

**Examination Report
of
Cigna Dental Health of Virginia, Inc.
Sunrise, Florida
as of
December 31, 2017**

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Cigna Dental Health of Virginia, Inc. as of December 31, 2017, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 17th day of September 2018

A handwritten signature in black ink, appearing to read 'Scott A. White', written over a horizontal line.

Scott A. White
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
July 17, 2018

Honorable Scott A. White
Commissioner of Insurance
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by the authority of Section 38.2-4315 of the Code of Virginia, an examination of the records and affairs of

CIGNA DENTAL HEALTH OF VIRGINIA, INC.

Sunrise, Florida

hereinafter referred to as the Corporation, has been completed. The report thereon is submitted for your consideration.

SCOPE OF THE EXAMINATION

The last examination of the Corporation was made by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2012. This examination covers the five year period from January 1, 2013 through December 31, 2017.

This examination was conducted in accordance with the NAIC Financial Condition Examiners' Handbook (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Corporation's financial condition, assess corporate governance, identify current and prospective risks of the Corporation 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 Corporation 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.

The examination report includes significant findings of fact 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 Corporation.

HISTORY

The Corporation was incorporated in the Commonwealth of Virginia effective July 29, 1999. According to its Articles of Incorporation, the purpose for which the Corporation was organized is as follows:

...To establish and operate a limited health care services health maintenance organization, and to engage in any other lawful business for which corporations may be organized under the Virginia Stock Corporation Act.

The Corporation became licensed in Virginia as a health maintenance organization ("HMO") offering limited health care services pursuant to Chapter 43 of Title 38.2 of the Code of Virginia on June 26, 2000.

CAPITAL AND SURPLUS

At December 31, 2017, the Corporation's Capital and surplus was \$2,654,985. According to the Articles of Incorporation, the Corporation has the authority to issue 1,000 shares of common capital stock with a par value of \$1.00 per share. At December 31, 2017, 1,000 shares of common capital stock were issued and outstanding, with Gross paid in and contributed surplus of \$1,005,000, Aggregate write-ins for special surplus funds of \$115,292, and Unassigned funds of \$1,533,693.

CAPITAL AND SURPLUS REQUIREMENT

Section 38.2-4302 of the Code of Virginia states that an HMO licensed in Virginia shall maintain a minimum net worth in an amount at least equal to the sum of uncovered expenses, but not less than \$600,000, up to a maximum of \$4,000,000. 14 VAC 5-210-60 A requires that an HMO report the sum of its uncovered expenses for each three-month period ending December 31, March 31, June 30 or September 30. Because the sum of the Corporation's uncovered expenses for the three-month period ending December 31, 2017 was \$214,982, the Corporation's minimum net worth requirement at December 31, 2017 was \$600,000.

MANAGEMENT AND CONTROL

The Corporation's bylaws provide that the Board of Directors (the "Board") shall be responsible for the management of the business of the Corporation. The number of directors shall be one or more. The directors shall be elected at the annual meeting of the stockholders and each director elected shall serve until the next succeeding annual meeting of the stockholders and until his successor shall have been elected and qualified.

The officers of the Corporation shall consist of a President and a Secretary. The Board may also choose a Chairman of the Board, one or more Vice Presidents, one or more Assistant Secretaries, a Treasurer and one or more Assistant Treasurers if such officers are deemed necessary. The officers shall hold office until the first meeting of the Board after the annual meeting of shareholders next succeeding his election, and until his successor is elected and qualified.

At December 31, 2017, the Board of Directors and Officers were as follows:

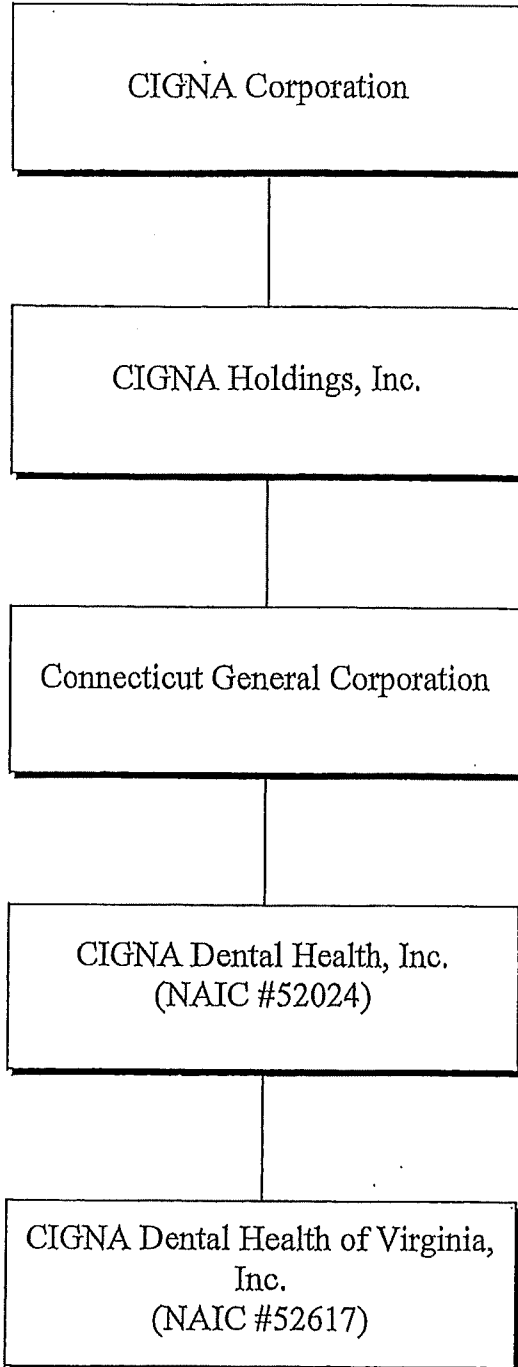
<u>Directors</u>	<u>Principal Occupation</u>
Frederick E. Scardellette	President, Chairman of the Board CIGNA Dental Health, Inc. Philadelphia, PA
Jason D. Meade	Financial Analysis Director CIGNA Dental Health, Inc. Hartford, CT
Julie A. Vayer	Vice President CIGNA Dental Health, Inc. Sunrise, FL

Officers

Frederick E. Scardellette	President
Anna Krishtul	Secretary
Scott R. Lambert	Treasurer

AFFILIATED COMPANIES

According to its Articles of Incorporation, the Corporation has the authority to issue 1,000 shares of common capital stock with a par value of \$1.00 per share. At December 31, 2017, the 1,000 outstanding shares of common stock were owned by CIGNA Dental Health, Inc. ("CDH"). The chart on the following page illustrates the organizational structure of the Corporation and selected affiliated entities at December 31, 2017.



TRANSACTIONS WITH AFFILIATES

Administrative Services Agreement

Effective December 31, 2007, the Corporation entered into an amended Administrative Services Agreement with CIGNA Dental Health of Florida, Inc. ("CDHF"). Under the terms of the agreement, CDHF shall provide the Corporation with all necessary administrative and management services in connection with the Corporation's operations. These services shall include data processing, premium reconciliation, fund transfers, financial services, marketing direction, local sales monitoring, and quality management activity monitoring. In return for providing the services, the Corporation shall pay CDHF a monthly fixed fee per member based on the coverage chosen by the member. The Corporation incurred fees related to this agreement equaling \$648,384 in 2013, \$607,935 in 2014, \$582,233 in 2015, \$589,866 in 2016 and \$638,107 in 2017.

Consolidated Federal Income Tax Agreement

Effective July 29, 1999, the Corporation became a party to a Consolidated Federal Income Tax Agreement with and among CIGNA Corporation and its subsidiaries. In accordance with the agreement, CIGNA Corporation will either be paid the amount of the federal income tax liability or pay the amount of the federal income tax refund for all of the subsidiaries included in the consolidated federal income tax return. The federal income tax liability or refund is computed as if each subsidiary were filing a separate income tax return. However, tax benefits arising from a subsidiary's tax credits or net operating losses are only paid to the subsidiary to the extent that such losses or credits are utilized in the reduction of the consolidated federal income tax liability.

Insolvency Guarantee

Effective June 1, 2000, the Corporation entered into an insolvency guarantee with CDH. Under the terms of the insolvency guarantee, CDH guarantees the performance of the Corporation's contractual obligations in the event of the Corporation's insolvency. The guarantee of performance is limited to: (1) continuation of benefits to members for the duration of the contract period for which payment has been made by or on behalf of such members; and (2) payment to providers for services rendered prior to the date of solvency. Under no circumstances shall the insolvency guarantee be construed to be a guarantee of payment of the general obligations of the Corporation. CDH's obligation under the insolvency guarantee shall not exceed \$1 million. The insolvency guarantee is to remain in full force and effect until not less than 60 days' written notice of termination is given by CDH to both the Corporation and the Bureau.

Investment Advisory Agreement

Effective September 17, 2009, the Corporation entered into an Investment Advisory Agreement with CIGNA Investments, Inc. ("CII"). Under terms of the agreement, CII shall make and carry out decisions with respect to the acquisition, holding and disposition of securities, real estate or any other asset of the Corporation's portfolio subject to investment goals and limitations set by the Corporation. As compensation for investment advisory services, the Corporation shall pay CII a fee based upon its proportionate share of the costs and expenses incurred by CII. The Corporation's proportionate share of costs and expenses is based on the Corporation's proportionate share of assets under CII's management as of the last day of the immediately preceding quarter. The Corporation incurred fees related to this agreement equaling \$1,252 in 2013, \$1,128 in 2014, \$1,558 in 2015, \$919 in 2016, and \$2,973 in 2017.

Dividends to Stockholders

The Corporation paid the following cash dividends to CDH during the five-year period under review, January 1, 2013 to December 31, 2017:

<u>Dividend Type</u>	<u>Amount</u>	<u>Dividend Request Date</u>	<u>Bureau Approval Date</u>	<u>Date Paid to CDH</u>
Extraordinary	\$900,000	06/18/13	07/02/13	07/24/13
Extraordinary	300,000	11/27/13	12/11/13	12/31/13
Extraordinary	900,000	08/20/14	09/16/14	09/19/14
Extraordinary	650,000	11/24/14	12/08/14	12/31/14
Extraordinary	850,000	07/10/15	07/30/15	08/13/15
Extraordinary	450,000	11/18/15	12/16/15	12/21/15
Extraordinary	1,000,000	07/29/16	08/08/16	08/12/16
Extraordinary	1,100,000	10/11/17	10/19/17	11/02/17

TERRITORY AND PLAN OF OPERATION

At December 31, 2017, the Corporation's service area, as reported in its 2017 Annual Statement, included the entire state of Virginia.

Services are provided by dentists in independent practice within the Corporation's service area. Each member must choose a participating general dentist from a list of the Corporation's primary dental providers. Members are referred to specialists by the primary dental provider.

PROVIDER AGREEMENTS

The Corporation has entered into agreements with numerous participating general dentists and specialists to provide dental services to members. Participating general dentists are paid a monthly capitation fee based on the number of members enrolled with the participating general dentist and the type of product chosen by the member. Specialists are compensated according to published fee schedules for services performed. At December 31, 2017, the Corporation had agreements with the following specialists: endodontists, oral surgeons, orthodontists, pediatric dentists, and periodontists.

CONTRACT FORMS

Contracts are available on a group basis. Basic contract services include office visits, oral examinations and diagnosis, complete series x-rays, certain treatments and routine teeth cleaning. Exclusions include treatment received from a non-participating dentist or specialist without the prior approval of the Corporation, cosmetic dental surgery, prescription drugs, or services considered to be experimental in nature. The above are abbreviated descriptions of coverages and exclusions and the provisions in each individual group contract may vary.

GROWTH OF THE CORPORATION

The following data is representative of the growth of the Corporation, at year-end, for the ten-year period ending December 31, 2017. The data is compiled from the Corporation's filed Annual Statements, the previous examination report, and the current examination report.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital And Surplus</u>
2008	\$1,962,895	\$323,448	\$1,639,447
2009	2,238,812	407,200	1,831,612
2010	2,439,218	227,551	2,211,667
2011	1,842,178	192,823	1,649,355
2012	2,116,160	246,118	1,870,042
2013	2,209,475	161,375	2,048,100
2014	2,034,640	230,974	1,803,666
2015	2,025,084	202,420	1,822,664
2016	2,470,955	187,590	2,283,365
2017	2,852,672	197,687	2,654,985

<u>Year</u>	<u>Total Revenue</u>	<u>Net Investment Gains</u>	<u>Medical & Hospital Expenses</u>	<u>Administrative Expenses</u>	<u>Pre-Tax Income (Loss)</u>
2008	\$6,700,524	\$41,058	\$4,472,726	\$948,039	\$1,320,817
2009	6,546,732	18,832	4,311,463	915,288	1,338,813
2010	6,502,738	10,073	4,007,771	798,451	1,706,589
2011	6,175,988	5,814	3,662,874	768,640	1,750,288
2012	6,322,564	5,135	3,525,668	764,463	2,037,568
2013	6,013,616	1,178	3,140,950	755,189	2,118,655
2014	5,744,165	2,891	2,891,243	807,360	2,048,453
2015	5,552,507	7,420	2,715,221	740,172	2,104,534
2016	5,739,382	10,868	2,715,742	757,673	2,276,835
2017	5,920,362	21,489	2,987,088	689,372	2,265,391

The Corporation's enrollment data at year-end is illustrated as follows:

<u>Year</u>	<u>Number of Members</u>
2008	37,683
2009	34,810
2010	33,199
2011	31,923
2012	31,160
2013	29,162
2014	26,361
2015	25,740
2016	26,216
2017	28,257

SPECIAL RESERVES AND DEPOSITS

At December 31, 2017, the Bureau required the Corporation to maintain a minimum deposit of \$400,000 with the Treasurer of Virginia.

FINANCIAL STATEMENTS

The following financial statements present the financial condition of the Corporation for the period ending December 31, 2017. No examination adjustments were made to the statutory financial statements filed by the Corporation with the Bureau for the period ending December 31, 2017.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$426,891		\$426,891
Cash and short-term investments	<u>1,897,827</u>		<u>1,897,827</u>
Subtotals, cash and invested assets	\$2,324,718	\$0	\$2,324,718
Investment income due and accrued	2,307		2,307
Uncollected premiums	505,868	638	505,230
Current federal and foreign income tax recoverable and interest thereon	7,170		7,170
Net deferred tax asset	1,274		1,274
Receivables from parent, subsidiaries, and affiliates	5,943		5,943
Aggregate write-ins for other than invested assets	<u>6,030</u>		<u>6,030</u>
Total assets	<u><u>\$2,853,310</u></u>	<u><u>\$638</u></u>	<u><u>\$2,852,672</u></u>

LIABILITIES, CAPITAL AND SURPLUS

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$154,166	\$10,875	\$165,041
Unpaid claims adjustment expenses	1,969		1,969
Premiums received in advance	20,076		20,076
General expenses due or accrued	9,116		9,116
Remittances and items not allocated	<u>1,485</u>		<u>1,485</u>
Total liabilities	<u>\$186,812</u>	<u>\$10,875</u>	<u>\$197,687</u>
Aggregate write-ins for special surplus funds			\$115,292
Common capital stock			1,000
Gross paid in and contributed surplus			1,005,000
Unassigned funds (surplus)			<u>1,533,693</u>
Total capital and surplus			<u>\$2,654,985</u>
Total liabilities, capital and surplus			<u><u>\$2,852,672</u></u>

STATEMENT OF REVENUE AND EXPENSES

	<u>Uncovered</u>	<u>Total</u>
Net premium income	XXX	\$5,920,362
Total revenues	XXX	\$5,920,362
Hospital and Medical:		
Other professional services	\$211	\$2,851,726
Outside referrals	135,362	135,362
Total hospital and medical	\$135,573	\$2,987,088
Claims adjustment expenses	12,098	12,098
General administrative expenses	678,050	678,050
Total underwriting deductions	\$825,721	\$3,677,236
Net underwriting gain	XXX	\$2,243,126
Net investment income earned	XXX	\$21,505
Net realized capital losses	XXX	(16)
Net investment gains	XXX	\$21,489
Net gain from agent's premium balance charged off	XXX	\$776
Net income before federal income taxes	XXX	\$2,265,391
Federal income taxes incurred	XXX	792,837
Net income	XXX	\$1,472,554

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Capital and surplus prior reporting year	<u>\$1,870,042</u>	<u>\$2,048,100</u>	<u>\$1,803,666</u>	<u>\$1,822,664</u>	<u>\$2,283,365</u>
GAINS AND LOSSES TO CAPITAL AND SURPLUS:					
Net income	\$1,377,719	\$1,303,061	\$1,333,720	\$1,445,549	\$1,472,554
Change in net deferred income tax	(1,069)	(1,612)	8,772	(8,168)	(934)
Change in nonadmitted assets	1,408	4,117	(23,494)	23,320	0
Dividends to stockholders	<u>(1,200,000)</u>	<u>(1,550,000)</u>	<u>(1,300,000)</u>	<u>(1,000,000)</u>	<u>(1,100,000)</u>
Net change in capital and surplus	<u>\$178,058</u>	<u>(\$244,434)</u>	<u>\$18,998</u>	<u>\$460,701</u>	<u>\$371,620</u>
Capital and surplus end of reporting year	<u><u>\$2,048,100</u></u>	<u><u>\$1,803,666</u></u>	<u><u>\$1,822,664</u></u>	<u><u>\$2,283,365</u></u>	<u><u>\$2,654,985</u></u>

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$5,905,236
Net investment income	21,988
Total	<u>\$5,927,224</u>
Benefit and loss related payments	\$2,975,636
Commissions, expenses paid and aggregate write-ins for deductions	680,047
Federal income taxes paid	777,286
Total	<u>\$4,432,969</u>
Net cash from operations	<u>\$1,494,255</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:	
Net losses on cash, cash equivalents and short-term investments	<u>(\$24)</u>
Total investment proceeds	<u>(\$24)</u>
Net cash from investments	<u>(\$24)</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Dividends to stockholders	(\$1,100,000)
Other cash applied	<u>(10,043)</u>
Net cash from financing and miscellaneous sources	<u>(\$1,110,043)</u>

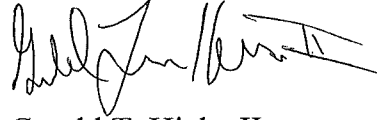
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	\$384,188
Cash and short-term investments:	
Beginning of the year	<u>1,513,639</u>
End of the year	<u>\$1,897,827</u>

ACKNOWLEDGEMENT

The courteous cooperation extended by the Corporation's officers and employees during the course of the examination is gratefully acknowledged. In addition to the undersigned, Ben MacKercher participated in the work of the examination.

Respectfully submitted,



Gerald T. Hicks II
Insurance Examiner



August 30, 2018

Mr. David Smith
Common Wealth of Virginia
State Corporation Commission
Bureau of Insurance
1300 East Main Street, 6th Floor
Richmond, VA 23219

**RE: Cigna Dental Health of Virginia, Inc.
Examination Report as of December 31, 2017**

Dear Mr. Smith:

Thank you for your letter dated August 15, 2018 regarding the Draft Financial Examination Report for Cigna Dental Health of Virginia, Inc. as of December 31, 2017. We have reviewed the report and have no objections to its content. Therefore, we accept the information contained in the Financial Examination Report for Cigna Dental Health of Virginia, Inc. as of December 31, 2017.

Sincerely,

A handwritten signature in cursive script that reads "Frederick E. Scardelletto".

Mr. Frederick E. Scardelletto, President