

**REPORT ON EXAMINATION  
OF  
DELTA DENTAL OF KANSAS, INC.  
1619 N. WATERFRONT PARKWAY  
WICHITA, KANSAS 67206  
AS OF  
DECEMBER 31, 2019**

**FILED**

**JUN 01 2021**

**VICKI SCHMIDT  
Commissioner of Insurance**

## TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE NUMBER</u>
SALUTATION.....	1
SCOPE OF EXAMINATION .....	1
Independent Audit Reports .....	2
Actuarial Review .....	3
SUMMARY OF SIGNIFICANT FINDINGS .....	3
COMPANY HISTORY .....	3
General.....	3
CORPORATE RECORDS.....	4
MANAGEMENT AND CONTROL.....	5
Membership .....	5
Board of Directors .....	5
Committees.....	7
Officers .....	7
INSURANCE HOLDING COMPANY SYSTEM .....	9
Intercompany/Cost Sharing Agreements .....	10
TERRITORY AND PLAN OF OPERATION.....	10
SELECT FINANCIAL INFORMATION.....	10
REINSURANCE .....	11
FINANCIAL STATEMENTS .....	11
Assets .....	12
Liabilities, Capital and Surplus.....	13
Statement of Income.....	14
Capital and Surplus Account.....	15
ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS.....	16
COMMENTS ON FINANCIAL STATEMENTS .....	16
SUBSEQUENT EVENTS .....	16
SUMMARY OF RECOMMENDATIONS.....	16
CONCLUSION .....	16

Wichita, Kansas  
February 16, 2021

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

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 performed a multi-state financial examination of DDKS, a Kansas domiciled hospital, medical, and dental service or indemnity insurance company. The last examination covered the four-year period from January 1, 2012, through December 31, 2015. This examination covers the four-year period from January 1, 2016, through December 31, 2019. 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 Insurance Department ("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. The examination does not attest to the fair presentation of the financial statements included herein. If, during 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 for the years ending December 31, 2016, through December 31, 2019. 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 policyholders' surplus of the Company, the results of its operations, and its cash flows in accordance with the accounting practices prescribed or permitted by the Department.

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

### **Actuarial Review**

The Department retained the services of Baker Tilly US, LLP ("Baker Tilly"), to perform a review of the Company's actuarial practices. Baker Tilly's review consisted of evaluating assumptions, methodologies, and calculations utilized by the Company in their reserve setting process.

### **SUMMARY OF SIGNIFICANT FINDINGS**

No significant findings were noted during the course of the examination.

### **COMPANY HISTORY**

#### **General**

The Company was incorporated in the State of Kansas on August 4, 1972, under the provisions of K.S.A. 40-19a01 *et seq.* The Company received its certificate of authority from the Department on January 26, 1973, under the name Delta Dental Plan of Kansas, Inc. and commenced business on that date. The name was later changed to Delta Dental of Kansas, Inc. in 2005.

The Company was organized for the purpose of entering into contracts with participating dentists to provide or administer professional services to subscribers on such basis as may be designated in the Company's contracts with participating groups,

individuals, or governmental agencies. The Company's charter provides for a perpetual existence.

### **CORPORATE RECORDS**

The Company's articles of incorporation and bylaws were reviewed. The Company's articles of incorporation were unchanged during the examination period. The Company's bylaws were amended once during the examination period on August 10, 2019, to expand upon notification requirements for the annual members meeting, set the number of member dentists required to call a special meeting, and to add additional notification requirements for regular and special meetings of the members. Other minor language changes were made. The bylaws were properly filed with the Department. As these bylaws were in effect at the examination date, all referenced bylaw language that follows in this report on examination reflects language in the bylaws as of August 10, 2019.

After the examination date, the Company's bylaws were amended on December 11, 2020, to make reference to the articles of incorporation in certain sections, allow for electronic transmission of ballots for member voting, allow for electronic participation by members at meetings, consolidate wording on the general powers of the board of directors, and to update term lengths for directors. Other minor language and renumbering changes were made. The bylaws were properly filed with the Department. The changes in the bylaws made after the examination date would not have impacted the examination.

## **MANAGEMENT AND CONTROL**

### **Membership**

Article III, Section 1 of the Company's bylaws provides that: "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 Corporation, the Kansas Dental Board or any other similar regulatory body, is eligible to become a member of the corporation."

Article IV, Section 1 of the Company's bylaws provides that: "The Annual Meeting of the members of this corporation shall be held each year at such time and place as if determined by the Board of Directors. The time and place of the Annual Meeting shall be posted on the Corporation's website at least 120 days prior to the Annual Meeting. The Annual Meeting shall be for the purpose of receiving the annual reports of the officers, electing members to the Board of Directors and transacting such other business as is properly presented to the members at such meeting, including a proposed amendment to the bylaws pursuant to Article XIII."

### **Board of Directors**

Article V, Section 1 of the Company's bylaws provides that: "The Board of Directors shall be the governing body of the Corporation and it shall have full supervision and control of the business, property, affairs and management of the Corporation and may exercise all such powers of the Corporation consistent with the laws of the State of Kansas and the Articles of Incorporation under which the Corporation is formed."

Article V, Section 2 of the Company's bylaws provides that: "The Board of Directors shall be comprised of ten (10) members, four (4) of whom shall be elected from among

the Corporation's Participating Dentists and six (6) of whom shall be appointed from among the general public of the State of Kansas."

Article V, Section 3 of the Company's bylaws provides that: "With respect to the public members of the Board of Directors, two (2) shall be appointed by the Governor of the State of Kansas, and four (4) shall be appointed by the Commissioner of Insurance of the State of Kansas. At the expiration of each term the vacancies shall be filled respectively by the Governor and the Commissioner of Insurance by appointment for a four (4) year term."

Article V, Section 4 of the Company's bylaws provides that: "Four (4) members of the Board of Directors shall be elected from among the Corporation's Participating Dentists by members of such Corporation. At the expiration of each term the vacancy shall be filled by election of a Director by membership for a four (4) year term."

The following is a listing of directors and their position(s) held as of December 31, 2019:

<b><u>Name</u></b>	<b><u>Position(s) Held</u></b>
Dr. Alan D. Marcotte, DDS	Dentist Self-Employed
Dr. Patrick O. Moriarty, DDS	Dentist Self-Employed
Dr. Lucynda J. Raben, DDS	Dentist Self-Employed
Dr. Brick R. Scheer, DDS	Dentist Self-Employed
Kimberly A. Borchers	Executive Recruiter Bird Dog Recruitment & Consulting
Shawn L. Naccarato	Chief Strategy Officer Pittsburg State University



Angela A. McClure	Account Manager Gene Fritzel Construction
Ruth A. Teichman	Farmer Self-employed
Gary E. Yager	President Vision Bank
Nancy G. Zogleman	Attorney Capitol Consulting

After the examination date, changes were made to the Company's directors. In the third quarter of 2020, Dr. Alan D. Marcotte, DDS, was replaced by Dr. Nicholas A. Troilo, DDS, as a director.

### **Committees**

Article VII, Section 1 of the Company's bylaws provides that: "The Board of Directors may create such committees, either standing or otherwise, as it from time to time deems advisable which committees shall consist of one or more of the directors of the Corporation and shall have such powers and duties as the Board of Directors establishes."

As of December 31, 2019, the Administrative Committee was the lone committee established by the Board of Directors.

### **Officers**

Article VI, Section 1 of the Company's bylaws provides that: "The officers of the Corporation shall be a Chairperson of the Board, a Vice-Chairperson of the Board, a Secretary, and a Treasurer. There may also be such other officers as is from time to time determined by the Board of Directors. Whenever, in the opinion of the Board of Directors such is advisable, there may be elected by such Board of Directors one or more Vice

Presidents who may, but need not, serve as either a full or part-time employee of the Corporation. The Vice President(s) shall, subject to the direction and supervision by the President/Chief Executive Officer, serve as supervising officer(s) of the Corporation's operations and departmental managements, and shall perform such other duties and have such other powers as prescribed by the Board of Directors and/or the President/Chief Executive Officer.”

Article VI, Section 2 of the Company’s bylaws provides that: “The officers of the Corporation shall be elected for a one-year term by the Board of Directors at the annual meeting of the Board of Directors, or as soon thereafter as is reasonable.”

The following is a listing of officers and their position(s) held as of December 31, 2019:

<b><u>Name</u></b>	<b><u>Position(s) Held</u></b>
Michael J. Herbert	President & Chief Executive Officer
Michael D. Ellis	Treasurer & Chief Financial Officer
Nancy C. Umholtz	Secretary
Dean A. Newton	Managing Director & Executive Vice President
Kara E. Hunt	Vice President-Human Resources
Sara E. Patterson	Vice President-Marketing & Communications
Junetta M. Everett	Vice President-Professional Relations
Dr. Preddis L. Sullivan, DDS	Executive Vice President & Dental Director
James P. Tuttle	Chief Operating Officer
Jennifer M. Bauer	General Counsel
Robert J. Ebenkamp	Vice President-Information Technology

After the examination date, changes were made to the Company’s officers. In the first quarter of 2020, Mr. Michael J. Herbert retired and was succeeded on an interim basis by Ms. Jennifer M. Bauer until the appointment of Mr. Dean A. Newton as President

& Chief Executive Officer in the second quarter of 2020. Ms. Jennifer M. Bauer now serves as Chief People & Strategy Officer and General Counsel.

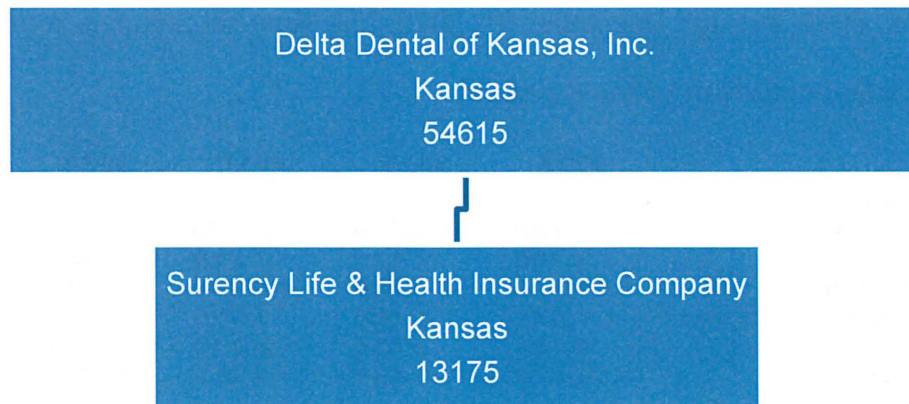
Further, Mr. Michael D. Ellis was succeeded by Mr. Jonathan B. Dougherty as Treasurer & Chief Financial Officer in the third quarter of 2020. Mr. Michael D. Ellis now serves as the Controller of DDKS.

Further, Ms. Natalie L. Daney was appointed as Chief Sales Officer in the second quarter of 2020.

### **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 Form "B" and "C" registration statements to the Department for each of the years under examination. A review of the registration statements indicated that the Company is properly reporting items and events as required by statute.

The organizational chart below illustrates the holding company group structure as of December 31, 2019. DDKS owns 100% of the outstanding shares of SLHIC as of December 31, 2019.



### **Intercompany/Cost Sharing Agreements**

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.

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 expenses incurred by them with SLHIC. These services will be provided to SLHIC at cost.

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2019, the Company is authorized to transact business in states of Kansas and Missouri.

As of December 31, 2019, 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, 2015, through December 31, 2019. The financial amounts were obtained from annual statements filed by the Company.

	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>
<i>(in thousands)</i>					
Admitted Assets	58,788	65,875	72,725	79,277	89,178
Liabilities	7,195	7,621	7,778	8,815	10,348
Capital and Surplus	51,593	58,254	64,947	70,462	78,830
Net Underwriting Gain/(Loss)	1,971	1,498	3,065	5,992	3,194
Net Income	4,151	2,735	5,043	8,444	6,311
Net Premium Income	103,539	110,455	115,962	122,911	115,416

### **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.

### **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, 2019. Any accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the Annual Statement and should be considered an integral part of the financial statements.

**DELTA DENTAL OF KANSAS, INC.**  
**ASSETS**  
**AS OF DECEMBER 31, 2019**

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 34,894,204	\$ -	\$ 34,894,204
Common stocks	32,648,871	-	32,648,871
Cash and short-term investments	9,695,552	-	9,695,552
Real estate	6,397,014	-	6,397,014
Investment income due & accrued	418,742	-	418,742
Uncollected premiums and agents' balances in the course of collection	1,507,497	4,952	1,502,545
Amounts receivable relating to uninsured plans	3,296,600	-	3,296,600
EDP equipment and software	325,161	-	325,161
Furniture and equipment	459,068	459,068	-
Receivables from parent, subsidiaries and affiliates	318,139	318,139	-
Aggregate write-ins for other than invested assets	398,623	398,623	-
Total assets	<u>\$ 90,359,471</u>	<u>\$ 1,180,782</u>	<u>\$ 89,178,689</u>

**DELTA DENTAL OF KANSAS, INC.**  
**LIABILITIES, CAPITAL AND SURPLUS**  
**AS OF DECEMBER 31, 2019**

Claims unpaid	\$ 2,920,000
Loss adjustment expense	88,000
Aggregate health policy reserve	462,828
Remittance and items note allocated	4,390
General expenses due or accrued	5,841,107
Advance premiums	356,363
Liability for amounts held under reinsured plans	526,800
Amounts withheld or retained by company for others	48,750
Payable to parent, subsidiaries and affiliates	100,000
Total liabilities	<u>\$ 10,348,238</u>
 Aggregate write-ins for special surplus fund	 \$ 900,000
Unassigned funds (surplus)	<u>77,930,451</u>
Total capital and surplus	<u>\$ 78,830,451</u>
 Total liabilities, capital and surplus	 <u><u>\$ 89,178,689</u></u>

**DELTA DENTAL OF KANSAS, INC.**  
**STATEMENT OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

Member Months	3,513,868
<u>Underwriting Income:</u>	
Premiums earned	\$ 115,415,781
<u>Deduct:</u>	
Other professional services	\$ 83,183,039
Claims adjustments expenses	1,324,998
General administrative expenses	18,211,130
Net reinsurance recoveries	(9,502,141)
Total underwriting deductions	<u>112,221,308</u>
Net underwriting gain or (loss)	\$ 3,194,473
<u>Investment Income:</u>	
Net investment income earned	\$ 1,553,408
Net realized capital gains or (losses)	<u>1,555,183</u>
Net investment gain or (loss)	\$ 3,108,591
<u>Other Income:</u>	
Aggregate write-ins for miscellaneous income	<u>\$ 8,189</u>
Total other income	\$ 8,189
Net income after dividends to policyholders and before federal income taxes	\$ 6,311,253
Federal income taxes incurred	<u>-</u>
Net income	<u><u>\$ 6,311,253</u></u>



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

Capital and surplus, December 31, 2015			<u>\$ 51,592,823</u>
Net income	2016	2,734,875	
	2017	5,043,017	
	2018	8,443,714	
	2019	<u>6,311,253</u>	22,532,859
Change in net unrealized capital gains or (losses)	2016	863,189	
	2017	1,556,216	
	2018	(2,870,718)	
	2019	<u>2,127,225</u>	1,675,912
Change in nonadmitted assets	2016	3,062,691	
	2017	94,653	
	2018	(58,523)	
	2019	<u>(69,964)</u>	3,028,857
Capital and surplus, December 31, 2019			<u><u>\$ 78,830,451</u></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, 2019, was \$78,830,451, which was the same amount reported by the Company in its 2019 filed Annual Statement.

### **COMMENTS ON FINANCIAL STATEMENTS**

No comments on the financial statements were identified that warranted inclusion in this Report on Examination.

### **SUBSEQUENT EVENTS**

The COVID-19 pandemic has continued to develop throughout 2020, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review noted that there has not been a significant impact to the Company. However, the Department will continue to closely monitor the impact of the pandemic on the Company and will take necessary action if concerns arise.

### **SUMMARY OF RECOMMENDATIONS**

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

### **CONCLUSION**

The officers of the Company provided the necessary assistance and cooperation during the course of this examination. In addition to the undersigned, Damion Rhudd, CISA, CISM, CRISC - Manager and IT Specialist; Ben Glaudemans - IT Staff; Michelle January, MCM - Examiner; Nick Marella - Examiner; JJ Pan, CPA, CFE - Manager; Mike Dubin, FCAS, FSA, MAAA, FCA, - Actuarial Director; Felix Peysakhovich, ASA, MAAA -

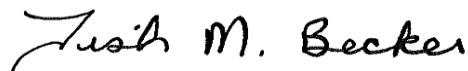
Actuarial Associate; and Jake Powell - Actuarial Staff; from Baker Tilly representing the Department, participated in this examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Philip G. Talerico". The signature is fluid and cursive, with a large initial "P" and "G".

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Philip G. Talerico, CPA, CFE, MCM  
Manager  
Examiner-in-Charge  
Baker Tilly US, LLP

A handwritten signature in black ink, appearing to read "Tish M. Becker". The signature is cursive, with a large initial "T" and "M".

---

Tish Becker  
Department Designee  
Director of Financial Surveillance  
Kansas Insurance Department



## delegExhibit S - Examiners Affidavit as to Standards and Procedures Used in an Examination\_DDKS.docx

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### E-Signature Summary

#### E-Signature 1: Philip Talerico (PT)

May 19, 2021 07:56:23 -8:00 [E2EF19A8760C] [73.129.145.217]  
philip.talerico@bakertilly.com (Principal) (Personally Known)

#### E-Signature Notary: Erin Gee (ege)

May 19, 2021 07:56:23 -8:00 [9B1034572C3C] [149.20.202.88]  
erin.gee@bakertilly.com

I, Erin Gee, did witness the participants named above electronically sign this document.



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

State of Wisconsin,

County of Dane,

Philip G. Talerico, being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the examination of Delta Dental of Kansas, Inc.
2. The Kansas Insurance Department 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.



Signed on 2021/05/19 07:56:23 -8:00

Examiner's Signature

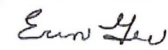
Subscribed and sworn before me by Philip Talerico on this 19<sup>th</sup> day of May 2021.

**Erin Gee**  
Notary Public - State of Wisconsin  
My Commission Expires Sep 22, 2023

Notary Stamp 2021/05/19 07:56:23 PST

981034572C3C

No



Signed on 2021/05/19 07:56:23 -8:00

My commission expires 09/22/2023\_\_\_\_\_  
(date)

473A02B6-A9D1-493C-9DD1-7A231FDE11E3 --- 2021/05/19 06:26:31 -8:00 --- Remote Notary

