



Paul R. LePage
GOVERNOR

STATE OF MAINE
DEPARTMENT OF PROFESSIONAL
AND FINANCIAL REGULATION
BUREAU OF INSURANCE
34 STATE HOUSE STATION
AUGUSTA, MAINE
04333-0034

Eric A. Cioppa
SUPERINTENDENT

June 30, 2016

Eric A. Cioppa, Superintendent
Maine Bureau of Insurance
34 State House Station
Augusta, ME 04333-0034

Dear Superintendent:

Pursuant to the provisions of 24 M.R.S. §2307 and conformity with your instructions, a financial examination has been made of

**Maine Dental Service Corporation
d/b/a Delta Dental Plan of Maine**

at its primary administrative office in Concord, New Hampshire. The following report is respectfully submitted.



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REPORT OF EXAMINATION

**MAINE DENTAL SERVICE CORPORATION D/B/A
DELTA DENTAL PLAN OF MAINE**

AS OF

DECEMBER 31, 2014

ACCEPTANCE OF REPORT OF EXAMINATION

WHEREAS a verified report of examination of Maine Dental Service Corporation dated June 30, 2016, was delivered to that insurer on August 3, 2016, and

WHEREAS no hearing with respect to the report of examination has been requested by Maine Dental Service Corporation

NOW THEREFORE, I accept the report of examination and hereby order it placed on file in the Bureau of Insurance as provided for by 24-A M.R.S. §226(3).

Dated: 8/16/16

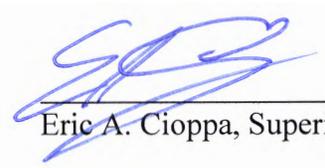

Eric A. Cioppa, Superintendent

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SCOPE OF EXAMINATION

Maine Dental Service Corporation d/b/a Delta Dental Plan of Maine ("Company") was last examined as of December 31, 2009, by the State of Maine Bureau of Insurance ("MBOI"). This examination covered the period from January 1, 2010, to December 31, 2014.

This examination was performed pursuant to the risk-focused approach promulgated by the National Association of Insurance Commissioners ("NAIC"), in conformity with statutory accounting practices, NAIC guidelines, the 2015 Financial Condition Examiners Handbook ("FCEH") and the laws, rules, and regulations prescribed or permitted by the State of Maine. The examination consisted of a review of the Company's operations, controls, and corporate governance, valuation of assets, and determination of liabilities at December 31, 2014. The examination also included the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examination does not attest to the fair presentation of the financial statements included herein. Comments on various balance sheet items, for purposes of this report, may be limited to matters involving clarification, departures from laws, rules and regulations, and/or significant changes in amounts. To the extent deemed necessary, transactions occurring subsequent to the examination date were reviewed.

This examination report includes significant findings of fact, pursuant to 24-A M.R.S. §225 (1), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature, are not included herein, and are instead separately reported to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

PRIOR EXAMINATION

Comment 1:

Claim forms do not comply with 24-A M.R.S.A. §2186 (3)(A).

Status:

The Company has not adequately responded to this comment. See Comment 1 in the current examination subsection of this report.

Comment 2:

It was observed that the Company reports related party payables on page 3, line 9 of the annual statement.

Status:

The Company has adequately responded to this comment.

Comment 3:

Review of the custodial agreements indicated certain areas of noncompliance with the FCEH. Specifically, the FCEH prescribed clauses were not included in the custodial agreements:

- If a custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner.
- During regular business hours, and upon reasonable notice, an officer or employee of the insurance company, an independent accountant selected by the insurance company, and a representative of an appropriate regulatory body shall be entitled to examine, on the premises of the custodian, its records relating to securities, if the custodian is given written instructions to that effect from an authorized officer of the insurance company.

Status:

The Company has adequately responded to this comment.

Comment 4:

Review of the board of directors meeting minutes, the Company's annual members meetings, and committee meetings indicated the following deficiencies:

- Board of Directors
A majority of the minutes provided by the Company were either in draft form or were not signed.
- Annual Meeting of Members
All sets of minutes provided by the Company were either in draft form or were not signed.
- Finance Committee
A majority of the minutes provided by the Company were either in draft form or were not signed. Additionally, minutes for the February 3, 2009, teleconference meeting were never approved by the committee.
- Corporate Governance Committee
All sets of minutes provided by the Company were either in draft form or were not signed. Two additional observations follow. First, the August 18, 2006, meeting minutes indicated that the committee approved minutes from the June 19, 2006, meeting and the July 17, 2006, meeting; however, the Company could not provide minutes for the June and July meetings and the Company does not appear to have a record of the June and July meetings. Second, the minutes for the March 24, 2006, and July 19, 2007, meetings were never approved by the committee.

Status:

The Company has not fully addressed this comment; however, the related issues have been included as comments in a separate letter provided to the Company's management team.

Comment 5:

The examination identified other findings that depart from statutory accounting principles. These issues have been included as comments in a separate letter provided to the Company's management team.

Status:

Any immaterial departures from statutory accounting principles are addressed in a separate letter provided to the Company's management team.

CURRENT EXAMINATION**Comment 1:**

Claim forms do not comply with 24-A M.R.S. §2186 (3)(A), which states that all applications and claim forms for insurance used by insurers in this State, regardless of the form of transmission, must contain the required fraud warning.

THE COMPANY

HISTORY

The Company was incorporated in the State of Maine on April 28, 1965, under Special Statute and is now subject to 13-B M.R.S. Conditions of the Company's licensure were set forth in a letter dated May 19, 1987.

The Company, along with its affiliates Delta Dental Plan of New Hampshire ("DDPNH") and Delta Dental Plan of Vermont ("DDPVT"), does business under the trade name Northeast Delta Dental ("NEDD").

The Company's statutory home office is in Portland, Maine. The Company maintains a marketing office in Saco, Maine.

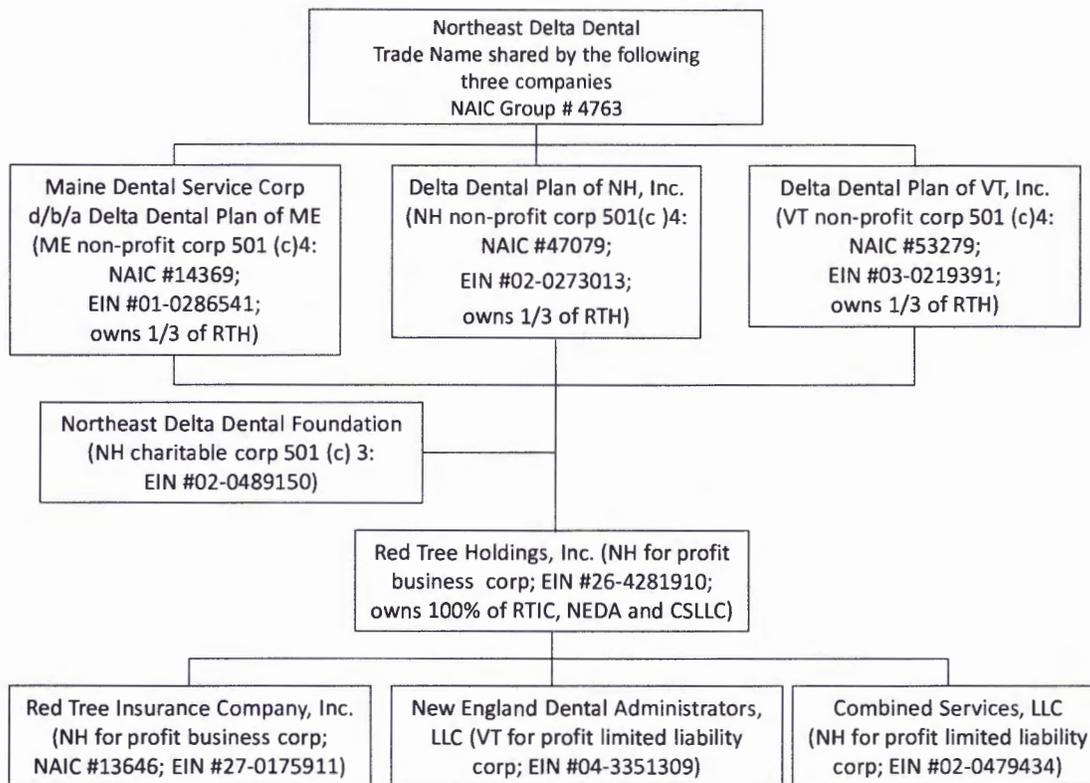
MANAGEMENT AND CONTROL

During 1997, the Company, DDPNH, and DDPVT formed New England Dental Administrators LLC ("NEDA") whose purpose is to provide third party administrative services for employers wishing to obtain cost efficient, self-funded employee dental benefit plans for their employees.

In January 2009, the Company, DDPNH, and DDPVT formed a holding company, Red Tree Holdings, Inc. ("RTH"), for the purpose of pursuing other investment opportunities. The Company, DDPNH, and DDPVT each own a one-third interest in RTH. On December 31, 2010, the Company, DDPNH, and DDPVT sold their ownership interests in NEDA to RTH.

In May 2009, RTH formed a wholly owned subsidiary, Red Tree Insurance Company, Inc. ("RTI"), which is licensed to provide vision insurance in the states of Maine and New Hampshire. In December 2009, RTH purchased sole membership interest in Combined Services LLC ("CS"), which provides employee benefit brokerage services, flexible employee benefit plan administration services, and COBRA administrative services.

The following organizational chart is as of December 31, 2014:



CORPORATE RECORDS

The Company’s articles of incorporation, bylaws, and minutes of the board of directors meetings held during the period under examination were reviewed.

CORPORATE GOVERNANCE

The Company is governed and overseen by its board of directors and its management team.

As of December 31, 2014, the Company's Board of Directors consisted of the following members:

<u>Name</u>	<u>Title</u>
Barry C. Saltz, DDS	Chair
Michael Pardue	Vice Chair
Beverly Altenburg	Director
David Bagdasarian, DDS	Director
Cheryl Bascomb	Director
Michael Bevilacqua	Director
Charles E. Brown, DDS	Director
Kyra Chadbourne, DDS	Director

Jeffrey B. Doss, DDS	Director
Jayne Giles	Director
Michael Goldberg, DMD	Director
Gregory Johnson	Director
Demitroula Kouzounas, DMD	Director
Donald E. Oakes	Director
Daniel D. Thayer	Director

The following officers were appointed by the Board or Directors and were serving as of December 31, 2014:

<u>Name</u>	<u>Title</u>
Thomas Raffio	President & Chief Executive Officer
Benjamin E. Marcus, Esq.	Clerk
Michael Bevilacqua	Treasurer
Francis R. Boucher	Senior Vice President

TRANSACTIONS WITH AFFILIATES

The Company, DDPNH, and DDPVT conduct business under the trade name Northeast Delta Dental. The Company purchases certain services, which include processing of premiums, claims, and provider contracts, marketing, and subscriber group services, from DDPNH under a marketing and administration agreement. The Company provides management services to CS under a management services agreement.

The Company has provided a guarantee to increase RTI's shareholder's equity to a minimum of \$2,000,000 if it falls below this amount. This guarantee is required by the MBOI.

TERRITORY & PLAN OF OPERATION

The Company is a not for profit, tax exempt organization under 24 M.R.S. Chapter 19 which was established to provide dental benefit programs for employers and individuals through a network of participating member dentists in the State of Maine. Covered individuals can submit claims for certain dental services which are provided for under written policies. Dental service related benefits are paid up to a maximum amount per covered individual, as defined by the various programs. The Company also provides dental service plan administration for other groups.

REINSURANCE

Through their association with the Delta Dental Plan Association's Federal Marketing Group ("FMG"), the Company, DDPNH, and DDPVT participate, together as NEDD, in various dental benefit risk sharing arrangements with other Delta Dental Companies, under which NEDD assumes a small portion of the risk for specific dental benefit contracts of Delta Dental of California ("DDCA"). NEDD participated in the following risk sharing arrangements with DDCA during the period under examination:

- TRICARE Retiree Dental Program
- Veterans Affairs Dental Insurance Program
- Federal Employees Dental and Vision Program

NEDD also provided a minimal amount of reinsurance under quota share reinsurance agreements to Renaissance Life & Health Insurance Company of America from January 2009 to December 2012, and to Delta Dental Insurance Company from January 2008 to March 2013.

The Company did not have any ceded reinsurance arrangements during the period under examination.

FINANCIAL STATEMENTS

The Statement of Admitted Assets, Liabilities and Surplus, the Statement of Operations, and the Statement of Capital and Surplus are as presented by management and audited by the Company's external auditors. It should be noted that these financial statements have not been audited by the Maine Bureau of Insurance and thus the Maine Bureau of Insurance does not express an opinion on the financial statements as a whole. The accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the Annual Statement filed with the NAIC and Maine Bureau of Insurance and should be considered an integral part of the financial statements.

**STATEMENT OF ADMITTED ASSETS, LIABILITIES, AND SURPLUS
AS OF DECEMBER 31, 2014**

Assets

Bonds	\$ 23,105,763
Preferred stocks	6,031
Common stocks	14,107,895
Cash & cash equivalents	7,815,145
Uncollected premiums in the course of collection	1,874,399
Funds held by or deposited with reinsured companies	240,126
Amounts receiveable related to uninsured plans	1,240,164
Total assets	<u>\$ 48,389,523</u>

Liabilities

Claims unpaid	\$ 2,039,685
Unpaid claims adjustment expenses	163,500
Premiums received in advance	1,309,272
General expenses due or accrued	585,798
Amounts withheld or retained for the account of others	1,607,515
Amounts due to parent, subsidiaries and affiliates	614,898
Liability for amounts held under uninsured plans	410,600
Total liabilities	<u>6,731,268</u>

Capital and Surplus

Unassigned funds	<u>41,658,255</u>
Total capital and surplus	<u>41,658,255</u>
Total liabilities, capital and surplus	<u>\$ 48,389,523</u>

**STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2014**

Member months	1,734,838
Net premium income	\$ 63,380,295
Aggregate write-ins for other non-health revenues	100,000
Total revenues	<u>63,480,295</u>
Other professional services	47,683,386
Less: Net reinsurance recoveries	<u>(4,946,144)</u>
Total hospital and medical	52,629,530
Claims adjustment expenses	2,024,218
General administrative expenses	8,325,127
Total underwriting deductions	<u>62,978,875</u>
Net underwriting gain	<u>501,420</u>
Net investment income earned	567,338
Net realized capital gain	<u>32,462</u>
Net investment gain	<u>\$ 599,800</u>
Net income	<u><u>\$ 1,101,220</u></u>

STATEMENT OF CAPITAL AND SURPLUS
YEAR ENDED DECEMBER 31, 2014

Capital and surplus, December 31, 2013	\$ 39,881,417
Net income	1,101,220
Change in net unrealized capital gains (losses)	677,352
Change in nonadmitted assets	(1,735)
Aggregate write-ins for gains (losses) in surplus	<u>1</u>
Net change in capital and surplus	<u>1,776,838</u>
Capital and surplus, December 31, 2014	<u>\$ 41,658,255</u>

COMMENTS ON THE FINANCIAL STATEMENTS

NOTE 1 – RESERVES

An actuary appointed by the Company's Board of Directors rendered an opinion that the amounts carried on the balance sheet, as of December 31, 2014, include provisions for all actuarial reserves and related statement items which should be established, and meet the requirements of the insurance law and regulation of the State of Maine and are at least as great as the minimum aggregate amounts required by the State.

Merlinos & Associates, Inc. was appointed by the MBOI to independently review reserves and related work papers provided by the Company and concurs with the Appointed Actuary's opinion.

NOTE 2 – CAPITAL AND SURPLUS

The following table describes the capital and surplus changes for the five year period since the MBOI's last examination of the company, dated December 31, 2009:

Capital and surplus, December 31, 2009	\$ 27,554,079
Net income	9,775,152
Change in net unrealized capital gains or (losses), net of capital gains tax	4,291,847
Change in nonadmitted assets	<u>37,177</u>
Capital and surplus, December 31, 2014	<u>\$ 41,658,255</u>

SUBSEQUENT EVENTS

On January 1, 2015, the Company was subject to an annual fee under Section 9010 of the Federal Affordable Care Act ("ACA"). This annual fee was allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1 of the year the fee is due. As of December 31, 2014, the Company has written health insurance subject to the ACA assessment, expects to conduct health insurance business in 2015, and estimates their portion of the annual health insurance industry fee payable on September 30, 2015 to be \$220,000.

The Company disclosed in its Annual Statement for the year ended December 31, 2015 that the ACA fee paid in 2015 was \$202,482. The Company also disclosed an ACA fee payable for 2016 of \$269,048.

On January 21, 2016, the Board of Directors of RTH authorized and approved the acquisition of all outstanding stock of PreViser Corporation ("PreViser") for \$8.1 million. RTH may also loan to PreViser funding necessary to cover any working capital deficit during 2016-2017, not to

exceed \$1,650,000. The Company, DDPVT and DDPNH each made capital contributions to RTH in the amount of \$2.7 million for the acquisition of PreViser by RTH in 2016, and they each have also committed to loan RTH up to \$550,000 in 2016 and 2017.

SUMMARY OF RECOMMENDATIONS

It is recommended that the Company ensures that the claim forms being used contain the fraud statement required by 24-A M.R.S. §2186 (3)(A).

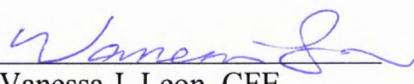
**STATE OF MAINE
COUNTY OF KENNEBEC, SS**

Vanessa J. Leon, being duly sworn according to law deposes and says that, in accordance with authority vested in her by Eric A. Cioppa, Superintendent of Insurance, pursuant to the Insurance Laws of the State of Maine, she has made an examination of the condition and affairs of the

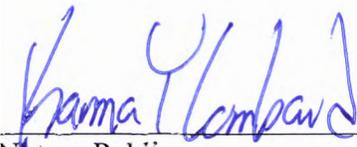
**MAINE DENTAL SERVICE CORPORATION D/B/A
DELTA DENTAL PLAN OF MAINE**

of Portland, Maine as of December 31, 2014, and that the foregoing report of examination subscribed to by her is true to the best of her knowledge and belief. Examination Resources, LLC, under contract with the Maine Bureau of Insurance performed the examination. The following examiners from the Maine Bureau of Insurance assisted:

Audrey L. Wade, CFE, CISA


Vanessa J. Leon, CFE

Subscribed and sworn to before me
This 16 day of August, 2016


Notary Public
My Commission Expires:

**KARMA LOMBARD
Notary Public, Maine
My Commission Expires June 12, 2023**