

**REPORT OF EXAMINATION**  
**OF THE**  
**CIGNA DENTAL HEALTH OF DELAWARE, INC.**  
**AS OF**  
**DECEMBER 31, 2011**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2011 of the

**CIGNA DENTAL HEALTH OF DELAWARE, INC.**

is a true and correct copy of the document filed with this Department.

Attest By: Brant Biddle

Date: April 10, 2013



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 10<sup>th</sup> day of April, 2013.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
CIGNA DENTAL HEALTH OF DELAWARE, INC.  
AS OF  
DECEMBER 31, 2011

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 10<sup>th</sup> day of April, 2013

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## SALUTATION

January 5, 2013

Honorable Karen Weldin Stewart  
Commissioner  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 12.034, dated September 20, 2012 an examination has been made of the affairs, financial condition and management of the

### **CIGNA DENTAL HEALTH OF DELAWARE, INC.**

hereinafter referred to as “Company”, incorporated under the laws of the State of Delaware as a dental plan organization with its administrative home office located at 1571 Sawgrass Corporate Parkway, Sunrise, Florida 33323.

The report of such examination is submitted herewith.

### **SCOPE OF EXAMINATION**

The last examination of the Company was conducted as of December 31, 2006. This examination covers the five (5) year period since that date through December 31, 2011, and consisted of a general survey of the Company’s business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This report is presented on an exception basis in accordance with determined financial materiality, and regulatory compliance. The format of this report is designed to explain the

results of procedures employed during the examination and is designed to set forth the facts with regard to any material adverse findings disclosed during the examination.

Due to the very small size of the Company, and in recognition of examination efficiency and related costs, as well as its nature and operations as a payment process legal entity for Cigna Dental Plans in Delaware only, the general procedures of the examination followed substantive tests of balances and a review of corporate and related records. This approach was consistent with the intent of the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook), generally accepted statutory insurance examination standards and consistent with the Insurance Laws and Regulations of the State of Delaware.

In addition to items hereinafter incorporated as a part of the written report, the following areas were checked and made part of the files of this examination:

Officers', Employees' and Agents' Welfare  
NAIC Ratios  
Legal Actions  
All Asset & Liability items not mentioned

#### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings or material adjustments to the Company's financial statements that warranted disclosure in this examination report.

#### **COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS**

A review was performed of appropriate balance sheet and forepart files to verify that corrective action had been taken with regard to prior examination report comments and recommendations.

Prior Exam Comment: It is recommended that the Company obtain additional fidelity bond coverage sufficient for the whole group of companies, as recommended in the NAIC Handbook.

Current Exam Finding: The Company has complied with this recommendation.

### **SUBSEQUENT EVENTS**

There were no material transactions occurring immediately subsequent to the examination period.

### **HISTORY**

The Company was incorporated on January 18, 1986 under the laws of Delaware, and commenced business September 19, 1986.

CIGNA Dental Health, Inc. has owned all outstanding stock of the Company since incorporation.

### **CAPITALIZATION**

#### **Common Capital Stock and Paid-in Surplus**

The Certificate of Incorporation provides that the authorized capital stock of the Company shall be 1,000 shares of \$1 par value common stock. All authorized shares of common capital stock are owned by Cigna Dental Health, Inc., resulting in total capital stock of \$1,000.

During the period under examination, the Company received the following capital contributions from its Parent:

Year	Contribution
2007	\$100,000
2010	\$300,000

As of December 31, 2011, the Company's Gross Paid-in and Contributed Surplus totaled \$487,053 and Policyholder Surplus totaled \$360,398. The difference is related to on-going net losses.

#### **Dividends**

There were no stockholder dividends paid during the examination period.

## MANAGEMENT AND CONTROL

### Stockholder

Article I, Section 1.1 of the Company's amended bylaws, states "An annual meeting of stockholders shall be held for the election of directors at such date, time and place, either within or without the State of Delaware, as may be designated by resolution of the Board of Directors (Board) from time to time. Any other proper business may be transacted at the annual meeting." Special meetings of the shareholders may be called at any time by the Chairman of the Board, Vice Chairman of the Board, the President, by a Vice President or by the Board.

### Board of Directors

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers are exercised by or under the direction of its Board. The bylaws provide that the number of directors is to be established by the Board or by action of the stockholder and consist of one or more members. Directors are elected annually and hold office until the first annual meeting of stockholders or until their successors have been elected and qualified. At all meetings of the Board, one-third of its members constitute a quorum for the transaction of business.

At December 31, 2011, the members of the Board were as follows:

Matthew Glenn Manders  
Julie Ann Vayer  
William John Smith

A review of the minutes of the sole shareholder for the five-year period under examination reflects that the Board was duly elected for each of the years. Names of directors were compared to the respective Annual Statement jurat pages without exception.

### Committees

Article III, Section 3.1 of the amended bylaws, states in part, "The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, each committee to consist of one or more of the directors of the corporation. The Board may designate one or more directors as alternate members of any committee, who may replace an absent or disqualified member at any meeting of the committee... Any such committee, to the extent provided in the resolution of the Board of Directors, shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the corporation..."

On December 23, 2009, the Board of the Company appointed the Audit Committee of Connecticut General Corporation to act as the Audit Committee of the Company for the purposes of complying with the NAIC Annual Financial Reporting Model Regulation.

### Officers

Article IV, Section 4.1 of the Company's amended bylaws provide that the officers of the Company are chosen by the Board, consisting of a President and Secretary, and it may, if it so determines, a Chairman of the Board from among its members and other officers with titles set by resolution of the Board. Any number of offices may be held by the same person.

At December 31, 2010, the Company's principal officers and their respective titles were as follows:

Matthew Glenn Manders	President
Shermona Sueann Mapp	Secretary
William John Smith	Vice President and Treasurer
Laurel Ann Flebotte	Vice President
Barry Richard McHale	Vice President and Assistant Treasurer
Julie Ann Vayer	Vice President
David Mathew Porcello	Vice President
Maureen Hardiman Ryan	Vice President and Assistant Treasurer
Scott Ronald Lambert	Vice President and Assistant Treasurer

In addition to the above officers, additional Vice Presidents, Assistant Vice Presidents and other assistant officers were also appointed.

Certificate of Incorporation and bylaws

The Company did not amend its Articles of Incorporation or bylaws during the exam period.

**HOLDING COMPANY SYSTEM**

As a dental plan organization organized under 18 Del. C. §38, the Company is not subject to the requirements of the Holding Company statute, 18 Del. C. §50. The Company is a directly owned subsidiary of CIGNA Dental Health, Inc. and an indirect, wholly-owned subsidiary of CIGNA Corporation.

The following abbreviated presentation of the holding company system reflects the identities and interrelationships between the Company, its Parent, affiliated insurers and other members of the holding company system as of December 31, 2011:

Cigna Dental Health of DE, Inc.

CIGNA Corporation (Delaware)

CIGNA Holdings, Inc.

CIGNA Investment Group, Inc.

Connecticut General Corporation

CIGNA Dental Health, Inc.

CIGNA Dental Health of California, Inc.

CIGNA Dental Health of Colorado, Inc.

**CIGNA Dental Health of Delaware, Inc.**

CIGNA Dental Health of Florida, Inc.

CIGNA Dental Health of Illinois, Inc.

CIGNA Dental Health of Kansas, Inc.

CIGNA Dental Health of Kentucky, Inc.

CIGNA Dental Health of Missouri, Inc.

CIGNA Dental Health of New Jersey, Inc.

CIGNA Dental Health of North Carolina, Inc.

CIGNA Dental Health of Ohio, Inc.

CIGNA Dental Health of Pennsylvania, Inc.

CIGNA Dental Health of Texas, Inc.

CIGNA Dental Health of Virginia, Inc.

CIGNA Dental Health of Plan of Arizona, Inc.

CIGNA Dental Health of Maryland, Inc.

CIGNA Health Corporation

Healthsource, Inc.

### **INTERCOMPANY AGREEMENTS**

The Company participated in agreements, as summarized below, with its affiliates. The agreements were submitted to the Delaware Department of Insurance except as noted below.

#### **Administrative Services Agreement**

This agreement, effective September 1, 1991, is between CIGNA Dental Health of Florida, Inc. (CDH/FL) and the Company. This agreement provides for CDH/FL to render administrative and management services including data processing, premium reconciliation, transfer of funds, financial services, marketing direction, plan administration services, and dental operations direction. Charges under this agreement are a fixed monthly fee per subscriber.

Federal Tax Allocation Agreement

This agreement is between CIGNA Corporation and each of its subsidiaries that are or become a party to the agreement, including the Company. This agreement provides for the combined group to file a consolidated income tax return and for the allocation of their consolidated tax liability with a final settlement each November after the tax return for the prior year has been filed. This agreement is an amended and restated agreement that was originally adopted effective as of April 1, 1982, as amended, including amendments effective as of January 1, 1997.

Investment Advisory Agreement

This agreement, effective September 15, 2009, is between CIGNA Investment Advisors, Inc. (the "Advisor") and the Company. This agreement provides for the Advisor, at its sole discretion (in accordance with applicable law and as provided in the General Investment Authorizations promulgated by CIGNA Corporation for itself and its subsidiaries), to make and carry out decisions with respect to: the acquisition, holding and disposition of securities in the Company's portfolio, as the Adviser deems appropriate in accordance with required guidelines defined within the agreement. The Adviser shall, within the limitations set forth in the agreement, have the exclusive right to manage the Portfolio and may use and rely upon such information and materials as it may deem pertinent (including seeking advice from its affiliates). The Adviser shall not be required to consult in advance with anyone except as required by applicable law. Payments for services provided are to be settled within ninety (90) days.

## **TERRITORY AND PLAN OF OPERATION**

### Territory

The Company is licensed and operates in the State of Delaware only.

### Plan of Operation

The Company is authorized to transact the business of a dental plan organization under 18 Del. C. §38 by a certificate of authority dated September 19, 1986.

## **GROWTH OF COMPANY**

The following information was obtained from the Company's filed Annual Statements:

	<u>Net Admitted Assets</u>	<u>Total Capital and Surplus</u>	<u>Total Revenues</u>	<u>Net Income/(Loss)</u>
2011	\$378,627	\$360,398	\$109,020	\$(46,030)
2010	429,383	406,463	93,173	(47,967)
2009	173,084	153,568	83,911	(48,320)
2008	215,809	204,945	73,568	(9,576)
2007	236,730	214,872	71,082	(51,052)

The Company's primary source of cash from operations is premiums received from members. As shown, the Company has experienced net losses from operations for all five (5) years under examination, totaling \$202,945. To offset these losses, the Company received capital contributions of \$100,000 and \$300,000, for the years 2007 and 2010, respectively. Premium revenue increased by 17% primarily due to membership increases of 19.8%, partially offset by rate decreases of 2.3%. Claims expense increased 15.8% and health reserves decreased 156.6%. The increase in claims is due to the increase in membership, partially offset by a decrease in dental care cost trends.

Membership and average premium per member is expected to remain consistent in 2012 compared to 2011; rate increases will be offset by changes in the benefit plan design mix. The relationship between revenue and expenses is also expected to remain consistent in 2012.

During 2012, management's priorities will continue to include customer retention and meeting the changing demands of the market.

### **LOSS EXPERIENCE**

Reserves and contract claims as of December 31, 2010 and December 31, 2011 were as follows:

	<u>Claims Unpaid</u>	<u>Unpaid Claims Adjustment Expense</u>	<u>Aggregate Health Policy Reserves</u>
December 31, 2010	\$7,171	\$208	\$11,890
December 31, 2011	<u>7,769</u>	<u>220</u>	<u>9,357</u>
Increase (Decrease)	<u>\$ 598</u>	<u>\$ 12</u>	<u>\$(2,533)</u>

The increase of reserves is generally a result of ongoing analysis of recent loss development trends and strengthening of reserves. Original estimates are increased or decreased as additional information becomes known regarding individual claims. No significant increase or decrease was noted for dental business.

### **REINSURANCE**

The Company neither ceded nor assumed reinsurance.

### **FIDELITY BOND**

The Company is covered under a standard financial institution bond covering the CIGNA Corporation. A review of bond coverage for all years under examination noted that it was sufficient as suggested by the NAIC.

### **ACCOUNTS AND RECORDS**

#### **Accounting Information**

During the examination the Company's books and records were reviewed and compared to reported items and values in the Annual Statements. A trial balance for the final year under review was obtained and traced to the Company's Annual Statement.

Independent Accountants

The company does not meet the minimum CPA requirements, as such; the Delaware Insurance Department has allowed the company to file a consolidated GAAP audited statement. The Company's financial statements are consolidated with Cigna Dental Health, Inc. and other subsidiaries, and were audited each year by the firm of PricewaterhouseCoopers or "PwC", of Hartford, CT. The examiner reviewed the consolidated financial statements for all years under examination. For all years under review, PwC issued an unqualified opinion.

Actuarial Opinion

The Company's loss reserves and related actuarial items were reviewed by Rodney Alan Hill, FSA, who issued a statement of actuarial opinion based on the financial information presented by the Company. The opinion stated that the reserves and related actuarial values carried on the balance sheet were fairly stated and met the requirements of the insurance laws of the state of Delaware.

## **FINANCIAL STATEMENTS**

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2011, along with supporting exhibits as detailed below:

- Assets
- Liabilities, Capital and Surplus
- Statement of Revenue and Expenses
- Capital and Surplus Account
- Reconciliation of Capital and Surplus for the Examination Period
- Schedule of Examination Adjustments

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding. The narratives on the individual accounts, with the exception of the reserve related balances, are presented on the “exception basis” in the Notes to the Financial Statements section of this report.

**Assets**  
**As of December 31, 2011**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Cash, cash equivalents and short-term investments	\$342,310		\$342,310
Premiums and considerations			
Uncollected premiums and agents' balances in course of collection	10,101	35	10,066
Current federal and foreign income tax recoverable and interest thereon	26,204		26,204
Net deferred tax asset	3,353	3,353	-
Aggregate write-ins for other than invested assets	<u>47</u>		<u>47</u>
Total assets excluding Separate Accounts	<u>\$ 382,015</u>	<u>\$ 3,388</u>	<u>\$ 378,627</u>
From Separate Accounts		-	-
Total	<u><u>\$ 382,015</u></u>	<u><u>\$ 3,388</u></u>	<u><u>\$ 378,627</u></u>

**Liabilities, Capital and Surplus  
As of December 31, 2011**

<u>Liabilities, Surplus and Other Funds</u>		<u>Notes</u>
Claims unpaid	\$ 7,769	1
Unpaid claims adjustment expenses	220	2
Aggregate health policy reserves	9,357	3
Premiums received in advance	266	
General expenses due or accrued	144	
Remittances and items not allocated	186	
Amounts due to parents, subsidiaries and affiliates	287	
Total Liabilities	<u>\$ 18,229</u>	
Common capital stock	\$ 1,000	
Gross paid-in and contributed surplus	497,053	
Unassigned funds	<u>(137,655)</u>	
Total capital and surplus	<u>360,398</u>	
Total Liabilities, Capital and Surplus	<u><u>\$ 378,627</u></u>	

**Statement of Revenues**  
**As of December 31, 2011**

Member Months		6,123
Net premium income	\$	109,020
Total revenues	\$	<u>109,020</u>
 <b>Hospital and Medical:</b>		
Other professional services	\$	166,760
Outside referrals		6,961
Subtotal	\$	<u>173,721</u>
 <b>Less:</b>		
Total hospital and medical	\$	173,721
Claims adjustment expense		190
General administrative expenses		9,971
Increase in reserves for life and accident and health contracts		(2,533)
Total underwriting deductions	\$	<u>181,349</u>
Net underwriting gain or (loss)	\$	<u>(72,329)</u>
Net investment income earned		83
Net realized capital gains (losses) less capital gains tax		8
Net investmnt gain (losses)	\$	<u>91</u>
Net income or (loss) after capital gains tax and before all other federal income taxes	\$	(72,238)
Federal and foreign income taxes incurred		(26,208)
Net Income	\$	<u><u>(46,030)</u></u>

**Capital and Surplus Account  
As of December 31, 2011**

Capital and surplus prior reporting year	\$	406,463
Net income or (loss)		(46,030)
Change in net deferred income tax		(909)
Change in nonadmitted assets		874
Net change in capital and surplus for the year	\$	(46,065)
Capital and surplus, December 31, current year	\$	360,398

**SCHEDULE OF EXAMINATION ADJUSTMENTS**

There were no financial adjustments to the Company's balance sheet accounts as a result of this examination.

**NOTES TO FINANCIAL STATEMENTS**

(1) <u>Claims unpaid</u>	\$7,769
(2) <u>Unpaid claims adjustment expenses</u>	\$ 220
(3) <u>Aggregate health policy reserves</u>	\$9,357

The above-captioned amounts, which are the same as that reported by the Company in its Annual Statement, have been accepted for purposes of this Report of Examination.

**SUMMARY OF RECOMMENDATIONS**

There were no recommendations to the Company's financial statements that warranted disclosure in this examination report.

**CONCLUSION**

The following schedule shows a comparison of the results from the December 31, 2011 examination to the 2006 Annual Statement balances, with changes between:

<b><u>Description</u></b>	<b><u>December 31, 2006</u></b>	<b><u>December 31, 2011</u></b>	<b><u>Increase (Decrease)</u></b>
Assets	<u>\$171,497</u>	<u>\$378,627</u>	<u>\$207,130</u>
Liabilities	\$4,948	\$18,229	\$13,281
Common capital stock	1,000	1,000	0
Gross paid in and contributed surplus	97,053	497,053	400,000
Unassigned funds (surplus)	<u>68,496</u>	<u>(137,655)</u>	<u>(206,151)</u>
Total Capital and Surplus	<u>166,549</u>	<u>360,398</u>	<u>193,849</u>
Total Liabilities, Capital and Surplus	<u>\$171,497</u>	<u>\$378,627</u>	<u>\$207,130</u>

Respectfully submitted,



Keith E. Misenheimer, CFE, ALMI, CFE  
Examiner-In-Charge  
State of Delaware