Report

of the

Examination of

Direct Dental Service Plan, Inc.

Racine, Wisconsin

As of December 31, 2009

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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September 23, 2010

Honorable Sean Dilweg
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:

DIRECT DENTAL SERVICE PLAN, INC.
Racine, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Direct Dental Service Plan, Inc., (the company) was conducted in 2010 as of December 31, 2009. The current examination covered the intervening period ending December 31, 2009, and included a review of such 2010 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
Enrollee Complaint Procedure
Underwriting

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 exempt from being annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code.

II. HISTORY AND PLAN OF OPERATION

The Direct Dental Service Plan, Inc., is described as a nonprofit group model limited service health organization (LSHO) insurer. A 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 group model, the company contracts with a sponsoring clinic to provide primary and specialist services. LSHOs compete with traditional fee-for-service health care delivery.

The company was incorporated April 27, 1987, and commenced business April 27, 1987, under the name Racine Dental Plan, Inc. In October 2003 the company changed its name to Direct Dental Service Plan, Inc. The company is owned by Racine Dental Group, S.C., (RDG) which is under the ownership of 13 dentists in the group.

The company is a dental health insurance plan contracted by employer groups in the Racine and Kenosha area as a benefit to their employees. The company was developed to offer a more affordable way for Racine and Kenosha area families to meet their dental health needs.

The company provides dental care to its enrollees through a provider contract with RDG. The majority of the company's services are provided under this contract. Under the agreement, RDG agrees to offer all covered services to the company's subscribers. RDG has a team of dentists and dental specialists who provide general dentistry, pedodontic, periodontic, and oral surgery services. The company uses outside referrals for endodontists, oral surgeons, and orthodontists. The benefits and services covered are diagnostic, preventative, emergency care, restorative, crowns and bridges, prosthetics, endodontics, orthodontics, and oral surgery. Patient charges depend on coverage negotiated by the group. Any co-payments and laboratory fees are due at the time of service.

The contract with RDG gives enrollees access to 11 general dentists and 15 specialists. Eight of the specialists are outside referrals. The enrollees have the option to select the doctor of their choice. In return, RDG receives 88% of gross premium received by the company.

Providers maintain, at their cost and expense, an insurance policy providing coverage for provider's general liability and professional liability in the minimum amount of $1 million per claim and $3 million aggregate to protect provider and provider employees, agents, or representatives in the discharge of their responsibilities and obligations.

The provider accepts agreed-upon service fees as payment in full for covered services and may not seek additional payments from enrolled members with the exception of applicable co-payments and deductibles. The provider may not collect from an enrolled member for services rendered any amount in excess of applicable co-payments and deductibles. Either party can terminate the contract by providing at least 90 days' prior written notice to the other party that the agreement will be terminated on the anniversary date.

According to its marketing plan, the company is authorized to do business in Southern Wisconsin. The company currently markets to employers (groups) only. The company uses outside agencies and pays a 4 to 8% commission on new and renewal business.

The company negotiates premium rates with each employer group. Each employer group premium rates are negotiated around the services provided and area competitors' rates. These rates may be adjusted to reflect age, sex, occupation, and coverage characteristics for each group. Experience is reviewed for renewal groups following the review process; negotiations are held with each group employer to discuss future premium rates.

The company has developed procedures to monitor the actions of its primary care providers. The company's peer review is conducted through a revolving schedule where two company dentists weekly review the services rendered by a company dentist to an enrollee. The results of the review are documented and kept as a permanent record in the office.

As another control feature, all elective out-of-plan referral procedures must be preauthorized by a company dentist. Each member authorized for out-of-plan procedures is issued a card signed by the company dentist to present to the out-of-plan dentists. Without a preauthorized card out-of-plan services are not reimbursed.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 13 members. Officers for the board are elected at the board's annual meeting. Members of the company's board of directors are the shareholders of Racine Dental Group, S.C., (RDG) the company’s ultimate parent. Members of the board of directors remain members until they no longer own shares in Racine Dental Group, S.C., in accordance with the company’s bylaws. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation
Dr. Earl Newton Antioch, IL	Dentist
Dr. Derf Simes Milwaukee, WI	Dentist
Dr. Scott Munro Racine, WI	Dentist
Dr. Richard Palmer Racine, WI	Dentist
Dr. Thomas Scherrer New Berlin, WI	Dentist
Dr. Mark Kenfield Wauwatosa, WI	Dentist
Dr. Curtis Cruthers Burlington, WI	Dentist
Dr. Jay Oksiuta Milwaukee, WI	Dentist
Dr. Jennifer Quizon Shorewood, WI	Dentist
Dr. Thomas Linstroth Racine, WI	Dentist
Dr. Paul Elcano Racine, WI	Dentist
Dr. Aaron Cruthers Racine, WI	Dentist
Dr. Allison Emery Racine, WI	Dentist

Officers of the Company

The officers appointed by the board of directors and serving at the time of this examination are as follows:

Name	Office	2009 Compensation
Dr. Earl Newton	President	$0
Dr. Derf Simes	Vice President	0
Dr. Scott Munro	Secretary	0
Dr. Paul Elcano	Treasurer	0
Dr. Mark Kenfield	Dental Director	0

The officers receive no compensation for their duties within the affiliated relationship of RDG and the company.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee
Dr. Earl Newton, Chairperson
Dr. Derf Simes
Dr. Scott Munro
Dr. Paul Elcano
Dr. Mark Kenfield

DDSPI Committee
Dr. Earl Newton, Chairperson & Director
Carolyn Chapin, Administrator

Grievance Panel
Carolynn Chapin, Administrator
Dr. Earl Newton, DDSPI President
Dr. Mark Kenfield, Dental Director
Jean Cronk, Insurance Operations Manager
Dr. Scott Munro, DDSPI Secretary
Jim Murphy, Plan Enrollee

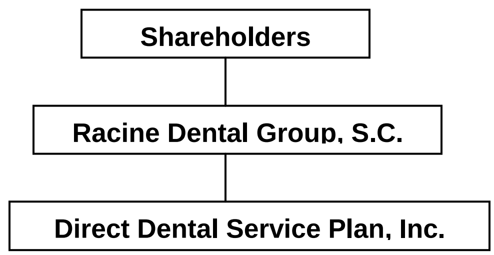
The company has no employees. Necessary staff is provided through a management agreement with RDG. Under the agreement, effective April 21, 1987, RDG agrees to negotiate employer, provider, subscriber, and other contracts; advises the board; maintains accounting and financial records; recruits marketing, utilization review, and claims processing personnel; provides or contracts for claims processing, and MIS. The company pays RDG a fixed percentage of 12% of gross written premiums for administrative services rendered. The term of the agreement is continuous. The company may terminate the agreement upon 30 days' written notice if default of standards of performance continues 30 days after notice of such default.

Aside from the management agreement, the company has a provider agreement with RDG, in which the company pays 88% of its gross premiums to RDG for services rendered. This was discussed in the section “History and Plan of Operation” above.

IV. AFFILIATED COMPANIES

Direct Dental Service Plan, Inc., is a member of a holding company system. Its ultimate parent is Racine Dental Group, S.C. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of Direct Dental Service Plan, Inc., follows the organizational chart.

Holding Company Chart
As of December 31, 2009



Racine Dental Group, S.C.

Racine Dental Group, S.C., provides dental service to Racine and Kenosha area residents and employer groups. As of the fiscal year ending December 31, 2009, the company's unaudited financial statement reported assets of $1,688,634, liabilities of $1,375,247, and stockholders’ equity of $313,387. Operations for fiscal year ending December 31, 2009, produced “Corporation Net Profit before Stockholder Salaries & Benefits” of $1,195,968. Net result after tax was a loss of $447,111 or 12% of total income of $3,899,502.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2009, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the company for the period under examination. There were no adjustments made as a result of the examination.

Direct Dental Service Plan, Inc.
Assets
As of December 31, 2009

	Assets	Nonadmitted Assets	Net Admitted Assets
Cash, cash equivalents and short-term investments	$2,359	$0	$2,359
Total Assets	$2,359	$0	$2,359

Direct Dental Service Plan, Inc.
Liabilities and Net Worth
As of December 31, 2009

Total liabilities		$ 0
Common capital stock	$ 800	
Surplus notes	7,140	
Unassigned funds (surplus)	(5,581)	
Total capital and surplus		2,359
Total Liabilities, Capital and Surplus		$2,359

Direct Dental Service Plan, Inc.
Statement of Revenue and Expenses
For the Year 2009

Net premium income		$3,182,123
Medical and hospital:		
Other professional services	$2,800,268	
General administrative expenses	381,855	
Total underwriting deductions		3,182,123
Net Income (Loss)		$ 0

Direct Dental Service Plan, Inc.
Capital and Surplus Account
As of December 31, 2009

Capital and surplus prior reporting year	$2,359
Capital and Surplus End of Reporting Year	$2,359

Direct Dental Service Plan, Inc.
Statement of Cash Flows
As of December 31, 2009

Premiums collected net of reinsurance		$3,182,123
Less:		
Benefit- and loss-related payments	$2,800,268	
Commissions, expenses paid and aggregate write-ins for deductions	381,855	
Total		3,182,123
Net cash from operations		0
Net change in cash and short-term investments		0
Beginning of year (cash and short-term investments)		2,359
End of Year (cash and short-term investments)		$ 2,359

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
2009	$ 2,359	$ 0	$2,359	$3,182,123	$2,800,268	$0
2008	2,359	0	2,359	3,012,761	2,651,230	0
2007	41,591	39,232	2,359	2,901,910	2,553,681	0
2006	2,359	0	2,359	2,838,554	2,497,927	0
2005	2,359	0	2,359	2,819,649	2,481,291	0

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Enrollment	Change in Enrollment
2009	0.0%	88.0%	12.0%	9,016	0.2%
2008	0.0	88.0	12.0	8,998	-1.1
2007	0.0	88.0	12.0	9,100	0.0
2006	0.0	88.0	12.0	9,101	-3.0
2005	0.0	88.0	12.0	9,383	-7.5

Per Member Per Month Information

	2009	2008	Percentage Change
Premium	$29.54	$27.96	5.6%
Expenses:			
Other professional services	26.00	24.61	5.6
General administrative expenses	3.54	3.36	5.7
Total Underwriting Deductions	$29.54	$27.96	5.6

The company's enrollment declined by 11% while premium income increased by 13% over the five-year period since the last examination. The increase in premium was mainly due to increases in premium rates over the last five years. The financial results of the company show no net profit or loss and no change in assets, liabilities, and surplus during the examination period as a result of the company's agreements with Racine Dental Group, S.C. All risk for loss and administrative expenses are transferred to the parent as part of the contracts. Therefore, the company has not reported any net profit or loss since its inception in 1987. This has been the entire activity of the company and it is not foreseen that this will change except for potential increase or decrease in enrollees.

The contracts are discussed in the “Management and Control” section above.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were two 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 – It is recommended that the company file the biographical information for the missing directors within 30 days of adoption of this report and that the company file biographical information in accordance to s. Ins 6.52 (5), Wis. Adm. Code, in the future periods.

   Action – Compliance.

2. Provider Agreement – It is recommended that the company amend its provider agreement with RDG to adequately disclose the covered services that RDG is providing and file such with the commissioner within 90 days of the adoption of this report.

   Action – Compliance.

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.

Management

Discussion with the company noted that all directors are required to sign an affidavit of conflict of interest every year during the annual meeting. These affidavits are attached to one Conflict of Interest Statement and filed in the corporate records. The affidavits are the same but individually signed by the directors and officers. Review of the affidavits against the list of directors for the years 2005 to 2009 noted that there were four affidavits missing. It appears that the company is not strictly imposing the affidavit of conflict of interest as required. It is recommended that the company require all directors to sign an affidavit of conflict of interest every year and make available for examination in the future as required by the Directive of the Commissioner.

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, 2009, as filed with the Commissioner is as follows:

Assets	$ 2,359	
Irrevocable letter of credit	90,000	
Amount available to satisfy surplus requirements	92,359	
Less:		
Liabilities	0	
Examination adjustments	0	
Net amount available to satisfy surplus requirements		$ 92,359
Net premium earned	3,182,123	
Compulsory factor	3%	
Compulsory surplus		95,463
Compulsory Excess/(Deficit)		$ (3,104)
Net amount available to satisfy surplus requirements		$ 92,359
Compulsory surplus	$ 95,463	
Security surplus factor	140%	
Security surplus		133,648
Security Excess/(Deficit)		$ (41,289)

Based on the review, it appears that the company is deficient by $3,104 in compulsory surplus and $41,289 in security surplus. The commissioner may accept an irrevocable letter of credit to satisfy the requirements if the LSHO transfers all risk of loss to providers. The company has transferred all risk of loss to RDG. It is recommended that the company increase their Letter of Credit under the name of Direct Dental Service Plan, Inc., to comply with the compulsory surplus requirements pursuant to ss. 609.97 and 609.98, Wis. Stat.

VII. CONCLUSION

The company reported total assets of $2,359 and capital and surplus of the same amount. There were no liabilities reported and no changes in assets and surplus since the last examination as a result of its administrative and provider contracts with Racine Dental Group, SC. (the parent). The company's entire gross proceeds from premiums are disbursed every year to the parent as payment of services rendered. Inasmuch as the company does not have employees, it acquires business through brokers and agents which are paid by the parent. All risk for loss and administrative expenses are transferred to the parent as part of the contracts. Therefore, the company has not reported any net profit since its inception in 1987. This business model is not expected to change except for potential increase or decrease in enrollees.

Enrollment since the last examination has declined by 11% while premium income increased by 13%, attributed by increases in premium rates over the last five years.

This examination has resulted in two exam recommendations and no repeat recommendation from the prior examination. The recommendations are summarized on the following page.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 15 - Management—It is recommended that the company require all directors to sign an affidavit of conflict of interest every year and make available for examination in the future as required by the Directive of the Commissioner.

2. Page 16 - Financial Requirements—It is recommended that the company increase their Letter of Credit under the name of Direct Dental Service Plan, Inc., to comply with the compulsory surplus requirements pursuant to ss. 609.97 and 609.98, Wis. Stat.

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, Richard Janosik of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination.

Respectfully submitted,

Angelita M. Romaker
Examiner-in-Charge