

**EXAMINATION REPORT**  
**of**  
**DELTA DENTAL OF VIRGINIA**  
**Roanoke, Virginia**  
**as of**  
**December 31, 2020**

# COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

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I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Delta Dental of Virginia as of December 31, 2020, 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 19<sup>th</sup> day of October 2021

A handwritten signature in black ink, appearing to read 'Scott A. White', written over a horizontal line.

Scott A. White  
Commissioner of Insurance



**TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>Scope of the Examination .....</b>	<b>1</b>
<b>History .....</b>	<b>2</b>
<b>Management and Control.....</b>	<b>2</b>
<b>Affiliated Companies.....</b>	<b>4</b>
<b>Transactions with Affiliates.....</b>	<b>6</b>
<b>Employment Contract.....</b>	<b>7</b>
<b>Retirement Plans .....</b>	<b>8</b>
<b>Territory and Plan of Operation.....</b>	<b>8</b>
<b>Growth of the Plan .....</b>	<b>9</b>
<b>Financial Statements .....</b>	<b>11</b>
<b>Acknowledgement .....</b>	<b>17</b>

Richmond, Virginia  
September 1, 2021

Honorable Scott A. White  
Commissioner of Insurance  
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by the authority of Section 38.2-1317 of the Code of Virginia, an examination of the records and affairs of

**DELTA DENTAL OF VIRGINIA**

Roanoke, Virginia

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

**SCOPE OF THE EXAMINATION**

The last examination of the Plan was made by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2016. This examination covers the four-year period from January 1, 2017 through December 31, 2020.

This examination was conducted in accordance with the NAIC Financial Condition Examiners' Handbook (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Plan's financial condition, assess corporate governance, identify current and prospective risks of the Plan and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Plan 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. The examination does not attest to the fair presentation of the financial statements included herein.

The examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions,

proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Plan.

### **HISTORY**

The Plan was incorporated under the laws of Virginia on January 6, 1965. According to its amended and restated articles of incorporation, the Plan was organized to operate one or more dental services plans in accordance with the provisions of Chapter 45 of Title 38.2 of the Code of Virginia, as amended. The Plan may also assist in the administration of governmental health care programs in any manner provided for by contract or regulations. On August 16, 2005, the Plan changed its name from Delta Dental Plan of Virginia to Delta Dental of Virginia. During 2006, Corvesta, Inc. (Corvesta), a non-stock, non-profit holding company was formed by the Board of Directors of the Plan and on December 31, 2007, Corvesta became the sole member of the Plan.

### **MANAGEMENT AND CONTROL**

The bylaws of the Plan provide that the Board of Directors shall control and manage the affairs and business of the Plan. The Board shall consist of no fewer than seven directors nor more than eleven directors. Directors shall be elected at an annual meeting of Corvesta's Board of Directors and shall serve three-year terms. No Director shall serve more than four full terms on the Board. The Plan's President may serve as a Director for more than four terms as long as he or she occupies the position of President of the Plan.

The bylaws also provide for one standing committee: the Dental Policy Advisory Committee. The Board may, by resolution adopted by a majority vote of the Directors, establish such other committees of the Board as it deems appropriate. The Plan's Audit Committee is that of Corvesta and its affiliates.

The officers of the Plan shall be a Chairman of the Board, a President, who shall also be the Chief Executive Officer, a Secretary, a Treasurer and such other officers as the Board may elect. The term of each officer, with the exception of the President, shall be for one year or until his/her successor has been elected. The President shall be an employee under contract with the Plan and shall automatically serve as a member of the Board. Additional officers may be elected by the Board according to its needs.

At December 31, 2020, the Board of Directors and Officers were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Thomas R. Byrd	President Take Care Group, LLC Midlothian, Virginia
Daniel E. Draper	Chief Executive Officer S&P Dow Jones Indices New York, New York
Barry E. DuVal	President and Chief Executive Officer Virginia Chamber of Commerce Williamsburg, Virginia
Douglas B. Juanarena	Retired Blacksburg, Virginia
Frank L. Lucia	President and Chief Executive Officer Corvesta, Inc. Roanoke, Virginia
Lezley P. McIlveen, DDS	Dentist Herndon, Virginia
Sharon M. Muscarella	Principal Maisy Group, LLC Leesburg, Virginia
Audrea C. Pratt, DDS	Health Policy Advisor Commonwealth of Virginia Richmond, Virginia
McKinley L. Price, DDS	Dentist Newport News, Virginia
Pamela S. Schutz	Retired Richmond, Virginia
Laura W. Thomas	Chief Financial Officer Pareteum Corporation New York, New York

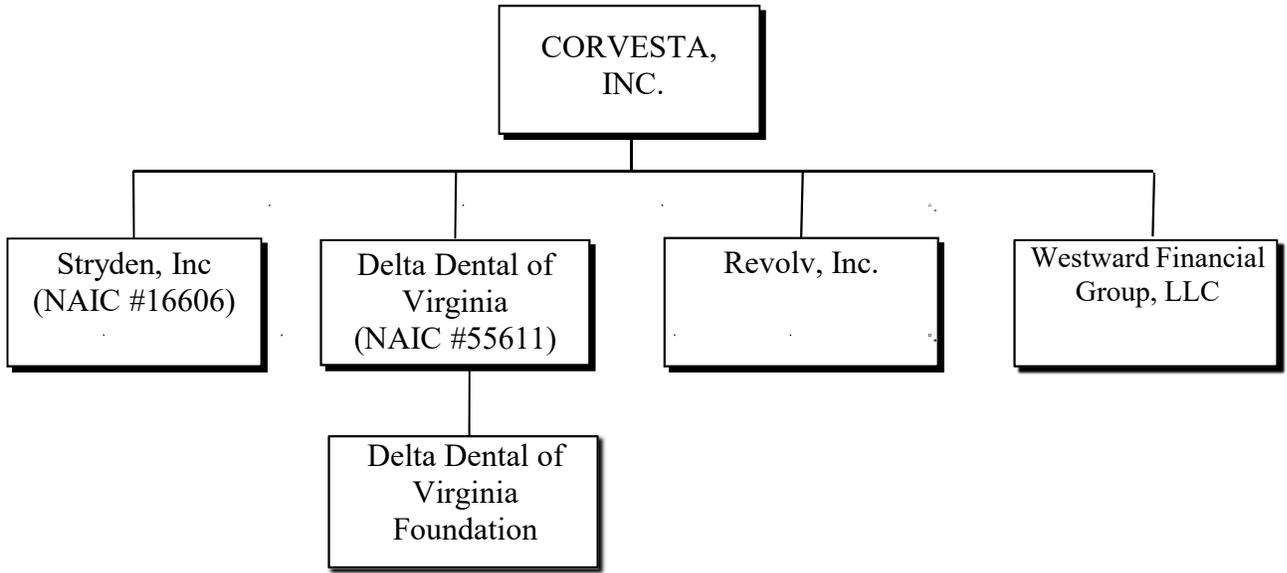
**Officers**

Laura W. Thomas  
Frank L. Lucia  
Robert J. Barker

Chairman of the Board  
President, Chief Executive Officer  
Secretary, Treasurer

**AFFILIATED COMPANIES**

At December 31, 2020, Corvesta was the sole member of the Plan. The chart on the following page illustrates the organizational structure of the Plan and affiliated entities at December 31, 2020:



## TRANSACTIONS WITH AFFILIATES

### Master Services and Credit Agreement

Effective November 1, 2011, the Plan entered into a Master Services and Credit Agreement with Corvesta and its affiliates. According to the agreement, the purpose is to:

- a) Provide for the sharing of the combined costs of certain administrative, executive and other services as well as the sharing of overhead costs that benefit all affiliates;
- b) Provide special services by and between affiliates directly related to the administration of an affiliate's business operation and;
- c) Enable each affiliate to borrow funds from another affiliate for start-up costs and business expenses.

The sharing of fees and expenses under (a) above is determined based on the proportion of each affiliates annual revenue to the total annual revenue of all affiliates. Services provided to an affiliate under (b) above are reimbursed based on pre-determined hourly, monthly or annual rates or are reimbursed based on the actual direct costs incurred by the affiliate as well as the allocable portion of indirect costs. Interest rates on loans to affiliates under (c) above shall be at prevailing market rates and any loans to or by the Plan are subject to applicable insurance laws and regulations.

The agreement shall remain in effect indefinitely. Any party may terminate the agreement upon 30 days' notice prior to the effective date of termination. The Plan incurred \$25,354,621 in fees related to the agreement in 2020.

### Administrative Services Agreement

Effective January 1, 2014, the Plan entered into an Administrative Services Agreement with Revolv, Inc. (Revolv). According to the agreement, Revolv shall act as a third-party administrator to provide certain administrative services including claim adjudication and payment services, policy application review and eligibility determination and issuance services, premium billing and collection, and policyholder services. The agreement shall remain in effect indefinitely. Any party may terminate the agreement upon 90 days' notice prior to the effective date of termination. As compensation, the Plan shall pay a per policy fee per month plus actual costs incurred by Revolv for ancillary items on behalf of the Plan. The Plan incurred \$19,390,611 in fees related to the agreement in 2020.

### Services Agreement

Effective January 1, 2017, the Plan entered into a Services Agreement with Encara Corporation (Encara), a dental benefits company. Under this agreement, Encara provides marketing and data analytics for the Plan with respect to certain segments of the individual dental product market. The Plan pays a monthly service fee that is adjusted based on the U.S. Consumer Price Index for Urban Wage Workers and Clerical Workers. The Plan also pays certain third-party expenses incurred by Encara that are not included in the monthly service fee. The Plan incurred \$1,755,819 in fees related to this agreement in 2020.

### Surplus Transfers

On August 29, 2017, the Plan received approval from the Bureau for a \$5,000,000 cash transfer to Corvesta. This transfer was completed on September 20, 2017. On August 9, 2018, the Plan received approval from the Bureau for a \$5,000,000 cash transfer to Corvesta. This transfer was completed on August 13, 2018.

### **EMPLOYMENT CONTRACT**

On September 18, 2017, the Plan entered into an employment agreement with Frank L. Lucia, President and Chief Executive Officer. Mr. Lucia's employment is considered "at-will" and has no defined term. The agreement states that Mr. Lucia shall receive a base salary, which shall increase on an annual or more frequent basis at the discretion of the Executive/Finance Committee of the Board. In addition to the salary, the agreement provides for an annual incentive bonus if Mr. Lucia satisfies the terms and conditions of the Plan's annual incentive plan. For the year ending December 31, 2020, Mr. Lucia received a base salary of \$702,296, a bonus of \$530,823 and other compensation of \$30,527. This agreement further provides for, but is not limited to, the following fringe benefits:

- a. Health and dental benefits for Mr. Lucia and his eligible dependents.
- b. A car allowance of \$1,000 per month.
- c. A term life insurance policy that is capped at \$250,000.
- d. Disability income insurance.

## **RETIREMENT PLANS**

### **Profit Sharing/401k Plan:**

The Plan has a defined contribution profit sharing plan in which all employees 21 years of age are immediately eligible for 401k participation and those with at least one year of service are eligible for all other benefits. Historically, the Plan has made discretionary contributions at a rate of eleven percent of the participants' eligible compensation in matching and profit sharing funding. For the year ended December 31, 2020, the Plan incurred expense associated with the funding of the 401(k) plan in the amounts of \$129,188 of matching and \$581,774 in profit sharing contributions.

### **Deferred Compensation Plans:**

During the audit period, the Plan had two nonqualified deferred compensation plans for the benefit of certain key employees. Within a nonqualified deferred compensation plan formed under Section 457(f) of the Internal Revenue Code, the plan formerly granted a right to acquire mutual fund shares for 25% of the fair market value of the award on the grant date for awards made through December 31, 2004. Awards subsequent to December 31, 2004 did not grant this right. For the year ended December 31, 2020, awards exercised were \$274,216. There were no contributions to the plan for 2020. Subsequent to year end, the Plan's governing body voted to terminate this plan.

During 2007, the Plan entered into a deferred compensation plan under Section 457(b) of the Internal Revenue Code for a select group of key employees. The fair market value of the investments in this plan was \$1,490,572 at December 31, 2020, and are included in cash and cash equivalents with an offsetting liability included in general expenses due or accrued on the statutory statement of admitted assets, liabilities and surplus. Contributions are made to the plan by either the employee electing to defer a portion of their salary based on a Salary Deferral Agreement or, at the employer's discretion, by an employer performance incentive credit. Participants are fully vested at all times. The Plan did not contribute to the plan for the period under review.

## **TERRITORY AND PLAN OF OPERATION**

The Plan is licensed to issue contracts for future dental services. Services are provided by approximately 4,525 licensed dentists within the Plan's service area which encompasses the entire state of Virginia. Subscriber contracts offered by the Plan for dental services can be categorized into three general classes:

1. Prepaid Group Contracts. Group prepaid dental contracts are written for a subscriber fee usually fixed for a one-year period. These contracts require monthly payment of subscriber fees based on the number of employees comprising the group. Underwriting risk to the Plan is involved under these contracts.
2. Administrative Services Contracts (ASC). Contracts provide for the processing and payment of dental claims incurred by an ASC group. The Plan is reimbursed for the claim payments as well as an administrative fee. There is no underwriting risk to the Plan under these contracts.
3. Prepaid Individual Contracts. Individual prepaid dental contracts are written for a subscriber fee usually fixed for a one-year period. These contracts require monthly payment of subscriber fees. Underwriting risk to the Plan is involved under these contracts.

### **GROWTH OF THE PLAN**

The following data is representative of the growth of the Plan for the ten-year period ending December 31, 2020. The data is compiled from the Plan's filed Annual Statements, previous examination reports, and the current examination report.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital And Surplus</u>
2011	\$102,113,543	\$37,245,846	\$64,867,697
2012	99,753,831	47,807,715	51,946,116
2013	103,684,865	40,010,455	63,674,410
2014	87,621,457	35,462,441	52,159,016
2015	105,207,363	40,150,341	65,057,022
2016	117,655,070	46,039,291	71,615,779
2017	126,195,747	49,021,458	77,174,289
2018	121,401,931	45,375,428	76,026,503
2019	118,561,753	41,552,915	77,008,838
2020	143,316,666	47,765,011	95,551,655

<u>Year</u>	<u>Total Revenue</u>	<u>Net Investment Gains</u>	<u>Dental Expenses</u>	<u>Administrative Expenses</u>	<u>Net Income</u>
2011	\$180,671,629	\$2,125,892	\$142,539,933	\$24,196,725	\$16,060,863
2012	184,814,995	4,540,337	145,257,607	26,621,943	17,475,782
2013	204,913,013	1,258,259	164,197,106	30,306,183	11,667,983
2014	243,694,242	1,479,531	197,223,659	31,387,975	16,562,139
2015	262,617,500	2,759,714	211,093,285	39,803,712	14,480,217
2016	271,780,000	1,570,664	215,419,541	39,239,531	18,691,592
2017	267,244,310	2,162,314	208,235,812	40,417,061	20,753,751
2018	277,792,211	1,597,440	216,688,435	43,510,951	19,190,265
2019	279,218,069	1,940,661	219,387,408	45,111,173	16,660,149
2020	258,006,526	1,470,325	178,328,091	66,712,460	14,436,300

**FINANCIAL STATEMENTS**

The following financial statements present the financial condition of the Plan for the period ending December 31, 2020. No examination adjustments were made to the statutory financial statements filed by the Plan with the Bureau for the period ending December 31, 2020.

**ASSETS**

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$38,385,187		\$38,385,187
Stocks:			
Common stocks	28,371,454		28,371,454
Real estate			
Properties occupied by the company	8,810,153		8,810,153
Properties held for the production of income	7,209,616		7,209,616
Cash and cash equivalents	<u>30,339,768</u>		<u>30,339,768</u>
Subtotals, cash and invested assets	\$113,116,178		\$113,116,178
Investment income due and accrued	260,479		260,479
Uncollected premiums and agents' balances in the course of collection	7,490,724	242,263	7,248,461
Amounts receivable relating to uninsured plans	14,744,749	15,155	14,729,594
Guaranty funds receivable or on deposit	3,042,391		3,042,391
Electronic data processing equipment and software	57,452,413	54,835,272	2,617,141
Furniture and equipment	254,689	254,689	0
Health care and other amounts receivable	<u>2,883,814</u>	<u>581,392</u>	<u>2,302,422</u>
Total assets	<u><u>\$199,245,437</u></u>	<u><u>\$55,928,771</u></u>	<u><u>\$143,316,666</u></u>

**LIABILITIES, CAPITAL AND SURPLUS**

Claims unpaid	\$12,723,000
Unpaid claims adjustment expenses	1,015,377
Premiums received in advance	9,372,585
General expenses due or accrued	12,666,973
Amounts withheld or retained for the account of others	1,382,589
Amounts due to parent, subsidiaries and affiliates	370,299
Liability for amounts held under uninsured plans	8,462,602
Aggregate write-ins for other liabilities	<u>1,771,586</u>
Total liabilities	<u>\$47,765,011</u>
Unassigned funds (surplus)	<u>\$95,551,655</u>
Total capital and surplus	<u>\$95,551,655</u>
Total liabilities, capital and surplus	<u><u>\$143,316,666</u></u>

**STATEMENT OF REVENUES AND EXPENSES**

Net premium income	\$259,196,695
Change in unearned premium reserve and reserve for rate credits	<u>(1,190,169)</u>
Total revenues	<u>\$258,006,526</u>
<b>Dental</b>	
Dental benefits	<u>\$178,328,091</u>
Total dental benefits	\$178,328,091
Claims adjustment expenses	13,787,672
General administrative expenses	<u>48,777,738</u>
Total underwriting deductions	<u>\$240,893,501</u>
Net underwriting gain	<u>\$17,113,025</u>
Net investment income earned	\$1,104,705
Net realized capital gains	<u>365,620</u>
Net investment gains	<u>\$1,470,325</u>
Aggregate write-ins for other income or expenses	<u>(\$4,147,050)</u>
Net income	<u><u>\$14,436,300</u></u>

**RECONCILIATION OF CAPITAL AND SURPLUS**

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Capital and surplus prior reporting year	<u>\$71,615,779</u>	<u>\$77,174,289</u>	<u>\$76,026,503</u>	<u>\$77,008,838</u>
Net income	\$20,753,751	\$19,190,265	\$16,660,149	\$14,436,300
Net unrealized capital gains	754,139	(2,237,994)	4,547,120	2,060,890
Change in nonadmitted assets	(10,949,380)	(13,100,057)	(20,224,934)	2,045,627
Surplus transfer to Corvesta	<u>(5,000,000)</u>	<u>(5,000,000)</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus	<u>\$5,558,510</u>	<u>(\$1,147,786)</u>	<u>\$982,335</u>	<u>\$18,542,817</u>
Capital and surplus end of reporting year	<u><u>\$77,174,289</u></u>	<u><u>\$76,026,503</u></u>	<u><u>\$77,008,838</u></u>	<u><u>\$95,551,655</u></u>

**CASH FLOW****Cash from Operations**

Premiums collected net of reinsurance	\$259,152,076
Net investment income	1,514,060
Total	<u>\$260,666,136</u>
Benefit and loss related payments	\$176,590,091
Commissions, expenses paid and aggregate write-ins for deductions	66,403,178
Total	<u>\$242,993,269</u>
Net cash from operations	<u>\$17,672,867</u>

**Cash from Investments**

Proceeds from investments sold, matured or repaid:	
Bonds	\$14,518,265
Stocks	4,456,041
Total investment proceeds	<u>\$18,974,306</u>
Cost of investments acquired (long-term only):	
Bonds	\$16,184,259
Stocks	5,470,454
Total investment acquired	<u>\$21,654,713</u>
Net cash from investments	<u>(\$2,680,407)</u>

**Cash from Financing and Miscellaneous Sources**

Cash provided (applied):	
Other provided applied	<u>(\$1,298,559)</u>
Net cash from financing and miscellaneous sources	<u>(\$1,298,559)</u>

**RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS**

Net change in cash and short-term investments	\$13,693,901
Cash and short-term investments:	
Beginning of the year	16,645,867
End of the year	<u>\$30,339,768</u>

**ACKNOWLEDGEMENT**

The courteous cooperation extended by the Plan's officers and employees during the course of the examination is gratefully acknowledged. In addition to the undersigned, Ken Campbell, CFE, Gerald Hicks II, AFE, and Chris Collins, CFE, participated in the work of the examination.

Respectfully submitted,

A handwritten signature in cursive script, reading "Benjamin B. MacKercher".

Benjamin B. MacKercher, CFE  
Senior Insurance Examiner

October 1, 2021

Mr. David H. Smith  
Chief Examiner  
State Corporation Commission  
Bureau of Insurance  
1300 E. Main Street  
Richmond, VA 23219

Dear Mr. Smith:

We are providing this letter in connection with the draft Examination Report for Delta Dental of Virginia for the four-year period from January 1, 2017 through December 31, 2020.

The draft Examination Report was accompanied by a cover letter dated September 29, 2021. The letter indicated since the examination report does not contain any recommendations for corrective action, we only need to provide written acknowledgement of receipt of the report within thirty days of the date of the letter. Please accept this correspondence as confirmation of receipt.

Respectfully,



Frank Lucia  
President & CEO