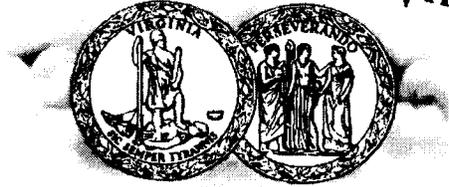


EXAMINATION REPORT
of
CIGNA DENTAL HEALTH OF VIRGINIA, INC.
Sunrise, Florida
as of
December 31, 2012

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of CIGNA Dental Health of Virginia, Inc. as of December 31, 2012, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 16th day of July, 2013

A handwritten signature in cursive script that reads "Jacqueline K. Cunningham".

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
April 11, 2013

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by the authority of Section 38.2-4315 of the Code of Virginia, an examination of the records and affairs of

CIGNA DENTAL HEALTH OF VIRGINIA, INC.

Sunrise, Florida

hereinafter referred to as the Corporation, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Corporation became licensed in Virginia as a health maintenance organization ("HMO") offering limited health care services pursuant to Chapter 43 of Title 38.2 of the Code of Virginia on June 26, 2000. The Corporation was last examined by representatives from the State Corporation Commission's (the "Commission") Bureau of Insurance (the "Bureau") as of December 31, 2009. This examination covers the period from January 1, 2010 through December 31, 2012.

HISTORY

The Corporation was incorporated in the Commonwealth of Virginia effective July 29, 1999. According to its Articles of Incorporation, the purpose for which the Corporation was organized is as follows:

...To establish and operate a limited health care services health maintenance organization, and to engage in any other lawful business for which corporations may be organized under the Virginia Stock Corporation Act.

CAPITAL AND SURPLUS

At December 31, 2012, the Corporation's Capital and surplus was \$1,870,042. According to the Articles of Incorporation, the Corporation has the authority to issue 1,000 shares of common capital stock with a par value of \$1.00 per share. At December 31, 2012, 1,000 shares of common capital stock were issued and outstanding, with Gross paid in and contributed surplus of \$1,005,000 and Unassigned funds of \$864,042.

NET WORTH REQUIREMENT

Section 38.2-4302 of the Code of Virginia states that an HMO licensed in Virginia shall maintain a minimum net worth in an amount at least equal to the sum of uncovered expenses, but not less than \$600,000, up to a maximum of \$4,000,000. 14 VAC 5-210-60 A requires that an HMO report the sum of its uncovered expenses for each three-month period ending December 31, March 31, June 30 or September 30. Because the sum of the Corporation's uncovered expenses for the three-month period ending December 31, 2012 was \$216,681, the Corporation's minimum net worth requirement at December 31, 2012 was \$600,000.

MANAGEMENT AND CONTROL

The Corporation's bylaws provide that the Board of Directors (the "Board") shall be responsible for the management of the business of the Corporation. The number of directors shall be one or more. The directors shall be elected at the annual meeting of the stockholders and each director elected shall serve until the next succeeding annual meeting of the stockholders and until his successor shall have been elected and qualified.

The officers of the Corporation shall consist of a President and a Secretary. The Board may also choose a Chairman of the Board, one or more Vice Presidents, one or more Assistant Secretaries, a Treasurer and one or more Assistant Treasurers if such officers are deemed necessary. The officers shall hold office until the first meeting of the Board after the annual meeting of shareholders next succeeding his election, and until his successor is elected and qualified.

At December 31, 2012, the Board of Directors and Officers were as follows:

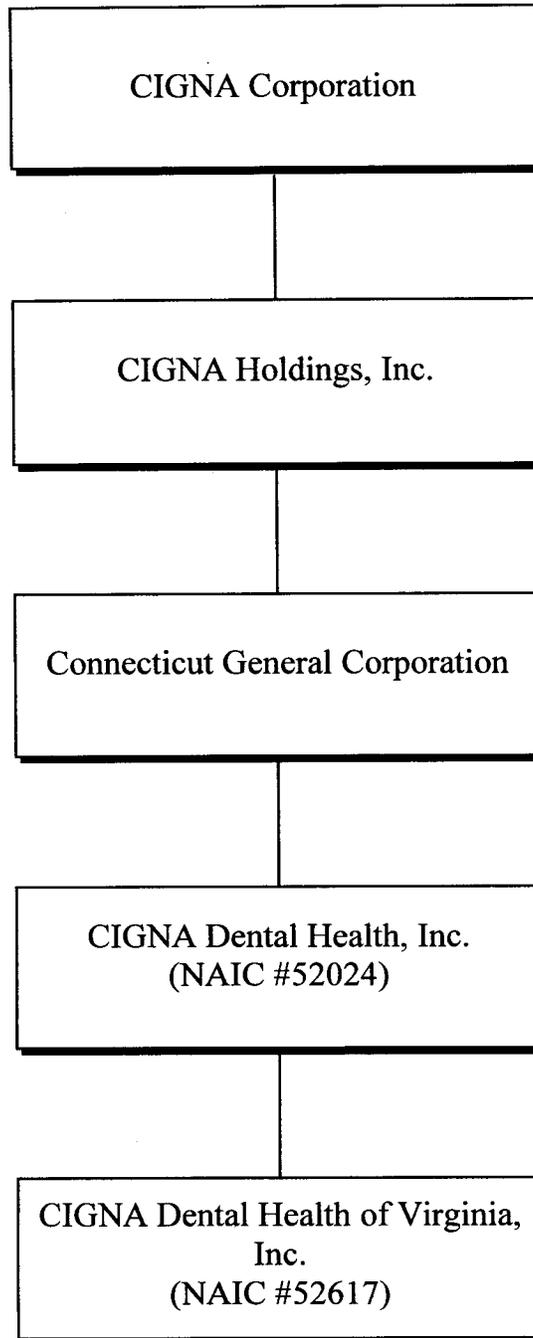
| <u>Directors</u> | <u>Principal Occupation</u> |
|--------------------|---|
| Kelly K. Brundin | Financial Analysis Senior Director CIGNA Dental Health, Inc. Sunrise, Florida |
| Matthew G. Manders | President CIGNA Dental Health, Inc. Sunrise, Florida |
| Julie A. Vayer | Vice President CIGNA Dental Health, Inc. Sunrise, Florida |

Officers

| | |
|--------------------|-----------|
| Matthew G. Manders | President |
| Anna Krishtul | Secretary |
| Kelly K. Brundin | Treasurer |

AFFILIATED COMPANIES

According to its Articles of Incorporation, the Corporation has the authority to issue 1,000 shares of common capital stock with a par value of \$1.00 per share. At December 31, 2012, the 1,000 outstanding shares of common stock were owned by CIGNA Dental Health, Inc. ("CDH"). The chart on the following page illustrates the organizational structure of the Corporation and selected affiliated entities at December 31, 2012.



TRANSACTIONS WITH AFFILIATES

Administrative Services Agreement

Effective December 31, 2007, the Corporation entered into an amended Administrative Services Agreement with CIGNA Dental Health of Florida, Inc. ("CDHF"). Under the terms of the agreement, CDHF shall provide the Corporation with all necessary administrative and management services in connection with the Corporation's operations. These services shall include data processing, premium reconciliation, fund transfers, financial services, marketing direction, local sales monitoring, and quality management activity monitoring. In return for providing the services, the Corporation shall pay CDHF a monthly fixed fee per member based on the coverage chosen by the member. The Corporation incurred fees related to this agreement equaling \$702,632 and \$739,593 in 2012 and 2011, respectively.

Consolidated Federal Income Tax Agreement

Effective July 29, 1999, the Corporation became a party to a Consolidated Federal Income Tax Agreement with and among CIGNA Corporation and its subsidiaries. In accordance with the agreement, CIGNA Corporation will either be paid the amount of the federal income tax liability or pay the amount of the federal income tax refund for all of the subsidiaries included in the consolidated federal income tax return. The federal income tax liability or refund is computed as if each subsidiary were filing a separate income tax return. However, tax benefits arising from a subsidiary's tax credits or net operating losses are only paid to the subsidiary to the extent that such losses or credits are utilized in the reduction of the consolidated federal income tax liability.

Insolvency Guarantee

Effective June 1, 2000, the Corporation entered into an insolvency guarantee with CDH. Under the terms of the insolvency guarantee, CDH guarantees the performance of the Corporation's contractual obligations in the event of the Corporation's insolvency. The guarantee of performance is limited to: (1) continuation of benefits to members for the duration of the contract period for which payment has been made by or on behalf of such members; and (2) payment to providers for services rendered prior to the date of solvency. Under no circumstances shall the insolvency guarantee be construed to be a guarantee of payment of the general obligations of the Corporation. CDH's obligation under the insolvency guarantee shall not exceed \$1 million. The insolvency guarantee is to remain in full force and effect until not less than 60 days' written notice of termination is given by CDH to both the Corporation and the Bureau.

Investment Advisory Agreement

Effective September 17, 2009, the Corporation entered into an Investment Advisory Agreement with CIGNA Investments, Inc. ("CII"). Under terms of the agreement, CII shall make and carry out decisions with respect to the acquisition, holding and disposition of securities, real estate or any other asset of the Corporation's portfolio subject to investment goals and limitations set by the Corporation. As compensation for investment advisory services, the Corporation shall pay CII a fee based upon its proportionate share of the costs and expenses incurred by CII. The Corporation's proportionate share of costs and expenses is based on the Corporation's proportionate share of assets under CII's management as of the last day of the immediately preceding quarter. The Corporation incurred fees related to this agreement equaling \$690 and \$1,621 in 2012 and 2011, respectively.

Dividends to Stockholders

The Corporation paid the following cash dividends to CDH during the three-year period under review, January 1, 2010 to December 31, 2012:

| <u>Dividend Type</u> | <u>Amount</u> | <u>Dividend Request Date</u> | <u>Bureau Approval Date</u> | <u>Date Paid to CDH</u> |
|----------------------|---------------|------------------------------|-----------------------------|-------------------------|
| Extraordinary | \$850,000 | 08/27/10 | 09/23/10 | 09/28/10 |
| Extraordinary | 1,000,000 | 06/09/11 | 06/30/11 | 07/14/11 |
| Extraordinary | 700,000 | 11/28/11 | 12/13/11 | 12/30/11 |
| Extraordinary | 700,000 | 06/06/12 | 06/20/12 | 07/16/12 |
| Extraordinary | 400,000 | 09/18/12 | 10/01/12 | 10/18/12 |

TERRITORY AND PLAN OF OPERATION

At December 31, 2012, the Corporation's service area, as reported in its 2012 Annual Statement, included the entire state of Virginia.

Services are provided by dentists in independent practice within the Corporation's service area. Each member must choose a participating general dentist from a list of the Corporation's primary dental providers. Members are referred to specialists by the primary dental provider.

CONFLICT OF INTEREST

The Corporation has adopted CIGNA Corporation's code of ethics and compliance policy. The policy, as it relates to conflicts of interest, states that directors, officers, and employees should avoid any situation that involves, or appears to involve, a conflict between personal interests and the interests of the Corporation. To ensure compliance with the Corporation's policy, directors, officers, and key employees must complete a conflict of interest questionnaire annually.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2012, the Corporation was listed as a named insured on CIGNA Corporation's crime/fidelity policy with a \$5,000,000 limit of liability, subject to \$2,500,000 self-insured retention/deductible, to insure against losses arising from dishonest acts of its officers and employees. Additionally, the Corporation was listed as a named insured on a managed care liability insurance policy, a commercial general liability insurance policy, a commercial automobile insurance policy, an umbrella liability policy and a workers compensation and employers liability insurance policy.

PROVIDER AGREEMENTS

The Corporation has entered into agreements with numerous participating general dentists and specialists to provide dental services to members. Participating general dentists are paid a monthly capitation fee based on the number of members enrolled with the participating general dentist and the type of product chosen by the member. Specialists are compensated according to published fee schedules for services performed. At December 31, 2012, the Corporation had agreements with the following specialists: endodontists, oral surgeons, orthodontists, pediatric dentists, and periodontists.

CONTRACT FORMS

Contracts are available on a group basis. Basic contract services include office visits, oral examinations and diagnosis, complete series x-rays, certain treatments and routine teeth cleaning. Exclusions include treatment received from a non-participating dentist or specialist without the prior approval of the Corporation, cosmetic dental surgery, prescription drugs, or services considered to be experimental in nature. The above are abbreviated descriptions of coverages and exclusions and the provisions in each individual group contract may vary.

GROWTH OF THE CORPORATION

The following data is representative of the growth of the Corporation, at year-end, for the ten-year period ending December 31, 2012. The data is compiled from the Corporation's filed Annual Statements, the previous examination report, and the current examination report.

| <u>Year</u> | <u>Total Admitted Assets</u> | <u>Total Liabilities</u> | <u>Capital And Surplus</u> |
|-------------|--------------------------------------|------------------------------|------------------------------------|
| 2003 | \$3,750,222 | \$292,226 | \$3,457,996 |
| 2004 | 2,461,505 | 299,688 | 2,161,817 |
| 2005 | 2,989,629 | 426,789 | 2,562,840 |
| 2006 | 2,041,336 | 314,986 | 1,726,350 |
| 2007 | 1,817,367 | 255,260 | 1,562,107 |
| 2008 | 1,962,895 | 323,448 | 1,639,447 |
| 2009 | 2,238,812 | 407,200 | 1,831,612 |
| 2010 | 2,439,218 | 227,551 | 2,211,667 |
| 2011 | 1,842,178 | 192,823 | 1,649,355 |
| 2012 | 2,116,160 | 246,118 | 1,870,042 |

| <u>Year</u> | <u>Total Revenue</u> | <u>Net Investment Gains</u> | <u>Medical & Hospital Expenses</u> | <u>Administrative Expenses</u> | <u>Pre-Tax Income (Loss)</u> |
|-------------|--------------------------|-------------------------------------|--|------------------------------------|--------------------------------------|
| 2003 | \$9,845,147 | \$22,330 | \$5,816,784 | \$1,641,239 | \$2,409,454 |
| 2004 | 9,452,676 | 29,075 | 5,609,576 | 1,563,243 | 2,308,932 |
| 2005 | 8,473,679 | 59,411 | 4,855,284 | 1,330,758 | 2,347,048 |
| 2006 | 7,466,045 | 97,849 | 4,424,552 | 1,083,495 | 2,055,847 |
| 2007 | 7,265,966 | 86,102 | 4,626,536 | 1,027,096 | 1,698,436 |
| 2008 | 6,700,524 | 41,058 | 4,472,726 | 948,039 | 1,320,817 |
| 2009 | 6,546,732 | 18,832 | 4,311,463 | 915,288 | 1,338,813 |
| 2010 | 6,502,738 | 10,073 | 4,007,771 | 798,451 | 1,706,589 |
| 2011 | 6,175,988 | 5,814 | 3,662,874 | 768,640 | 1,750,288 |
| 2012 | 6,322,564 | 5,135 | 3,525,668 | 764,463 | 2,037,568 |

The Corporation's enrollment data at year-end is illustrated as follows:

| <u>Year</u> | <u>Number of Members</u> |
|-------------|------------------------------|
| 2003 | 68,534 |
| 2004 | 62,449 |
| 2005 | 52,937 |
| 2006 | 43,934 |
| 2007 | 42,653 |
| 2008 | 37,683 |
| 2009 | 34,810 |
| 2010 | 33,199 |
| 2011 | 31,923 |
| 2012 | 31,160 |

SPECIAL RESERVES AND DEPOSITS

At December 31, 2012, the Bureau required the Corporation to maintain a minimum deposit of \$400,000 with the Treasurer of Virginia.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2010 through December 31, 2012. Assets were verified and liabilities established at December 31, 2012.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the Bureau plan and perform the examination to evaluate the financial condition and identify prospective risks of the Corporation, assess corporate governance, identify and assess inherent risks within the Corporation, and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Corporation were considered in accordance with the risk-focused examination process.

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2012; a statement of revenue and expenses for the year ending December 31, 2012; a reconciliation of capital and surplus for the period under review; and a statement of cash flow for the year ending December 31, 2012. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

| | <u>Assets</u> | Nonadmitted <u>Assets</u> | Net Admitted <u>Assets</u> |
|--|---------------------------|------------------------------|-------------------------------|
| Bonds | \$424,310 | | \$424,310 |
| Cash and short-term investments | <u>1,149,437</u> | | <u>1,149,437</u> |
| Subtotals, cash and invested assets | \$1,573,747 | \$0 | \$1,573,747 |
| Investment income due and accrued | 491 | | 491 |
| Uncollected premiums | 538,429 | 5,989 | 532,440 |
| Net deferred tax asset | 4,285 | | 4,285 |
| Receivables from parent, subsidiaries, and affiliates | <u>5,197</u> | | <u>5,197</u> |
| Total assets | <u><u>\$2,122,149</u></u> | <u><u>\$5,989</u></u> | <u><u>\$2,116,160</u></u> |

LIABILITIES, CAPITAL AND SURPLUS

| | <u>Covered</u> | <u>Uncovered</u> | <u>Total</u> |
|--|------------------|------------------|---------------------------|
| Claims unpaid | \$119,289 | \$10,938 | \$130,227 |
| Unpaid claims adjustment expenses | 3,372 | | 3,372 |
| Premiums received in advance | 22,098 | | 22,098 |
| General expenses due or accrued | 9,222 | | 9,222 |
| Current federal income tax payable and interest thereon | 75,215 | | 75,215 |
| Remittance and items not allocated | 5,984 | | 5,984 |
| Total liabilities | <u>\$235,180</u> | <u>\$10,938</u> | <u>\$246,118</u> |
| Common capital stock | | | \$1,000 |
| Gross paid in and contributed surplus | | | 1,005,000 |
| Unassigned funds (surplus) | | | <u>864,042</u> |
| Total capital and surplus | | | <u>\$1,870,042</u> |
| Total liabilities, capital and surplus | | | <u><u>\$2,116,160</u></u> |

STATEMENT OF REVENUE AND EXPENSES

| | <u>Uncovered</u> | <u>Total</u> |
|--|------------------|--------------|
| Net premium income | XXX | \$6,322,564 |
| Total revenues | XXX | \$6,322,564 |
| Hospital and Medical: | | |
| Other professional services | \$811 | \$3,401,706 |
| Outside referrals | 123,962 | 123,962 |
| Total hospital and medical | \$124,773 | \$3,525,668 |
| Claims adjustment expenses | 11,019 | 11,019 |
| General administrative expenses | 753,444 | 753,444 |
| Total underwriting deductions | \$889,236 | \$4,290,131 |
| Net underwriting gain | XXX | \$2,032,433 |
| Net investment income earned | XXX | \$5,094 |
| Net realized capital gains | XXX | 41 |
| Net investment gains | XXX | \$5,135 |
| Net income before federal income taxes | XXX | \$2,037,568 |
| Federal income taxes incurred | XXX | 713,195 |
| Net income | XXX | \$1,324,373 |

RECONCILIATION OF CAPITAL AND SURPLUS

| | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|---|---------------------------|---------------------------|---------------------------|
| Capital and surplus prior reporting year | <u>\$1,831,612</u> | <u>\$2,211,667</u> | <u>\$1,649,355</u> |
| GAINS AND LOSSES TO CAPITAL AND SURPLUS: | | | |
| Net income | \$1,108,731 | \$1,139,368 | \$1,324,373 |
| Change in net deferred income tax | (64,298) | (1,571) | 2,072 |
| Change in nonadmitted assets | 185,622 | (109) | (5,758) |
| Dividends to stockholders | <u>(850,000)</u> | <u>(1,700,000)</u> | <u>(1,100,000)</u> |
| Net change in capital and surplus | <u>\$380,055</u> | <u>(\$562,312)</u> | <u>\$220,687</u> |
| Capital and surplus end of reporting year | <u><u>\$2,211,667</u></u> | <u><u>\$1,649,355</u></u> | <u><u>\$1,870,042</u></u> |

CASH FLOW**Cash from Operations**

| | |
|--|--------------------|
| Premiums collected net of reinsurance | \$6,312,671 |
| Net investment income | <u>5,839</u> |
| Total | <u>\$6,318,510</u> |
| Benefit and loss related payments | \$3,508,582 |
| Commissions, expenses paid and aggregate write-ins for deductions | 762,215 |
| Federal income taxes paid | <u>682,031</u> |
| Total | <u>\$4,952,828</u> |
| Net cash from operations | <u>\$1,365,682</u> |

Cash from Investments

| | |
|--|------------------|
| Proceeds from investments sold, matured or repaid: | |
| Bonds | \$425,000 |
| Net gains on cash and short-term investments | <u>61</u> |
| Total investment proceeds | <u>\$425,061</u> |
| Cost of Investments acquired (long-term only) | |
| Bonds | <u>\$424,254</u> |
| Total investment acquired | <u>\$424,254</u> |
| Net cash from investments | <u>\$807</u> |

Cash from Financing and Miscellaneous Sources

| | |
|---|----------------------|
| Cash provided (applied): | |
| Dividends to stockholders | (\$1,100,000) |
| Other cash provided | <u>5,249</u> |
| Net cash from financing and miscellaneous sources | <u>(\$1,094,751)</u> |

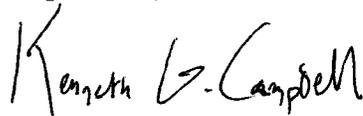
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

| | |
|---|--------------------|
| Net change in cash and short-term investments | \$271,738 |
| Cash and short-term investments: | |
| Beginning of the year | <u>877,699</u> |
| End of the year | <u>\$1,149,437</u> |

CONCLUSION

The courteous cooperation extended by the Corporation's officers and employees during the course of the examination is gratefully acknowledged. In addition to the undersigned, Milton Parker participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Kenneth G. Campbell". The signature is written in a cursive style with a large initial "K".

Kenneth G. Campbell, CFE
Assistant Chief Examiner

STATE CORP. COMMISSION
BUREAU OF INSURANCE

13 JUL 11 AM 10:37



Cigna.

July 10, 2013

Kenneth G. Campbell, CPA, CFE
Assistant Chief Examiner
Financial Regulation Division
Commonwealth of Virginia
1300 East Main Street
Richmond, VA 23219

**RE: Cigna Dental Health of Virginia, Inc.
Financial Examination Report as of December 31, 2012**

Dear Mr. Campbell:

Thank you for your letter dated April 11, 2013 regarding the Financial Examination Report for Cigna Dental Health of Virginia, Inc. as of December 31, 2012. We have reviewed the report and have no objections to its content. Therefore, we accept the information contained in the Financial Examination Report for Cigna Dental Health of Virginia, Inc. as of December 31, 2012.

Sincerely,

A handwritten signature in cursive script that reads "Angela F. Collie". The signature is written in black ink and is positioned above a horizontal line.

Angela F. Collie, CPA
Accounting Senior Specialist