

Report  
of the  
Examination of  
American Dental Plan of Wisconsin, Inc.  
Madison, Wisconsin  
As of December 31, 2015

## TABLE OF CONTENTS

	<b>Page</b>
I. INTRODUCTION .....	1
II. HISTORY AND PLAN OF OPERATION .....	3
III. MANAGEMENT AND CONTROL.....	6
IV. AFFILIATED COMPANIES.....	8
V. FINANCIAL DATA.....	9
VI. SUMMARY OF EXAMINATION RESULTS.....	16
VII. CONCLUSION.....	18
VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	19
IX. ACKNOWLEDGMENT.....	20



# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor  
Theodore K. Nickel, Commissioner

Wisconsin.gov

March 2, 2017

125 South Webster Street • P.O. Box 7873  
Madison, Wisconsin 53707-7873  
Phone: (608) 266-3585 • Fax: (608) 266-9935  
E-Mail: [ociinformation@wisconsin.gov](mailto:ociinformation@wisconsin.gov)  
Web Address: [oci.wi.gov](http://oci.wi.gov)

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:

AMERICAN DENTAL PLAN OF WISCONSIN, INC.  
Madison, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of American Dental Plan of Wisconsin, Inc. (ADP 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	Affiliated Companies
Management and Control	Growth of the Company
Corporate Records	Financial Statements
Conflict of Interest	Accounts and Records
Fidelity Bonds and Other Insurance	Information Technology
Provider Contracts	Enrollee Complaint Procedure
Territory and Plan of Operations	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 public 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 \$84,000 (\$1,000 per share) at year-end 2015. The 84 outstanding shares of stock were owned by 60 different dental providers. The company has 34 shares (\$34,000) 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 191 groups as of the date of this examination.

The company provides subscriber-group enrollees with covered dental services through contracts with 131 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 71 agents in 33 separate agencies. Agents are paid commissions on each employer group for which the company has issued a policy. Commissions paid on new and renewal business are based on the following schedule:

<u>Commissions</u>	<u>Subscriber Group Size</u>
12%	Groups of less than 25
10%	Groups of 25 to 49
7% (monthly premium is under \$10,000)	Groups of 50 or more
5% (monthly premium is over \$10,000)	Groups of 50 or more
6% (Achip Company)	Groups of less than 50
5% (Achip Company)	Groups of 50 to 99

"ACHIP" stands for Alliance Chamber Health Insurance Program. 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 and the president receives \$650 for serving on the board.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Eric TeDuits, DDS Fitchburg, WI	Dentist	2018
Damian Fennig, DDS Oconomowoc, WI	Dentist	2018
Scott Johnson, DDS Madison, WI	Dentist	2018
Lori Veerman, DDS Verona, WI	Dentist	2019
Michael Grode, DDS Middleton, WI	Dentist	2019
Patrick Tepe, DDS Middleton, WI	Dentist	2019

#### Officers of the company

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

<b>Name</b>	<b>Office</b>	<b>2015 Compensation</b>
Darryl Veit	President	\$7,800
Terrance Donnelly	Treasurer	6,000
Eric TeDuits	Secretary	6,000

Darryl Veit retired December 31, 2015. Lori Veerman was appointed to the board to fulfill Darryl's term through December 31, 2016. She was subsequently re-elected to the board effective January 1, 2017, through December 31, 2019. Terry Donnelly retired June 30, 2016, and Michael Grode was appointed to complete his term. He remains on the board as a Series 3 representative.



## **Committees of the Board**

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

### **Premium and New Business Committee**

Eric TeDuits, Chair  
Patrick Tepe  
Damian Fennig  
Lori Veerman

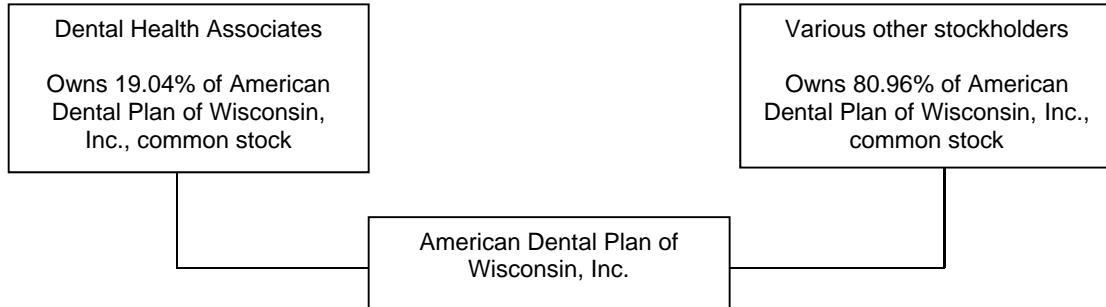
The company has no employees. Necessary staff is provided through an administrative service agreement with SVA Diversified Services, Inc. (SVA), under which SVA agrees to provide administrative services which include: maintaining group contract and renewal information, and enrollment database; produce billing statements and monthly commission statements, post all 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 84 shares of outstanding stock which is owned by 51 different dental providers. Dental Health Associates is the majority stockholder owning 16 shares.

#### Holding Company Chart As of December 31, 2015



## **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.

**American Dental Plan of Wisconsin, Inc.  
Assets  
As of December 31, 2015**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Cash, cash equivalents and short-term investments	\$144,186	\$	\$144,186
Uncollected premiums and agents' balances in the course of collection	9,093		9,093
Aggregate write-ins for other than invested assets	<u>6,080</u>	<u>6,080</u>	<u>          </u>
<b>Total Assets</b>	<b><u>\$159,359</u></b>	<b><u>\$6,080</u></b>	<b><u>\$153,279</u></b>

**American Dental Plan of Wisconsin, Inc.  
Liabilities and Net Worth  
As of December 31, 2015**

Aggregate health policy reserves		\$ 12,238
Premiums received in advance		18,983
General expenses due or accrued		<u>29,538</u>
Total liabilities		60,759
Common capital stock	\$118,000	
Unassigned funds (surplus)	8,519	
Less treasury stock, at cost:		
Common shares	<u>34,000</u>	
Total capital and surplus		<u>92,519</u>
<b>Total Liabilities, Capital and Surplus</b>		<b><u>\$153,278</u></b>

**American Dental Plan of Wisconsin, Inc.  
Statement of Revenue and Expenses  
For the Year 2015**

Net premium income		\$1,380,801
Medical and hospital:		
Hospital/medical benefits	\$1,139,437	
General administrative expenses	<u>241,480</u>	
Total underwriting deductions		<u>1,380,917</u>
Net underwriting gain or (loss)		(116)
Net investment income earned	<u>534</u>	
Net investment gains (loss)		<u>534</u>
Net income or (loss) after capital gains tax		
Net Income (Loss)		<u>\$ 418</u>

**American Dental Plan of Wisconsin, Inc.  
Capital and Surplus Account  
For the Five-Year Period Ending December 31, 2015**

	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Capital and surplus, beginning of year	\$92,101	\$93,430	\$94,312	\$94,312	\$102,569
Net income (loss)	418	66	487	274	(3,216)
Change in nonadmitted assets		(395)	(370)	(274)	(5,041)
Change in treasury stock		(1,000)	(1,000)		
Net change in capital and surplus	<u>418</u>	<u>(1,329)</u>	<u>(883)</u>	<u>        </u>	<u>(8,257)</u>
Capital and Surplus, End of Reporting Year	<u>\$92,519</u>	<u>\$92,101</u>	<u>\$93,429</u>	<u>\$94,312</u>	<u>\$ 94,312</u>

**American Dental Plan of Wisconsin  
Statement of Cash Flows  
As of December 31, 2015**

Premiums collected net of reinsurance	\$1,322,576
Net investment income	<u>534</u>
Total	1,323,110
Less:	
Benefit- and loss- related payments	\$1,139,437
Commissions, expenses paid and aggregate write-ins for deductions	<u>241,480</u>
Total	<u>1,380,917</u>
Net cash from operations	(57,807)
Cash provided/applied:	
Other cash provided (applied)	<u>(3,682)</u>
Net change in cash, cash equivalents and short-term investments	(61,489)
Cash, cash equivalents, and short-term investments:	
Beginning of year	<u>205,675</u>
End of Year	<u>\$ 144,186</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
2015	\$153,279	\$ 60,759	\$ 92,519	\$1,380,801	\$1,139,437	\$ 418
2014	218,398	126,297	92,101	2,761,758	2,443,916	66
2013	164,992	71,562	93,430	3,063,587	2,718,119	487
2012	175,104	80,792	94,312	3,058,485	2,624,824	274
2011	185,933	91,621	94,312	3,049,744	2,617,343	(3,216)
2010	235,818	133,249	102,569	2,990,770	2,565,294	(2,561)

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Enrollment	Change in Enrollment
2015	0.0%	82.5%	17.5%	3,309	-51.9%
2014	0.0	88.5	11.5	6,873	-7.7
2013	0.0	88.7	11.3	7,448	-5.8
2012	0.0	85.8	14.2	7,905	-2.9
2011	-0.1	85.8	14.3	8,140	2.4
2010	-0.1	85.8	14.4	7,947	-2.4

### Per Member Per Month Information

	2015	2014	Percentage Change
Premiums	\$34.0	\$32.6	4.3%
Expenses:			
Hospital/medical benefits	28.1	28.9	-2.7
General administrative expenses	<u>6.0</u>	<u>3.8</u>	57.9
Total Underwriting Deductions	<u>\$34.1</u>	<u>\$32.7</u>	4.3

The company's assets decreased 35% over the five-year period under examination from \$235,818 in 2010 to \$153,279 in 2015, while liabilities decreased by 54%. The company's capital and surplus decreased 10% over the examination period to \$92,519 due an increase in nonadmitted assets, specifically prepaid insurance and prepaid income taxes. Premium earned and medical expenses incurred decreased 54% and 56%, respectively, over the examination period. The company's enrollment decreased 58% over the five-year period under examination, with the most significant decrease in enrollment occurring in 2015 due to the loss of the company's largest employer groups, St. Mary's Hospital and Medical Center. Net income increased by 55% to \$418 from -\$3,216 in 2011. Administrative expenses increased due to an increase in rates renegotiated with SVA for administrative and marketing services after the loss of enrollment. The company has essentially operated at breakeven over the examination period.

## Financial Requirements

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

	<b>Amount Required</b>
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 paragraph 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, is as follows:

Assets	\$ 153,279	
Irrevocable letter of credit	<u>75,000</u>	
Amount available to satisfy surplus requirements	228,279	
Less:		
Liabilities	60,759	
Examination adjustments	<u>                    </u>	
Net amount available to satisfy surplus requirements		\$167,520
Net premium earned	1,380,801	
Compulsory factor	<u>3%</u>	
Compulsory surplus		<u>41,424</u>
Compulsory Excess/(Deficit)		<u>\$ 92,520</u>
Net amount available to satisfy surplus requirements		\$167,520
Compulsory surplus	41,424	
Security surplus factor	<u>140%</u>	
Security surplus		<u>105,000</u>
Security Excess/(Deficit)		<u>\$ 62,520</u>

#### **Reconciliation of Capital and Surplus per Examination**

No adjustments were made to surplus as a result of the examination. The amount of capital and surplus reported by the company as of December 31, 2015, 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. Unclaimed Funds—It is recommended that the company comply with ch. 177, Wis. Stat., as regards unclaimed funds, and that a liability for unclaimed funds be established in future statutory annual statements to account for all checks outstanding for over one year.

Action—Compliance

2. Prepaid Assets—It is recommended that the company nonadmit prepaid assets in accordance with SSAP No. 29.

Action—Compliance

3. Unearned Premiums—It is recommended that the company report unearned premiums in accordance with SSAP No. 54, paragraph 12.

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 and Control**

The review of the annual shareholders meeting minutes revealed that there have not been approval of minutes of preceding meetings as required by the company's Bylaws in Section 2.10.(4) - Order of Business at Meetings. It is recommended that the company comply with its Bylaws as regards approval of minutes of preceding meeting.

### **Premiums Received in Advance**

The examination's review of advanced premium disclosed that the company had used a feature in its software to close an invoice with a credit balance. The feature erroneously created duplicate credit entries. The problem should have been manually corrected. The process of correcting the errors by offsetting entries to transfer any overpayment to the next billing cycle created numerous errors in premium received in advance which double counted credits to group accounts. It appears some carry over of the duplicate entries never got corrected. It is recommended that the company periodically review the premium received in advance account and correct anomalies to avoid duplicate entries.

### **Provider Contracts**

The review of the provider contracts revealed that the company's administrator was unable to provide copies of the executed provider contracts the company had on file over the examination period. Management stated that the copies were either destroyed or misplaced. It is recommended that the company maintain documents for as long as they are in force as a matter of best practice.

## **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 131 dentists.

The company's assets decreased 35% over the five-year period under examination from \$235,818 in 2010 to \$153,279 in 2015, while liabilities decreased by 54%. Premium earned and medical expenses incurred decreased 54% and 56%, respectively, over the examination period. The company's enrollment decreased 58% over the five-year period under examination, with the most significant decrease in enrollment occurring in 2015 due to the loss of the company's largest employer groups, St. Mary's Hospital and Medical Center.

The examination resulted in no adjustments to surplus; three recommendations were made. The recommendations related to the areas of management and control, premiums received in advance, and provider contracts.

### VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 - Management and Control—It is recommended that the company comply with its Bylaws as regards approval of minutes of preceding meeting.
2. Page 17 - 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.
3. Page 17 - Provider Contracts—It is recommended that the company maintain documents for as long as they are in force as a matter of best practice.

## 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:

<b>Name</b>	<b>Title</b>
Jacob Burkett	Insurance Financial Examiner

Respectfully submitted,

Vickie Ostien  
Examiner-in-Charge