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**FILED**

**JUN 28 2007**

**Department of Insurance  
State of Idaho**

Attorneys for Department of Insurance

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

IN THE MATTER OF:	)	
	)	
Delta Dental Plan of Idaho, Inc.	)	ORDER ADOPTING
	)	REPORT OF EXAMINATION
Idaho Certificate of Authority: 1901	)	AS OF DECEMBER 31, 2005
NAIC Company Code: 47791	)	
	)	Docket No. 18-2390-07
	)	
	)	
	)	
	)	

The Report of Examination as of December 31, 2005 (Report) of Delta Dental Plan of Idaho, Inc. (Company) was completed by examiners of the Idaho Department of Insurance (Department), signed the 15<sup>th</sup> day of June 2007 by the Examiner-in-Charge, Lois Haley, CFE, CPA, and a verified copy was filed with the Department effective June

15, 2007. A draft copy of the Report was delivered to the Company previously and the verified Report and management letter were transmitted to the Company electronically (PDF file, via e-mail) on June 15, 2007 to Ms. Tamara C. Brandstetter, CEO & President. The verified Report is attached hereto and incorporated herein as Exhibit A.

#### WAIVER

Attached and incorporated herein as Exhibit B, is a Waiver signed by Ms. Brandstetter, dated June 20, 2007 and received electronically (PDF file, via e-mail) on June 22, 2007. Based upon the Waiver/Exhibit B, this is a final order, and the Company has waived its rights to seek reconsideration and judicial review / appeal of this order.

#### ORDER

NOW THEREFORE, after carefully reviewing the above described Report of Examination, attached hereto and incorporated herein as Exhibit A, and good cause appearing therefor, it is hereby ordered that the above described report, which includes the findings, conclusions, comments and recommendations supporting this order, is hereby ADOPTED as the final examination report and as an official record of the Department under Idaho Code § 41-227(5)(a).

DATED and EFFECTIVE at Boise, Idaho this 28<sup>TH</sup> day of June 2007.



William W. Deal, Director  
IDAHO DEPARTMENT OF INSURANCE

**CERTIFICATE OF SERVICE**

I hereby certify that on this 28<sup>th</sup> day of June, 2007, I caused to be served the foregoing document on the following parties in the manner set forth below:

Tamara C. Brandstetter	<u>    X    </u>	certified mail
CEO & President	<u>          </u>	first class mail
Delta Dental Plan of Idaho, Inc.	<u>          </u>	hand delivery
555 East Parkcenter Blvd.	<u>          </u>	facsimile
Boise, Idaho 83706	<u>    X    </u>	e-mail
e-mail: TBrandstetter@deltadentalid.com		

Liane M. Lemons, CPA	<u>          </u>	certified mail
Controller	<u>          </u>	first class mail
Delta Dental Plan of Idaho, Inc.	<u>          </u>	hand delivery
555 East Parkcenter Blvd.	<u>          </u>	facsimile
Boise, Idaho 83706	<u>    X    </u>	e-mail
e-mail: LLemons@deltadentalid.com		

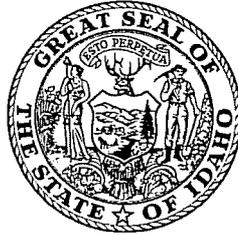
Georgia Siehl, CPA, CFE	<u>          </u>	certified mail
Bureau Chief / Chief Examiner	<u>          </u>	first class mail
Idaho Department of Insurance	<u>    X    </u>	hand delivery
700 W. State St., 3 <sup>rd</sup> Floor	<u>          </u>	facsimile
Boise, Idaho 83720-0043	<u>    X    </u>	e-mail
e-mail: Georgia.Siehl@doi.idaho.com		



William R. Michels, MBA, CPA, CFE  
Examination Supervisor  
IDAHO DEPARTMENT OF INSURANCE

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

of the

DELTA DENTAL PLAN OF IDAHO, INC.

(Idaho Certificate of Authority # 1901)

as of

December 31, 2005

EXHIBIT

A

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*State of Idaho*  
**DEPARTMENT OF INSURANCE**

C. L. "BUTCH" OTTER  
Governor

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Boise, Idaho 83720-0043  
Phone (208)334-4250  
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**WILLIAM W. DEAL**  
Director

Boise, Idaho  
June 15, 2007

The Honorable William W. Deal  
Director of Insurance  
State of Idaho  
700 West State Street  
Boise, Idaho 83720

Dear Sir:

Pursuant to your instructions, in compliance with Section 41-219(1), Idaho Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2005, of the financial condition and corporate affairs of:

Delta Dental Plan of Idaho, Inc.  
555 East Parkcenter Boulevard  
Boise, Idaho 83706

hereinafter referred to as the "Corporation," at the offices in Boise, Idaho. The following Report of Examination is respectfully submitted.

## SCOPE OF EXAMINATION

This examination covered the period January 1, 2001, through December 31, 2005, and included such prior transactions and any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. The examination was conducted in accordance with Section 41-219(1), Idaho Code, the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, the NAIC *Market Conduct Handbook*, and the NAIC *Accounting Practices and Procedures Manual*. We performed our testing in order to achieve a confidence level commensurate with the risk assessed through utilization of the NAIC *Financial Condition Examiners Handbook*. Verification and valuation of assets, determination of liabilities and reserves, and an analysis and review of such other accounts and records as appropriate to the examination were also performed.

There was some reliance on the 2005 independent Certified Public Accountant's statutory audit report and workpapers in this examination.

A letter of representation attesting to the Corporation's ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities was signed by and received from management.

## PRIOR EXAMINATION

The prior financial examination was conducted by the Idaho Department of Insurance covering the period January 1, 1996 through December 31, 2000. Recommendations contained in the prior examination report and management's responses (italicized) to those recommendations are as follows:

1. It is recommended that the Corporation file the modified service agreement with the Department of Insurance as required by Section 41-3415, Idaho Code.

*Delta Dental will file the modified service agreement with the Department of Insurance.*

2. It is recommended that approval of recommendations contained in the Compensation Committee reports be documented in the corporate minutes.

*Delta Dental will indicate approval of recommendations of the Compensation Committee in the corporate minutes.*

3. It is recommended that the Corporation report U.S. Government-issuer obligations at amortized cost in future annual statements.

*Delta Dental will report U.S. Government-issuer obligations at amortized cost in future annuals statements beginning with 2001.*

4. It is recommended that the Corporation move its investments held by Charles Schwab and Co., to a bank or trust company under a custodial agreement that includes safeguards set forth in the NAIC *Examiner's Financial Condition Handbook*.

*Delta Dental will maintain Charles Schwab and Co. as our custodian. We believe Charles Schwab to be financial[ly] sound and backed by significant insurance to protect Delta Dental's assets.*

5. It is recommended that the Corporation submit investments to the Securities Valuation Office of the NAIC for valuation as required by Section 41-701(3), Idaho Code.

*Delta Dental will adhere to your October 30, 2001 correspondence regarding securities (see enclosed).*

6. It is recommended that the Corporation include in both its income and expenses an amount for rent relating to its occupancy of its own building in future annual statements.

*Delta Dental will adjust the GAAP and statutory statements to reflect a line item of "rent equivalent." The rent equivalent line item will contain building depreciation, insurance and property tax for our home office. We've chosen not to include the rent equivalent in the income and expenses, as we do not see the value in it.*

The recommendations and comments contained in the prior examination report were addressed by the Corporation, unless otherwise noted within this Report or Management Letter.

### HISTORY AND DESCRIPTION

The Corporation was incorporated on June 21, 1971, as a non-profit, non-stock professional service corporation under Chapter 34, Idaho Code and commenced business on December 15, 1971. The Corporation provides prepaid dental service programs to subscribers, their eligible dependents or other beneficiaries. The Corporation is authorized to provide programs to employers who are headquartered in the state of Idaho.

As a non-profit entity, the Corporation is exempt from Federal Income Tax under Section 501(c)(4) of the Internal Revenue Code. This exemption was granted in February 1973 and remains in effect. The Corporation is also exempt from state income tax under Section 63-3026, Idaho Code; however, it is subject to a tax imposed upon each subscriber's contract under Section 41-3427, Idaho Code. The subscribers' tax paid for the years under examination was as follows:

2001	\$26,816
2002	26,215
2003	27,020
2004	28,036
2005	26,596

In 2004, the Corporation registered a “doing business as” (DBA) name of “Delta Dental of Idaho” with the Department. The Company’s legal name, however, remains “Delta Dental Plan of Idaho, Inc.”

Subsequent to the examination date, the Corporation implemented a preferred provider organization (PPO) in the state of Idaho. See *SUBSEQUENT EVENTS* for further discussion.

### MANAGEMENT AND CONTROL

The Corporation is a member of the Delta Dental Plan Association, which serves as a non-affiliated parent organization for all Delta Dental Plans countrywide. During the period under examination, the Corporation was not a member of a holding company system.

As previously reported, the Corporation is a professional service corporation, and as such, is owned by member dentists. However, the Board of Directors sets policy and approves the strategic direction of the Corporation.

The Board of Directors consists of up to thirteen directors, eight of whom shall be members in good standing of the Corporation. Of the eight directors who are members of the Corporation, one shall be from each trustee district of the Idaho State Dental Association, with the exception of the South West Dental Society, where two directors are elected. In addition up to five directors, four of whom shall be non-member lay directors and one at-large director, shall be appointed by the Board of Directors. Appointed and elected Directors serve three-year terms.

The time and place of the annual meeting of the members is determined by the Board of Directors. Regular meetings of the Board of Directors shall be held at a place and time determined by the Board. A regular meeting of the Board shall be held after the adjournment of the annual meeting of the members. Special meetings may be called by the chairman whenever deemed proper or by any two of the directors upon written notice or by personal telephone call.

Directors shall receive an honorarium for their time for service on the Board of Directors in an amount set periodically by the Board. In addition, Directors may be reimbursed for the expenses incurred in direct service to the Corporation.

The officers of the Corporation include chairman, chairman-elect, secretary, treasurer, immediate past-chairman and chief executive officer, all of whom shall be elected by and from the members of the Board of Directors. Such other officers, assistant officers, and agents may be appointed as necessary. Officers serve from the time of their election until the next annual election or until their successors are elected and qualified.

The bylaws of the Corporation authorize an executive committee comprised of the chairman, chairman-elect, immediate past-chairman, a lay-member representative and the chief executive officer.

Pursuant to the bylaws of the Corporation, the Board of Directors has the right to appoint such committees as it shall deem proper. In this regard committees appointed and their respective members are set forth under the sub-caption, "Committees".

[The rest of this page was purposely left blank]

## Directors

The following persons were the duly elected members of the Board of Directors at December 31, 2005:

<u>Name and Business Address</u>	<u>Principal Occupation</u>
William Vern McCann, Jr. Lewiston, Idaho	President, McCann Ranch & Livestock Co. Chairman, Delta Dental of Idaho
Jack Kulm, DMD Wendell, Idaho	Dentistry, General Practice Chairman-Elect, Delta Dental of Idaho
Lori E. Lovelace, DDS Nampa, Idaho	Dentistry, General Practice Immediate Past Chairman, Delta Dental of Idaho
Michael Mark Mooney Boise, Idaho	Chief Operations Officer Farmers and Merchants Bank Secretary-Treasurer, Delta Dental of Idaho
Terry E. Brady, DDS Boise, Idaho	Dentistry, General Practice
Steven M. Bruce, DMD Boise, Idaho	Dentistry, General Practice
Candy Wagahoff Dale Boise, Idaho	Attorney
Michael Nicholas Fery Boise, Idaho	President & Chief Executive Officer Rocky Mountain Management & Development
John Link, DDS Grangeville, Idaho	Dentistry, General Practice
John Thomas Mooney, DMD Pocatello, Idaho	Dentistry, General Practice
Steven Floyd Nielsen, DDS Shelley, Idaho	Dentistry, General Practice
Kurt Alexander Petellin, DDS Coeur d'Alene, Idaho	Dentistry, General Practice
Park Price Idaho Falls, Idaho	President Bank of Idaho

Officers:

The following persons were serving as officers of the Corporation at December 31, 2005:

Principal Officers

Jack Kulm, DMD	Chairman
Terry E. Brady, DDS	Chairman-Elect
William Vern McCann, Jr.	Immediate Past-Chairman
Michael Mark Mooney	Secretary-Treasurer
Tamara C. Brandstetter	President and Chief Executive Officer
Roxanne M. Joyner	Assistant Secretary

Committees:

At December 31, 2005, the following persons were serving as members of their respective committees:

Executive Committee

Jack Kulm, DMD Chairman  
Terry E. Brady, DDS, Chairman-Elect  
William Vern McCann, Jr., Immediate Past  
Chairman  
Michael Mark Mooney Secretary-Treasurer  
Tamara C. Brandstetter, Ex-officio

Compensation Committee

William Vern McCann, Jr., Chairman  
Terry E. Brady, DDS  
Michael Nicholas Fery  
Jack Kulm, DMD  
Lori E. Lovelace, DDS  
Michael Mark Mooney  
Park Price

Dental Policy Committee

Jack Kulm, DMD, Chairman  
Terry E. Brady, DDS  
Steven M. Bruce, DMD  
John Link, DDS  
Lori E. Lovelace, DDS  
John Thomas Mooney, DMD  
Steven Floyd Nielsen, DDS  
Kurt Alexander Petellin, DDS  
Dr. Riley Cutler, Ex-officio  
Tamara C. Brandstetter, Ex-officio

Audit Committee

Michael Mark Mooney, Chairman  
William Vern McCann, Jr.  
Park Price

Governance Committee

Jack Kulm, DMD, Chairman  
Terry E. Brady, DDS  
Lori E. Lovelace, DDS  
Tamara C. Brandstetter, Ex-officio

Investment Committee

Park Price, Chairman  
Candy Wagahoff Dale  
Michael Nicholas Fery  
William Vernon McCann, Jr.  
Michael Mark Mooney  
Tamara C. Brandstetter, Ex-officio

Dental Hygienist Scholarship Committee

Jack Kulm, DMD, Chairman  
Steven Floyd Nielsen, DDS  
Tamara C. Brandstetter, Ex-officio

### Conflict of Interest

During the examination period, the Corporation had a policy in place that required directors and officers to annually complete Fiduciary & Ethical Standards and Confidential Agreements. Key employees would annually complete conflict of interest questionnaires. The Fiduciary & Ethical Standards and Confidential Agreement was revised in 2005 and approved by the Board of Directors on June 11, 2005. The revised agreement no longer required officers or key employees to execute such agreements or conflict of interest questionnaires.

The agreements completed during the period January 1, 2001 through December 31, 2005 appeared to appropriately disclose any possible or probable conflicts of interest.

### Contracts and Agreements

The Corporation had the following agreements and/or arrangements in effect at December 31, 2005:

#### Service Agreements

The Corporation and dentists entered into Dentist Membership and Participation agreements. The agreement was modified in 1997 and approved by the Board of Directors on March 8, 1997. Under terms of the modified agreements, dentists agree to render dental services on behalf of the Corporation to eligible subscribers and their covered dependents. The agreements are continuous and may be terminated by either party by not less than thirty days written notice. Such right on the part of the Corporation is to be exercised only by the action of its Board of Directors.

#### Refundable Premiums

According to terms of retention contracts, the Corporation is obligated to refund to the contract holder any excess premium remaining at the conclusion of the contract period. The amount to be returned is estimated by reducing the gross premiums received by the total claims paid, as well as those incurred, and by the agreed upon amount allocated for administrative fees.

#### Investment Consultant and/or Advisor Agreements

The Caprock Group (formerly McMillen & Associates Investment Consulting) acts as investment consultant to the Corporation. As such, The Caprock Group drafts the investment policy statement, develops asset allocation models, conducts searches for investment managers and reporting, but does not manage assets. The Caprock Group charges a fee of .25 percent of the investment portfolio value.

Investment management and advisory services were provided to the Corporation by D. B. Fitzpatrick & Company, Inc. for the Corporation's bond portfolio. Under terms of the investment advisor agreement executed April 12, 1990, D. B. Fitzpatrick has authority to purchase and/or sell securities for the Corporation's account. Such cash and securities are entrusted at a commercial bank or securities brokerage firm for custodial purposes in

the Corporation's name. Fees are paid quarterly and are based on a percentage of the portfolio's market value at quarter-end, subject to a minimum fee. An amendment to the agreement executed October 12, 2000 provided that the agreement may be terminated at will by written notice by either party and current quarterly fees shall be prorated to the Corporation.

The Corporation also has investment advisory/management agreements with Anchor Capital Advisors, Inc. and Dana Investment Advisors. The investment managers are responsible for daily management of funds under their control. They buy and sell securities on behalf of the Corporation as described in its Investment Policy Statement.

Anchor Capital Advisors, Inc. manages the Corporation's common stock portfolio of medium size companies with capital between \$300 million to \$8 billion. The fee is at the annual rate of 0.5 percent of account assets. Dana Investment Advisors manages large cap common stocks. The annual fee is 0.5 percent of all assets.

#### Operating Leases

The Corporation entered into a three-year automobile lease in 2004 and another three-year automobile lease in 2005. Future payments required under the lease are as follows:

2006	\$ 8,866
2007	6,127
2008	<u>2,379</u>
Total	<u>\$17,372</u>

### CORPORATE RECORDS

#### Articles of Incorporation and Bylaws

The Corporation's records indicated that the Articles of Incorporation and Bylaws were not amended during the period under examination.

#### Minutes of Meetings

A review of the minutes of the meetings of the membership, Board of Directors and committees for the examination period and subsequent thereto, indicated compliance with the Articles of Incorporation and Bylaws with respect to annual meeting dates, election of directors, and officers, and the transaction of corporate business.

This review of the minutes also indicated that a quorum was present at all Board of Directors' meetings and the Directors' compensation was properly authorized. Further, the Investment Committee and the Board of Directors approved investments of the Corporation as required by Section 41-704, Idaho Code.

The minutes of the Board of Directors' meeting held September 22, 2001 acknowledged that the Examination Report as of December 31, 2000 had been accepted by the Directors, except for the recommendations regarding investments held by Charles Schwab and rental income/expenses relating to occupancy of the home office property.

### FIDELITY BOND AND OTHER INSURANCE

Insurance coverage for the protection of the Corporation has been maintained through the period under examination. Coverages in effect as of December 31, 2005 included a businessowners special policy for the building, business personal property, general liability, and employee dishonesty; a directors and officers liability policy; workers compensation insurance; a standard automobile policy for the leased automobiles; a fidelity blanket bond specifically for the Corporation's 401(k) and profit sharing plans; and a financial institution bond.

The Corporation maintained employee dishonesty coverage in compliance with Section 41-3432, Idaho Code. The financial institution bond coverage maintained by the Corporation met the suggested minimum limits recommended by the NAIC *Financial Condition Examiners Handbook*.

The insurance companies providing coverage to the Corporation are licensed or otherwise authorized in the state of Idaho.

### PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

#### 401(k) and Profit Sharing Plan

The Corporation maintained the Delta Dental 401(k) Retirement Savings Plan for its employees. This plan is a substitution and amendment of the Money Purchase Pension Plan originally established January 1, 1985. The Board of Directors approved the 401(k) plan on September 21, 1996. The Plan was again amended in 2002 to change vesting requirements. The Board of Directors approved the amendment on October 25, 2002.

Subsequent to the examination date, the 401(k) Plan was again amended to comply with IRS statutory changes and other guidance. The amendment was approved by the Board of Directors on February 10, 2007.

Under the 401(k) Plan, the Corporation's matching contributions are an amount equal to 200 percent of each participant's salary reduction contributions for the plan year, not to exceed 6 percent of the participant's salary eligible for contributions.

The Corporation also provided a profit-sharing plan for its employees. Contributions to the plan are determined by the Board of Directors at the end of each year. For the year ended December 31, 2005, the Corporation's contribution was \$67,581. As of December 31, 2005, the fair market value of plan assets was \$1,074,873.

Group life, health, disability, vision and dental insurance coverages were also provided to the Corporation's employees.

The Corporation's costs for their portion of the 401(k) plan and employee insurance through year-end have been funded and properly included in the accounts.

#### Deferred Compensation Plan

The Corporation maintained a deferred compensation program for the benefit of participating dentists.

#### Delta Dental Executive Deferred Compensation Plan (Rabbi Trust)

On December 1, 2003, The Corporation entered into a supplementary income retirement trust agreement (rabbi trust) for certain employees.

The deferred compensation plans and activity for the year ending 2005 are discussed in more detail in Note 3 to the Financial Statements.

### TERRITORY AND PLAN OF OPERATION

The Corporation is licensed only in the state of Idaho as a domestic non-profit, non-stock professional service corporation. The Corporation provides prepaid dental service programs to subscribers, their eligible dependents, or other beneficiaries. Operations of the Corporation are conducted from its administrative office located in Boise, Idaho.

The Corporation markets its insurance products through brokers and agents located throughout the state of Idaho. At December 31, 2005, the Corporation had appointed approximately 143 licensed and appointed agencies and 476 licensed agents to produce business on its behalf.

The Department's listing of appointed producers and agencies was compared to the listing of active producers and agencies provided by the Corporation. It was determined that four producers were not licensed in the state of Idaho. Sections 41-1004, 41-1022, and 41-3435 Idaho Code, require producers to be licensed in the state of Idaho. It is recommended that the Corporation verify that all producers are licensed as either resident or non-resident producers in the state of Idaho, and maintain a copy of each producer's license.

### STATUTORY AND SPECIAL DEPOSITS

Professional Service Corporations are not required to maintain a statutory deposit pursuant to Title 41, Chapter 34, Idaho Code.

## GROWTH OF THE COMPANY

The Corporation's growth for the years indicated, as taken from the prior examination report and its Annual Statements, is shown in the following schedule:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Total Reserves &amp; Unassigned Funds</u>	<u>Net Income</u>
2000*	\$13,967,955	\$6,723,954	\$7,244,001	\$1,143,883
2001	14,082,596	6,440,155	7,642,441	664,223
2002	13,139,985	5,422,764	7,717,221	( 1,304)
2003	15,969,386	7,146,486	8,822,900	242,428
2004	18,326,354	8,106,896	10,219,458	939,481
2005*	19,991,091	8,849,976	11,141,115	389,160

The decrease in net income in 2002 and 2005 was due to net realized capital losses and net investment losses.

\*As determined by Examination.

## CLAIMS EXPERIENCE

The Corporation's claims experience for the examination period, January 1, 2001 through December 31, 2005, were derived from amounts reported in the Corporation's Annual Statements as follows:

<u>Year</u>	<u>Premiums</u>	<u>Claims Incurred</u>	<u>Ratio</u>
2000*	\$26,219,978	\$22,734,294	86.80%
2001	27,026,497	23,894,254	88.41%
2002	27,555,201	24,659,088	89.48%
2003	29,221,551	26,526,586	90.77%
2004	31,572,357	28,159,720	89.19%
2005*	31,193,075	27,775,260	89.04%

\*As determined by Examination.

## REINSURANCE

The Corporation retains 100 percent of its contractual risks. There were no assumed or ceded reinsurance agreements in effect during the examination period.

The Corporation is not required to participate in the Idaho Small Employer and Idaho Individual High Risk Reinsurance Programs.

## INSURANCE PRODUCTS AND RELATED PRACTICES

A limited scope Market Conduct Examination was conducted in conjunction with the examination of the administrative affairs, books, records, and financial condition of the Corporation.

### Policy Forms and Underwriting Practices

#### Policy Forms and Rate Filings

The Corporation's current dental coverage plans offered to groups were reviewed. The plan rates are determined by the size of the group covered under each policy issued. Actuarial certification of rates is not required for dental plans.

The Department's list of forms filed was compared to the Corporation's list of plans and forms used to ensure compliance with form and rate filing requirements. All forms were verified as being on file and approved by the Department. Pursuant to a new Departmental requirement, insurers are required to submit a 'forms filed' listing to the Department by February 15<sup>th</sup> of the current year for each previous year. Documentation provided by the Department indicated the Corporation's form filings were current.

#### Underwriting Review

The underwriting methods and practices were reviewed through sample analysis to ensure that the policies issued to groups were underwritten according to the Corporation's documented guidelines. Administrative Service Contracts (ASC) contracts and the provisions of each were also reviewed.

Based on guidelines in the NAIC *Market Conduct Handbook*, random samples were generated utilizing Audit Command Language (ACL), a statistical software program, for the ASC groups, new groups issued in 2005, groups cancelled, and groups declined. File documentation reviewed included the original application, coverage plan chosen, census information, loss experience summaries, rating information, and renewal information.

New policies issued were tested for compliance relative to employee participation requirements; employer contribution requirements; premiums charged the new business; administrative fees charged ASC groups; and proper correspondence and documentation.

Terminated policies were tested to determine the amount of time required to refund premium, correctness of premium refund, and validity of reasons for termination.

Nothing exceptional was noted in the review of policy forms and underwriting practices.

## Gramm-Leach-Bliley (GLB) Act

The Corporation's Notice of Privacy Practices and their procedures were reviewed to determine compliance with the Gramm-Leach-Bliley Act. By law, the privacy notice must be sent out every three years or whenever a change has been made. After a subscriber is enrolled, an ID card is issued and sent out with a benefit book and a copy of the privacy notice. A copy of the privacy notice is also available at the Corporation's website. No exceptions were noted.

### Treatment of Policyholders

#### Complaints

The Corporation provided complaint logs for 2001 through 2005. Although the Corporation's complaint log does not provide the total number of complaints received or the total number of days it took to process each complaint, it is substantially in compliance with Section 41-1330, Idaho Code, in that each complaint is numbered in sequence, and the dates received and resolved are provided.

The general breakdown of the complaints reviewed determined that 65 percent were related to claim issues and 26 percent were related to general policy issues.

#### Claims Handling

The Claims Operations Manual was reviewed for compliance with claim settlement practices. Procedures were compliant with best practices in the processing and settlement of claims, and provide for the detection of abuse and fraud.

The Corporation provided dataset listings of paid and denied claims for calendar year 2005. Based on the NAIC *Market Conduct Handbook* guidelines for sample selection, ACL was utilized to generate random samples for review. The samples were tested for compliance issues relative to timely payment of claims, proper claims investigation, correspondence and records compliance, appropriate handling of benefit checks, claims settlement practices, and denied claims handling. Nothing exceptional was noted relative to claims handling.

### Advertising and Sales Material

Prior to 2005, the Corporation did not actively advertise the dental plans, but relied on agents submitting requests for proposals for groups of various sizes. The advertising materials were confined to brochures and flyers given to the groups requesting quotes.

In response to growing competition, the Corporation began marketing through television, radio, magazine, and newspaper, in addition to its website in 2005.

All advertising materials, including flyers and multi-media venues, were reviewed and found to be in compliance with Idaho law. No deceptive or misleading information was identified.

## ACCOUNTS AND RECORDS

### General Accounting

The Corporation utilized Solomon for its accounting functions and Proclaim/Prosales for its business operations. Proclaim/Prosales is custom software developed by the Corporation. Proclaim is used for all business processes, claims processing, billing, accounting, and financial reporting. The Corporation utilized the Windows XP operating system using an IBM PC platform.

The general ledger and supporting accounting records were maintained on a GAAP basis and then adjusted to a statutory basis of accounting through adjusting journal entries. The Annual Statements were compiled utilizing the PSI software package. Schedule D reporting is prepared by the Caprock Group.

Pursuant to Section 41-3425, Idaho Code, the Corporation files its Annual Statements with the Idaho Department of Insurance on NAIC blanks. However, the Department does not require the Corporation to file quarterly statements on NAIC prescribed forms. Instead, quarterly financial statements prepared on a GAAP basis adjusted to statutory were filed with the Department. The Corporation is not required to file its financial statements with the NAIC.

The Corporation changed its reporting format from the NAIC Hospital, Medical and Dental Service or Indemnity Corporations blank to the Health blank effective January 1, 2001.

Various reporting errors and omissions were noted in the 2005 Annual Statement. For example, investment income was incorrectly reported on a net basis in line 10 of the Net Investment Income Exhibit. Investment income should be reported gross in this line. In addition, electronic data processing and furniture and equipment depreciation methods were not disclosed pursuant to SSAP Nos. 16 and 19, respectively. Therefore, it is recommended that the Corporation prepare future Annual Statements in compliance with the NAIC *Accounting Practices and Procedures Manual* and NAIC *Annual Statement Instructions*.

### Independent Accountants

The annual independent audit of the Corporation for the year 2001 was performed by Presnell Gage, Boise, Idaho. The annual independent audits for the years 2002 through 2003 were performed by Balukoff, Lindstrom & Co., P.A. (acquired by Eide Bailly), Boise, Idaho. The annual independent audits for the years 2004 and 2005 were

performed by Eide Bailly, Boise, Idaho. The financial statements in each report were on a statutory basis. There was some reliance on the 2005 audit report and workpapers in this examination of the Corporation.

Actuarial Opinion

The actuarial items were calculated by the Corporation and reviewed by Edward P. Kiernan, MAAA, associated with Delta Dental of Michigan, Lansing, Michigan.

The December 31, 2005 statement of actuarial opinion issued stated that the amounts carried in the balance sheet:

*(I) are in accordance with accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles.*

*(ii) are based on actuarial assumptions relevant to contract provisions and appropriate to the purpose for which the Statement was prepared.*

*(iii) meet the requirements of the laws of the state of Idaho.*

*(iv) in aggregate, make a good and sufficient provision for all unpaid claims and other actuarial liabilities of the corporation under the terms of its contracts and agreements.*

*(v) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the proceeding year end.*

*(vi) include appropriate provision for all actuarial items which ought to be established.*

The identified actuarial items in the 2005 Annual Statement were as follows:

Claims unpaid (Page 3, Item 1):	\$2,110,868
Unpaid claims adjustment expense (Page 3, item 3):	80,442
Provision for experience rating refunds (Included as part of Page 3, Item 21):	364,610

## FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Balance Sheet as of December 31, 2005

Statement of Revenue and Expenses, Year 2005

Capital and Surplus Account for the Year Ending December 31, 2005

Balance Sheet  
As of December 31, 2005

ASSETS

	<u>Per Company</u>		<u>Examination</u> <u>Adjustments</u>	<u>Per</u> <u>Examination</u> <u>Net</u> <u>Admitted</u>
	<u>Assets</u>	<u>Nonadmitted</u> <u>Assets</u>		
Bonds	\$ 4,405,111	\$ (76,897)	\$ 0	\$ 4,482,008
Common stocks (Note 1)	4,642,767	10,000	0	4,632,767
Real estate				
Properties occupied by the company (less \$0 encumbrances)	1,773,437	0	0	1,773,437
Properties held for sale (less \$0 encumbrances) (Note 2)	588,584	0	0	588,584
Cash, cash equivalents and short-term investments	2,499,906	0	0	2,499,906
Deferred compensation (Note 3)	5,270,672	0	0	5,270,672
Investment income due and accrued	24,472	0	0	24,472
Uncollected premiums and agents' balances in the course of collection	203,743	11,091	0	192,652
Amounts receivable relating to uninsured plans	978,412	610,700	0	367,712
Electronic data processing equipment and software	506,363	454,098	0	52,265
Furniture and equipment, including health care delivery assets	106,572	0	0	106,572
Health care and other amounts receivable	<u>52,592</u>	<u>52,548</u>	<u>0</u>	<u>44</u>
Totals	<u>\$21,052,631</u>	<u>\$1,061,540</u>	<u>\$ 0</u>	<u>\$19,991,091</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	<u>Per Company</u>	<u>Examination</u> <u>Adjustments</u>	<u>Per</u> <u>Examination</u>
	Claims unpaid (less \$0 reinsurance ceded)	\$ 2,110,868	\$ 0
Unpaid claims adjustment expenses	80,442	0	80,442
Premiums received in advance	293,713	0	293,713
General expenses due or accrued	107,091	0	107,091
Amounts withheld or retained for the account of others (Note 3)	5,308,755	0	5,308,755
Aggregate write-ins for liabilities			
Deposits on Cost Plus Contracts	378,500	0	378,500
Provision for Experience Rating Refunds	364,610	0	364,610
Contract Payable	<u>205,997</u>	<u>0</u>	<u>205,997</u>
Total liabilities	<u>\$ 8,849,976</u>	<u>\$ 0</u>	<u>\$ 8,849,976</u>
Unassigned funds (surplus)	<u>\$11,141,115</u>	<u>\$ 0</u>	<u>\$11,141,115</u>
Total capital and surplus	<u>\$11,141,115</u>	<u>\$ 0</u>	<u>\$11,141,115</u>
Total Liabilities, capital and surplus	<u>\$19,991,091</u>	<u>\$ 0</u>	<u>\$19,991,091</u>

STATEMENT OF REVEUE AND EXPENSES

For the Year Ending December 31, 2005

	<u>Per</u> <u>Company</u>	<u>Examination</u> <u>Adjustments</u>	<u>Per</u> <u>Examination</u>
Net premium income (including \$5,875 non-health premium income)	\$31,193,075	\$ 0	\$31,193,075
Hospital/medical benefits	\$27,775,260	\$ 0	\$27,775,260
Claims adjustment expenses, including \$0 cost containment expenses	322,715	0	322,715
General administrative expenses	<u>2,805,262</u>	<u>0</u>	<u>2,805,262</u>
Total underwriting deductions	<u>\$30,903,237</u>	<u>\$ 0</u>	<u>\$30,903,237</u>
Net underwriting gain	\$ 289,838	\$ 0	\$ 289,838
Net investment income earned	\$ 363,643	\$ 0	\$ 363,643
Net realized capital losses, less capital gains tax of \$0	<u>(241,574)</u>	<u>0</u>	<u>(241,574)</u>
Net investment gains	<u>\$ 122,069</u>	<u>\$ 0</u>	<u>\$ 122,069</u>
Aggregate write-ins for other income or expenses:			
Loss on sale of assets	(\$ 775)	\$ 0	(\$ 775)
Legislative activity	<u>(21,972)</u>	<u>0</u>	<u>(21,972)</u>
Net income	<u>\$ 389,160</u>	<u>\$ 0</u>	<u>\$ 389,160</u>

## CAPITAL AND SURPLUS ACCOUNT

For the Year Ending December 31, 2005

	<u>Per Company</u>	<u>Examination Changes</u>	<u>Per Examination</u>
Capital and surplus, December 31, 2004	<u>\$10,219,458</u>	<u>\$ 0</u>	<u>\$10,219,458</u>
<b>GAINS AND LOSSES TO CAPITAL &amp; SURPLUS</b>			
Net income	\$ 389,160	\$ 0	\$ 389,160
Change in net unrealized capital gains (losses) less capital gains tax of \$0	453,523	0	453,523
Change in nonadmitted assets	(76,126)	0	(76,126)
Aggregate write-ins for gains or (losses) in surplus:			
Change in ASC gross up in <i>Change in     nonadmitted assets</i> already eliminated from income	274,100	0	274,100
Change in bond adjustment to market in <i>Change in nonadmitted assets</i> already eliminated from income	<u>(119,000)</u>	<u>0</u>	<u>(119,000)</u>
Net change in capital and surplus	<u>\$ 921,657</u>	<u>\$ 0</u>	<u>\$ 921,657</u>
Capital and surplus, December 31, 2005	<u><u>\$11,141,115</u></u>	<u><u>\$ 0</u></u>	<u><u>\$11,141,115</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT

December 31, 2000 through December 31, 2005

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Capital and surplus,					
December 31, previous year	<u>\$7,244,001</u>	<u>\$7,642,441</u>	<u>\$7,717,221</u>	<u>\$ 8,822,898</u>	<u>\$10,219,458</u>
Net income or (loss)	\$ 664,223	(\$ 1,304)	\$ 242,428	\$ 939,481	\$ 389,160
Change in net unrealized capital gains and (losses)	(56,756)	146,353	494,974	246,329	453,523
Change in nonadmitted assets	(662,304)	(684,568)	541,338	264,848	(76,126)
Aggregate write-ins for gains or (losses) in surplus					
Adjustment from previous expensing of software per DOI audit	453,277	0	0	0	0
Change in ASC gross up in <i>Change in nonadmitted assets</i> already eliminated from income	0	342,000	6,500	(11,900)	274,100
Change in bond adjustment to market in <i>Change in nonadmitted assets</i> already eliminated from income	0	252,088	(173,504)	(36,481)	(119,000)
Capital lease adjusted in income and also in <i>Change in nonadmitted assets</i>	0	19,706	(6,057)	0	0
Prior year depreciation on capital lease removed	0	505	0	0	0
Error	0	0	(2)	0	0
Capital lease depreciation eliminated from income	0	0	0	(5,717)	0
Net change in capital and surplus	<u>\$ 398,440</u>	<u>\$ 74,780</u>	<u>\$1,105,677</u>	<u>\$ 1,396,560</u>	<u>\$ 921,657</u>
Capital and surplus, December 31, current year	<u>\$7,642,441</u>	<u>\$7,717,221</u>	<u>\$8,822,898</u>	<u>\$10,219,458</u>	<u>\$11,141,115</u>

## NOTES TO THE FINANCIAL STATEMENTS

Note (1) – Common stocks \$4,632,767

The Corporation acquired one share of common stock of Dental Data and Analysis Center, Inc. (DAC) on July 31, 2001 for \$10,000. DAC was organized by Delta Dental Washington Dental Service, a member of the Delta Dental Plans Association, for the purpose of engaging in the development and sale of products and services related to dental benefits. The Corporation nonadmitted the cost of DAC stock in the 2005 Annual Statement. According to management, DAC will be dissolved in 2007 and the common stock will be written off.

Note (2) – Properties held for sale \$ 588,584

On February 8, 2005, the Department of Insurance granted a waiver of the five year limit under Section 41-729, Idaho Code in which to dispose of real estate for purposes of the property held for future sale. The Department determined that sufficient grounds existed to extend the time period for disposal to June 30, 2009. This determination allows property held for future sale to remain as an admitted asset in the Corporation's financial statements. The extension is effective June 30, 2004 until June 30, 2009.

Note (3) – Deferred Compensation \$5,270,672  
Amounts withheld or retained for the account of others 5,308,755

Activity in the Delta Dental Plan of Idaho, Inc. Code Section 457 Deferred Compensation Plan and the Delta Dental Executive Deferred Compensation Plan during 2005 was as follows:

Beginning balance at market, January 1, 2005	\$4,681,378
Contributions	1,498,674
Gain	320,528
Administrative fees	(7,971)
Distributions	<u>(1,221,937)</u>
Ending balance at market, December 31, 2005	<u>\$5,270,672</u>

The deferred compensation plan assets segregated by Plan are as follows:

Code Section 457 Deferred Compensation Plan:	\$5,001,554
Executive Deferred Compensation Plan:	<u>269,118</u>
Total:	<u>\$5,270,672</u>

### Delta Dental Plan of Idaho, Inc. Code Section 457 Deferred Compensation Plan

On April 7, 1990, the Corporation adopted The Section 457 Prototype Plan and Trust under Internal Revenue Code Section 457. The deferred compensation plan, which was effective January 1, 1990, was adopted for the benefit of participating dentists.

Due to revisions in the law which have occurred since the Plan's establishment, and the change of custodians (from WestOne Bank to Wells Fargo, formerly First Security) and investment vehicles, the Plan was restated effective January 1, 1998, as the Delta Dental of Idaho, Inc. Code Section 457 Deferred Compensation Plan. The restated Plan was approved by the Board of Directors on September 13, 1997.

The Plan, as restated, was amended effective November 1, 1999 to provide for distributions to alternate payees under Plan-approved domestic relations court orders. The amendment was approved by the Board of Directors on April 15, 2000. The Plan was again amended and restated effective January 1, 2004 to comply with changes to IRS Code Section 457(b).

Pursuant to the Plan, the Corporation reduces its claim payments to participating dentists and invests the withheld funds, plus related interest, as directed by the dentist and allowed by the Plan for future distribution to the dentists. Under the amended and restated Plan effective January 1, 2004, the reductions may not exceed the lesser of \$14,000 or 100 percent of the annual payments to the dentist.

The assets of the Plan are subject to claims of the Corporations' general creditors until withdrawn by the participating dentists. The deferred compensation, however, is not available to the dentists until there is a separation from service or an unforeseeable emergency.

#### Delta Dental Executive Deferred Compensation Plan

On December 1, 2003, the Corporation established the Delta Dental Executive Deferred Compensation Plan for the benefit of highly compensated employees. Such employees, as designated by the Board of Directors, are entitled to participate in the Plan as beneficiaries of the Delta Dental Rabbi Trust. The trust was established under the Trust Agreement between the Corporation, as grantor, and Farmers and Merchants State Bank as Trustee. The Plan document was executed December 1, 2003.

Under the Plan, all assets contributed to the Plan and all earnings thereon are subject to the claims of the general creditors of the Corporation.

The Corporation established liabilities for the deferred compensation obligations in its accounts and reported such within *Amounts withheld or retained for account of others*.

### SUBSEQUENT EVENTS

Subsequent to the examination date, the Corporation acquired an existing PPO network from DeltaUSA, an Illinois not-for-profit corporation. In this connection, an assignment and assumption agreement was executed between DeltaUSA and the Corporation effective January 1, 2006. The Corporation's Board of Directors approved this action at their meeting on October 21 and 22, 2005.

## MANAGEMENT LETTER

During examination fieldwork, certain areas were noted that necessitated comments or recommendations, but did not constitute a material financial impact at December 31, 2005. These comments and recommendations were presented for management's consideration in the Management Letter dated June 15, 2007. The Management Letter is incorporated as part of the Report of Examination by reference for all purposes.

### SUMMARY, COMMENTS AND RECOMMENDATIONS

#### Summary

The results of this examination disclosed that as of December 31, 2005, the Corporation had net admitted assets of \$19,991,091, liabilities of \$8,849,976, a statutory reserve of \$50,000, and unassigned funds (surplus) of \$11,091,115, for total unassigned funds (surplus) of \$11,141,115. Therefore, the Corporation's statutory reserve met the minimum requirements prescribed by Section 41-3422, Idaho Code.

#### Comments and Recommendations

##### Page

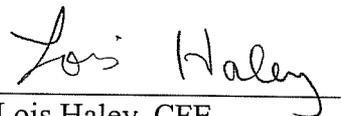
- |    |   |
|----|---|
| 11 | It is recommended that the Corporation verify that all producers are licensed as either resident or non-resident producers in the state of Idaho pursuant to Sections 41-1004, 41-1022, and 41-3435 Idaho Code, and maintain a copy of each producer's license. |
| 15 | It is recommended that the Corporation prepare future Annual Statements in compliance with the NAIC <i>Accounting Practices and Procedures Manual</i> and NAIC <i>Annual Statement Instructions</i> .   |

## CONCLUSION

The undersigned acknowledges the assistance and cooperation of the Corporation's officers and employees in conducting the examination.

In addition to the undersigned, Ann M. McClain, CIE, FLMI, FLHC, AIC, CCP, AIRC, AIAA, ARA, ACS, AIS of the Idaho Department of Insurance, participated in the examination.

Respectfully submitted,

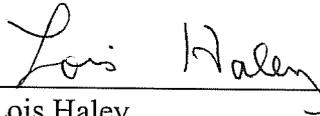
A handwritten signature in cursive script that reads "Lois Haley". The signature is written in black ink and is positioned above a horizontal line.

Lois Haley, CFE  
Senior Insurance Examiner  
State of Idaho  
Department of Insurance

AFFIDAVIT OF EXAMINER

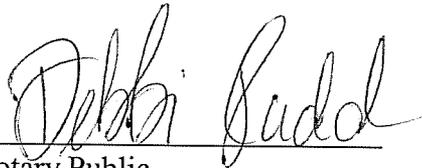
State of Idaho  
County of Ada

Lois Haley, being duly sworn, deposes and says that she is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that she has made an examination of the affairs and financial condition of Delta Dental of Idaho for the period from January 1, 2001, through December 31, 2005, that the information contained in the report consisting of the foregoing pages is true and correct to the best of her knowledge and belief; and that any conclusions and recommendations contained in this report are based on the facts disclosed in the examination.



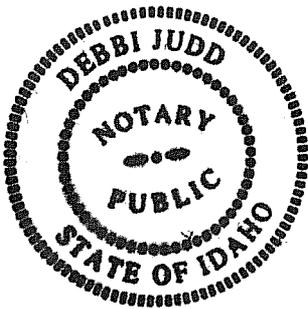
Lois Haley  
Senior Insurance Examiner  
Department of Insurance  
State of Idaho

Subscribed and sworn to before me the 15th day of June, 2007, at Boise, Idaho.



Notary Public

My Commission Expires: 7/30/2010



State of Idaho  
**DEPARTMENT OF INSURANCE**

C.L. "BUTCH" OTTER  
Governor

700 West State Street, 3rd Floor  
P.O. Box 83720  
Boise, Idaho 83720-0043  
Phone (208)334-4250  
FAX # (208)334-4398

WILLIAM W. DEAL  
Director

**WAIVER**

In the matter of the Report of Examination as of December 31, 2005, of:

**Delta Dental Plan of Idaho, Inc.  
555 East Parkcenter Blvd.  
Boise, Idaho 83706**

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 15<sup>th</sup> day of June 2007, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, the Company also hereby waives:

1. its right to examine the report for up to thirty (30) days as provided in Idaho Code section 41-227(4),
2. its right to make a written submission or rebuttal to the report prior to entry of a final order as provided in Idaho Code section 41-227(4) and (5),
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 20 day of June, 2007

**DELTA DENTAL PLAN OF IDAHO, INC.**

TAMARA C. Brandstetter  
Name (print)

Tamara C. Brandstetter  
Name (signature)

CEO & President  
Title