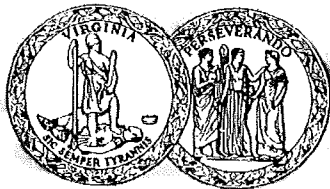


EXAMINATION REPORT
of
DELTA DENTAL OF VIRGINIA
Roanoke, Virginia
as of
December 31, 2016

COMMONWEALTH OF VIRGINIA

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



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RICHMOND, VIRGINIA 23219
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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 Delta Dental of Virginia as of December 31, 2016, 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 11th day of October, 2017

A handwritten signature in cursive script that reads "Jacqueline K. Cunningham". The signature is written in black ink and is positioned above a horizontal line.

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
July 31, 2017

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Richmond, Virginia

Dear Madam:

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, 2012. This examination covers the four year period from January 1, 2013 through December 31, 2016.

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 nine directors nor more than twenty directors. Directors shall be elected at an annual meeting of Corvesta's Board of Directors and shall serve four-year terms. No Director shall serve more than three full terms on the Board and a Director shall not be elected or re-elected to the Board after his or her seventy-fifth birthday. The Plan's President may serve as a Director for more than three terms or beyond his or her seventy-fifth birthday as long as he or she occupies the position of President of the Plan.

The bylaws also provide for four standing committees: the Executive/Finance Committee, the Dental Policy Committee, the Marketing Committee and the Nominating 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, 2016, the Board of Directors and Officers were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Harold J. Barrett, Jr., DDS	Retired Falls Church, Virginia
Lyndell B. Brooks	Retired Roanoke, Virginia
Thomas R. Byrd	Retired Midlothian, Virginia
Gordon L. Gentry, Jr.	Chairman/CEO Towne Bank Newport News, Virginia
Daniel C. Hastings, Jr.	Retired Ringgold, Virginia
Michael L. Houliston	Retired Massanutten, Virginia
George A. Levicki, DDS	President and Chief Executive Officer Delta Dental of Virginia Roanoke, Virginia
Mayer G. Levy, DDS	Retired Newport News, Virginia
Lezley P. McIlveen, DDS	Dentist Herndon, Virginia
French H. Moore, Jr., DDS	Retired Abingdon, Virginia
Thomas S. Nardo	Retired Richmond, Virginia
Jess Newbern, III	Retired Roanoke, Virginia

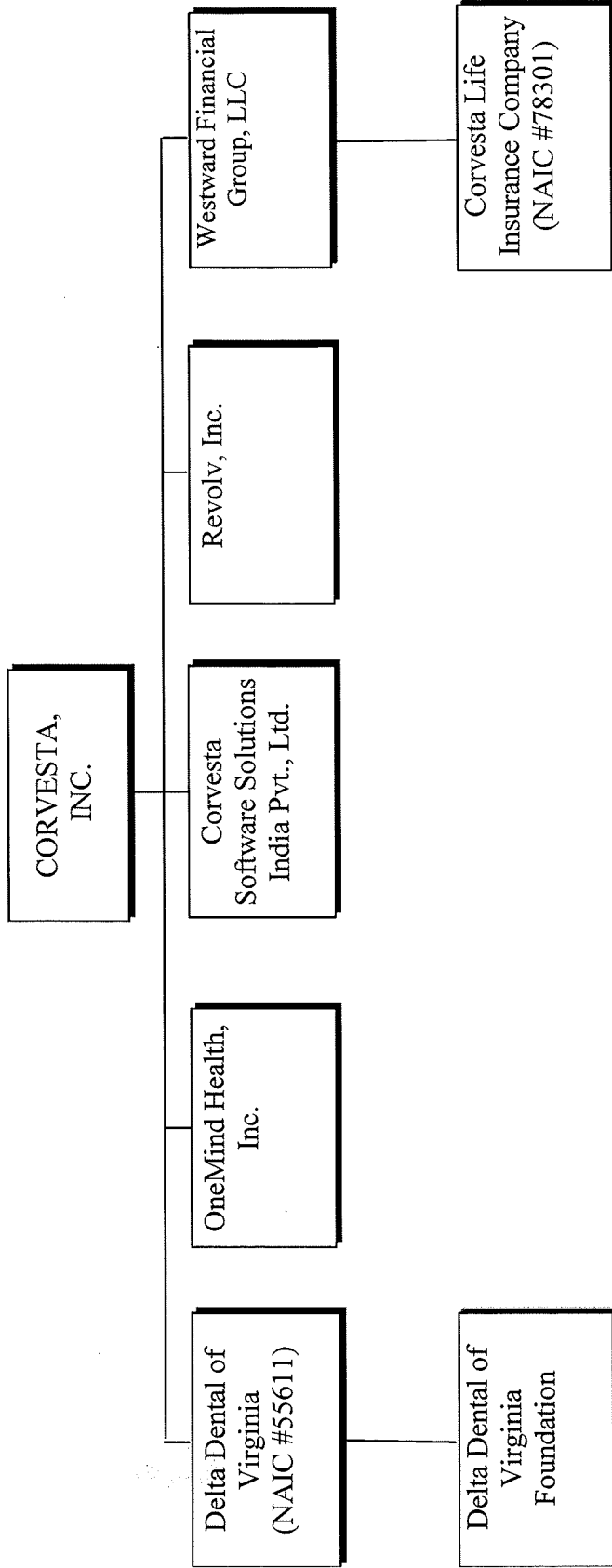
Albert L. Payne, DDS	Dentist Danville, Virginia
Patrick N. Shaffner	Retired Roanoke, Virginia
Grant M. Sprinkle, III, DDS	Dentist Salem, Virginia
Barry Wolfe, DDS	Retired Roanoke, Virginia

Officers

Lyndell B. Brooks	Chairman of the Board
George A. Levicki, DDS	President, Chief Executive Officer
Robert J. Barker	Secretary, Treasurer
Peter V. Davies, II	Senior Vice President, Chief Operating Officer
Joseph M. Dill	Vice President, Professional Services
Bradley D. Knopf	Vice President, Actuarial and Underwriting
Christopher E. Pyle	Vice President, Marketing and Government Relations
David N. Werner	Vice President, Sales

AFFILIATED COMPANIES

At December 31, 2016, 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, 2016:



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 \$10,538,460 in fees related to the agreement in 2016.

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 \$18,634,507 in fees related to the agreement in 2016.

Surplus Transfers

In 2013, the Plan transferred \$8,000,000 to Corvesta. The Plan transferred \$30,319,654 to Corvesta in 2014, of which, \$24,319,654 were equity securities. In 2015, Corvesta transferred \$3,234,330 in bond investments to the Plan for cash. Additionally, the Plan transferred \$406,250, \$406,250, \$55,000 and \$250,000 to the Delta Dental of Virginia Foundation in 2013, 2014, 2015 and 2016, respectively.

EMPLOYMENT CONTRACT

On January 1, 2006, the Plan entered into an employment agreement with Dr. George A. Levicki, President and Chief Executive Officer. The initial term of the agreement was for three years and it shall renew automatically for one-year terms thereafter. The agreement states that Dr. Levicki shall receive a base salary, with such base salary to 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 Dr. Levicki satisfies the terms and conditions of the Plan's executive incentive plan. The Executive/Finance Committee may revise the measures and the incentive plan on an annual basis. For the year ending December 31, 2016, Dr. Levicki received a base salary of \$572,591, a bonus of \$410,992 and other compensation of \$96,328. This agreement further provides for, but is not limited to, the following fringe benefits:

- a. Health and dental benefits for Dr. Levicki and his eligible dependents.
- b. A company vehicle and operating expenses associated with maintaining the vehicle, including but not limited to personal property taxes, license and renewal fees, insurance, maintenance, repairs and fuel.
- c. Membership in a country club of Dr. Levicki's choice in the Roanoke Valley. Membership shall include initiation fees, stock purchase, annual or monthly membership dues, fees, and/or assessments. Dr. Levicki shall be responsible for any other fees incidental to his membership, including but not limited to periodic minimum charges for food or other purchases and any charges not directly related to Dr. Levicki's business use of the facility.
- d. A term life insurance policy with a death benefit equal to \$760,000.
- e. Disability income insurance.

The Plan may terminate this agreement at any time upon advance notice to Dr. Levicki, subject to provisions of the contract. Dr. Levicki may terminate this agreement at any time upon not less than six months advance notice of termination to the Plan.

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. The Plan's contributions are made at a rate of eleven percent of the participants' eligible compensation. For the year ended December 31, 2016, the expense associated with the funding of the defined contribution profit sharing plan was \$589,856. Within the defined contribution profit sharing plan, participants can contribute a percentage of their eligible compensation on a pretax basis. The Plan matches a percentage of the elective deferrals made by participants. The expense related to the Plan's match of participant elective deferrals totaled \$104,929 in 2016.

Deferred Compensation Plans:

The Plan has a nonqualified deferred compensation plan available to certain key employees. Under the nonqualified deferred compensation plan, eligible key employees are granted options in an amount and at a date (the "award date") determined by the Plan's Board. These options become vested based upon the vesting terms of the award and are exercisable upon vesting. Participating key employees have the choice of receiving exercised options in cash or by acquiring mutual fund shares at the fair market value as of the award date. At December 31, 2016, the Plan has fully funded the obligation by acquiring marketable securities with a fair market value of \$559,987. The Plan made no contributions to the nonqualified deferred compensation plan in 2016.

During 2012, the Plan entered into non-funded deferred compensation agreements with certain key executives. Pursuant to the agreements, the Board of Director approved benefit is earned by the executives for continued employment and is payable upon vesting. Non-vested benefits are forfeited if the executive ceases employment with the Plan. Compensation accrued for benefits under these deferred compensation agreements during 2016 was \$237,500.

TERRITORY AND PLAN OF OPERATION

The Plan is licensed to issue contracts for future dental services. Services are provided by approximately 4,300 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. Delta Care Plan Contracts. The Plan contracts with participating dentists to provide treatment to subscribers for a per-subscriber-per-month fee for each subscriber who has selected the dentist.

GROWTH OF THE PLAN

The following data is representative of the growth of the Plan for the ten-year period ending December 31, 2016. 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>		
2007	\$83,121,886	\$25,320,234	\$57,801,652		
2008	83,546,302	27,531,457	56,014,845		
2009	92,237,519	29,599,219	62,638,300		
2010	94,083,679	33,993,120	60,090,559		
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		

<u>Year</u>	<u>Total Revenue</u>	<u>Net Investment Gains</u>	<u>Dental Expenses</u>	<u>Administrative Expenses</u>	<u>Net Income</u>
2007	121,946,329	(\$24,199)	\$96,852,679	\$16,732,287	\$8,337,164
2008	129,500,147	(2,379,961)	101,754,476	16,346,320	9,019,390
2009	143,261,540	1,380,791	113,446,756	17,848,757	13,346,818
2010	156,082,017	(732,126)	124,698,125	21,011,281	9,640,485
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

FINANCIAL STATEMENTS

The following financial statements present the financial condition of the Plan for the period ending December 31, 2016. No examination adjustments were made to the statutory financial statements filed by the Plan with the Bureau for the period ending December 31, 2016.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$48,615,535		\$48,615,535
Stocks:			
Common stocks	4,421,220		4,421,220
Real estate			
Properties occupied by the company	1,138,664		1,138,664
Properties held for the production of income	17,167,268		17,167,268
Cash and short-term investments	<u>26,467,101</u>		<u>26,467,101</u>
Subtotals, cash and invested assets	\$97,809,788		\$97,809,788
Investment income due and accrued	360,965		360,965
Uncollected premiums and agents' balances in the course of collection	4,926,185	50,155	4,876,030
Amounts receivable relating to uninsured plans	14,585,792		14,585,792
Electronic data processing equipment and software	8,080,825	8,069,072	11,753
Furniture and equipment	602,161	602,161	0
Receivables from parent, subsidiaries and affiliates	2,589		2,589
Health care and other amounts receivable	<u>4,986,792</u>	<u>4,978,639</u>	<u>8,153</u>
Total assets	<u><u>\$131,355,097</u></u>	<u><u>\$13,700,027</u></u>	<u><u>\$117,655,070</u></u>

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid	\$12,713,000
Unpaid claims adjustment expenses	806,877
Premiums received in advance	7,877,754
General expenses due or accrued	17,241,990
Amounts withheld or retained for the account of others	1,147,776
Amounts due to parent, subsidiaries and affiliates	837,800
Liability for amounts held under uninsured plans	4,709,638
Aggregate write-ins for other liabilities	<u>704,456</u>
Total liabilities	<u>\$46,039,291</u>
Unassigned funds (surplus)	<u>\$71,615,779</u>
Total capital and surplus	<u>\$71,615,779</u>
Total liabilities, capital and surplus	<u><u>\$117,655,070</u></u>

STATEMENT OF REVENUES AND EXPENSES

Net premium income	\$269,198,918
Change in unearned premium reserve and reserve for rate credits	<u>2,581,082</u>
Total revenues	<u>\$271,780,000</u>
Dental	
Dental benefits	<u>\$215,419,541</u>
Total dental benefits	\$215,419,541
Claims adjustment expenses	9,998,199
General administrative expenses	<u>29,241,332</u>
Total underwriting deductions	<u>\$254,659,072</u>
Net underwriting gain	<u>\$17,120,928</u>
Net investment income earned	\$1,409,148
Net realized capital gains	<u>161,516</u>
Net investment gains	<u>\$1,570,664</u>
Net income	<u><u>\$18,691,592</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Capital and surplus prior reporting year	<u>\$51,946,116</u>	<u>\$63,674,410</u>	<u>\$52,159,016</u>	<u>\$65,057,022</u>
Net income	\$11,667,983	\$16,562,139	\$14,480,217	\$18,691,592
Net unrealized capital gains	5,070,236	576,835	(1,521,118)	249,934
Change in nonadmitted assets	2,990,075	1,665,286	(61,093)	(12,382,769)
Surplus transfer to Corvesta	<u>(8,000,000)</u>	<u>(30,319,654)</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus	<u>\$11,728,294</u>	<u>(\$11,515,394)</u>	<u>\$12,898,006</u>	<u>\$6,558,757</u>
Capital and surplus end of reporting year	<u><u>\$63,674,410</u></u>	<u><u>\$52,159,016</u></u>	<u><u>\$65,057,022</u></u>	<u><u>\$71,615,779</u></u>

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$269,949,539
Net investment income	1,857,052
Total	<u>\$271,806,591</u>
Benefit and loss related payments	\$213,604,541
Commissions, expenses paid and aggregate write-ins for deductions	32,103,532
Total	<u>\$245,708,073</u>
Net cash from operations	<u>\$26,098,518</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$11,670,882
Stocks	1,058,781
Total investment proceeds	<u>\$12,729,663</u>
Cost of investments acquired (long-term only):	
Bonds	\$13,383,482
Stocks	1,202,626
Real estate	843,753
Total investment acquired	<u>\$15,429,861</u>
Net cash from investments	<u>(\$2,700,198)</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Other provided applied	<u>(\$10,650,359)</u>
Net cash from financing and miscellaneous sources	<u>(\$10,650,359)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	\$12,747,961
Cash and short-term investments:	
Beginning of the year	13,719,140
End of the year	<u><u>\$26,467,101</u></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, Chris Collins, CFE, Gerald Hicks and Kevin Knight, CFE, 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
2017 SEP 29 AM 9:12
BUREAU OF INSURANCE

September 28, 2017

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, 2013 through December 31, 2016.

The draft Examination Report was accompanied by a cover letter dated September 21, 2017. 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. Also as requested in your correspondence, please provide 25 copies of the final report so that we may address inquiries and for our internal records.

Respectfully,



George A. Levicki, DDS
President & CEO