

Report  
of the  
Examination of  
HumanaDental Insurance Company  
Louisville, Kentucky  
As of December 31, 2015

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor  
Theodore K. Nickel, Commissioner

Wisconsin.gov

February 22, 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:

HUMANADENTAL INSURANCE COMPANY  
Louisville, Kentucky

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of HumanaDental Insurance Company (HDIC 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 and 2017 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of affiliated companies domiciled in Arkansas, Florida, Illinois, Michigan, Ohio, Pennsylvania, Texas, Utah, and Washington, with Wisconsin acting in the capacity as the lead state for the coordinated examination. Representatives of Arkansas, Florida, Illinois, Michigan, Ohio, Pennsylvania, Texas, Utah, and Washington participated in the examination, and their work was reviewed and relied on where deemed appropriate.

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

insurance company 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. 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 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.

#### **Independent Actuary's Review**

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the unpaid claims liability, unpaid claims adjustment expense, aggregate health policy reserves, aggregate health claims reserves, premium deficiency reserves, uncollected premiums and agents' balances in the course

of collection, accrued retrospective premiums, and health care receivables. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

## II. HISTORY AND PLAN OF OPERATION

HumanaDental Insurance Company is a Wisconsin-domiciled life and health insurer authorized to conduct insurance business pursuant to ch. 611, Wis. Stat. The company was initially organized on January 1, 1908, under the name Wisconsin National Life Insurance Company (WNLIC) and was a publicly traded stock insurance company.

Effective March 26, 1975, N. V. Netherlands Insurance Company (N. V. Netherlands) acquired 91.42% of the outstanding capital stock of WNLIC, and on April 29, 1976, N. V. Netherlands acquired the remaining outstanding shares of WNLIC through a reverse stock split. Ownership and control of WNLIC was transferred to Nationale-Nederlanden U.S. Corporation, a wholly owned subsidiary of N. V. Netherlands, on May 2, 1977, and to Nationale-Nederlanden U.S. Life Insurance Company effective January 1, 1981. On June 30, 1985, the capital stock of the company was transferred to Nationale-Nederlanden U.S. Holdings, Inc. On July 30, 1993, 100% of the capital stock of WNLIC was purchased by Protective Life Insurance Company (PLIC), a subsidiary of the Alabama-domiciled insurance holding company Protective Life Corporation.

Ownership and control of WNLIC was purchased from PLIC by HumanaDental, Inc., a Delaware-domiciled holding company subsidiary of Humana Inc. (Humana), effective May 10, 2000. The name of the company was changed to HumanaDental Insurance Company, the name presently used by the company, on May 10, 2000.

The company commenced issuing dental health insurance policies in 2001, and its ongoing portfolio of net retained insurance risk is comprised solely of dental health insurance.

In 2015, the company reported direct premium in the following states:

Texas	\$101,552,567	25.3%
California	55,305,411	13.8
Illinois	39,412,081	9.8
Georgia	30,136,106	7.5
Wisconsin	23,748,860	5.9
North Carolina	22,242,512	5.5
All others	<u>129,008,934</u>	<u>32.1</u>
Total	<u>\$401,406,471</u>	<u>100.0%</u>

The company is licensed in the District of Columbia and in all state jurisdictions except New York.

HDIC primarily offers dental and vision products, but also has some Medicare Supplement business. In 2015, HDIC began writing business under the Federal Employees Health Benefits Plan. The company does have some old life and annuity business that is 100% ceded to Protective Life Insurance Company. This is discussed further in the section titled "Reinsurance."

The company markets its products based on three core alternatives: indemnity insurance coverage, preferred provider organization networks, and administrative-only products. HDIC marketing operations are conducted through regional commercial segment marketing offices of an affiliate, Humana Insurance Company (HIC). HDIC marketing within the HIC regional offices is staffed by a senior executive, a senior sales consultant, and by a field force of service representatives.

The following chart is a summary of premium income as reported by the company in 2015.

<b>Premium Income</b>				
<b>Line of Business</b>	<b>Direct Premium</b>	<b>Reinsurance Assumed</b>	<b>Reinsurance Ceded</b>	<b>Net Premium</b>
Medicare supplement	\$ 5,389,594	\$	\$	\$ 5,389,594
Dental	347,104,131	665,509		347,769,640
Vision	25,881,123	1,295		25,882,418
Federal employees health benefits plan	16,590,912			16,590,912
Other health	31,961		31,961	
Life	<u>6,408,750</u>	<u>                    </u>	<u>6,408,750</u>	<u>                    </u>
<b>Total All Lines</b>	<b><u>\$401,406,471</u></b>	<b><u>\$666,804</u></b>	<b><u>\$6,440,711</u></b>	<b><u>\$395,632,564</u></b>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of three members. Directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Each member of the company's board of directors is a senior executive of the parent, Humana Inc., and is also a member of other boards of directors in the holding company group. The board members currently do not receive compensation for serving on the board.

As of December 31, 2015, the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Bruce D. Broussard Louisville, KY	President and Chief Executive Officer, Humana Inc.	2016
James E. Murray Louisville, KY	Senior Vice President, Chief Operating Officer, Humana Inc.	2016
Brian A. Kane Louisville, KY	Senior Vice President, Chief Financial Officer, Humana Inc.	2016

#### Officers of the Company

Each senior executive officer of HumanaDental Insurance Company is also a senior executive officer of Humana Inc. and also serves as an officer in other legal entities within the holding company group. Senior executive officers are compensated by Humana Inc. and do not receive direct compensation paid by HDIC. A portion of the executive officer compensation paid to the HDIC executive officers by Humana Inc. is allocated to HDIC pursuant to intercompany expense allocation agreements. The HDIC senior executive officers as of December 31, 2015, are as follows:

<b>Name</b>	<b>Office</b>	<b>2015 Compensation</b>
Bruce D. Broussard	President and Chief Executive Officer	\$6,263,682
Brian A. Kane	Senior Vice President, Chief Financial Officer	1,059,409
Joan O. Lenahan	Vice President and Corporate Secretary	840,466
Jonathan A. Canine	Vice President and Appointed Actuary	486,987
Alan J. Bailey	Vice President and Treasurer	420,294



## **Committees of the Board**

The company's bylaws allow for the formation of certain committees by the board of directors. There were no board-member-only committees at the time of the examination. The committees of the parent company, Humana Inc., perform comprehensive corporate governance oversight on behalf of each Humana Inc. operating subsidiary including HumanaDental Insurance Company. The Humana Inc. board of directors has the following committees: Audit, Executive, Investment, Nominating & Corporate Governance, and Organization & Compensation.

### **Audit Committee**

Frank D'Amelio, Chair  
William Mitchell  
David Nash  
James O'Brien

### **Executive Committee**

Bruce Broussard, Chair  
Kurt Hilzinger  
David Jones, Jr.

### **Nominating & Corporate Governance Committee**

David Jones, Jr., Chair  
William Mitchell  
Marissa Peterson

### **Organization & Compensation Committee**

William McDonald, Chair  
David Jones, Jr.  
W. Roy Dunbar  
Marissa Peterson

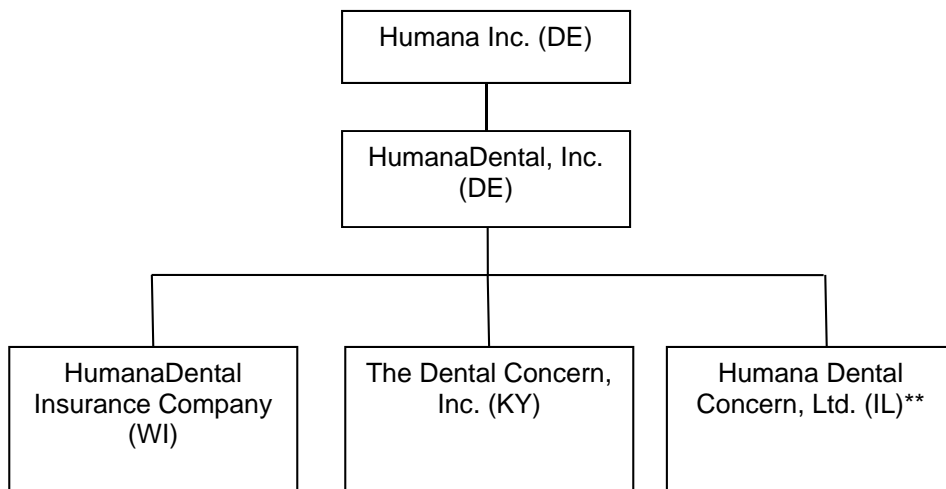
### **Investment Committee**

W. Roy Dunbar, Chair  
Frank D'Amelio  
William McDonald  
James O'Brien

#### IV. AFFILIATED COMPANIES

HDIC is a member of a holding company system. As previously stated, its ultimate parent is Humana Inc. There are 34 downstream insurance affiliates operating in 17 states and Puerto Rico. The abbreviated organizational chart below depicts the relationships among the affiliates in the direct succession of control of the company. A brief description of affiliates deemed significant follows the organizational chart.

**Organizational Chart  
As of December 31, 2015**



\*\* Formerly known as The Dental Concern, Ltd.

#### **Humana Inc.**

Humana Inc. (Humana) is an insurance holding company which provides indemnity insurance, managed health care insurance, and specialty service products through the operations of its subsidiary companies. Humana Inc. was incorporated on July 27, 1964, and is a Delaware corporation. Humana products are offered primarily through subsidiary life and health indemnity insurers, health maintenance organizations, and preferred provider organizations, and are marketed for employer groups, government benefit programs, and individuals.

As of December 31, 2015, the GAAP basis audited financial statements of Humana Inc. reported total assets of \$24.7 billion, total liabilities of \$14.4 billion, and total stockholders' equity of \$10.3 billion. Operations for 2015 produced net income of \$1.3 billion.

**HumanaDental, Inc.**

HumanaDental, Inc., is a non-operating intermediate holding company domiciled in Delaware which holds the assets of certain Humana dental operating subsidiaries.

HumanaDental, Inc., holdings include the Wisconsin-domiciled insurer HumanaDental Insurance Company.

As of December 31, 2015, the GAAP basis unaudited financial statements of HumanaDental, Inc., reported total assets of \$82.9 million, total liabilities of \$0, and total stockholders' equity of \$82.9 million. Unconsolidated operations for 2015 produced a net loss of \$1,656,000.

**Humana Dental Concern, Ltd.**

Humana Dental Concern, Ltd., is a licensed dental insurance plan in the state of Illinois. The subsidiary's dental products are marketed primarily to employer groups.

As of December 31, 2015, the statutory basis audited financial statements of Humana Dental Concern, Ltd., reported total admitted assets of \$1,134,514, total liabilities of \$77,716, and policyholders' surplus of \$1,056,798. Operations for 2015 produced net income of \$63,334.

**The Dental Concern, Inc.**

The Dental Concern, Inc., is a licensed dental insurance plan in the states of Colorado, Florida, Kentucky and Maryland. The subsidiary's dental products are marketed primarily to employer groups. The subsidiary markets to individuals in Kentucky and now offers vision plans.

As of December 31, 2015, the statutory basis audited financial statements of The Dental Concern, Inc., reported total admitted assets of \$10,413,777, total liabilities of \$2,944,001, and policyholders' surplus of \$7,469,776. Operations for 2015 produced net income of \$2,381,731.

## **Affiliated Agreements**

### Indemnity Agreement between HDIC and Humana Inc.

HumanaDental Insurance Company and Humana Inc. entered into an indemnity agreement May 10, 2000, whereby Humana Inc. agrees to indemnify HDIC from any and all liability or loss that HDIC may suffer as a result of HDIC's failure to perform its insurance risk obligations in the event that HDIC should become insolvent or otherwise financially incapable of meeting its obligations. Under the agreement, Humana Inc. guarantees continuation of coverage under certificates of coverage issued by HDIC for the duration of the contract for which payment has been made, continuation of benefits to HDIC members who are confined in an inpatient facility on the date of insolvency until the member's discharge, and payment to providers for services rendered before insolvency and required by HDIC's certificates of coverage. Humana also agrees to indemnify HDIC and hold harmless HDIC from any and all liability and loss that HDIC may suffer arising from HDIC's provision of administrative services to Humana Inc.

### Tax Allocation Agreement between HDIC and Humana Inc.

HumanaDental Insurance Company is party to a Tax Allocation Agreement with Humana Inc. It became effective May 10, 2000. The agreement provides that Humana Inc. will file consolidated tax returns for all of the legal entities in the Humana Inc. holding company group, including HDIC. The consolidated tax liability for each year shall be apportioned to Humana Inc. and its subsidiaries based on applicable provisions of the Internal Revenue Code, based on the ratio which the portion of consolidated tax liability attributable to each respective member of the group bears to the consolidated tax liability. Humana Inc. shall credit to each respective affiliate 100% of the excess of the affiliate's separate return tax liability over its allocated consolidated tax return liability. Humana Inc. is responsible for the preparation and filing of all consolidated tax returns and any other returns or documents required to be filed with the Internal Revenue Service.

### Corporate Service Agreement between HDIC and Humana Inc.

HumanaDental Insurance Company is party to a Corporate Service Agreement with Humana Inc. effective January 3, 2007. It has been amended January 1, 2011, and January 1,

2013, for regulatory compliance purposes. Humana Inc. provides services supporting the business operations of HDIC. Humana provides HDIC with services such as payroll, trade accounts payments, broker commissions, medical and product management, executive management, information systems, financial and legal services, human resource and sales distribution management, and related services. Humana, Inc. receives a direct reimbursement for services with direct costs and a pro rata share of costs of shared services and overhead based upon weighted membership. The agreement provides that Humana Inc. collects funds due HDIC in the operation of its business and performs any necessary banking and accounting administrative duties to accomplish collections and disbursements of funds on behalf of HDIC.

Service Center Service Agreements between HDIC, Humana Insurance Company, and Humana Inc.

HumanaDental Insurance Company has established a service center service agreement with Humana Insurance Company (HIC) and Humana Inc. as a Repository effective January 3, 2007. It has been amended January 1, 2011, and January 1, 2013, for regulatory compliance purposes. The agreements provide that HIC will provide HDIC with claims processing, customer service, front-end operations, billing and enrollment, utilization review, and other support activities. HIC expenses allocated to HDIC include general business expenses incurred by HIC in performance of the services. Humana Inc. serves as the Repository under the service center agreement, pursuant to which Humana Inc. disburses and collects management fees that are required by the agreements, and performs any necessary banking and administrative duties required to accomplish its Repository duties. The 2011 and 2013 amendment also integrated some previously separate affiliate agreements into this agreement.

## V. REINSURANCE

HumanaDental Insurance Company's reinsurance portfolio and strategy are described below. The company maintains one ceding reinsurance contract in force. The company's reinsurance contract contains proper insolvency provisions.

HumanaDental Insurance Company has entered into four small intercompany indemnity, assumption, and retrocession reinsurance agreements with Humana Insurance Company during 2014 and 2015, in which HIC assumes certain dental and vision policies from HDIC based on the state and policy type. HIC initially reinsures the policies under the indemnity portion of the agreement until they are assumed by HIC through novation. HIC then retrocedes to HDIC those policies that arose prior to the effective date.

HumanaDental Insurance Company maintains a 100% quota share reinsurance agreement with Protective Life Insurance Company whereby all of the business that was written by Wisconsin National Life Insurance Company prior to April 1, 1999, is ceded to PLIC. The agreement covers all business written on a direct basis by the company and all previously assumed or coinsured risks on or prior to April 1, 1999. Risks ceded under the agreement include ordinary life insurance, other A&H, and individual annuity contracts.

Under the agreement with PLIC, the reinsurer accepts cession or retrocession, as the case may be, of all of HDIC's rights and interest in the coinsured policies, and agrees to perform all contractual liabilities under the coinsured policies and to perform all responsibilities of HDIC under the reinsurance agreements that relate to the coinsured policies arising on or after the agreement effective date.

Pursuant to a service agreement between the parties, PLIC agrees to provide all normal and necessary policyholder service with regard to the subject policies, including billing and collection of premiums, payment of claims, normal policyholder services, preparation of periodic statutory financial statement data, administration of the related reinsurance agreements for the ceded policies, and underwriting and issuance of any coinsured policies.

The reinsurance agreement cannot be canceled by the parties and will remain in force until the last coinsured policy ceases to be in force. The parties agree that the reinsurance

agreement may not be materially modified unless required by law, and HDIC may not recapture the coinsured policies. The company received a one-time ceding commission of \$24,900,000 upon the execution of the agreement in 1999.

## **VI. 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 Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.



**HumanaDental Insurance Company**  
**Assets**  
**As of December 31, 2015**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$120,182,920	\$	\$120,182,920
Cash, cash equivalents, and short-term investments	4,539,130		4,539,130
Investment income due and accrued	1,034,326		1,034,326
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	6,400,162	383,110	6,017,052
Amounts receivable relating to uninsured plans	460,112	1,688	458,424
Net deferred tax asset	4,257,023	952,599	3,304,424
Electronic data processing equipment and software	15,551	15,551	
Furniture and equipment, including health care delivery assets	1,929,261	1,929,261	
Health care and other amounts receivable	859,644		859,644
Write-ins for other than invested assets:			
Prepaid commissions	1,063,100	1,063,100	
Prepaid expenses	371,714	371,714	
Deposits	<u>35,123</u>	<u>35,123</u>	
<b>Total Assets</b>	<u><b>\$141,148,066</b></u>	<u><b>\$4,752,146</b></u>	<u><b>\$136,395,920</b></u>

**HumanaDental Insurance Company  
Liabilities and Net Worth  
As of December 31, 2015**

Claims unpaid		\$ 19,994,530
Unpaid claims adjustment expenses		158,732
Aggregate health policy reserves		2,282,697
Premiums received in advance		11,182,799
General expenses due or accrued		12,438,576
Current federal and foreign income tax payable and interest thereon		3,832,271
Amounts withheld or retained for the account of others		47,663
Remittance and items not allocated		460
Amounts due to parent, subsidiaries and affiliates		1,321,302
Liability for amounts held under uninsured accident and health plans		<u>489,765</u>
Total liabilities		51,748,795
Aggregate write-in for special surplus funds	\$ 6,967,011	
Common capital stock	2,600,000	
Gross paid in and contributed surplus	17,589,837	
Unassigned funds (surplus)	<u>57,490,277</u>	
Total capital and surplus		<u>84,647,125</u>
Total Liabilities, Capital and Surplus		<u>\$136,395,920</u>

**HumanaDental Insurance Company**  
**Statement of Revenue and Expenses**  
**For the Year 2015**

Net premium income		\$395,632,564
Change in unearned premium reserves and reserve for rate credits		<u>169,907</u>
Total revenues		395,802,471
Medical and hospital:		
Hospital/medical benefits	\$ 4,263,507	
Other professional services	256,040,592	
Emergency room and out-of-area	85,289	
Prescription drugs	<u>1,712</u>	
Subtotal	260,391,100	
Less		
Net reinsurance recoveries	<u>483,154</u>	
Total medical and hospital	259,907,946	
Claims adjustment expenses	10,933,362	
General administrative expenses	94,809,893	
Increase in reserves for life and accident and health contracts	<u>62,569</u>	
Total underwriting deductions		<u>365,713,770</u>
Net underwriting gain or (loss)		30,088,701
Net investment income earned	4,095,715	
Net realized capital gains or (losses)	<u>853,766</u>	
Net investment gains or (losses)		
Net gain or (loss) from agents' or premium balances charged off		4,949,481
Aggregate write-ins for other income or expenses:		
Network rental income	5,382,145	
Miscellaneous income	<u>(72,505)</u>	
Total aggregate write-ins for other income or expenses		<u>5,309,640</u>
Net income or (loss) before federal income taxes		40,347,822
Federal and foreign income taxes incurred		<u>15,145,033</u>
Net Income (Loss)		<u>\$ 25,202,789</u>

**HumanaDental Insurance Company**  
**Statement of Cash Flows**  
**As of December 31, 2015**

Premiums collected net of reinsurance		\$393,872,544
Net investment income		<u>5,422,129</u>
Total		399,294,673
Less:		
Benefit- and loss-related payments	\$263,156,775	
Commissions, expenses paid and aggregate write-ins for deductions	97,130,577	
Federal and foreign income taxes paid (recovered)		
\$392,272 net tax on capital gains (losses)	<u>17,442,729</u>	
Total		<u>377,730,081</u>
Net cash from operations		21,564,592
Proceeds from investments sold, matured or repaid:		
Bonds	102,130,165	
Cost of investments acquired—long-term only:		
Bonds	<u>86,902,324</u>	
Net cash from investments		15,227,841
Cash provided/applied:		
Capital and paid in surplus, less treasury stock	135,442	
Dividends to stockholder	(35,000,000)	
Other cash provided	<u>(3,286,799)</u>	
Net cash from financing and miscellaneous sources		<u>(38,151,357)</u>
Net change in cash, cash equivalents, and short-term investments		(1,358,924)
Cash, cash equivalents, and short-term investments: Beginning of year		<u>5,898,054</u>
End of Year		<u>\$ 4,539,130</u>

**HumanaDental Insurance Company  
Compulsory and Security Surplus Calculation  
December 31, 2015**

Assets		\$136,395,920
Less liabilities		<u>51,748,795</u>
Adjusted surplus		84,647,125
Annual premium:		
Individual life and health	\$ 70,810,205	
Factor	<u>15%</u>	
Total		\$10,621,530
Group life and health	324,822,359	
Factor	<u>10%</u>	
Total		32,482,235
Compulsory surplus (subject to a \$2,000,000 minimum)		<u>43,103,765</u>
Compulsory Surplus Excess or (Deficit)		<u>\$ 41,543,360</u>
Adjusted surplus (from above)		\$ 84,647,125
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum of 110%)		<u>55,603,856</u>
Security Surplus Excess or (Deficit)		<u>\$ 29,043,269</u>

**HumanaDental Insurance Company  
Capital and Surplus Account  
For the Five-Year Period Ending December 31, 2015**

	2015	2014	2013	2012	2011
Capital and surplus, beginning of year	\$95,163,666	\$73,911,371	\$60,702,053	\$59,542,285	\$62,677,635
Net income (loss)	25,202,789	28,333,833	26,300,053	14,754,976	14,750,715
Change in net deferred income tax	(475,036)	(156,481)	765,125	(118,330)	1,150,350
Change in nonadmitted assets	(379,736)	(579,494)	(129,823)	(60,457)	(1,004,723)
Change in asset valuation reserve			(92,489)	(89,633)	(123,920)
Cumulative effect of changes in accounting principles				559,898	
Surplus adjustments:					
Paid in	135,442	284,206	343,785	113,880	96,209
Transferred to capital Transferred from capital					
Dividends to stockholders	(35,000,000)	(7,000,000)	(14,000,000)	(14,000,000)	(18,000,000)
Write-ins for gains and (losses) in surplus:	<u>                    </u>	<u>370,231</u>	<u>22,100</u>	<u>                    </u>	<u>(3,981)</u>
Surplus, End of Year	<u>\$84,647,125</u>	<u>\$95,163,666</u>	<u>\$73,911,371</u>	<u>\$60,702,619</u>	<u>\$59,542,285</u>

**HumanaDental Insurance Company  
Insurance Regulatory Information System  
For the Three-Year Period Ending December 31, 2013**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. IRIS results were not produced beyond 2014 because the company began reporting on a Health Blank in 2014. There were no unusual results.

Ratio	2013	2012	2011
#1 Net change in capital and surplus	21%	2%	-5%
#2 Gross change in capital and surplus	22	2	-5
#3 Net income to total income	5	3	4
#4 Adequacy of investment income	NR	NR	NR
#5 Nonadmitted to admitted assets	3	3	3
#6 Total real estate and mortgage loans to cash and invested assets	0	0	0
#7 Total affiliated investments to capital and surplus	1	0	0
#8 Surplus relief	0	0	0
#9 Change in premium	17	22	16
#10 Change in product mix	0.5	0.9	1.0
#11 Change in asset mix	1.9	0.2	0.4
#12 Change in reserving	0	0	0

**Growth of HumanaDental Insurance Company  
Reporting as a Life Accident and Health Company**

<b>Year</b>	<b>Admitted Assets</b>	<b>Liabilities</b>	<b>Capital and Surplus</b>
2013	\$140,580,762	\$66,669,391	\$73,911,371
2012	120,362,571	59,659,952	60,702,619
2011	109,005,261	49,462,976	59,542,285
2010	102,033,952	39,356,317	62,677,635

**Net Life Premiums, Annuity Considerations, and Deposits**

<b>Year</b>	<b>Life Insurance Premiums</b>	<b>Annuity Considerations</b>	<b>Deposit-type Contract Funds</b>
2013	\$0	\$0	\$ 0
2012	0	0	104,959
2011	0	0	0
2010	0	0	0

**Life Insurance In Force (in thousands)**

<b>Year</b>	<b>In Force End of Year</b>	<b>Reinsurance Ceded</b>	<b>Net In Force</b>
2013	\$538,418	\$538,418	\$0
2012	582,191	582,191	0
2011	625,620	625,620	0
2010	668,272	668,872	0

**Accident and Health**

<b>Year</b>	<b>Net Premiums Earned</b>	<b>Incurred Claims and Cost Containment Expenses*</b>	<b>Commissions Incurred</b>	<b>Other Expenses Incurred**</b>	<b>Combined Loss and Expense Ratio</b>
2013	\$516,632,420	\$348,590,833	\$54,909,574	\$77,676,409	93.2%
2012	440,314,562	305,942,796	48,804,789	68,202,190	96.1
2011	355,768,039	245,469,507	38,234,875	53,407,026	94.8
2010	312,586,820	214,023,631	36,223,280	37,809,085	89.2

\* Includes increase in contract reserves

\*\* Includes taxes, licenses, and fees

**Growth of HumanaDental Insurance Company  
Reporting as a Health Company**

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2015	\$136,395,920	\$51,748,795	\$84,647,125	\$395,632,564	\$259,907,946	\$25,202,789
2014	150,649,004	55,485,338	95,163,666	504,874,631	334,266,756	28,333,833

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2015	6.3%	65.7%	69.7%	-15.2%
2014	5.5	66.0	26.9	

**Enrollment and Utilization**

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2015	1,370,833	0.23	5.2
2014	1,616,278	1.46	5.9

**Per Member Per Month Information**

	2015	2014	Percentage Change
<b>Premiums:</b>			
Commercial	<u>\$22.55</u>	<u>\$22.45</u>	0.5%
<b>Expenses:</b>			
Hospital/medical benefits	0.24	0.04	513.5
Other professional services	14.60	14.88	-1.9
Less: Net reinsurance recoveries	<u>(0.03)</u>	<u>(0.06)</u>	-51.3
Total medical and hospital	14.82	14.86	-0.3
Claims adjustment expenses	0.62	0.55	13.5
General administrative expenses	<u>5.41</u>	<u>5.51</u>	-2.0
Total underwriting deductions	<u>\$20.85</u>	<u>\$20.93</u>	-0.4

As indicated above, the company has reported favorable operating results for all the years under examination. During the period under examination, the company's admitted assets increased 34%, health premiums earned increased 27%, and surplus increased by 35%.

HDIC's investments in bonds declined 11%, while cash, cash equivalents, and short-term investments decreased 23%. Overall invested assets declined 12% in 2015. HDIC made



dividend payments each year under examination, \$85 million over five years, with 2015 being the largest dividend payment of \$35.0 million.

Earned premiums and medical expenses decreased as a result of a decline in dental and vision membership and a change in product mix. The company added membership in the Federal Employees Health Benefits Plan in 2015. The medical loss ratio for 2015 and 2014 was 65.7% and 66%, respectively. Administrative expenses increased in 2015. Net income for 2015 was \$25.0 million and decreased slightly from the prior year.

#### **Reconciliation of Surplus per Examination**

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2015, is accepted.

#### **Examination Reclassifications**

No reclassifications were made as a result of the examination.

## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There was one specific comment and recommendation in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Financial Reporting of Premium Assets and Liabilities—It is recommended that HDIC properly identify the premium account balances in which it has sole right and interest, and that the company correctly report its dental business premium, uncollected premiums, and advance premiums under the appropriate balance sheet captions in its statutory financial statements.

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.

### **Escheat Property**

The escheat process followed by Humana Inc. in preparing the unclaimed property filings for HumanaDental Insurance Company is not compliant with Wisconsin statutes. Section 177.17 (5), Wis. Stat., states, "Not more than 120 days before filing the report required by this section, the holder in possession of property presumed abandoned...under this chapter shall send written notice to the apparent owner at his or her last-known address informing him or her that the holder is in possession of property subject to this chapter...." The examination determined no such notification procedure is performed within the required timeframe. It was further noted that the company's escheat policy does not include commission and claim checks in amounts less than \$100 in its attempt to contact the apparent owner at their last known address. This is not compliant with s. 177.17 (5) (c), Wis. Stat., which establishes \$50 as the minimum value of individual property items to be included in this process. It is recommended that the escheat process be amended to comply with the notification procedure required by s. 177.17 (5), Wis. Stat., and that the company modify and implement its escheat policy to include property valued at \$50 or more in its due diligence process in accordance with s. 177.17 (5) (c), Wis. Stat.

### **Report on Executive Compensation**

The Report on Executive Compensation filed by HumanaDental Insurance Company is not in compliance with s. 611.63 (4), Wis. Stat., which stipulates "The amount of all direct and indirect remuneration for services, including retirement and other deferred compensation benefits and stock options, paid or accrued each year for the benefit of each director and each officer and member of executive management..." is required to be included in the report. A reconciliation of the amounts included in the Report on Executive Compensation filed with the 2015 annual statements for HumanaDental Insurance Company, to the payroll data for selected executives

provided by the company, found that various categories of compensation were not reported.

Categories noted are:

- Executive Financial Planning Compensation
- Incentive Stock Option Compensation

It is recommended that the company include all direct and indirect compensation in its annual Report on Executive Compensation in accordance with s. 611.63 (4), Wis. Stat.

## VIII. CONCLUSION

HumanaDental Insurance Company is a wholly owned subsidiary of HumanaDental, Inc., which is a wholly owned subsidiary of Humana Inc. The company commenced issuing dental health insurance policies in 2001, and its ongoing portfolio of net retained insurance risk is comprised solely of dental health insurance. The company is licensed in the District of Columbia and in all state jurisdictions except New York. HDIC cedes 100% of its life insurance business which prompted HDIC to begin reporting on the NAIC Health Blank in 2014.

During the period under examination, the company's admitted assets increased 34%, premiums earned increased 27%, and surplus increased by 35%. Earned premiums and medical expenses decreased as a result of a decline in dental and vision membership and a change in product mix. The company added membership in the Federal Employees Health Benefits Plan in 2015.

The examination determined that the company was in compliance with all of the recommendations made by the previous examination. The current examination resulted in two recommendations. No adjustments were made to surplus as a result of the examination and there were no reclassifications. The amount of surplus reported by the company as of December 31, 2015, is accepted.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 25 - Escheat Property—It is recommended that the escheat process be amended to comply with the notification procedure required by s. 177.17 (5), Wis. Stat., and that the company modify and implement its escheat policy to include property valued at \$50 or more in its due diligence process in accordance with s. 177.17 (5) (c), Wis. Stat.
2. Page 26 - Report on Executive Compensation—It is recommended that the company include all direct and indirect compensation in its annual Report on Executive Compensation in accordance with s. 611.63 (4), Wis. Stat.

**X. 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, representatives from the states of Arkansas, Florida, Illinois, Michigan, Ohio, Pennsylvania, Texas, Utah and Washington participated in the examination. The following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, also participated in the examination:

<b>Name</b>	<b>Title</b>
Robert McLaughlin, CFE	Insurance Financial Examiner
Diana Havitz	Insurance Financial Examiner
Dana Tice	Insurance Financial Examiner
Thomas Houston, CFE	IT Specialist
David Jensen, CFE	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist/ACL Specialist

Respectfully submitted,

Gene M. Renard, CFE  
Examiner-in-Charge