

Report
of the
Examination of
Dental Com Insurance Plan, Inc.
Marshfield, Wisconsin
As of December 31, 2017

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

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July 19, 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:

DENTAL COM INSURANCE PLAN, INC.
Marshfield, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Dental Com Insurance Plan, Inc. (Dental Com or the company), was conducted in 2013 as of December 31, 2012. The current examination covered the intervening period ending December 31, 2017, and included a review of such 2018 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Affiliated Companies
- Growth of the Company
- Financial Statements
- Accounts and Records
- Information Technology
- Enrollee Complaint Procedure
- 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 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

The Dental Com Insurance Plan, Inc., is described as a for-profit group model limited service health organization (LSHO) insurer. An LSHO is defined by s. 609.01 (3), Wis. Stat., as "...a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, a limited range of health care services performed by providers selected by the organization." Under the group model, the company contracts with a sponsoring clinic to provide primary and specialty dental services.

The company was incorporated on August 6, 2003, and commenced business on February 18, 2004. The company is owned by Dental Clinic of Marshfield, S.C.

The company provides primary and specialty dental care through a contract with its sole provider, the Dental Clinic of Marshfield, S.C. (DCM). DCM performs a variety of dental services. Covered services include routine dental services, orthodontics, oral surgery, and emergency service. Covered services are defined in the Group Policy, which is negotiated with each group for the benefit of its enrollees. The Group Policy is discussed below in greater detail.

The company has entered into a Provider Agreement with DCM. The agreement contains two hold harmless provisions concerning those services covered in the Group Policy. The first hold harmless provision protects the enrollee (i.e., the policyholder) from being charged for covered services provided by DCM. The second hold harmless provision protects Dental Com from all claims, liabilities, damages, judgments, charges, or assessments which arise out of covered services provided by DCM. In return for providing these covered services, DCM is paid 90% of the premiums received by the company.

The company also has an Administrative Services Agreement with DCM. This agreement compensates DCM for providing various administrative services, such as marketing, accounting, legal, and information technology services. In return for these administrative services, DCM is paid 10% of premiums received by the company, net of any expenses directly paid by the company to outside parties. Therefore, the company remits all cash receipts to the Clinic, net of any expenses directly paid. Both the Provider and Administrative Services Agreements were effective on August 7, 2003.

According to its business plan, the company's service area is comprised of the following counties: Wood, Clark, Portage, Marathon, and Taylor.

The Group Policy is negotiated between Dental Com and each group for the benefit of its members. The Group Policy defines the level of covered services, claim determinations, grievance procedures, premium payments, due dates, co-payments, enrollment, COBRA continuation, Medicare coverage, disenrollment, and exclusions for each group.

The company offers both dental and a limited range of oral health care coverage in the Group Policy which may be changed by riders to include deductibles and co-payments. The following basic services are offered to the groups:

- (1) Clinical Oral Evaluations
- (2) Radiographs
- (3) Tests and Laboratory Exams
- (4) Dental Prophylaxis
- (5) Topical Fluoride Treatment
- (6) Space Maintenance
- (7) Amalgam Restorations
- (8) Composite Restorations
- (9) Inlay / Onlay Restorations
- (10) Crowns, Pulp Capping
- (11) Endodontic Therapy and Pretreatment
- (12) Apexification / Recalcification
- (13) Surgical Procedures
- (14) Non-Surgical Periodontal
- (15) Dentures
- (16) Prosthesis, Implants
- (17) Extractions / Surgical Extractions
- (18) Alveoloplasty
- (19) Surgical Excision of Soft Tissue Lesions
- (20) Excision of Bone Tissue
- (21) Surgical Incision
- (22) TMJ
- (23) Repair of Traumatic Wounds
- (24) Comprehensive Orthodontic Treatment
- (25) Anesthesia
- (26) Professional Consultation

Limitations include services not specifically covered; congenital malformations; bleaching for cosmetic purposes; laboratory charges; replacement of crowns prior to five years; replacement of removable partial dentures whether lost, stolen, or damaged; duplicate prosthetic devices; dental or emergency services covered by worker's compensation or employer liability insurance; non-

emergency dental treatments received at other facilities; hospital or physician services; services resulting from injuries as a result of war; and services received from an employer dental department.

The company conducts its marketing through its agent, Neil Armitage. As of the date of this report the company has a total of 17 groups. No marketing commissions are paid to Mr. Armitage who is compensated through DCM. The company also has Bill Eggebrecht as a back-up agent. Mr. Armitage and Mr. Eggebrecht are both licensed agents with the state of Wisconsin. External agents are not utilized.

By a decision of its management, the company does not use an actuary when determining its premium rates. In determining rate adjustments, DCM utilizes a combination of group size, group longevity and previous rates of return to determine renewal rates. With smaller groups, the company tries to blend the smaller group market together so that it does not see extreme increases which may be the result of one patient. Larger groups are rated on their own merit and past rate of returns while taking into account the potential fee increases with general fees. New groups are rated based on ages of employees, number of family and single policies that are possible within the group, and utilizing any history they have with any of the potential members.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 12 members who are all shareholders of the company. There are no outside directors on the board. All directors are full-time dentists working at the Dental Clinic of Marshfield, S.C. There are no expiration dates for the director's terms. They will serve as directors until they are no longer employed full-time at the Dental Clinic of Marshfield, S.C. The boards of directors of Dental Com and DCM are comprised of the same individual members. The board members currently receive no compensation for serving on the board but are compensated by DCM.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Dr. Mark Baumgartner Marshfield, Wisconsin	Periodontist	N/A
Dr. Paul Bruce Marshfield, Wisconsin	General Dentist	N/A
Dr. Timothy Coen Marshfield, Wisconsin	General Dentist	N/A
Dr. Dennis Godar Marshfield, Wisconsin	General Dentist	N/A
Dr. Curtis Kracht Marshfield, Wisconsin	General Dentist	N/A
Dr. Steven Larson Stratford, Wisconsin	General Dentist	N/A
Kevin McEwen Marshfield, Wisconsin	General Dentist	N/A
Dr. Rick Mueller Marshfield, Wisconsin	General Dentist	N/A
Dr. Christopher Raasch Marshfield, Wisconsin	General Dentist	N/A
Dr. Jose Rodriguez Marshfield, Wisconsin	General Dentist	N/A
Dr. Cynthia Suarez Marshfield, Wisconsin	General Dentist	N/A

Name and Residence	Principal Occupation	Term Expires
Dr. Donald Routier Marshfield, Wisconsin	Orthodontist	N/A

Officers of the company

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

Name	Office	2017 Compensation*
Rick Mueller	President	\$0
Christopher Raasch	Vice President	\$0
Jose Rodriguez-Quesada	Treasurer/Secretary	\$0

* Officers are compensated by DCM.

Committees of the Board

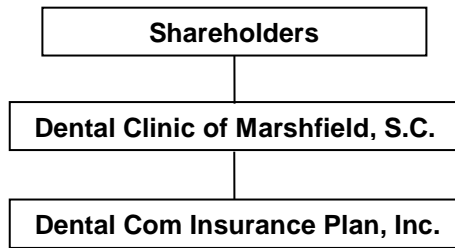
The company's bylaws allow for the formation of certain committees by the board of directors. The company currently has an Executive Committee which is comprised of the three officers and an Audit Committee which is comprised of its 12 board of directors. The company has no other committees.

Dental Com has no employees. Necessary staffing is provided through the Administrative Services Agreement with the Dental Clinic of Marshfield, S.C.

IV. AFFILIATED COMPANIES

Dental Com Insurance Plan, Inc., is a member of a holding company system. Its ultimate parent is the Dental Clinic of Marshfield, S.C. Dental Com has 10,000 authorized and outstanding shares of \$0.01 par value stock which are owned 100% by DCM. The company has no subsidiaries. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of the Dental Clinic of Marshfield, S.C., follows the organizational chart.

**Holding Company Chart
As of December 31, 2017**



Dental Clinic of Marshfield, S.C.

The Dental Clinic of Marshfield, S.C., provides dental services to the local communities in Marshfield, Stratford, and Neilsville, Wisconsin. As of December 31, 2017, DCM's unaudited financial statement reported assets of \$3.4 million, liabilities of \$3.3 million, and total equity of \$80.1 thousand. Operations for 2017 produced net loss of \$4.6 thousand on revenues of \$12.6 million.

In addition to Dental Com, DCM has two small affiliates not included in the chart above: Professional Management Company (PROMAC) and Dental Clinic Realty of Marshfield, LLC (REALTY). PROMAC was created by several of DCM's partners. PROMAC employs a lab technician who is located at DCM to process lab work. REALTY is a limited liability company which was formed to buy and sell property and is outside of the main business purpose of DCM.

Other than the provider and administrative services agreements with Dental Com, DCM has no other affiliated agreements.

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, 2017, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Capital and Surplus per Examination." Also included in this section are schedules which reflect the growth of the company for the period under examination.

Dental Com Insurance Plan, Inc.
Assets
As of December 31, 2017

	Assets	Nonadmitted Assets	Net Admitted Assets
Cash, cash equivalents, and short-term investments	<u>\$33,777</u>	<u>\$0</u>	<u>\$33,777</u>
Total Assets	<u>\$33,777</u>	<u>\$0</u>	<u>\$33,777</u>

Dental Com Insurance Plan, Inc.
Liabilities and Net Worth
As of December 31, 2017

Amounts due to parent, subsidiaries, and affiliates	\$33,777
Total Capital and Surplus	<u>0</u>
Total Liabilities, Capital and Surplus	<u>\$33,777</u>

**Dental Com Insurance Plan, Inc.
Statement of Revenue and Expenses
For the Year 2017**

Net premium income		\$3,237,542
Medical and administrative:		
Other professional services	\$2,913,788	
General administrative expenses	<u>323,754</u>	
Total underwriting deductions		<u>3,237,542</u>
Net Income (Loss)		<u>\$ 0</u>

**Dental Com Insurance Plan, Inc.
Statement of Cash Flows
As of December 31, 2017**

Premiums collected net of reinsurance		\$3,237,542
Less:		
Benefit- and loss-related payments	\$2,913,788	
Commissions, expenses paid, and aggregate write-ins for deductions	<u>323,754</u>	<u>3,237,542</u>
Net cash from operations		0
Other cash provided (applied)		<u>7,892</u>
Net Change in Cash, Cash Equivalents, and Short-Term Investments		7,892
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>25,885</u>
End of Year		<u>\$ 33,777</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
2017	\$33,777	\$33,777	\$0	\$3,237,542	\$2,913,788	\$0
2016	25,885	25,885	0	3,000,564	2,700,508	0
2015	24,654	24,654	0	2,893,618	2,604,256	0
2014	20,368	20,368	0	3,029,250	2,726,325	0
2013	20,641	20,641	0	3,080,732	2,772,659	0
2012	16,034	16,034	0	2,855,064	2,569,558	0

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Enrollment	Change in Enrollment
2017	0.0%	90%	10%	8,523	12.0%*
2016	0.0	90	10	7,607	2.7
2015	0.0	90	10	7,405	0.5
2014	0.0	90	10	7,365	-2.9
2013	0.0	90	10	7,586	2.7
2012	0.0	90	10	7,389	1.7

*Note: The increase in enrollment in 2017 was primarily due to acquisition of Ascension Saint Joseph's Hospital by Marshfield Clinic on July 1, 2017. The Marshfield Clinic represents approximately 80% of Dental Com's business.

Per Member Per Month Information

	2017	2016	Percentage Change
Premium	\$33.77	\$33.30	1.4%
Expenses:			
Other professional services	30.39	29.97	1.4
General administrative expenses	<u>3.38</u>	<u>3.33</u>	1.4
Total underwriting deductions	<u>\$33.77</u>	<u>\$33.30</u>	1.4

The company has provider and administrative services agreements with DCM, in which the company pays to the clinic provider fees and administrative fees of 90% and 10% of the earned premiums, respectively, in return for services provided. The company does not pay any claims for the covered services. DCM absorbs the costs and expenses for all covered services to the member groups. The agreements resulted in no net income or loss to the company.

Premiums are received monthly from each group and entered into the Dental Com checking account. These premiums are remitted to DCM through issuance of checks payable to DCM on a monthly basis, net of expenses directly paid by the company.

Dental Com's financial condition has remained at zero net income and zero surplus since the previous examination due to its inter-company arrangement with DCM. The company operates as a pass through to DCM, does not maintain any target of profits or pay any claim reimbursements, thereby eliminating most risk. Despite the increase in revenue from \$2.8 million in 2012 to \$3.2 million in 2017, all revenue is for the benefit of DCM.

Reconciliation of Capital and Surplus per Examination

The current examination resulted in no adjustments to capital and surplus or reclassifications of balance sheet accounts. Capital and surplus remained at zero balance as of December 31, 2017.

Financial Requirements

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

	Amount Required
1. Minimum capital or permanent surplus	Not less than \$75,000
2. Security deposit	Each LSHO is required to maintain a deposit of securities with the state treasurer or an acceptable letter of credit on file with the Commissioner's office. The amount of the deposit or letter of credit shall not be less than \$75,000. The letter of credit must be payable to the Commissioner whenever liquidation or rehabilitation proceedings are initiated against the company.
3. Compulsory surplus	Not less than the greater of: 3% of the premiums earned by the company in the previous 12 months or \$75,000 The Commissioner may accept the deposit or letter of credit under par. 2. to satisfy the compulsory surplus requirement if the company demonstrates to the satisfaction of the Commissioner that all risk for loss has been transferred to the providers.
4. Security surplus	The company should maintain a security surplus to provide an ample margin of safety and clearly assure a sound operation. The security surplus should not be less than 110% of compulsory surplus.

The company's calculation as of December 31, 2017, as modified for examination adjustments is as follows:

Assets	\$ 33,777	
Irrevocable letter of credit	<u>150,000</u>	\$183,777
Amount available to satisfy surplus requirements		
Less:		
Liabilities	33,777	
Examination adjustments	<u>0</u>	<u>33,777</u>
Net amount available to satisfy surplus requirements		\$150,000
Net premium earned	3,237,542	
Compulsory factor	<u>3%</u>	
Compulsory surplus		<u>97,126</u>
Compulsory Excess (Deficit)		<u>\$ 52,874</u>
Net amount available to satisfy surplus requirements		\$150,000

Compulsory surplus		
Security surplus factor	<u>140%</u>	
Security surplus		<u>135,976</u>
Security Excess (Deficit)		<u>\$ 14,024</u>

An LSHO which provides hospital services must demonstrate that, in the event of insolvency, enrollees hospitalized on the date of insolvency will be covered until discharge. This does not apply to this LSHO.

VI. 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. Administrative Service Fee—It is recommended that the company update their Administrative Services Agreement to accurately reflect the payment of the administrative service fee.

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.

Conflict of Interest Statement

The company does not have conflict of interest statements completed by the officers and directors for the years under examination. Instead, the company provided acknowledgement receipts from officers and directors of the Code of Ethics for each year from 2013 to 2018.

According to an Office of the Commissioner of Insurance (OCI) directive dated March 9, 1989, "each company is required to formulate and adopt standard of ethics and establish procedures for the annual disclosure of any material interest or affiliation which is in or is likely to conflict with the official duties of its officers, directors, trustees, or responsible employees. The procedure should require the conveyance of standard of ethics to the employee, the design of a suitable questionnaire to disclose any inconsistency with such standard, and a periodic system of reinstruction, interrogatory, and reappraisal."

The company is not in compliance with the OCI's conflict of interest directive. It is recommended that the company establish procedures and formulate a questionnaire to disclose any conflict of interest in compliance with the OCI conflict of interest directive dated March 9, 1989.

VII. CONCLUSION

Dental Com Insurance Plan, Inc., is a limited service health organization operating in five counties in the Marshfield area. It is owned by Dental Clinic of Marshfield, S.C., and commenced business on February 18, 2004.

The company has an inter-company arrangement with DCM, in which all earned premiums shall be remitted to DCM, net of all expenses directly paid by the company. This arrangement is covered by provider and administrative services agreements which allocate 90% and 10% of the company's earned premiums, respectively, as payment to DCM in exchange for the provider and administrative services, net of any expenses directly paid by the company. The agreements result in no net income or net loss, and no surplus to the company since it commenced business in 2004. Basically, the company operates as a pass through to DCM, thereby eliminating most risk.

The examination made one recommendation concerning conflict of interest procedures. There were no adjustments to the company's capital and surplus.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 - Conflict of Interest Statement—It is recommended that the company establish procedures and formulate a questionnaire to disclose any conflict of interest in compliance with the OCl conflict of interest directive dated March 9, 1989.

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 representative of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
David A. Jensen	IT Specialist

Respectfully submitted,

Angelita M. Romaker
Examiner-in-Charge