

REPORT ON EXAMINATION
OF
DELTA DENTAL OF KANSAS, INC.
1619 N. WATERFRONT PARKWAY
WICHITA, KANSAS 67206
AS OF
DECEMBER 31, 2023

FILED

January 16, 2025

VICKI SCHMIDT
Commissioner of Insurance

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Topeka, Kansas
January 6, 2025

Honorable Vicki Schmidt
Commissioner of Insurance
Kansas Department of Insurance
1300 SW Arrowhead Rd
Topeka, Kansas 66604-4019

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-222, an examination has been conducted of the financial condition and business affairs of:

DELTA DENTAL OF KANSAS, INC.

with its statutory home and main administrative office at:

**1619 N. WATERFRONT PARKWAY
WICHITA, KANSAS 67206**

hereinafter referred to as the “Company” or “DDKS.” The following report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiners have performed a multi-state financial examination of the Company, a Kansas-domiciled hospital, medical and dental service or indemnity insurance company. The last examination covered the four-year period from January 1, 2016, through December 31, 2019. This examination covers the four-year period from January 1, 2020, through December 31, 2023. An examination of the Company’s wholly owned subsidiary, Surency Life & Health Insurance Company (“SLHIC”), was conducted concurrently with this examination.

The examination was conducted in accordance with the rules, regulations, and directives of the Kansas Department of Insurance (“Department”) and the observed

guidelines and procedures contained in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that the examiners plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, 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 Company 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.

Those activities considered in the examination as key or critical to DDKS included Investments, Reinsurance Assumed, Premium and Underwriting, Claims and Reserving, Related Party, and Capital and Surplus. The examination also included a review and evaluation of information technology general controls.

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment is documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, 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 Company.

Independent Audit Reports

Financial statements of the Company were audited by Eide Bailly, LLP of Fargo, North Dakota for the year ending December 31, 2020, and Eide Bailly, LLP of Oklahoma City, Oklahoma for the years ending December 31, 2021 through December 31, 2023. In each of the years under examination, the auditors concluded that the financial statements of the Company present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of the Company, the results of its operations and its cash flows in accordance with the statutory accounting practices prescribed or permitted by the Department.

The independent auditor's workpapers were reviewed and analyzed by the examiners. Significant reliance was placed on select workpapers during this examination.

Actuarial Review

Anne L. Treankler, FSA, MAAA, employee of Delta Dental of Wisconsin, was appointed to perform a review of the Company's actuarial practices and reserves as of December 31, 2023. The appointed actuary's review consisted of evaluating assumptions, methodologies and calculations utilized by the Company in its reserve setting process.

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were noted during the examination.

COMPANY HISTORY

General

Pursuant to K.S.A. 40-19a01 *et seq.*, Delta Dental Plan of Kansas, Inc. was

incorporated in the State of Kansas on August 4, 1972, as a not-for-profit dental service company, and commenced writing business on January 26, 1973. In 2005, the Company changed its name to Delta Dental of Kansas, Inc.

The Company was organized for the purpose of entering into contracts with participating dentists to provide or administer professional services for subscribers on such basis as may be designated in the Company's contracts with purchasing groups, individuals and government agencies. These contracts with purchasing groups, individuals and government agencies constitute direct obligations of the participating dentists to the Company's contract purchasers. The Company's charter provides for perpetual existence.

Capital Stock

As of December 31, 2023, the Company did not have any shares of capital stock issued and outstanding. The Company is a not-for-profit corporation. As such it does not issue common or preferred stock.

Dividends and Capital Contributions

During the period under examination, DDKS paid a capital contribution of \$3,045,600 to Surency Life & Health Insurance Company, its wholly-owned subsidiary, in 2021. No dividends were received during the examination period,

CORPORATE RECORDS

The Company's articles of incorporation and bylaws were reviewed. The Company's articles of incorporation and bylaws were amended once during the examination period on December 11, 2020. The following amendments to the articles of incorporation and bylaws were properly filed with the Department.

Articles of Incorporation

- The Company amended the introductory phrase of Article III, the purpose of the Corporation, in its entirety.
- The Company amended Article V, in its entirety, to allow for electronic participation by members at meetings and to allow for electronic transmission of ballots for member voting.
- The Company amended Article VI, in its entirety, consolidating the wording on the general powers of the board of directors (“Board”) and to update term lengths for directors.
- The Company amended Article VII, in its entirety, to update the wording on the power to adopt, alter, amend or repeal the articles of incorporation, and to add wording on the power to adopt, alter, amend or repeal the Company’s bylaws, including: that any proposed bylaw amendment would not cause material harm to the Company, be inconsistent with the principles regarding the Board’s authority and discretion; would cause the Company to violate any state, federal or foreign law, or breach an existing contract or agreement with Delta Dental Plans Association; or would cause a director to breach their fiduciary duty to the Company.
- The Company added Article X, in its entirety, to include that all claims or disputes in any way related to the Company, its Board, or its members, whether direct or derivative, shall be brought solely and exclusively in and resolved by a court sitting in Sedgwick County, Kansas.

Bylaws

- The Company amended Article IV, adding Section 8, in its entirety, to allow for electronic participation by members at meetings and to allow for electronic transmission of ballots for member voting. Amendments were made to Article IV, Sections 1, 2, and 3, to provide for additional specification regarding consideration of a properly proposed amendment to the Bylaws.
- The Company amended Article V, Section 1 in its entirety and consolidated Section 3 and 4, and amended them in their entirety, consolidating the wording on the general powers of the Board and to updating term lengths for directors, respectively. Because Sections 3 and 4 were combined, the remaining Sections were re-numbered consecutively. Sections 6 and 7, renamed as Sections 5 and 6, were amended to provide further detail surrounding the process for elections to fill vacant Board seats. Section 9, renamed as Section 8, was amended to clarify that Regular Meetings of the Board would be publicized on the Board’s approved calendar. Section 13, renamed as Section 12, was amended to provide reference to the Bylaws and Articles. Section 15, renamed as Section 14, was amended to provide reference to the Articles.
- The Company amended Article VII, Section 4 to specify that in creating a Committee the Board could specify the number of Directors on the

Committee needed to constitute a quorum.

- The Company amended Article XI to change the governance of the Board and committees from Robert's Rules of Order to rules of procedure determined by the Chairperson.
- The Company amended Article XIII to provide for additional specification regarding consideration of a properly proposed amendment to the Bylaws.

MANAGEMENT AND CONTROL

Membership

Pursuant to the Company's bylaws, each dentist who is licensed to practice dentistry and is actively engaged in the practice of dentistry in the State of Kansas, who is not under suspension or other disciplinary action by this Company, the Kansas Dental Board or any other similar regulatory body, is eligible to become a member of the Company. Any eligible dentist may become a member by executing and filing a written participating dentist agreement. In accordance with the bylaws, only the members who attend the annual meeting will be entitled to vote, no member can vote by proxy. The Annual Meeting of the members shall be held each year at such time and place determined by the Board.

Board of Directors

The Company's bylaws consist of fourteen (14) articles that provide the framework for the operation, management, and control of the Company. The Company is managed under the direction of its Board..

Pursuant to the bylaws and in accordance with K.S.A. 40-19a03, the Board shall be comprised of ten (10) members, four (4) of whom are elected by the membership, two (2) appointed by the Governor of Kansas ("Governor") and four (4) appointed by the Kansas Insurance Commissioner ("Commissioner"). Each director serves a term of six

(6) years and shall automatically renew for successive six (6) year terms upon election or appointment. If an appointed position, either by the Commissioner or the Governor becomes vacant before the term has expired, a new director will be appointed by the current Commissioner or Governor, based upon whichever office had made the original appointment, to fill the unexpired term. If an elected position becomes vacant before the expiration of its term, the Board members who are participating dentists will elect a person within the membership to serve until the next annual meeting of its members. At the next annual meeting, the membership of the Company will elect a director to serve the remaining term.

The directors elected and serving as of December 31, 2023, were as follows:

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
Dr. Melinda K. Miner, D.D.S.	Dentist The Dentist PA
Dr. Patrick O. Moriarty, D.D.S.	Dentist Enhance Dental Care
Dr. Nicholas A. Troilo, D.D.S.	Dentist Rose Hill Family Dentistry
Dr. Lucynda J. Raben, D.D.S.	Dentist Raben Dentistry
Kimberly A. Borchers	Owner and President Bird Dog Recruitment & Consulting LLC
Angela A. McClure	Account Manager Gene Fritzel Construction Company, Inc.
Shawn L. Naccarato	Vice President for Economic Development and Community Engagement Pittsburg State University
Ruth A. Teichman	Farmer

Gary E. Yager

President and Chief Executive Officer (Retired)
Vision Bank

Nancy G. Zolgeman

Retired
Capitol Consulting

Committees

The Company's bylaws stipulate the Board may create such committees as it deems advisable. The committees shall consist of one or more of the directors of the Company.

The established committees and the members elected and serving as of December 31, 2023 were as follows:

Administrative Committee

Dr. Lucynda J. Raben, D.D.S., Chair
Dr. Melinda K. Miner D.D.S.
Dr. Patrick O. Moriarty, D.D.S
Shawn L. Naccarato
Dr. Nicholas A. Troilo, D.D.S

Special Governance Committee

Gary E. Yager, Chair
Dr. Lucynda J. Raben, D.D.S
Kimberly A. Borchers
Shawn L. Naccarato
Nancy G. Zolgeman

The Company's full board serves as its Audit Committee, in compliance with Sections 3(C) and 14 of the Kansas Department of Insurance's Policy and Procedure Requiring Annual Audited Financial Reports, dated November 30, 2016, as adopted by K.A.R. 40-1-37.

Officers

Pursuant to the Company's bylaws, the Company will have a Chairperson of the Board, a Vice- Chairperson of the Board, a Secretary, and a Treasurer and other officers as may be determined by the Board. The Board may also elect a President and Chief Financial Officer, who is not required to be a Board member of the Board, who will be a full-time employee of the Company. The bylaws direct the Board to elect at its annual

board meeting a Chairperson of the Board, a Vice- Chairperson of the Board, a Secretary, a Treasurer and other officers as may be determined by the Board.

The following is the Company’s officers and their position(s) held as of December 31, 2023:

<u>Name</u>	<u>Position(s) Held</u>
Dean A. Newton	President & Chief Executive Officer
Johnathan B. Dougherty	Treasurer & Chief Financial Officer
Jennifer M. Bauer	Secretary, Chief People & Strategy Officer, & General Counsel
Kristen L. Hoffman*	Interim Chief Operating Officer
Natalie L. Daney	Chief Sales Officer
Sarah E. Patterson	Chief Innovation & Marketing Officer
Dr. Preddis L. Sullivan, D.D.S.	Executive Vice President & Dental Director
Karen E. Hunt	Vice President – Human Resources
Robert J. Ebenkamp	Vice President – Information Technology
Ambur L. Miller	Vice President – Professional Relations
Stephen J. Peppes	Vice President – Sales

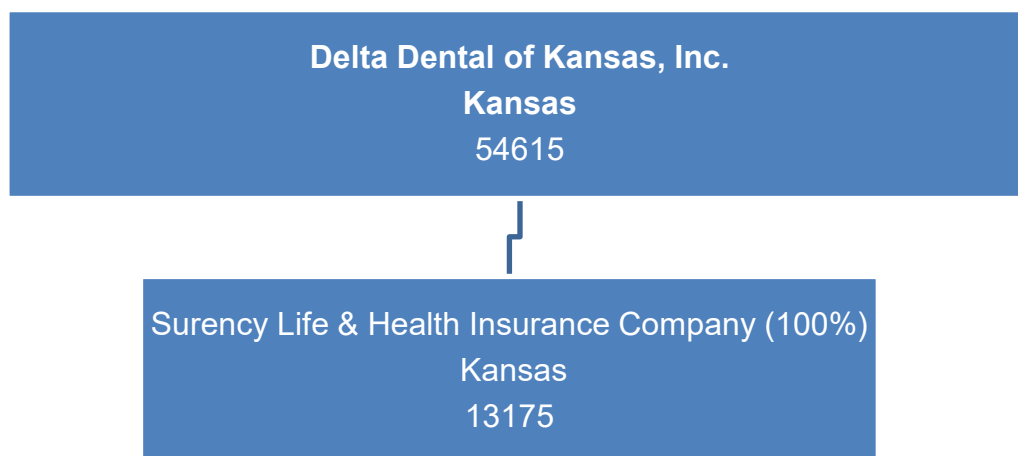
*In February 2024, Kristen L. Hoffman was named Chief Operating & Experience Officer.

INSURANCE HOLDING COMPANY SYSTEM

K.S.A. 40-3305 requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance. The Company has submitted Forms “B” and “C” registration statements to the Department for each of the years under examination. A review of the registration statements indicated that the items and events pertaining to the Company were properly reported as required by statute.

The organizational chart below illustrates the identities and intercompany relationships among insurance and non-insurance companies and the controlling entities

thereof, as of December 31, 2023. Ownership is noted in parentheses and the Kansas domiciled insurer is bolded.



Intercompany/Cost Sharing Agreements

The following is a brief description of significant agreements executed with affiliated entities that were in effect as of December 31, 2023.

Common Paymaster Agreement

Effective January 1, 2012, the Company entered into a Common Paymaster Agreement with its subsidiary, SLHIC. Based on this contract, DDKS will timely pay on behalf of SLHIC all wages, salaries, bonuses and payments for employee benefits due employees for services rendered to SLHIC. In return, SLHIC pays DDKS for these services at cost. Pursuant to the agreement, SLHIC paid DDKS \$1,056,161 and \$1,398,933 in 2022 and 2023, respectively.

Real Property License and Expense Sharing Agreement

Effective January 1, 2012, the Company entered into a Real Property License and Expense Sharing Agreement with its subsidiary, SLHIC. Based on this contract, DDKS agrees to share its home office and to share certain related expenses incurred with

SLHIC. These services will be provided to SLHIC at cost. Pursuant to the agreement, SLHIC paid DDKS \$197,081 and \$171,431 in 2022 and 2023, respectively.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2023, the Company is authorized to write business in the states of Kansas and Missouri. The NAIC Schedule T Exceptions Report was reviewed for each of the states where the Company is licensed. No exceptions were noted.

As of December 31, 2023, the Company only writes dental insurance. The Company also provides administrative services to self-insured business entities.

SELECT FINANCIAL INFORMATION

The exhibit below shows the Company's financial results for the period of December 31, 2020, through December 31, 2023. The financial amounts were obtained from annual statements filed by the Company.

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
<i>(\$000 omitted)</i>				
Admitted Assets	\$90,803	\$98,713	\$98,099	\$103,189
Liabilities	10,759	10,410	9,642	10,086
Capital and Surplus	80,043	88,304	88,458	93,102
Net Income	(1,454)	6,174	2,817	1,601
Net Premium Written	105,458	117,708	126,548	128,773

REINSURANCE

General

The Company's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

<i>(\$000s omitted)</i>				
Premium Type	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Direct Premiums Written	\$95,922	\$106,040	\$110,163	\$112,235
Reinsurance Assumed	9,536	11,668	16,385	16,538

Reinsurance Ceded:	-	-	-	-
Net Premiums Written	\$105,458	\$117,708	\$126,548	\$128,773

Assumed Reinsurance

The Company has a 2.53% risk sharing interest in the Federal Employees Dental and Vision Insurance Program and the Veteran Affairs Dental Insurance Program through a Risk-Sharing Agreement with Delta Dental of California, effective as of January 1, 2014. This program offers dental benefits to the Federal eligible population throughout the country and is administered by Delta Dental of California. In June 2022, the Company obtained a 2.53% risk sharing interest in the Veterans Affairs Community Care Network Program through a Risk-Sharing Agreement with Delta Dental of California as of January 1, 2021.

Ceded Reinsurance

The Company did not cede any business during the period under examination.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2023. There were no adjustments to the Company's filed statutory financial statements as a result of this examination.

DELTA DENTAL OF KANSAS, INC.
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2023

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$37,862,222	\$ -	\$37,862,222
Preferred stocks	548,854	-	548,854
Common stocks	41,922,185	-	41,922,185
Real estate	5,869,356	-	5,869,356
Cash and cash equivalent	9,901,496	-	9,901,496
Investment income due and accrued	353,486	-	353,486
Uncollected premiums and agent's balances in the course of collection	2,285,660	17,240	2,268,420
Amounts receivable relating to uninsured plans	4,358,253	-	4,358,253
Electronic data processing equipment and software	413,173	308,916	104,257
Furniture and equipment	242,246	242,246	-
Receivables from parent, subsidiaries and affiliates	215,744	215,744	-
Aggregate write-ins for other-than invested assets	910,786	910,786	-
Total assets	\$104,883,462	\$1,694,932	\$103,188,530

DELTA DENTAL OF KANSAS, INC.
STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS
AS OF DECEMBER 31, 2023

Claims unpaid	\$4,054,000
Unpaid claims adjustment expenses	121,620
Aggregate health policy reserves	438,209
Premiums received in advance	273,243
General expenses due or accrued	4,506,974
Amounts withheld or retained for the account of others	75,619
Remittances and items not allocated	8,027
Amounts due to parent, subsidiaries and affiliates	100,000
Liability for amounts held under uninsured plans	508,550
Total liabilities	<u>\$10,086,242</u>
Unassigned funds (surplus)	93,102,288
Total of Liabilities, Surplus and Other Funds	<u>\$103,188,530</u>

**DELTA DENTAL OF KANSAS, INC.
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2023**

Member months	3,610,118
<u>Net premium income</u>	<u>\$128,773,484</u>
Total	<u>128,773,484</u>
 <u>Hospital and medical:</u>	
Other professional services	<u>87,713,335</u>
Subtotal	<u>87,713,335</u>
 Less:	
Net reinsurance recoveries	<u>(14,514,941)</u>
Total hospital and medical	<u>102,228,276</u>
Claims adjustment expenses	<u>1,566,992</u>
General administrative expenses	<u>25,591,222</u>
Total underwriting deductions	<u>129,386,490</u>
Net underwriting gain or (loss)	<u>(613,006)</u>
Net investment income earned	2,105,981
Net realized capital gains or (losses)	<u>94,355</u>
Net investment gain or (loss)	<u>2,200,336</u>
Aggregate write-ins for other income	<u>13,666</u>
Net income or (loss) after capital gains tax and before all other federal income taxes	<u>1,600,996</u>
Federal and foreign income taxes incurred	<u>-</u>
Net income (loss)	<u>\$1,600,996</u>

**DELTA DENTAL OF KANSAS, INC.
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION**

	2020	2021	2022	2023
Surplus as regards policyholders, December 31 prior year	\$78,830,451	\$80,043,188	\$88,303,535	\$88,457,719
Net income (loss)	(1,454,268)	6,174,478	2,816,679	1,600,996
Change in net unrealized capital gains or (losses)	2,542,262	2,161,975	(2,309,732)	3,253,597
Change in nonadmitted assets	124,743	(76,106)	(352,763)	(210,024)
Surplus as regards policyholders, December 31 current year	<u>\$80,043,188</u>	<u>\$88,303,535</u>	<u>\$88,457,719</u>	<u>\$93,102,288</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as a result of this examination. The capital and surplus of the Company as of December 31, 2023, of \$93,102,288, was the same amount reported by the Company in its 2023 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

There were no significant or material findings resulting from the examination that warranted inclusion in this Report on Examination.

SUBSEQUENT EVENTS

The amendments to the Company's Articles of Incorporation and Bylaws as of December 11, 2020, were disputed and became the subject of a lawsuit. In December 2021, a Sedgwick County District Court Judge ruled on Count I of the lawsuit that the Company did not have the authority to amend its articles without member approval. The Company intends to appeal this ruling.

Count II of the lawsuit alleged that because they did not have authority to amend the articles without member approval, the directors who voted for the amendments breached their fiduciary duty. Count II was tried by the Court in March 2023 and on December 10, 2024, the Court ruled that there was no breach of fiduciary duty by the Board members, who were defendants on the case.

SUMMARY OF RECOMMENDATIONS

No recommendations for the Company were identified that warranted inclusion in this Report of Examination.

CONCLUSION

The assistance and cooperation by the officers of the Company during this examination is hereby acknowledged and appreciated. In addition to the undersigned, Jennifer Danz, CFE, CPA, Supervising Examiner; Mary Miller, AFE, Senior Associate Examiner; Alisa Widmer, FSA, MAAA, Actuary Manager; Brian Kaul, Actuarial Associate; and Tricia Matson, FSA, MAAA, Actuarial Partner; all of the consulting firm of Risk & Regulatory Consulting, LLC participated in this examination. Shane Mead, CISA, CISM, CRISC, Information System Examiner with the Kansas Department of Insurance, performed the information technology portion of the examination.

Respectfully submitted,



Jan Moenck, CFE, CIA, CISA
Partner
Risk & Regulatory Consulting, LLC,
representing the Kansas Department of
Insurance

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Handbook has been confirmed except where practices, procedures and applicable regulations of the Department and statutes of the State of Kansas prevailed.

A handwritten signature in black ink, reading "Levi Nwasoria", written over a horizontal line.

Levi Nwasoria, CPA, CFE
Chief Examiner
Kansas Department of Insurance

EXHIBIT S
EXAMINER'S AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION

State of Arizona,

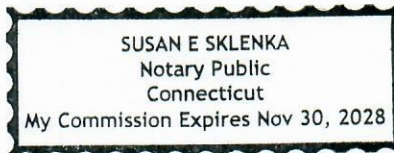
County of Maricopa,

Jan Moenck, being duly sworn, states as follows:

1. I have authority to represent the Kansas Department of Insurance in the examination of Delta Dental of Kansas, Inc.
2. The Kansas Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Delta Dental of Kansas, Inc was performed in a manner consistent with the standards and procedures required by K.S.A 40-222.

The affiant says nothing further.

Jan M. Moenck
Examiner's Signature



Subscribed and sworn before me by Jan Moenck on this 3rd day of January, 2025.

(SEAL)

Susan E Sklenka
Notary Public

My commission expires November 30, 2028 [date].