

Report
of the
Examination of
Delta Dental of Wisconsin, Inc.
Stevens Point, Wisconsin
As of December 31, 2016

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

January 5, 2018

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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:

DELTA DENTAL OF WISCONSIN, INC.
Stevens Point, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Delta Dental of Wisconsin, Inc. (hereinafter DDWI or the company), was conducted in 2012 as of December 31, 2011. The current examination covered the intervening period ending December 31, 2016, and included a review of such 2017 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurer to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual

statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

Delta Dental of Wisconsin, Inc., is described as a non-stock, nonprofit service insurance corporation, licensed under ch. 613, Wis. Stat., established to provide dental care plans. DDWI offers a variety of benefit plans, on both insured and self-insured basis, including: a) traditional indemnity plans and b) preferred provider organization plans. These plan types are further discussed in the description of benefit plans later in this section.

The company was incorporated on May 17, 1962, and commenced business on January 1, 1967. The company was initially named Wisconsin Dental Service, Inc. It changed its name to Delta Dental Plan of Wisconsin in 1978. In May 2005 the company amended its Articles of Incorporation to change its name to that presently used. In April 2008 the company amended its bylaws to refine its committee structure ensuring that the Executive Committee had alternating directors, expanding the duties of the Nominating and Governance Committee, establishing a Compensation Committee, and clarifying the succession plan in the event the chairperson can no longer serve. The company is part of the nationwide Delta Dental Plan System. The Delta Dental Plan Association establishes compliance standards for member plans.

DDWI utilizes two provider networks to carry out its mission of providing dental benefits—Delta Dental Premier and Delta Dental PPO. A traditional indemnity program is delivered through the Delta Dental Premier network. DDWI has contracts with 3,118 providers, which is approximately 92% of Wisconsin dentists. Under a participating dentist contract, providers agree to accept payment for services based on the lesser of the actual billed fee or the Maximum Allowable Charge (MAC) established by DDWI for each procedure. Enrollees are free to see both contracted and noncontracted providers and no referrals are necessary to seek treatment from a specialist.

In addition to contracted arrangements with providers for its indemnity plans, the company also has a preferred provider organization (PPO) network which includes 1,550 contracting providers. Under the PPO contracts, dentists agree to reimbursement according to a schedule designed to be significantly below the average fee charged per procedure. DDWI has separate rate schedules for general dentistry and specialists in endodontics, periodontics, oral surgery, and orthodontics.

Delta Dental Premier and PPO networks are available on both insured and self-insured Administrative Services Only (ASO) plans. Currently, approximately 68% of DDWI's book of business is ASO. Under ASO plans, an employer establishes benefits, rights and privileges for participating employees and their dependents. DDWI processes benefit payments and collects per-member-per-month administrative fees from the employer for service rendered.

Pooled plans for small groups (2 to 49 employees) are available utilizing the Delta Dental Premier and PPO networks. Plans for groups with 2 or more employees can be offered without any employer contribution.

The provider contracts for both the Delta Dental Premiere and PPO networks include hold-harmless provisions for the protection of policyholders. Under these contracts, the dentist agrees that an eligible patient shall not be liable for any amount payable by DDWI under the terms of the applicable dental care contract, whether or not payment has been made by DDWI. Provider contracts may be terminated by either party giving not less than 30 days' written notice to the other party prior to the desired effective date of termination.

Group Insurance Coverage

The company markets its group insurance plans throughout Wisconsin. The company offers a limited range of dental care coverage that may be changed by riders to include deductibles and coinsurance. The following basic dental-care coverages are provided:

- Diagnostic and preventive services (dental exams, bitewing x-rays, teeth cleaning, topical fluoride treatment for dependents to age 19).
- Basic restorative services (emergency treatment to relieve pain; extractions and other oral surgery; fillings).
- Major restorative services (root canal and gum disease treatment, oral surgery, crowns, complete and partial dentures, fixed bridges, repairs and adjustments).
- Orthodontic treatment – optional.

Deductibles usually range from \$0 to \$100 per person per calendar year. Dependent coverage is generally provided to age 26 for dependents and full-time students. Benefit maximums vary by plan type, usually ranging from \$300 to \$2,000 per person per Benefit Accumulation Period. Under the PPO plans, use of the PPO network is encouraged by plan design and by additional out-of-pocket costs for going out-of-network. Coinsurance percentages may apply.

The company markets to groups and individuals. Nearly all of DDWI's group dental plans can be offered at any level of employer contribution. Group business is marketed using outside agencies supported by in-house account executives. Agent commissions range from 1% to 10% of annual premium, varying by product. Individual business is marketed by Encara Corp. on behalf of DDWI but is administered by DDWI.

Individual Dental Coverage

Delta Dental of Wisconsin, Inc., offers three core Individual plan options, Enhanced, Classic and Basic, and three Exchange certified plans, Delta Dental Individual & Family High Plan, Low Plan Major and Low Plan. All plans are available for single enrollees (single plan), single enrollee plus one dependent (two-person plan), or single enrollee plus multiple dependents (family plan).

The Enhanced Plan works like employer-sponsored dental plans, where the individual pays a small percentage of the cost for services and the plan pays the rest. Preventive care is covered at 100%, which means the individual pays nothing for exams, cleanings, X-rays and topical fluoride treatments. Benefits are subject to a \$50 annual deductible, and a \$1,000 policy-year dollar maximum.

The Classic Plan works like the Enhanced Plan except the individual pays a small percentage of the cost for every dental service, including preventive care, and the plan pays the rest. Benefits are subject to a \$50 annual deductible, and a \$1,000 policy-year dollar maximum.

The Basic Plan provides basic protection where diagnostic services and most preventive care are covered at 100%. Emergency services, fillings and non-surgical extractions are also covered. There is no annual deductible, and a \$1,000 policy-year dollar maximum applies.

The company starts premium calculation with an actuarially determined base rate factor. The rate may be adjusted for relevant demographic factors including, but not limited to, age, geography, group size, and occupation as well as the group's specific covered benefits. At renewal, group experience is reviewed and a recommendation is made for adjusting the group's rate. In rare instances, the recommendation may include canceling the group's coverage. The base rate and other rating factors are reviewed regularly and adjusted to reflect changes in trend and other relevant cost drivers.

DDWI is a member of the Delta Dental Plans Association (DDPA). DDPA, headquartered in Oak Brook, Illinois, is an association of independent service corporations from around the country. The DDPA coordinates activity among the Delta Dental plans. Examples of DDPA activities include advertising programs, DeltaUSA products, and setting of national standards for such issues as grievance procedures and contract language. DDWI's President, Dennis Peterson, is a member of the DDPA board of directors.

DDWI maintains a strategic alliance with the DDPA member companies of Illinois and Arizona, which it refers to as the Advantech partnership. DDWI provides the members of the alliance with certain information technology services for dental-benefit administration. These services include software development and implementation, online processing services, and training and consulting. The members of the partnership reimburse DDWI for its service on a volume-based, fixed charge per claim, subject to a minimum monthly charge. In addition, the development costs of any new enhancement to the system are split between the partners that are participating in the project.

As part of its business operations, DDWI provides grants to various organizations that address oral health disparities in Wisconsin. Its priority is assisting children, individuals with disabilities, and residents in rural or underserved urban areas. In 2016, the company distributed more than \$2.7 million in grants and scholarships to help promote the oral health of Wisconsin residents.

III. MANAGEMENT AND CONTROL

Board of Directors

The corporate bylaws provide that the board of directors consist of no fewer than nine and no more than thirteen directors, which are elected at an annual meeting of the board by a vote of the majority of directors then in office. The President of the company may be a member of the board, if elected by the board. The directors, except the President if the President is also a director, are divided into three classes with one class elected annually for a term of three years, with a limit of four consecutive terms. The principal corporate officers are Chairperson, President, Secretary, and Chief Financial Officer, with these positions appointed at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. All board members not employed by DDWI currently receive \$1,000 per meeting compensation. Members not employed by DDWI receive monthly compensation of \$5,919 for serving on the board. The company pays expenses for meals and lodging. Board members living outside a 10-mile radius of Stevens Point are reimbursed for mileage at the current IRS rates.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
David H. Bretting Ashland, WI	President and CEO C.G. Bretting Manufacturing Co. Inc.	2018
Vincent P. Lyles Milwaukee, WI	President and CEO Boys and Girls Clubs of Greater Milwaukee	2018
Dr. Monica Hebl, DDS Milwaukee, WI	Practicing Dentist Burleigh Dental, SC	2019
Charles Nason Stevens Point, WI	Retired - Book Publisher	2017
Karen Ordinans Milwaukee, WI	Executive Director Childrens Health Alliance of WI	2017
Christopher Queram Middleton, WI	President & CEO The WI Collaborative for Healthcare Quality	2017
Eugene R. "Pepi" Randolph Milwaukee, WI	Senior VP of Business Development Plunkett Raysich Architects, LLP	2018

Name and Residence	Principal Occupation	Term Expires
Dr. Timothy R. Kinzel, DDS Madison, WI	Practicing Dentist Children's Dental Center of Madison, SC	2019
Dennis L. Brown Stevens Point, WI	Retired, former President and CEO, Delta Dental of Wisconsin, Inc.	2018

Officers of the company

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

Name	Office	2016 Compensation*
Dennis Peterson	President, current	\$974,471
Dennis Brown**	President, former	670,127
Pamela Gartmann	Secretary	474,050
Douglas Ballweg	Treasurer	641,111

*Total compensation from the DDWI Group.

**Dennis Brown was President of DDWI until April of 2016.

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

Chuck Nason, Chair
Eugene "Pepi" Randolph
David Bretting
Dr. Timothy Kinzel
Chris Queram
Dennis Peterson, President
Dennis Brown, former President

Finance and Audit Committee

David Bretting, Chair
Chuck Nason, Board Chairperson
Dr. Timothy Kinzel
Vincent Lyles
Dennis Peterson, President
Dennis Brown, former President

Compensation Committee

Chris Queram, Chair
Chuck Nason, Board Chairperson
David Bretting
Monica Hebl
Dennis Peterson, President
Dennis Brown, former President

Charitable Fund Committee

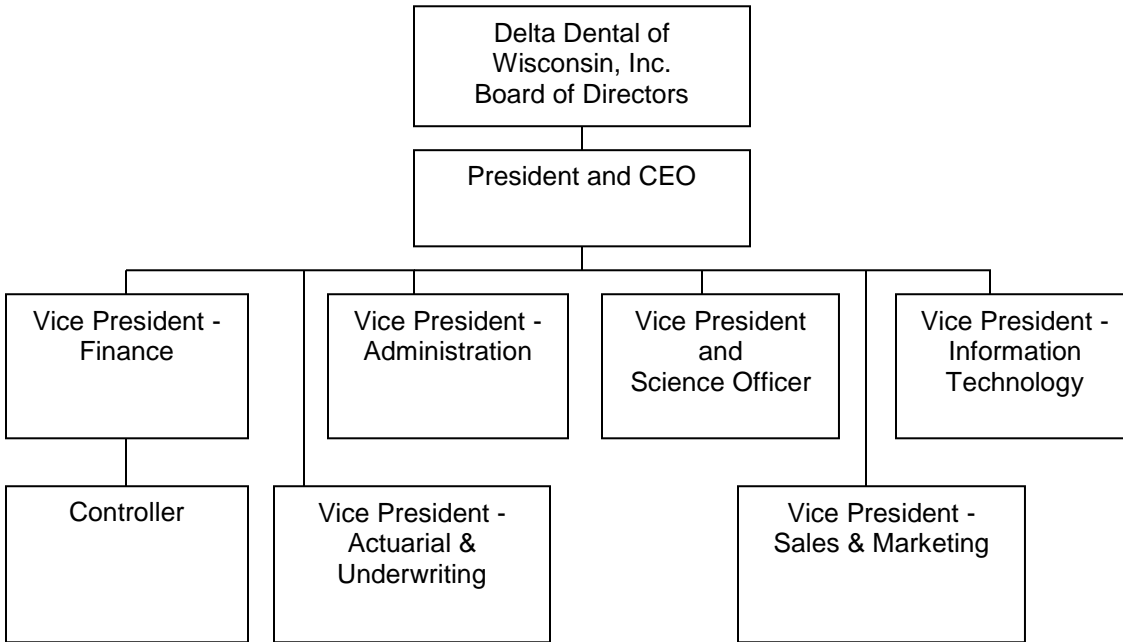
Dr. Timothy Kinzel, Chair
Chuck Nason, Board Chairperson
Chris Queram
Eugene "Pepi" Randolph
Karen Ordinans
Monica Hebl
Dennis Peterson, President
Dennis Brown, former President

Nominating & Governance Committee

Pepi Randolph, Chairperson
Chuck Nason, Board Chairperson
David Bretting
Dennis Peterson, President
Dennis Brown, former President

The company has its own employees. The organizational and principal officers of the company are reflected in the chart below.

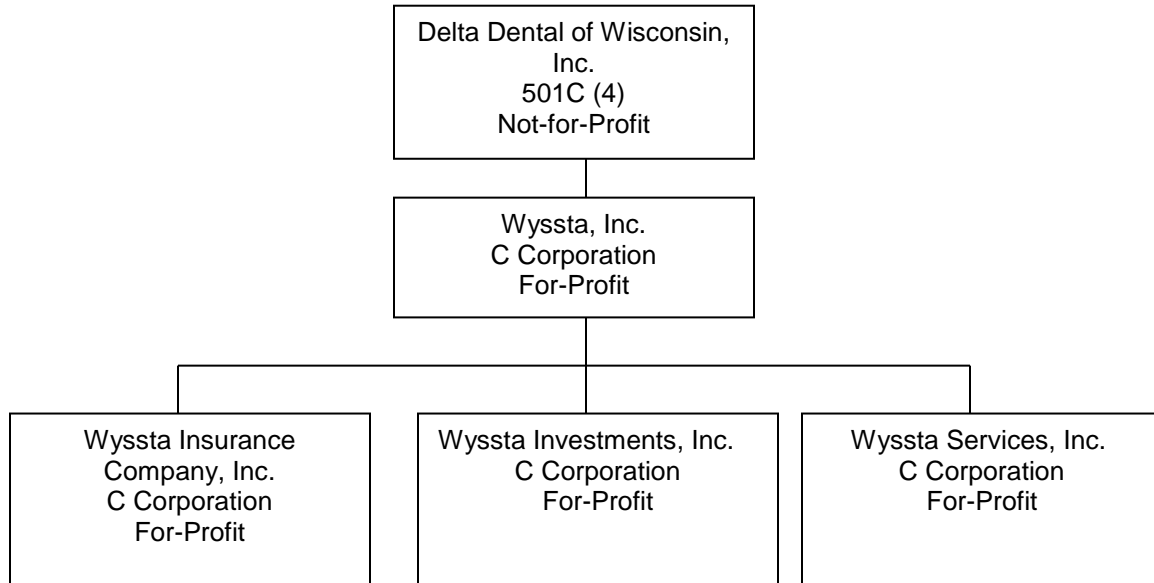
**Delta Dental of Wisconsin, Inc.
Organizational Chart**



IV. AFFILIATED COMPANIES

Delta Dental of Wisconsin, Inc., is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. All members on the holding company chart are domiciled in Wisconsin. A brief description of the significant affiliates of Delta Dental of Wisconsin, Inc., follows the organizational chart.

Holding Company Chart As of December 31, 2016



Wyssta, Inc.

Wyssta, Inc., a wholly owned subsidiary of DDWI, was incorporated on June 30, 2005; and was formed to operate as a holding company. Wyssta, Inc., has three wholly owned subsidiaries, Wyssta Insurance Company, Inc., Wyssta Investments, Inc., and Wyssta Services, Inc. Wyssta, Inc., has 100,000 shares of no par value common stock authorized and 16,270 shares issued and outstanding. As of December 31, 2016, the Wyssta, Inc., and Subsidiaries consolidated audited financial statements reported total assets of \$13,014,607, total liabilities of \$1,753,291, and total stockholder's equity of \$11,261,316. Operations for 2016 produced a net income of \$806,491 on total revenues of \$10,429,763.

Wyssta, Inc., has a service agreement with Delta Dental of Wisconsin, Inc., dated January 1, 2008, according to which DDWI provides to Wyssta, Inc., administrative, managerial, and professional services. In addition, DDWI maintains premises and employees sufficient to provide Wyssta, Inc., with space and services necessary for Wyssta, Inc., to carry out its operations. Wyssta, Inc., reimburses DDWI for all costs and expenses incurred by DDWI for employees, equipment, facilities and other items in connection with DDWI performing services on behalf of Wyssta, Inc.

Wyssta Insurance Company, Inc.

Wyssta Insurance Company, Inc., became a part of the holding company system on June 30, 2005, on which date the company was incorporated. The company was organized under ch. 611, Wis. Stat. Wyssta Insurance Company, Inc., provides group vision policies offered through a partnership with EyeMed Vision Care, Inc. Wyssta Insurance Company, Inc., has 50,000 shares of \$25 par value common stock authorized, issued, and outstanding which are indirectly owned by DDWI. As of December 31, 2016, the Wyssta Insurance Company, Inc., audited financial statement reported total assets of \$10,361,115, total liabilities of \$997,793, and total capital and surplus of \$9,363,322. Operations for 2016 produced net income of \$1,080,666 on total premiums of \$10,349,287.

Wyssta Insurance Company, Inc., has a service agreement with DDWI, dated January 1, 2008, according to which DDWI provides to Wyssta Insurance Company, Inc., administrative, managerial, and professional services. In addition, DDWI maintains premises and employees sufficient to provide Wyssta Insurance Company, Inc., with space and services necessary for Wyssta Insurance Company, Inc., to carry out its operations. Wyssta Insurance Company, Inc., reimburses DDWI for all costs and expenses incurred by DDWI for employees, equipment, facilities and other items in connection with DDWI performing services on behalf of Wyssta Insurance Company, Inc.

Wyssta Services, Inc.

Wyssta Services, Inc., (fka Advantech Dental Administration, Inc.), provides various dental administrative services and has 9,000 shares of \$1.00 par value common stock authorized and 3,500 shares issued and outstanding which are owned by Wyssta, Inc. As of December 31, 2016, the Wyssta Services, Inc., audited financial statement reported total assets of \$504,358, total liabilities of

\$4,571, and total stockholder's equity of \$499,787. Operations for 2016 produced net loss of \$7,959 on total revenues of \$74,688.

DDWI has a service agreement with Wyssta Services, Inc., dated January 1, 2008, according to which DDWI provides administrative and managerial services necessary for Wyssta Services, Inc., to conduct its normal business operations as a third-party administrator. The services include providing general management, information and personnel to perform third-party processing services. Wyssta Services, Inc., reimburses DDWI for the actual cost of these services.

Wyssta Investments, Inc.

Wyssta Investments, Inc., became a part of the holding company system on August 18, 2006. Wyssta Investments, Inc., was created for the purpose of holding an investment in a start-up biotechnology company, C3 Jian, Inc. (C3 Jian). Since this time the company has added investments in Healthentic, Inc. (Healthentic) and Encara Corporation (Encara).

- C3 Jian—A biotech firm out of Marina Del Rey, California, which conducts research projects related to dental cavity treatments. In prior years Wyssta Investments, Inc., has invested \$20,000,000 in C3 Jian, resulting in a 9% ownership as of December 31, 2016. An employee of DDWI holds one of the nine board positions of C3 Jian as of December 31, 2016. Under the equity method of accounting the Wyssta Investments, Inc., share of the equity in C3 Jian was \$0 as of December 31, 2016.
- Healthentic—Based in Seattle, Washington, this firm promotes wellness by offering a tool to help benefit managers control health care costs and outcomes. Wyssta Investments, Inc., was a 20% owner in Healthentic as of December 31, 2016. Total investment as of December 31, 2016, is \$5,150,000. Under the equity method of accounting the Wyssta Investments, Inc.'s share of the equity in Healthentic was \$706,235, as of December 31, 2016.
- Encara—A joint venture effort with three other members of the Delta Dental Plans Association (Delta Dental of Virginia, Washington Dental Service, and Delta Dental of New Jersey) to devise a dental insurance product for offering in the individual health exchanges to be created under the Affordable Care Act. Total investment as of December 31, 2016, is \$2,100,000. Wyssta Investments, Inc., held a 25% ownership interest and held one of four board seats as of December 31, 2016. Under the equity method of accounting the Wyssta Investments, Inc., share of the equity in Encara was \$285,817, as of December 31, 2016.

As of December 31, 2016, Wyssta, Inc., and Subsidiaries audited financial statements reported total assets of \$2,028,997, total liabilities of \$750,000, and total stockholder's equity of \$1,278,997 for Wyssta Investments, Inc. Operations for 2016 produced a net loss of \$248,218.

DDWI has a service agreement with Wyssta Investments, Inc., dated January 1, 2008, according to which DDWI provides administrative and managerial services necessary for Wyssta

Investments, Inc. The services include general management, information and personnel to perform duties. Wyssta Investments, Inc., reimburses DDWI for the actual cost of these services.

V. REINSURANCE

Effective December 31, 1995, DDWI entered into a joint venture agreement with Wisconsin Physicians Service Insurance Corporation (WPS). Under the agreement, DDWI “will underwrite and issue group dental coverage under one of its group dental plans to eligible participants enrolled by WPS and will also process, investigate, settle, and issue benefit payments for such plan participants.” WPS’ duties include marketing and premium collection. The joint venture agreement defines fees relevant to the joint venture policies and indicates that fees are to be split monthly so that 80% is earned by DDWI as its administrative fee and 20% is earned by WPS as its marketing fee. Both marketing and administrative fees are subject to specified per-member-per-month minimum earning levels. The agreement was non-cancellable for the initial three-year term after which it can be automatically renewed for additional one-year terms. All policies issued under the WPS/DDWI joint venture agreement are reinsured under a quota-share reinsurance agreement, which is outlined below:

Reinsurer: Wisconsin Physicians Service Insurance Corporation

Type: Quota-Share Reinsurance

Effective date: January 1, 1996; policy is for an initial three-year term and automatically renewing for additional one-year terms thereafter

Policy Coverage Reinsured:	Reinsurance Quota Share	Company's Quota Share	Ceding Allowance
1) Group dental policies originally issued by WPS and then transferred to DDWI policy forms in accordance with the 1995 joint venture agreement	100%	None	None
2) Group dental policies solicited by WPS and issued on DDWI policy form with initial effective dates of January 1, 1996, or later	50%	50%	None
3) Group dental policies solicited by and originally issued on DDWI policy forms who elect to enter the Joint Venture agreement	None	100%	100%

Termination: Either party may terminate the agreement by giving the other party written notice of such intention to terminate at least 180 days in advance of the effective date of termination

The quota-share reinsurance agreement contains a proper insolvency clause.

On February 1, 2000, DDWI entered into a reinsurance assumption agreement with seven members of the Delta Dental Plans Association (DDPA). The purpose of the agreement is to share the underwriting risk under the TRICARE Retiree Dental Program (TRDP). The TRDP contract was awarded to Delta Dental Plan of California (DDP of CA) by the United States Department of Defense to provide dental benefits to certain military personnel retired from the U.S. Military Services and their dependents. All functions and operations required to be performed by the TRDP contract are performed by DDP of CA. The Delta Dental Plans Association members participating in the agreement share any underwriting gain or loss sustained under the TRDP contract according to their contractual percentages. An amendment to the Amended and Restated Risk-Sharing Agreement, effective January 1, 2014, allowed DDWI to increase its risk retention in the pool with a 3.02% share.

On January 1, 2014, DDWI also entered into a second risk sharing agreement with Delta Dental Plan of California. The agreement DDWI has with DDP of CA is the Federal Employees Dental and Vision Insurance Program (FEDVIP) and Veterans Affairs Dental Insurance Program (VADIP). DDWI is a 2.53% participant of the pool.

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, 2016, 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.

Delta Dental of Wisconsin, Inc.
Assets
As of December 31, 2016

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$114,229,943	\$ 0	\$114,229,943
Stocks:			
Common stocks	83,411,187	0	83,411,187
Real estate:			
Properties occupied by the company	4,100,741	0	4,100,741
Cash, cash equivalents and short-term investments	9,297,081	0	9,297,081
Other invested assets	200,000	200,000	0
Investment income due and accrued	753,100	0	753,100
Uncollected premiums and agents' balances in the course of collection	1,230,504	1,085	1,229,419
Funds held by or deposited with reinsured companies	246,549	0	246,549
Amounts receivable relating to uninsured plans	544,687	0	544,687
Electronic data processing equipment and software	733,371	84,283	649,088
Furniture and equipment, including health care delivery assets	440,821	440,821	0
Aggregate write-ins for other than invested assets	<u>4,931,510</u>	<u>933,610</u>	<u>3,997,900</u>
Total Assets	<u>\$220,119,494</u>	<u>\$1,659,799</u>	<u>\$218,459,695</u>

Delta Dental of Wisconsin, Inc.
Liabilities and Net Worth
As of December 31, 2016

Claims unpaid	\$ 10,345,100
Unpaid claims adjustment expenses	696,674
Aggregate health policy reserves	560,104
Premiums received in advance	6,095,506
General expenses due or accrued	6,803,200
Amounts withheld or retained for the account of others	8,532,901
Amounts due to parent, subsidiaries and affiliates	678,332
Liability for amounts held under uninsured plans	824,467
Aggregate write-ins for other liabilities	<u>9,014,995</u>
Total liabilities	43,551,279
Unassigned funds (surplus)	<u>174,908,416</u>
Total Liabilities, Capital and Surplus	<u>\$218,459,695</u>

Delta Dental of Wisconsin, Inc.
Statement of Revenue and Expenses
For the Year 2016

Net premium income		\$223,355,349
Medical and hospital:		
Other professional services	\$175,453,091	
Less:		
Net reinsurance recoveries	(10,910,294)	
Claims adjustment expenses	8,104,093	
General administrative expenses	23,279,131	
Increase in reserves for life and accident and health contracts	<u>34,103</u>	
Total underwriting deductions		<u>217,780,712</u>
Net underwriting gain or (loss)		5,574,637
Net investment income earned	2,142,500	
Net realized capital gains or (losses)	<u>2,245,477</u>	
Net investment gains or (losses)		4,387,977
Sundry		<u>2,113</u>
Net Income (Loss)		<u>\$ 9,964,727</u>

Delta Dental of Wisconsin, Inc.
Capital and Surplus Account
For the Five-Year Period Ending December 31, 2016

	2016	2015	2014	2013	2012
Capital and surplus, beginning of year	\$160,819,095	\$160,549,671	\$153,960,136	\$132,650,259	\$121,562,581
Net income (loss)	9,964,727	10,885,218	12,641,616	20,385,458	12,385,637
Change in net unrealized capital gains/losses	4,496,552	(10,504,462)	(5,773,840)	784,175	(974,776)
Change in non-admitted assets	(347,078)	(150,001)	(282,632)	164,864	(322,090)
Write-ins for gains and (losses) in surplus	<u>(24,880)</u>	<u>38,669</u>	<u>4,391</u>	<u>(24,619)</u>	<u>(1,094)</u>
Surplus, End of Year	<u>\$174,908,416</u>	<u>\$160,819,095</u>	<u>\$160,549,671</u>	<u>\$153,960,136</u>	<u>\$132,650,259</u>

Delta Dental of Wisconsin, Inc.
Statement of Cash Flows
As of December 31, 2016

Premiums collected net of reinsurance	\$222,695,886
Net investment income	3,070,119
Miscellaneous income	<u>2,112</u>
Total	225,768,117
Less:	
Benefit- and loss-related payments	\$187,166,788
Commissions, expenses paid and aggregate write-ins for deductions	<u>27,858,570</u>
Total	<u>215,025,358</u>
Net cash from operations	10,742,759
Proceeds from investments sold, matured or repaid:	
Bonds	\$17,845,492
Stocks	16,447,553
Real Estate	<u>40,750</u>
Total investment proceeds	34,333,794
Cost of investments acquired—long-term only:	
Bonds	23,840,357
Stocks	25,005,058
Real estate	<u>70,629</u>
Total investments acquired	<u>48,916,044</u>
Net cash from investments	(14,582,250)
Cash provided/applied:	
Other cash provided (applied)	<u>5,148,099</u>
Net change in cash, cash equivalents, and short-term investments	1,308,608
Cash, cash equivalents, and short-term investments:	
Beginning of year	<u>7,988,472</u>
End of Year	<u>\$ 9,297,081</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
2016	\$218,459,695	\$43,551,279	\$174,908,416	\$223,355,349	\$186,363,385	\$9,964,727
2015	195,306,331	34,487,613	160,819,095	223,556,347	191,013,295	10,885,218
2014	191,036,331	30,486,660	160,549,671	184,157,561	154,545,786	12,641,616
2013	182,955,299	28,995,163	153,960,136	167,573,438	140,129,068	20,385,458
2012	159,166,342	26,516,083	132,650,259	150,668,871	126,661,581	12,385,637
2011	148,536,431	26,973,850	121,562,581	132,402,584	111,528,557	11,203,225

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Enrollment	Change in Enrollment
2016	4.4%	83.5%	14.1%	525,828	(11.4)%
2015	4.8	85.3	13.3	593,165	22.1
2014	6.8	84.4	13.9	485,698	3.4
2013	12.1	83.6	10.7	469,856	3.8
2012	8.1	84.1	10.9	452,893	11.5
2011	8.3	84.2	12.3	406,171	8.9

Per Member Per Month Information

	2016	2015	Percentage Change
Premium	\$35.70	\$32.53	9.7%
Expenses:			
Medical expenses	29.79	27.80	7.2
Claims adjustment expenses	1.30	1.00	30.0
General administrative expenses	<u>3.72</u>	<u>3.32</u>	<u>12.0</u>
Total underwriting deductions	<u>\$34.81</u>	<u>\$32.12</u>	<u>8.4%</u>

Premium earned grew steadily during the examination period from \$132.4 million in 2011 to \$223.4 million in 2016, an increase of 69%. The total number of employees covered increased by 29.5%, or an increase of 119,657 in total enrollment. The 22% change in enrollment during 2014 was mainly due to a purchase of renewal rights for a block of business from another insurer. The enrollment numbers in the table above only include members the DDWI is at risk for, ASO members are not included. The 11.4% decrease in enrollment in 2016 was primarily the result of the State of Wisconsin's decision to self-fund dental benefits for its employees. As such, DDWI was no longer at

risk for those members. The growth in premiums has been strong for this company, and medical expenses incurred have grown proportionately to the growth in premiums earned, with an increase in medical expense over the examination period of \$7.5 million, or 67%. Over the examination period, the medical expense ratio has remained between 83.4% and 85.4%.

The company's operating results were profitable each year. Assets increased 47% and liabilities increased 61% over the past five years ending December 31, 2016. The company maintains a strong capital position, and underwriting and investment activities have contributed to surplus increasing by 44% during the examination period.

Reconciliation of Capital and Surplus per Examination

There were no adjustments to the company's surplus as a result of this examination.

Financial Requirements

The company's calculation of compulsory and security surplus under s. Ins 51.80, Wis. Adm. Code, as of December 31, 2016, is as follows:

Total assets		\$215,561,896
Liabilities		<u>43,551,279</u>
Subtotal – Surplus adjusted for compulsory/security surplus		<u>\$172,010,617</u>
Net amount available to satisfy surplus requirements		\$172,010,617
Net premium earned	\$223,355,349	
Compulsory factor	<u>20%</u>	
Compulsory surplus (not less than \$2,000,000)		<u>44,671,069</u>
Compulsory Excess/(Deficit)		<u>\$127,339,548</u>
Net amount available to satisfy surplus requirements		\$172,010,617
Compulsory surplus	\$44,671,069	
Security surplus factor	<u>134%</u>	
Security surplus		<u>59,859,232</u>
Security Excess/(Deficit)		<u>\$112,151,385</u>

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no specific comments and recommendations in the previous examination report.

Summary of Current Examination Results

The current examination resulted in no exam recommendations, reclassifications, or surplus adjustments.

VII. CONCLUSION

Delta Dental of Wisconsin, Inc., is a non-stock, nonprofit service insurance corporation, established to provide dental care plans. Approximately 92% of Wisconsin dentists have a participating dental contract with DDWI.

DDWI's financial statements reported assets of \$218,459,695, liabilities of \$43,551,279, and surplus of \$174,908,416. Operations for 2016 produced a net income of \$9,964,727. Total assets increased 47%, liabilities increased 61%, and surplus increased 44% in the past five years. Premiums earned increased 69% during the examination period. The company had a favorable net income in all five years under examination.

The prior examination resulted in no recommendations. The current examination resulted in no recommendations, reclassifications, or surplus adjustments.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The current examination resulted in no exam recommendations, reclassifications, or surplus adjustments.

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
Mike Miller	Insurance Financial Examiner
John Pollock	Insurance Financial Examiner
David Jensen	IT Specialist
Jerry DeArmond	Reserve Specialist

Respectfully submitted,

James Lindell
Examiner-in-Charge