

REPORT ON EXAMINATION AS TO THE CONDITION OF

DELTA DENTAL OF NEW JERSEY, INC.

PARSIPPANY, NEW JERSEY

AS OF DECEMBER 31, 2021

NAIC GROUP CODE 02918

NAIC COMPANY CODE 55085

FILED

June 2, 2023

COMMISSIONER

NEW JERSEY DEPARTMENT

OF

BANKING AN INSURANCE

Table of Contents

Page

SALUTATION.....1
SCOPE OF EXAMINATION.....2
HISTORY.....3
TERRITORY AND PLAN OF OPERATIONS.....4
MANAGEMENT AND CONTROL5
REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS9
INTER-COMPANY AGREEMENTS / RELATED PARTY TRANSACTIONS.....10
POLICY ON CONFLICT OF INTEREST12
CONTINUITY OF OPERATIONS12
FIDELITY BOND AND OTHER INSURANCE COVERAGE.....13
ADVERTISING AND SALES MATERIAL13
ACCOUNTS AND RECORDS.....13
TREATMENT OF SUBSCRIBERS15
FINANCIAL STATEMENT EXHIBITS16
 STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS AT DECEMBER 31, 202117
 SUMMARY OF REVENUE AND EXPENSES FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 202118
 CAPITAL AND SURPLUS ACCOUNT FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 202119
NOTES TO THE FINANCIAL STATEMENTS.....20
 NOTE 1 – BONDS.....20
 NOTE 2 – CLAIMS UNPAID AND UNPAID CLAIMS ADJUSTMENT EXPENSES20
 NOTE 3 – CONTINGENCY RESERVES AND UNASSIGNED FUNDS20
SUBSEQUENT EVENTS21
CONCLUSION22
AFFIDAVIT.....23



State of New Jersey

DEPARTMENT OF BANKING AND INSURANCE
DIVISION OF INSURANCE
OFFICE OF SOLVENCY REGULATION

PO Box 325
TRENTON, NJ 08625-0325

TEL (609) 292-5350
FAX (609) 292-6765

PHIL MURPHY
Governor

MARLENE CARIDE
Commissioner

SHEILA OLIVER
Lt. Governor

May 19, 2023

Honorable Marlene Caride
Commissioner of Banking and Insurance
State of New Jersey
20 West State Street
Trenton, New Jersey 08625

Commissioner:

In compliance with your instructions and pursuant to the Revised Statutes of the State of New Jersey, an examination has been made of the financial condition and affairs of:

DELTA DENTAL OF NEW JERSEY, INC.
PARSIPPANY, NEW JERSEY
AS OF DECEMBER 31, 2021
NAIC GROUP CODE 02918
NAIC COMPANY CODE 55085

a domestic Dental Service Corporation authorized to transact the business of insurance in the State of New Jersey pursuant to N.J.S.A. 17:48C-1. Hereinafter, Delta Dental of New Jersey, Inc. will be referred to in this report as "the Company" or "DDNJ".

SCOPE OF EXAMINATION

This risk-focused examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by N.J.S.A. 17:23-22.

The New Jersey Department of Banking and Insurance, hereinafter referred to as the “NJDOBI” or “We”, led a full scope coordinated multi-state risk-focused examination with the Connecticut Insurance Department participating. This examination covers the period of January 1, 2017, through December 31, 2021, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. The principal portion of the examination was conducted via a hybrid approach, both offsite and at the Company’s statutory home office in Parsippany, New Jersey.

During the five-year exam period, the Company’s assets increased by \$26,804,245 from \$267,603,225 to \$294,407,470; liabilities increased by \$16,445,500 from \$45,555,388 to \$62,000,888 and total surplus increased by \$10,358,745 from \$222,047,837 to \$232,406,582.

The examination was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (“NAIC”) Financial Condition (E) Committee and prescribed by the current NAIC Financial Condition Examiners Handbook (“the Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This 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 Company.

The Certified Public Accounting (“CPA”) firm of WithumSmith+Brown, PC (“Withum”) provided an unqualified audit opinion on the fair presentation of the Company’s year-end financial statements based on Statutory Accounting Principles for the reporting year periods ending December 31, 2017 – December 31, 2021. Relevant work performed by Withum during its annual audit of the Company was reviewed during the examination and incorporated into the examination work papers whenever feasible to facilitate efficiencies. Certain Withum work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

HISTORY

The Company filed for incorporation on June 30, 1969, under and pursuant to Title 15 of the Revised Statutes of New Jersey. The Certificate of Incorporation was approved by and filed with the New Jersey Department of Insurance on July 8, 1969. On this date, the Company was officially incorporated as a 501(c) (4) not-for-profit dental service plan under the name New Jersey Dental Service Plan, Inc. On May 13, 1970, the Company commenced official business operations.

On January 14, 1986, the New Jersey Dental Service Plan, Inc. filed a Certificate of Amendment to its Certificate of Incorporation to effect a name change to Delta Dental Plan of New Jersey, Inc., which was recorded in the Office of the Secretary of State and filed with the New Jersey Insurance Department on January 23, 1986.

The New Jersey Dental Service Plan, Inc. was issued a certificate of authority by the Commissioner of Insurance of the State of New Jersey on May 13, 1970. This certificate authorized the Company to maintain and operate a nonprofit dental service plan or plans in the public interest and to enter into contracts with subscribers and with licensed dentists for the provision of dental services in accordance with the requirements of Chapter 305 of the Laws of 1968. The original certificate of authority was amended on January 23, 1986, to properly reflect the change in Plan name from the “New Jersey Dental Service Plan, Inc.” to “Delta Dental Plan of New Jersey, Inc.”

During 1985, a subsidiary corporation known as Flagship Health Systems, Inc. (“FHS”) was formed for the purpose of marketing and administering prepaid dental capitation plans, as a dental plan organization under N.J.S.A. 17:48D-1. FHS filed its application with The New Jersey Department of Insurance for a certificate of authority on December 20, 1985, and it was approved by the Insurance Commissioner and issued on June 6, 1986.

DDNJ also controls another organization, Delta Dental of New Jersey Foundation, Inc. (“Foundation”). In 1986, DDNJ formed Foundation under the name, “Delta Dental Endowment Association” under N.J.S.A. 15A:1-1. (the New Jersey Nonprofit Corporation Act) for the purposes of establishing educational, research programs involving dental health care and to contribute to the competence and integrity of the dental profession. On December 31, 2021, the Foundation had assets of approximately \$2,258,000, and made grants and incurred administrative expenses of approximately \$1,226,000.

In March of 1994, Delta Dental Plan of New Jersey, Inc. issued an inter-company promissory note for \$500,000 and contributed through its downstream holding company, DDPNJ Corp. (“DDPNJ Corporation”), \$200,000 in cash to form and capitalize Dental Reinsurance Company, Ltd. (“Dental Re”), a Bermuda domiciled company. Dental Re was established to provide DDNJ with the facility to reinsure business written by Delta Dental Insurance Company, a life insurance company chartered in the State of Illinois. Dental Re commenced operations in December 1995. During 2020, Dental Re was fully liquidated and the balance of funds transferred to DDPNJ Corporation.

The Company's Certificate of Authority was amended again on December 3, 2004, to reflect the change in Company name from "Delta Dental Plan of New Jersey, Inc." to "Delta Dental of New Jersey, Inc."

In June 2010, DDNJ formed 1639 Real Estate, LLC, ("1639RE"), a wholly owned real estate limited liability company. On August 16, 2010, DDNJ invested \$18,290,000 in 1639RE and acquired the office building where DDNJ is currently headquartered and for which it currently rents approximately 52% of the total available building space. During 2021, DDNJ paid \$2,274,000 for rental payments, which are included as components of claims adjustment and general administrative expenses. On December 31, 2021, there was no amount due to or from 1639RE.

In September 2008, DDNJ made an initial investment of \$450,000 in Healthentic, Inc. (formerly Dental - Medical Analytics Corp.), ("Healthentic"), a medical/dental research venture for a 20% ownership interest. In 2009 through 2015, DDNJ invested an additional \$3,950,000 in Healthentic. The carrying value of the investment in Healthentic recorded on the equity basis was \$293,300 on December 31, 2021. There were no amounts due to/from Healthentic on December 31, 2021.

In December 2011, DDNJ invested \$2.0 million for the initial capitalization of Encara Corporation ("Encara"), a marketing venture in which DDNJ has a 25% interest. In 2013, DDNJ invested an additional \$100,000 in Encara. Encara, is incorporated in the state of Delaware, and was formed by DDNJ in cooperation with three (3) other Delta Dental organizations. The carrying value of the investment in Encara recorded on the equity basis was \$321,000 on December 31, 2021. On December 31, 2021, DDNJ had a balance due to Encara of \$258,000.

In September 2015 a shell entity, Delta Dental of Connecticut, Inc. ("DDCT"), was formed and was granted licensure to sell insured products in Connecticut effective July 1, 2016. In June 2016, DDNJ purchased 1,500 common shares (\$3,000,000) in its wholly owned subsidiary of DDPNJ Corporation. Simultaneously, DDPNJ Corporation capitalized DDCT through the purchase of 1,000 shares (\$3,000,000). DDCT is a dental insurance company that markets its business to groups on an insured basis. DDCT is a wholly owned subsidiary of DDPNJ Corporation, which is a wholly owned subsidiary of DDNJ.

The principal office of DDNJ is located at 1639 Route 10, Parsippany, New Jersey 07054. The agent in charge upon whom legal process may be served is Paul J. DiMaio, Esq., Senior Vice-President and General Counsel.

TERRITORY AND PLAN OF OPERATIONS

Delta Dental Plans Association, of which DDNJ is a member of, licenses the Delta Dental service mark, establishes standards, and provides certain services for the support of national accounts to its independent member companies. DDNJ focuses its attention on providing and servicing its products to encourage broad-based utilization of available dental services. While DDNJ provides dental services to groups of all sizes (fully insured and self-service), they will continue their focus on increasing their subscriber base with an emphasis on higher margin, fully insured business primarily through individual and small group coverage.

DDNJ is licensed and writes insured business in the State of New Jersey. Its written business is produced by internal sales representatives and independent insurance brokers who market and solicit groups to have DDNJ provide them with dental coverage.

DDCT, was formed in September of 2015 and in July 2016 was granted licensure to sell insured products in Connecticut. DDCT is a dental insurance company that markets its business to groups on an insured basis.

The Company's main administrative office, located in Parsippany, New Jersey, operates as a full service office. DDNJ's administrative, premium processing and claims handling functions are performed at this office. Additionally, the Company has one field sale office in Connecticut responsible for all sales and service (except customer service and claims processing activities) for all Connecticut business.

DDNJ uses Captiva, an Optical Character Recognition imaging and data extraction system from EMC for imaging and data capture of paper claims. Claims that fail the validity checks and/or have missing information are routed to specific queues (based on error type) in the Captiva system for data entry personnel at Delta Dental of Arkansas ("DDAR") to manually review and correct.

DDNJ has service agreements with two indirect wholly-owned subsidiaries, FHS and DDCT. DDNJ employs a multi-pronged marketing strategy aimed at generating new business and renewing existing accounts. This marketing approach allows DDNJ to respond to a changing marketplace in order to meet clients' needs, while at the same time allowing the Company to maintain its position as a specialty provider of dental coverage to the public. The products and features launched by DDNJ in the last several years such as Carryover Max, Oral Health Enhancement, and the Integrated Oral Health Option continue to generate interest in the market and support its ability to attract new and retain existing clients.

DDNJ operates as a tax-exempt organization, and as such, has filed the appropriate Form 990 Return of "Organization Exempt From Income Tax" with the Internal Revenue Service.

MANAGEMENT AND CONTROL

DDNJ Bylaws provide that the Board of Trustees shall have the general charge and management of the affairs, funds, and property of the Company. The Board of Trustees shall be comprised of at least 10 members, half of whom are dentists, duly licensed by the State of New Jersey and who are holders of active registration certificates in good standing. The remaining Board members are public members of the Company. Approximately one-third of the Board of Trustees is elected at each annual meeting. The members of the Board of Trustees each serve for a term of three years and until a successor is elected and each member shall be eligible to succeed himself.

An annual meeting of the Board of Trustees shall be held without further notice than by the Bylaws after the annual meeting of the members of the Company. The annual meeting of the members of the Company shall be held during the month of December at a day, hour, and place to be decided. Notice of the time and place of the annual meeting shall be sent to each member of the Company at least 10 days prior thereto.

Special meetings of the Board of Trustees may be called at any time by the Chairman of the Board or by at least 25% of the members of the Board. Notice of the time, place, and purpose of any special meeting of the Board of Trustees shall be sent by the President to each Trustee at least five days prior to the convening of said meeting.

The attendance of a majority of Trustees in office shall constitute a quorum for the transaction of business at any annual, regular, or special meeting of the Board of Trustees. The Board of Trustees location for all correspondence is the DDNJ home office, 1639 Route 10, Parsippany, New Jersey 07054.

On December 31, 2021, the following members were serving on the Board of Trustees:

| <u>Board of Trustees</u> | <u>Principal Occupation</u> |
|---------------------------------|--|
| Ronald I. Deblinger, D.M.D. | Retired Dentist Vice Chairman of the Board of DDNJ prior to 6/22/11 Chairman of the Board since 6/22/11 |
| Richard G. Bozza, Ed.D. | Executive Director, NJ Association of School Administrators Cenergistic (Energy Management Services (Marketing Consultant), AXA Advisors (financial investments) (Consultant) |
| William Faulkner | Retired Businessperson |
| Lisa Gallucci, D.M.D. | Dentist (self-employed) |
| Jorge Gracia | Chief Legal Officer at Pay Cargo LLC |
| Joseph P. Mazza, D.M.D. | Dentist (self-employed) Kearny Bank (Director) |
| George C. McLaughlin, D.M.D. | Retired Dentist (as of 12/2020) |
| Gene F. Napoliello, D.D.S. | Resigned 3/6/22; deceased 4/5/22 Retired Dentist prior to death |
| Jay H. Oyer | Retired Accountant (CPA) |
| Morton Reinhart | Reinhart Associates (consulting business - President) |
| Debra G. Salman, D.D.S. | Dentist (self-employed) |

The executive officers of the Company shall be elected annually by the Board of Trustees at the annual meeting of the Board. Vacancies may be filled, or new offices created and filled, at any

meeting of the Board of Trustees. Vacancies in any office may be filled by the Board of Trustees for the unexpired portion of the term. The elected officers of the Company serving on December 31, 2021, were as follows:

| <u>Officer</u> | <u>Title</u> |
|-----------------------|--|
| Dennis G. Wilson | President and CEO |
| Lori Acker | Senior VP Operational Transformation |
| Paul DiMaio | Chief Administrative Officer and General Counsel |
| Barry Petruzzi | VP, Underwriting and Actuarial |
| Jeff Furbish | VP, Chief Sales Officer |
| Michael Rodrigues | SVP, Chief Financial Officer and Treasurer |
| Vince Farinella | VP, Planning and Product Development |
| Keith Libou | VP and Chief Clinical Officer |
| Randy Stodard | VP, Chief Marketing Officer |
| Justin Lahullier | VP, Chief Information Officer |

The Company's Bylaws provide for an Executive, Audit, and Finance Committee as appointed and approved by the Board of Trustees. The members serving on these Committees on December 31, 2021, were as follows:

Executive Committee

Ronald Deblinger, DMD, Chairperson
George McLaughlin, DMD
William Faulkner
Gene Napoliello, DDS
Richard Bozza, Ed.D.

Audit Committee

Jay Oyer, Chairperson
Joseph Mazza, DMD
Debra Salman, DDS
George McLaughlin, DMD
Gene Napoliello, DDS

Finance Committee

Morton Reinhart, Chairperson
Ronald Deblinger, DMD
Jay Oyer
Lisa Gallucci, DMD
Debra Salman, DDS
Jorge Gracia
Joseph Mazza, DMD

The Executive Committee shall consist of the Chairman of the Board and four other members of the Board of Trustees, two being dental members and two being public members chosen annually

by the majority of the members of the Board. The Executive Committee "shall have and exercise the powers of the Board of Trustees when the Board is not in session, excepting such powers as may, by law or these Bylaws, be required to be exercised only by the Board of Trustees itself, and further excepting such powers as the Board may expressly reserve to itself."

The Finance Committee shall consist of the Chairman of the Board and at least four members of the Board of Trustees, chosen annually by the majority of the members of the Board. The Finance Committee shall have the following designated powers and responsibilities:

- Recommend to the Board of Trustees policies on investments.
- Carry out the investment policies adopted by the Board of Trustees.
- Recommend to the Board of Trustees for its approval one or more investment advisors to assist the Corporation.
- Make recommendations to the Board of Trustees for the development of the annual budget.
- Review periodically with management the financial operations of the Company.

The Audit Committee shall consist of five members of the Board of Trustees, none of whom shall have or be a member of the immediate family of an individual who has senior management responsibilities with the Company or have had management responsibilities with the Company during the five years immediately preceding his/her service on the Committee. This Committee shall be responsible for overseeing and monitoring the quality of the Company's financial and operating control practices. The Committee's designated powers and responsibilities shall include reviewing the Company's internal controls, internal audit function, significant legal matters, complete scope involving the external auditors, compliance with applicable regulations, statutes, or laws and review of management's monitoring of compliance with any code of corporate conduct adopted by the Company.

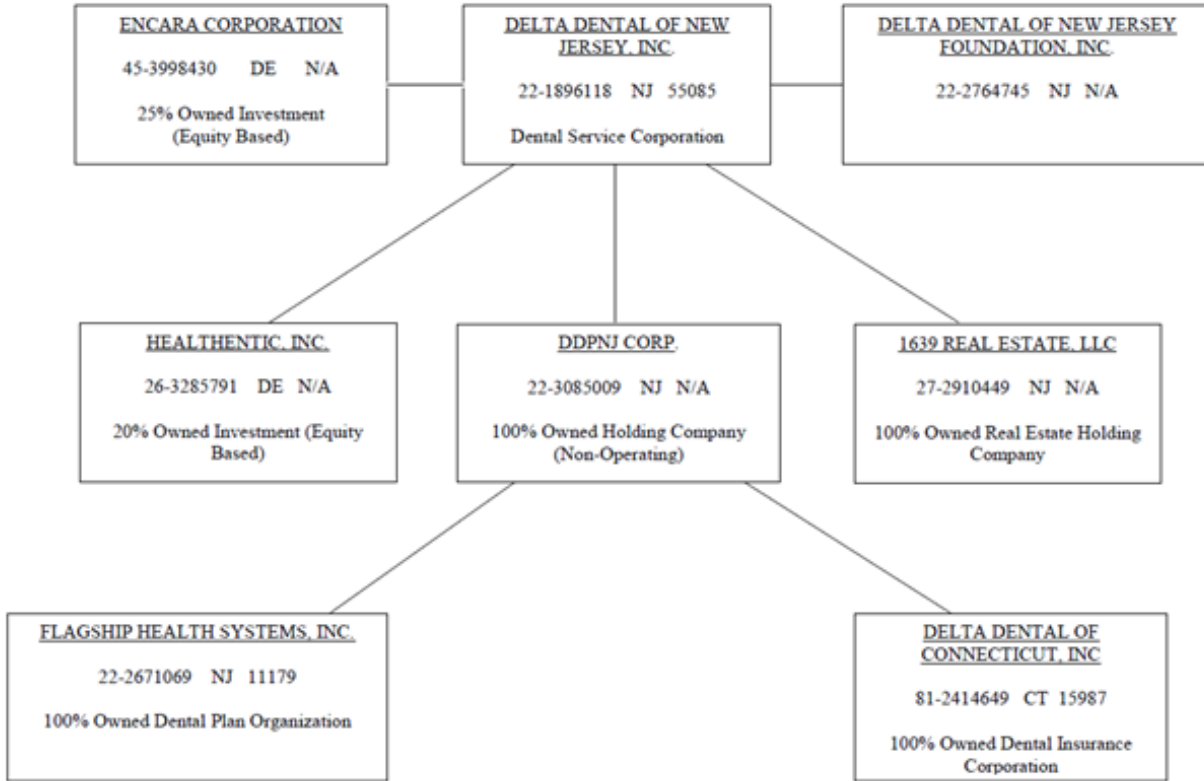
The Board of Trustees meetings and the Finance, Executive and Audit Committee meetings were all well attended during the examination period. A review of the minutes of these meetings indicated that investment transactions and other financial information were adequately supported and approved.

The Bylaws stipulate that the Chairman of the Board shall appoint such other committees as deemed necessary, with the approval of the Board of Trustees. In addition to the aforementioned committees, the Company also maintained other committees as listed below:

Dental Advisory Committee
Governance Committee
Human Resources Committee
Maximum Allowable Charge (MAC) Committee
Strategy Committee
Credentialing Committee (ad hoc)
1639 Real Estate Committee (ad hoc)

REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS

DDNJ, the ultimate parent, operates as a not-for-profit dental service corporation in the State of New Jersey. The Company's organizational structure makes it a member of an insurance holding company system as defined in N.J.S.A. 17:27A-1, and as such it has filed a holding company registration statement with the New Jersey Commissioner of Banking and Insurance in compliance with N.J.S.A. 17:27A-3. An organizational chart follows which illustrates the interrelationships of the companies within the holding company system as of December 31, 2021:



DDNJ wholly owns DDPNJ Corporation, a downstream holding corporation, which, in turn, is the 100% owner of FHS and DDCT.

FHS was formed in 1985 for the purpose of qualifying and operating as a dental plan organization under N.J.S.A. 17:48D-1. FHS's main business purpose is to market and administer prepaid dental capitation plans in the State of New Jersey. FHS's capitation business is substantially sold in conjunction with the offerings of DDNJ when clients desire a prepaid dental capitation option.

DDCT was formed in 2015, and was granted licensure to sell insured products in Connecticut effective July 1, 2016. DDCT is a dental insurance company that markets its business to groups and individuals on an insured basis. Effective January 1, 2021, DDCT also markets and sells insured vision plans in Connecticut and New Jersey.

The Foundation was formed in 1986 under N.J.S.A. 15A:1-1, "the New Jersey Nonprofit Corporation Act," for the purpose of promoting and assisting projects devoted to the enhancement of dental health research, education, and oral health. The Foundation serves as the Company's arm for charitable outreach to the general public, and specifically, to those segments of society within

New Jersey that are underserved for dental care. Originally, the Foundation was named the "Delta Dental Endowment Association," and later changed to "Delta Dental Plan of New Jersey Foundation, Inc." in October 2000. A change was effectuated again on February 9, 2005, following a resolution by the Board of Trustees, adopting the current name.

1639RE is a wholly owned real estate holding company formed in June 2010 to own and manage the building that the Company presently occupies as its home office. On the same date, 1639RE purchased the building where DDNJ is currently headquartered and for which it currently rents approximately 52% of the total available building space.

Encara was formed in December 2011 to act as a third-party which supports marketing, campaign execution, and product support for the Company's individual insurance products. The Company owns 25% interest in the entity, with the remaining equity owned by three other Delta Dental plans, Delta Dental of Wisconsin, Inc., Delta Dental of Virginia, and Washington Dental Services. The investment is accounted for under the equity method and had a carrying amount of \$320,593, which was disclosed in Schedule D-Part 2 of the 2021 Annual Statement.

Healthentic is a health informatics research company that began operations in September 2008 and is aimed at developing analytic products and tools that would meet the needs of benefit managers in controlling costs and establishing wellness initiatives as well as improve business practices in the administration of medical and dental insurance coverage plans for business, employers, and insurers. At year-end 2021, the Company owned a 20% interest, sharing with four other investors. These are Corvesta, Inc., Hawaii Dental Service, WDS Holdings LLC, and WYSSTA Investments, Inc. The investment is accounted for under the equity method and had a carrying amount of \$293,300 at year-end 2021, which was disclosed in Schedule D-Part 2 of the Annual Statement.

INTER-COMPANY AGREEMENTS / RELATED PARTY TRANSACTIONS

At December 31, 2021, the Company maintained various inter-company agreements with related parties. These agreements have been summarized as follows:

Inter-Company Service Agreement

On December 31, 2007, FHS entered into an inter-company service agreement with DDNJ. Under this agreement, DDNJ will provide FHS with all necessary facilities, equipment and supplies, personnel and services required to implement and maintain FHS's operations as a dental plan organization. Additionally, DDNJ shall make "payments of convenience" on behalf of FHS to third parties as requested by FHS in writing. These payments may include, but not be limited to, salaries, claims and other expenses. DDNJ shall account for such payments by charging the inter-company account of FHS for the amount of the payment. DDNJ shall not be entitled to any commission or fee for making such payments. The agreement continues indefinitely until either party terminates upon thirty days written notice.

On May 10, 2016 DDCT entered into an inter-company service agreement with DDNJ. The first amendment dated August 11, 2016 ratified with an effective date of July 1, 2016 (date of DDCT's licensure by Connecticut Insurance Department). The agreement continues indefinitely until either party terminates upon 30 days written notice.

Under the terms of the agreement, DDNJ provides DDCT with all necessary facilities, equipment and supplies, personnel and services required to implement and maintain DDCT's operations. Additionally, DDNJ shall make "payments of convenience" on behalf of DDCT to third parties as requested by DDCT in writing. These payments may include, but not be limited to salaries, claims and other expenses. DDNJ shall account for such payments by charging the intercompany account of DDCT for the amount of the payment. DDNJ shall not be entitled to any commission or fee for making such payments.

Contract for Specialty Dental Services

The Company and FHS entered into a contract for specialty dental services, effective December 31, 2007, whereby DDNJ will arrange for certain DDNJ-designated dentists to perform specialty dental services for enrollees of FHS's dental plans, and FHS will compensate DDNJ for specialty dental services performed by DDNJ-designated dentists out of the capitation premiums received by FHS. The specialty dentists who agree to provide these services will do so under the terms of the Schedule of Services and Co-payments attached to the contract as Exhibit A. FHS agrees that it will compensate DDNJ directly for all specialty services performed by DDNJ-designated dental specialists for enrollees of its dental plans according to the Premium Schedule attached to the Contract and labeled Exhibit B. The agreement continues indefinitely until either party terminates upon thirty days written notice.

Tax Payment Allocation Agreement

The agreement is made with reference to the original Tax Payment Allocation Agreement for taxable years beginning January 1, 2010 between DDPNJ Corporation and FHS and Dental Re (since dissolved in 2020).

The First Amendment to the Tax Payment Allocation Agreement was effective on November 14, 2016 with the formation of DDCT, a newly-formed, wholly-owned subsidiary of DDPNJ Corporation, DDCT becomes an additional member of the affiliated group, as that term is defined in Section 1504 of the Internal Revenue Code of 1986.

This agreement confers upon the Company the responsibility of preparing and filing an annual consolidated federal income tax return on behalf of the respective members of the Group for all taxable years. DDNJ agrees not to charge members a greater portion of consolidated tax liability that would have been paid by the member if it had filed a separate return. The Company additionally agrees to reimburse each member for any tax benefit arising out of the use by the Company of any of the member's investment credits, foreign tax credits, net operating losses and capital losses to the extent used in the consolidated return. Members shall pay to the Company an amount determined to be its portion of the consolidated estimated tax of the Group. This agreement may not be assigned or transferred by any member of the Group without the prior written consent of all of the other parties. The agreement terminates if parties agree in writing, membership in the holding company system ceases, and the Group fails to file a consolidated return for any taxable year.

Operating Agreement of 1639RE

This agreement, dated June 24, 2010, is between the Company and 1639RE and additionally any subsequent party upon execution of a counterpart signature page of the contract. The agreement

governs the issuance and maintenance of "Membership Interests" defined as the right of the Company, as well as that of any party subsequently inducted, to participate in any decision or action involving the administration or management of the business affairs of 1639RE as determined by the provisions contained in the agreement. Such Membership Interests include "Economic Interests" which are a member's right to receive a share of 1639RE's net profits, net losses and distributions. Admission of new members occurs only upon the written consent of all existing members. As of December 31, 2021, the Company was the sole owner of all the Membership Interests. The term of the agreement runs perpetually until 1639RE is dissolved.

Lease Agreement

This agreement is between the Company and 1639RE covering a seven-year lease agreement with an original expiration in 2023 with the right to two five-year extension renewal options. The agreement is a continuation of the lease established with the predecessor-in-interest (Parsippany Commerce Center, Inc.) after the purchase of the Company's home office land and building was completed in June 2010. All prior terms and conditions are retained. Amendments seven and eight were dated December 10, 2019 and June 2021, respectively. These amendments were to extend the lease, update base rent and additional rent amounts, and reduce a small amount of space to be leased by DDNJ.

Other Agreements

The Company also entered into various other agreements concurrently and in connection with the formation, investment in and administration of Encara. Among these are the (1) Stockholder Agreement, (2) Business Associate Agreement, (3) Software Development and License Agreement, (4) TPA Agreements, and (5) Common Stock Purchase Agreement. The Business Associate Agreement regulates the creation, maintenance, usage, reception and transmission of private subscriber medical and other protected information, by and between the two companies, as covered by the Health Insurance Portability and Accountability Act, the Health Information technology for Economic and Clinical Health Act, and other federal and state laws. The agreement remains in effect until all such information is destroyed or returned to the Company. The other agreements relate to proprietary information.

POLICY ON CONFLICT OF INTEREST

The Company has established procedures for the reporting of conflicts of interests by officers and key employees. Directors and officers are required to completed Conflict of Interest Statements on an annual basis. Additionally, the directors and officers stipulate that they will notify management immediately if a potential conflict arises in the interim. No exceptions were noted.

CONTINUITY OF OPERATIONS

The Company has developed a Business Continuity Plan for continuing its operations in the event of a loss of its current facility and/or a natural or manmade disaster. The Company's Business Continuity Plan includes the makeup and functionality of the crisis team, outlines their individual responsibilities, as well as how the Company handles a potential disaster regarding identification, communication, declaration, workflows, and recovery. The Business Continuity Plan also has a section on how the Company handles a pandemic.

The Company has 29 individual plans that supplement the overall Business Continuity Plan, which

cover all of the Company's key processes. Each of these individual plans includes both a Business Impact Analysis, identifying the key sub-processes, key vendors, and key required systems, as well as the plan itself, including various loss types and mitigation strategies.

The Company's comprehensive Business Continuity Plan was reviewed by the examination team and the Company was deemed to have adequate procedures in place to recover systems and records in the event of a disaster or business interruption.

The Company has made provisions for the succession of officers in its By-Laws.

FIDELITY BOND AND OTHER INSURANCE COVERAGE

DDNJ maintains a commercial crime policy that contains a blanket fidelity coverage form with a single loss limit of insurance of \$5,000,000. This fidelity coverage is deemed adequate to satisfy the minimum amounts of fidelity insurance coverage as suggested by the NAIC exposure index.

DDNJ also maintains insurance coverage for the protection of its assets from losses arising from its business operations as of a dental service corporation. The Company was covered under the following coverages in force as of December 31, 2021: commercial crime; commercial property; commercial general liability; excess and umbrella liability; commercial excess liability; excess liability; workers' compensation and employers' liability; automobile liability; cyber liability; professional liability – errors and omissions; directors and officers liability; employed lawyer professional liability; kidnap and ransom; and employment practices liability coverages.

ADVERTISING AND SALES MATERIAL

The Company advertises in both electronic media and by written form. A review and sampling of these materials determined that DDNJ to be in compliance with N.J.S.A. 17:18-10 (Advertisement of assets to include liabilities) and N.J.S.A. 17:48D-15 (False or misleading advertising; enforcement).

ACCOUNTS AND RECORDS

DDNJ records are maintained at its home office located at 1639 Route 10, Parsippany, New Jersey. As of December 31, 2022, the following systems were utilized:

Accounting and Finance

Microsoft's Dynamics is a Windows-based application, residing on a Cisco UCS ESXi cluster with a SQL Server 2016 database. This application is the Company's Accounts Payable, Administrative Expenses, Accounts Receivable and General Ledger package. It is only accessible to the accounting area.

eFreedom is a Software as a Service application from StoneRiver, that is used to prepare statutory filings and maintain relevant supporting records. This software is only accessible to select individuals within the accounting area.

The Clearwater application is used to maintain DDNJ's investment portfolio. Processing of purchases, sales, paydowns and interest and dividends received are fed directly from custodial statements into Clearwater. The accounting team reconciles all data retained within Clearwater back

to the custodial statements and performs a roll forward of the monthly data to ensure accuracy. Clearwater software calculates both the accrued interest amounts and the amortization and accretion of premium and discounts on fixed income investments.

Human Resources - Payroll

ADP's web-based application is utilized for payroll functions. Accessibility is limited to authorized individuals in the Human Resources department.

Operations - Claims

Group claims are processed by the Interactive Claims Enterprise ("ICE") system, with a small percentage of Specialty Claims being processed by the DataDental system which processes the FHS transactions. All individual claims are processed by a TPA, Delta Dental of Wisconsin.

DDNJ uses the ICE application to administer its dental benefit plans. ICE serves as the system of record and manages most of the processes related to claims processing, including group set-up, subscriber enrollment, provider relations, claims adjudication, billing, and payments. ICE is a Windows-based application with a SQL Server 2012 database. Logical access is controlled through Microsoft's Active Directory ("AD") and the SiteMinder Web Access Manager package from CA Technologies. The creation of new groups and associated benefit plans is managed by the Client Administration department. Recruitment, credentialing, and enrollment of providers is handled by the Professional Services (Credentialing and Contracting) department. The Eligibility department controls the eligibility. The Claims department processes dental claims, while the Special Investigations Unit and Operations Quality Assurance can generate reports for fraud detection purposes and quality assurance purposes, respectively. The Customer Service department has inquiry and claim processing capabilities for handling client issues.

The Billing function, part of the Enrollment department at DDNJ, is responsible for managing the billing process, and uses the ICE application to generate billing invoices for groups. Presentment (electronic and hard copy) of billing invoices has been outsourced to BillTrust, a third-party vendor located in Hamilton, New Jersey.

Fully Insured Premiums for group products are processed by DDNJ. Fully Insured Premiums for individual products are processed by a TPA, Delta Dental of Wisconsin. A small percentage of Specialty and Orthodontic Premiums are processed by the DataDental system which processes the FHS transactions.

The Company uses an Enterprise Data Warehouse environment to fulfill its operational and client reporting needs. Salesforce.com is used for real time management insights/dashboards related to Sales/Clients Renewal/Prospect and to track marketing campaigns.

TREATMENT OF SUBSCRIBERS

The Company's complaint register for grievances filed with the NJDOBI for years 2017 through 2021 and other written complaints for the examination period which the Company received directly from other subscribers were reviewed. The inspection of these complaints determined that the treatment of subscribers was in compliance with N.J.S.A. 17:48D-12 (Complaint System) and N.J.S.A. 17:29B-4(10) (Complaint Handling Procedures).

FINANCIAL STATEMENT EXHIBITS

Exhibit A: Statement of Assets, Liabilities, Surplus and Other Funds at
December 31, 2021 17

Exhibit B: Summary of Revenue and Expenses for the
Five-Year Period ending December 31, 2021 18

Exhibit C: Capital and Surplus Account for the
Five-Year Period ending December 31, 2021 19

Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2021

Exhibit A

DELTA DENTAL OF NEW JERSEY, INC.
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
AT DECEMBER 31, 2021

| | Current Examination at 12/31/2021 | Balance per Company at 12/31/2021 | Examination Change | Note Number |
|--|---|---|-----------------------|----------------|
| Assets | | | | |
| Bonds | \$200,453,306 | \$200,453,306 | \$0 | 1 |
| Common stocks | 50,956,911 | 50,956,911 | 0 | |
| Properties occupied by the company | 15,143,625 | 15,143,625 | 0 | |
| Cash, cash equivalents and short-term investments | (1,131,407) | (1,131,407) | 0 | |
| Other invested assets | 250,000 | 250,000 | 0 | |
| Receivables for securities | 2,929 | 2,929 | 0 | |
| Investment income due and accrued | 732,260 | 732,260 | 0 | |
| Uncollected premiums and agents' balances in the course of collection | 8,562,097 | 8,562,097 | 0 | |
| Amounts receivable relating to uninsured plans | 12,578,489 | 12,578,489 | 0 | |
| Electronic data processing equipment and software | 6,585,483 | 6,585,483 | 0 | |
| Receivables from parent, subsidiaries and affiliates | 273,777 | 273,777 | 0 | |
| Total Admitted Assets | \$294,407,470 | \$294,407,470 | \$0 | |
| Liabilities | | | | |
| Claims unpaid | \$15,606,000 | \$15,606,000 | \$0 | 2 |
| Unpaid claims adjustment expenses | 2,772,000 | 2,772,000 | 0 | 2 |
| Aggregate health policy reserves | 2,094,417 | 2,094,417 | 0 | |
| Premiums received in advance | 6,220,867 | 6,220,867 | 0 | |
| General expenses due or accrued | 1,013,720 | 1,013,720 | 0 | |
| Amounts withheld or retained for the account of others | 3,001,000 | 3,001,000 | 0 | |
| Amounts due to parent, subsidiaries and affiliates | 433,097 | 433,097 | 0 | |
| Payable for securities | 935,063 | 935,063 | 0 | |
| Liability for amounts held under uninsured plans | 2,125,960 | 2,125,960 | 0 | |
| Aggregate write-ins for other liabilities | 27,798,764 | 27,798,764 | 0 | |
| Total Liabilities | \$62,000,888 | \$62,000,888 | \$0 | |
| Surplus and Other Funds | | | | |
| Aggregate write-ins for other-than-special surplus funds | \$1,125,000 | \$1,125,000 | 0 | 3 |
| Unassigned funds (surplus) | \$231,281,582 | 231,281,582 | \$0 | 3 |
| Surplus as regards policyholders | \$232,406,582 | \$232,406,582 | \$0 | 3 |
| Total Liabilities, Surplus and Other Funds | \$294,407,470 | \$294,407,470 | \$0 | |

Summary of Revenue and Expenses for the Five-Year Period Ending December 31, 2021

| | DELTA DENTAL OF NEW JERSEY, INC. | | | | |
|--|--|---------------------|----------------------|--------------------|--------------------|
| | SUMMARY OF REVENUE AND EXPENSES FOR THE | | | | |
| | FIVE-YEAR PERIOD ENDING DECEMBER 21, 2021 | | | | |
| | 2021 | 2020 | 2019 | 2018 | 2017 |
| EXHIBIT B | | | | | |
| Underwriting Income | | | | | |
| Net premium income | \$270,370,485 | \$243,973,994 | \$255,374,385 | \$253,778,216 | \$241,995,609 |
| Deductions | | | | | |
| Hospital/medical expenses | \$209,677,864 | \$170,447,070 | \$206,239,653 | \$200,325,137 | \$191,109,874 |
| Claims adjustment expenses | 27,292,751 | 29,719,952 | 27,735,623 | 25,604,839 | 21,030,274 |
| General administrative expenses | 38,423,617 | 38,656,753 | 31,494,603 | 29,916,460 | 27,877,979 |
| Total underwriting deductions | \$275,394,232 | \$238,823,775 | \$265,469,879 | \$255,846,436 | \$240,018,127 |
| Net underwriting gain or (loss) | (\$5,023,747) | \$5,150,219 | (\$10,095,494) | (\$2,068,220) | \$1,977,482 |
| Investment Income | | | | | |
| Net investment income earned | \$3,692,300 | \$5,284,052 | \$5,476,478 | \$5,764,012 | \$5,046,879 |
| Net realized capital gains | 3,963,607 | 3,292,596 | 4,668,462 | 1,216,080 | 1,327,228 |
| Net investment gains | \$7,655,907 | \$8,576,648 | \$10,144,940 | \$6,980,092 | \$6,374,107 |
| Other Income | | | | | |
| Aggregate write-ins for other income or expenses | (\$214,664) | (\$3,288,742) | (\$1,228,256) | (\$1,515,667) | (\$1,185,482) |
| Total other income | (\$214,664) | (\$3,288,742) | (\$1,228,256) | (\$1,515,667) | (\$1,185,482) |
| Net income or (loss) after capital gains tax and before all other federal income taxes | \$2,417,496 | \$10,438,125 | (\$1,178,810) | \$3,396,205 | \$7,166,107 |
| Federal and foreign income taxes incurred | 0 | 0 | 0 | 0 | 0 |
| Net Income (Loss) | \$2,417,496 | \$10,438,125 | (\$1,178,810) | \$3,396,205 | \$7,166,107 |

Capital and Surplus Account for the Five-Year Period Ending December 31, 2021EXHIBIT C

DELTA DENTAL OF NEW JERSEY, INC.
 CAPITAL AND SURPLUS ACCOUNT FOR THE
 FIVE-YEAR PERIOD ENDING DECEMBER 31, 2021

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Surplus as regards policyholders December 31, prior year | \$227,098,225 | \$223,413,870 | \$227,422,201 | \$226,677,803 | \$222,047,837 |
| Net income or (loss) | \$2,417,496 | \$10,438,125 | (\$1,178,810) | \$3,396,205 | \$7,166,107 |
| Change in net unrealized capital gains or (losses) | 2,215,938 | (46,699) | (4,467,956) | (5,101,728) | 3,626,516 |
| Change in nonadmitted assets | (4,102,266) | 1,276,110 | 8,778,896 | 1,135,982 | (1,272,491) |
| Aggregate write-ins for gains or (losses) in surplus | 4,777,189 | (7,983,181) | (7,140,461) | 1,313,939 | (4,890,166) |
| Change in surplus as regards policyholders | <u>\$5,308,357</u> | <u>\$3,684,355</u> | <u>(\$4,008,331)</u> | <u>\$744,398</u> | <u>\$4,629,966</u> |
| Surplus as regards policyholders December 31, current year | <u>\$232,406,582</u> | <u>\$227,098,225</u> | <u>\$223,413,870</u> | <u>\$227,422,201</u> | <u>\$226,677,803</u> |

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Bonds

At December 31, 2021, DDNJ reported an asset for bonds of \$200,453,306, which was accepted for purposes of this examination.

Note 2 – Claims Unpaid and Unpaid Claims Adjustment Expenses

The reserves for claims unpaid and claims adjustment expenses as reported by the Company at December 31, 2021 were \$15,606,000 and \$2,772,000, respectively. A review of these reserves by Actuarial Specialists from the firm Risk & Regulatory Consulting, LLC, engaged by the NJDOBI – Office of Solvency Regulation, was completed and the review indicated that no reserve adjustment was necessary.

The Life & Health Actuarial Division of the NJDOBI reviewed the RRC Report on the Actuarial Examination of DDNJ and accepted the reported reserves without adjustment.

Note 3 – Contingency Reserves and Unassigned Funds

DDNJ reported total contingency reserves and unassigned funds on December 31, 2021 of \$232,406,582, which consisted of a statutory reserve of \$25,000, a special contingency of \$100,000, a contingency reserve of \$1,000,000, and unassigned funds of \$231,281,582. Surplus exceeds the minimum required statutory reserve of \$100,000 under N.J.S.A. 17:48C-25 and unencumbered funds of \$25,000 under N.J.S.A. 17:48C-5.

The examination accepts as stated the amount reported by DDNJ for contingency reserves and unassigned funds on December 31, 2021.

SUBSEQUENT EVENTS

DDNJ now offers group and individual vision plans in both New Jersey and Connecticut. Vision plans are underwritten by DDCT, a wholly-owned subsidiary of DDNJ. The vision provider network, claims processing services, and customer service is managed under an administrative services agreement with Vision Service Plan, an Ohio-based vision carrier licensed in all 50 states. DDCT began offering vision plans in Connecticut on January 1, 2021; as of December 1, 2022, upon the receipt of all necessary rate and form approvals, DDCT obtained the authority to offer such plans in NJ as a non-domestic insurer.

CONCLUSION

A regular statutory financial condition examination was conducted by the undersigned under the supervision of the State of New Jersey, Department of Banking and Insurance.

The examination was conducted via a hybrid approach, both offsite and at the Company's statutory home office in Parsippany, New Jersey. The courteous assistance and cooperation of the Company's management is acknowledged.

Respectfully submitted,



Laura Clark, CFE, CPA
Examiner-in-Charge
Risk & Regulatory Consulting, LLC
Representing the New Jersey Department of Banking and Insurance

Under the Supervision of,



Nancy Lee Chice, CFE
CFE Reviewer – Supervising Examination
New Jersey Department of Banking and Insurance

AFFIDAVIT

The undersigned hereby certifies that an examination has been made of Delta Dental of New Jersey, Inc. and the foregoing report is true to the best of my knowledge and belief.

Respectfully submitted,

Laura Clark

Laura Clark, CFE, CPA
Examiner-in-Charge
Risk & Regulatory Consulting, LLC
Representing the New Jersey Department of Banking and Insurance

Under the Supervision of,

Nancy Lee Chice

Nancy Lee Chice, CFE
CFE Reviewer -Supervising Examination
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me, on this 17th day of May, 2023.

Shirley M. Clark

Notary Public of New Jersey

My commission expires: July 2025