directors authorize all salaries and bonus payments to officers and directors of the company as required by Sec. 2.13 of the company's bylaws.

VII. CONCLUSION

Dental Protection Plan, Inc., is a nonprofit network model limited service health organization (LSHO) serving mostly the Milwaukee area. Pursuant to a waiver granted in 1992, the company is not part of a holding company system although its administration is under West Allis Dental Care Clinic (WADC). The company currently contracts with eight primary care providers/clinics including WADC and one individual specialist.

The company writes through two agents who are not paid with commissions. Enrollment significantly increased by 25.2%, but net income decreased 102% over the last five years since the last examination. The company reported net losses in four of the past five years.

Annual charges are $35 for single and $45 for family dental coverage. These rates have not changed since the prior examination. Coverage is a 20% discount on a comprehensive list of dental procedures.

The current examination resulted to a negative adjustment in surplus by $3,175. There are six recommendations, one of which is a repeat recommendation from the prior examination.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 - Corporate Governance—It is recommended that the company officers and directors properly complete and disclose potential conflicts in the Conflict of Interest Statements.

2. Page 17 - Unearned Premium—It is recommended that only unearned premiums and any additional policy reserves be included when reporting aggregate reserve for A&H contracts in the Underwriting and Investment Exhibit Part 2D of the annual statement in accordance with the NAIC Annual Statement Instructions – Health.

3. Page 18 - Unearned Premium—It is recommended that the company establish an appropriate methodology in calculating unearned premium reserves accurately in accordance with SSAP No. 54.

4. Page 18 - Accounts and Records—It is again recommended that the company keep an accurate record of policies in force and premiums received by policyholders that is consistent with the premiums reported in the general ledger.

5. Page 19 - Other Expenses Reporting—It is recommended that the company report expenses correctly in the Underwriting and Investment Exhibit Part 3 of the annual statements in accordance with NAIC Annual Statement Instructions – Health.

6. Page 19 - Corporate Compliance—It is recommended that the board of directors authorize all salaries and bonus payments to officers and directors of the company as required by Sec. 2.13 of the company's bylaws.

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
Dave Jensen	IT Specialist
John Litweiler	Workpaper Specialist

Respectfully submitted,

Angelita Romaker
Examiner-in-Charge