



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**DENTISTS BENEFITS INSURANCE COMPANY
PORTLAND, OREGON**

NAIC COMPANY CODE 18813

AS OF

DECEMBER 31, 2009

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SALUTATION

November 1, 2010

Honorable Alfred W. Gross, Commissioner
Chairman, NAIC Financial Condition (E) Committee
State Corporation Commission – Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, Virginia 23218-1157

Honorable Cory Streisinger, Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Commissioner and Director:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

DENTISTS BENEFITS INSURANCE COMPANY
601 SW Second Avenue
Portland, Oregon 97204

NAIC Company Code 18813

hereinafter referred to as the "Company." The following report is respectfully submitted.

SCOPE OF EXAMINATION

The full scope single-state examination of the Company was conducted as of December 31, 2009, covering the three year period then ended, and included a review of material transactions or events which occurred subsequent to the examination cut-off date and were noted during the examination.

We conducted our examination pursuant to ORS 731.300 and in accordance with the NAIC Financial Condition Examiners Handbook. The handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company including corporate governance, identifying and assessing inherent risks within the company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instruction when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process.

David Dahl, FSA, MAAA, actuary for the Oregon Insurance Division, Department of Consumer and Business Services, participated in this examination by evaluating the reserves for losses and loss adjustment expenses, as well as other items requiring actuarial expertise. The results of his analysis are found under the relevant section of this report.

Concurrent with this examination, two insurance affiliates of the Company, Oregon Dental Service and ODS Health Plan, Inc., were also examined as of December 31, 2009. There was a separate report of financial examination made for each company.

COMPANY HISTORY

The Company was incorporated in 1985 as a stock property and casualty insurance company under the laws of the Oregon Insurance Code. It received its Certificate of Authority on December 28, 1985, authorizing the Company to transact property, casualty (excluding workers' compensation) and surety business. On August 22, 1990, the Certificate of Authority was amended to include workers' compensation. On September 9, 2003, the Certificate of Authority was again amended to exclude workers' compensation. The Articles of Incorporation provide for 1,000,000 shares of capital stock and define the purpose of the Company to engage in the business of insurance and reinsurance of all classes for which the corporation is authorized and to insure or reinsure those risks underwritten by the corporation.

On November 27, 2000, the Insurance Division approved a corporate reorganization in which ODA, the ultimate controlling entity of the Company and sole shareholder of HSG, donated all of its outstanding HSG stock to Oregon Dental Service. As a result, HSG and all of its subsidiaries became a direct or indirect subsidiary of Oregon Dental Service.

Dividend and Distributions

During the period examined, the Company paid no ordinary or extraordinary dividends, or made any distributions to its parent.

CORPORATE RECORDS

Board Minutes

In general, the review of 2007 to 2009 Board meeting minutes of the Company, as well as the various committees authorized by the Board, indicated that the minutes support the transactions of the Company and clearly describe the actions taken by its directors and officers. A quorum, as defined by ORS 731.302, met at all of the meetings held during the period under review. The Board maintained a quarterly meeting schedule.

The finance committee approved investments at each meeting and monitored the investment guidelines as needed, which was then approved by the Board as a whole, in accordance with ORS 733.730. The Board's compensation/governance committee approved officer salaries. The Company's Board then approved the committee's actions pursuant to ORS 732.320(3).

Articles of Incorporation

No changes were made during the period under examination. The Articles of Incorporation conformed to the Oregon Insurance code.

Bylaws

The Company's Bylaws were amended two times during the period under examination. First, on January 2, 2008, the Board amended Article 3, section 3.2 to establish the number of directors from sixteen (16) to any number between thirteen (13) and sixteen (16) and changing the number of directors in class (i) and class (ii) to correspond to the total number of directors; also, amended Article 3, section 3.2, subsection 2, to increase each directors' term from three years to four years, staggering the board from three groups into four groups. And second, on March 7, 2008, the Board amended Article 3, section 3.13, subsection 1, to change the way the Board may fill vacancies, including those created by increasing the size of the board. The Bylaws conformed to Oregon statutes.

Parent, Subsidiaries and Affiliated Companies

The Company filed an insurance holding company registration statement on behalf of itself and its insurance subsidiaries in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020. The insurance holding company structure is comprised of the following entities:

Oregon Dental Association (ODA) is an Oregon nonprofit professional association formed in 1949. It is one of the five constituent dental societies that comprise the American Dental Association's Eleventh Trustee District. Members of the ODA are made up of licensed dentists in the State of Oregon. The Board of Trustees of the ODA appoints all but one director to the Company's Board of Directors, and would be considered the ultimate controlling entity.

Oregon Dental Service (ODS) is an Oregon nonprofit mutual benefit corporation formed in 1961 by the ODA. ODS writes dental insurance as a health care service contractor in Oregon and Alaska.

Health Services Group (HSG) is an Oregon for-profit stock corporation owned 100% by the ODS and was formed in 1991 as a management company. It maintains all employees, facilities and operations used by the Company under a management agreement described below.

Dentists Management Corporation (DMC) is a wholly owned subsidiary of HSG whose primary function is to market a dental practice management system known as DAISY.

Dentists Benefits Corporation (DBC) is an insurance agency wholly owned by HSG. Its primary purpose is to market professional liability and other property and casualty coverages to Oregon dentists. DBC provides marketing services for the Company and NORDIC.

Northwest Dentists Insurance Company (NORDIC) is a Washington domiciled property and casualty insurer owned 75% by HSG and 25% by the Washington State Dental Association. HSG purchased its ownership of NORDIC in February 2007. It writes property/general liability and professional liability coverages primarily in Washington and Idaho.

ODS Health Plan, Inc. (ODSHP) is a wholly owned subsidiary of HSG. ODSHP is a health care service contractor that received a Certificate of Authority from the Oregon Insurance Division in October 1999. This company provides group major medical and pharmacy insurance coverage in the States of Oregon and Alaska. ODSHP was created to handle the group medical business formerly written by ODS. It owns 100% of the Company's issued and outstanding common stock and would be considered the direct parent.

Affiliates of the Company would include:

ODS Plaza, Inc. is an Oregon business corporation wholly owned by ODSHP. This company was formed in 2005 to own and operate an office building located in Milwaukie, Oregon. This subsidiary was transferred to ODSHP from HSG on December 31, 2009.

BenefitHelp Solutions (fka BestChoice Administrators) is a third party administrator wholly owned by ODSHP. BestChoice Administrators was incorporated on January 24, 1994. The new name was adopted July 13, 2005.

ODS Community Health, Inc. (OCH) was incorporated in December 2003 for the purpose of handling business of the Oregon Health Plan, through the Division of Medical Assistance Programs (DMAP), and is a wholly owned subsidiary of ODSHP.

ODS Bend Property LLC is an Oregon limited liability corporation wholly owned by ODSHP. This company was formed in 2007 to be a management company for an office building located in Bend, Oregon. The LLC owns approximately 74% of the office building. This subsidiary was transferred to ODSHP from HSG on December 31, 2009.

Statutory Deposit

The Company was not required to make any deposit with the Oregon Insurance Division, Department of Consumer Business Services, pursuant to the provisions of ORS 731.604. However, the Company maintained one Federal Home Loan Mortgage Corporation bond as a deposit with the Arizona Department of Insurance in the sum of \$109,000 (par value). The deposit was listed in the 2009 Annual Statement on Schedule E – Part 3.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws vest management and control of the Company in a Board of Directors of between 13 and 16 members, consisting of (i) not more than nine nor less than seven persons who are members in good standing of the ODA (ii) not more than six nor less than five persons, each of whom is neither an ODA member nor a practicing dentist, and (iii) the chief executive officer of the Company. Directors serve terms of four years without limitation to the number of terms. All directors, with the exception of the chief executive officer of the Company, are appointed by the Company's shareholder. A majority of the number of directors constitutes a quorum. The Board of Directors met all requirements of ORS 750.015.

Members of the Board of Directors, duly appointed and serving as of December 31, 2009,
 were:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Appointed</u>
Karen E. Anderegg Portland, OR 97225	Consultant	2000
Tracy S. Andrus Eagle, ID 83616	Consultant	2003
Wayne R. Barichello, DMD Oregon City, OR 97045	Dentist Barichello Family Dentistry	2005
Michael E. Biermann, DMD Portland, OR 97203	Pediatric Dentistry	2007
D. Jon Carnahan Salem, OR 97302	Consultant	1999
George J. Darke, DMD Vancouver, WA 98683	Retired Dentist	1998
Robert G. Gootee Portland, OR 97204	President & CEO Oregon Dental Service	1998
David W. Howerton, DMD** Salem, OR 97302	Associate Professor OHSU School of Dentistry	2004
Mark E. Jensen, DMD Bend, OR 97702	Dentist	2005
Jay C. Lamb, DMD* Eugene, OR 97401	Dentist	1991
Michael L. McKeel, DDS Gresham, OR 97030	Dentist	1996
Marta A. Monetti Portland, OR 97204	Sr. Vice President Edelman Public Relations	2007
Patrick M. Nearing, DMD La Grande, OR 97850	Dentist	2006
George J. Passadore Portland, OR 97225	President TriMet Board of Directors	2004
John C. Stevason Portland, OR 97204	Attorney Lane Powell PC	1999

* Chairman of the Board
 ** Vice Chairman of the Board

Officers

Operating management of the Company as of December 31, 2009, was under the direction of the following principal officers:

<u>Name</u>	<u>Office</u>
Robert G. Gootee	President and Chief Executive Officer
Thomas J. Bikales	Director of Legal and Regulatory Affairs and Secretary
Jonathan L. Jurevic	Senior Vice President, CFO and Treasurer
Christopher F. Verbiest	Vice President
David W. Evans	Vice President, Controller and Asst. Secretary

Mr. Jurevic resigned effective March 31, 2010, and was replaced by Steven Wynne. All other management functions are provided through a management agreement with HSG, as described below.

Intercompany Agreements

As of December 31, 2009, the Company was party to the following agreements with affiliates:

Management Agreement

The Company operates under a management agreement with HSG, dated January 1, 1995, and amended September 1, 2002. The management agreement states that HSG will provide all marketing, underwriting, claims, reinsurance, investment, financial and accounting, information systems and administrative functions to the Company. HSG will provide all equipment, computer software, furniture, fixtures and all tangible personal property used to transact business, as well as all employees and staff. Terms of the agreement include:

- the Company is to pay all costs and expenses that are directly attributable to its operations;
- indirect expenses are to be pooled and allocated using a fair and reasonable method; and
- those costs or expenses that inure to the sole benefit of HSG and do not benefit the Company shall be borne by HSG and shall not be subject to reimbursement.

It was noted the agreement did not specify a due date for payment, but stated HSG will invoice the Company from time to time (but not more frequently than monthly) and shall be paid by the Company within 15 business days of the date of the invoice. Section 5.2 and 5.3 of the agreement allows HSG to hold all cash, by means of a sweep account, of the Company and all its indirect subsidiaries. The Company uses zero balance accounts, with the balances being swept into the HSG concentration account on a daily basis. At this point, the funds become the property of HSG, and an intercompany receivable or payable is established, depending on the daily cash balance. Funds are swept back to the Company on an as needed basis, depending on its funding requirements. These funds are commingled and invested in investments held by HSG. All transactions are reconciled monthly, and balances held more than 90 days are paid interest equal to the 90-day US T-Bill rate as of the last business day of the month.

CONFLICT OF INTEREST

The Company has a conflict of interest policy that is stated in the ODS Code of Conduct. Board members, senior officers and key employees are required to annually sign a conflict of interest declaration. From a review of the completed conflict of interest questionnaires, it appeared that the affected personnel performed due diligence in completing the conflict of interest statements. No material conflicts of interest were noted.

FIDELITY BONDS AND OTHER INSURANCE

The examination of insurance coverages involved a review of the adequacy of limits and retentions, and the solvency of the insurers providing the coverages. The Company is insured for up to \$7,500,000 per occurrence, after a \$100,000 deductible, against losses from acts of dishonesty and fraud by its employees. It was noted that this fidelity bond coverage exceeded the minimum coverage recommended by the NAIC. The Company's office

buildings and personal property are covered by a commercial package policy that includes earthquake and flood coverage. The property coverage appeared adequate based on the examination of the office values. All other insurance coverages in force at December 31, 2009, were as follows:

Commercial general liability	Business automobile
Umbrella liability	Managed care errors and omissions
Extortion	Workers' compensation

The limits for the above coverages were found to be adequate as of December 31, 2009.

PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

Employee Retirement Plans

The Company's upstream parent, HSG, offers a 401k pension plan covering substantially all of its employees. Since the previous examination, the plan provided for HSG to contribute 8% of eligible employees' salaries and would match 2% of employees' contributions. Effective January 1, 2009, the plan was modified to make fixed contributions of 3% of eligible employees' salaries and match employee contributions up to 2%, 4% or 6% of their eligible earnings for years of service less than five years, between five and ten years, and more than ten years, respectively. The voluntary employee pre-tax contributions may range from 1% up to 70% of pay, not to exceed the following dollar amount:

<u>Year</u>	<u>Under Age 50</u>	<u>Age 50 or Over</u>
2007	\$15,500	\$20,500
2008	\$15,500	\$20,500
2009	\$16,500	\$22,000

Deferred Compensation Plans

The HSG deferred compensation plan is available to certain executives where they may defer a portion of their current income to be paid out upon retirement or other qualifying event. Participants in the plans have the position of unsecured creditors.

Also, HSG has adopted an annual bonus plan and a Supplemental Executive Retirement Account Plan (SERAP). The SERAP is a nonqualified defined benefit retirement plan to cover certain officers of HSG who have at least five or more years of service and meet certain other eligibility requirements. Benefits are based on years of service and the employee's final average pay, defined by the plan.

TERRITORY AND PLAN OF OPERATION

The Company offers professional liability coverage for practicing dentists on a claims-made basis (57% of direct written premiums) and commercial multi-peril for dental offices (40%). Business is sold through agents associated with an upstream affiliate, Dentists Benefits Corporation.

At December 31, 2009, the Company was licensed in ten states and wrote business in eight of these.

GROWTH OF THE COMPANY

The growth of the Company over the last five years is reflected in the following schedule. The stated amounts were derived from the Company's filed annual statements, except in those years where a report of examination has been published by the Oregon Insurance Division.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Total Capital and Surplus</u>	<u>Net Income/ (Loss)</u>
2005	\$13,183,863	\$2,853,782	\$10,330,081	\$ 762,595
2006*	14,577,498	2,988,360	11,589,138	889,963
2007	15,733,570	3,490,424	12,243,146	641,965
2008	15,446,790	4,432,633	11,014,157	(901,941)
2009*	16,595,609	5,285,396	11,310,213	11,261

*Per examination

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Company over the last five years. The amounts were compiled from copies of the Company's filed annual statements and, where indicated, from the examination reports.

<u>Year</u>	<u>(1) Premiums Earned</u>	<u>(2) Losses and LAE Incurred</u>	<u>(3) Other Underwriting Expenses Incurred</u>	<u>(2)+(3)/(1) Combined Loss Ratio</u>
2005	\$3,368,532	\$ 357,953	\$1,755,961	62.7%
2006*	3,811,620	826,593	1,758,151	67.8%
2007	4,232,140	1,397,785	2,024,837	80.9%
2008	4,461,501	2,525,920	1,835,577	97.8%
2009*	4,334,541	2,507,289	1,973,137	103.4%

*Per examination

A combined ratio of more than 100% indicates an underwriting loss, which this Company did report in 2009.

REINSURANCE

Assumed Business

The Company had assumed no business during the period under examination.

Ceded Business

Effective January 1, 2009, the Company became party to a reinsurance agreement with General Reinsurance Corporation (NAIC #22039 and authorized in Oregon on January 1, 1973). The agreement covered all dentist professional liability written on a claims-made

basis and all general liability written on an occurrence or claims-made basis. The coverage only applies to risks with policy limits greater than \$1 million (Company's retention) and only for policyholders domiciled within the State of Oregon. The Company sets a maximum policy limit of \$1,000,000 in all other states in which it writes business.

The reinsurer shall pay to the Company the amount of net loss in excess of \$1,000,000 each occurrence, but not exceeding the limit of liability of \$1,000,000 each occurrence. In addition, the reinsurer shall pay a proportionate share of any adjustment expenses. The Company shall pay premiums equal to 20% of the combined first million professional liability and general liability premium, subject to a minimum \$600 gross per insured dentist. The reinsurer shall pay a fixed commission allowance of 15%.

Insolvency Clause

The reinsurance agreement contained a proper insolvency clause in accordance with ORS 731.508(3) as required to take reserve credits for reinsurance ceded.

Risk Retention

The reinsurance agreement requires the Company to retain a maximum of \$1,000,000 per risk. In view of the Company's surplus of \$11,310,213 at December 31, 2009, the Company does not retain risk on any one subject of insurance in excess of 10% of its surplus to policyholders pursuant to the maximum risk retention set by ORS 731.504.

ACCOUNTS AND RECORDS

In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2009, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170. From a review of the Company's disaster recovery plan, it was determined

that the current information system possessed the physical and internal controls as prescribed by the NAIC. The Company has a system in place to account for unclaimed funds, and has filed the reports on abandon property pursuant to the provisions of ORS 98.352.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company has taken corrective action with respect to the four recommendations made in the 2006 report of examination. A follow-up report was prepared on September 25, 2009.

SUBSEQUENT EVENTS

There were no items subsequent to the examination date that would have a material impact on the information contained in this report.

FINANCIAL STATEMENTS

The following examination financial statements show the financial conditions of Dentists Benefits Insurance Company as of December 31, 2009:

Statement of Assets
Statement of Liabilities, Capital and Surplus
Statement of Revenues and Expenses
Reconciliation of Surplus since the Last Examination

DENTISTS BENEFITS INSURANCE COMPANY
STATEMENT OF ASSETS
As of December 31, 2009

	Balance per Company	Exam Adjustment	Balance per Exam	Note
ASSETS				
Bonds	\$ 11,433,112	\$ -	\$ 11,433,112	1
Common stocks	1,651,839	-	1,651,839	1
Cash and short-term investments	910,891	-	910,891	1
Other invested assets	817,472	-	817,472	3
Aggregate write-ins for invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal, cash and invested assets	\$ 14,813,314	\$ -	\$ 14,813,314	
Investment income due and accrued	100,758	-	100,758	
Premiums and considerations:				
Uncollected premiums and agent's balances in the course of collection	445,591	-	445,591	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	180,746	-	180,746	
Net deferred tax assets	184,324	-	184,324	
Receivables from parent, subsidiaries, and affiliates	869,419	-	869,419	
Aggregate write-ins for other than invested assets	<u>1,457</u>	<u>-</u>	<u>1,457</u>	
Total Assets	<u>\$ 16,595,609</u>	<u>\$ -</u>	<u>\$ 16,595,609</u>	

DENTISTS BENEFITS INSURANCE COMPANY
STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS
As of December 31, 2009

	Balance per Company	Exam Adjustment	Balance per Exam	Note
LIABILITIES, CAPITAL AND SURPLUS				
Losses	\$ 2,077,853	\$ -	\$ 2,077,853	2
Reinsurance payable on paid losses and lae	-	-	-	
Loss adjustment expenses	939,988	-	939,988	2
Other expenses	28,252	-	28,252	
Taxes, licenses and fees	36,262	-	36,262	
Current FIT payable	125,228	-	125,228	
Unearned premiums	1,943,047	-	1,943,047	
Ceded reinsurance premiums payable	55,599	-	55,599	
Amounts due to parent, subsidiaries, and affiliates	71,996	-	71,996	
Aggregate write-ins for liabilities	<u>7,171</u>	<u>-</u>	<u>7,171</u>	
Total Liabilities	<u>\$ 5,285,396</u>	<u>\$ -</u>	<u>\$ 5,285,396</u>	
Common capital stock	3,000,000	-	3,000,000	
Gross paid in and contributed surplus	1,000,000	-	1,000,000	
Unassigned funds (surplus)	<u>7,310,213</u>	<u>-</u>	<u>7,310,213</u>	
Total capital and surplus	<u>11,310,213</u>	<u>-</u>	<u>11,310,213</u>	
Total liabilities, capital and surplus	<u>\$ 16,595,609</u>	<u>\$ -</u>	<u>\$ 16,595,609</u>	

DENTISTS BENEFITS INSURANCE COMPANY
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2009

	Balance per Company	Exam Adjustment	Balance per Exam	Note
Underwriting Income				
Premiums earned	<u>\$ 4,334,541</u>	<u>\$ -</u>	<u>\$ 4,334,541</u>	
Deductions:				
Losses incurred	1,134,268	-	1,134,268	
Loss expenses incurred	1,373,021	-	1,373,021	
Other underwriting expenses incurred	1,973,137	-	1,973,137	
Aggregate write-ins for underwriting deductions	<u>-</u>	<u>-</u>	<u>-</u>	
Total underwriting deductions	<u>4,480,426</u>	<u>-</u>	<u>4,480,426</u>	
Net underwriting gain or (loss)	(145,885)		(145,885)	
Investment Income				
Net investment income earned	506,854	-	506,854	
Net realized capital gains or (losses)	<u>82,789</u>	<u>-</u>	<u>82,789</u>	
Net investment gain or (loss)	<u>589,643</u>	<u>-</u>	<u>589,643</u>	
Other Income				
Net gain or (loss) from agents' or premium balances charged off	-	-	-	
Finance and service charges not included in premiums	37,900	-	37,900	
Aggregate write-ins for miscellaneous income	<u>6,017</u>	<u>-</u>	<u>6,017</u>	
Total other income	<u>43,917</u>	<u>-</u>	<u>43,917</u>	
Net income before dividends to policyholders and income taxes	487,675	-	487,675	
Dividends to policyholders	393,835	-	393,835	
Federal and foreign income taxes incurred	<u>82,579</u>	<u>-</u>	<u>82,579</u>	
Net income	<u>\$ 11,261</u>	<u>\$ -</u>	<u>\$ 11,261</u>	

DENTISTS BENEFITS INSURANCE COMPANY
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31,

	2009	2008	2007
Capital and surplus, December 31, previous year	<u>\$11,014,157</u>	<u>\$12,243,146</u>	<u>\$11,589,138</u>
Net income	11,261	(901,941)	641,965
Change in net unrealized capital gains (losses)	208,373	(378,823)	25,673
Change in net deferred income tax	61,632	34,884	-
Change in nonadmitted assets	14,790	16,891	(13,630)
Change in unauthorized reinsurance	-	-	-
Change in surplus notes	-	-	-
Cumulative effects of changes in accounting principles	-	-	-
Capital changes:			
Paid in	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-
Transferred to surplus	-	-	-
Surplus adjustments:			
Paid in	-	-	-
Transferred to capital (Stock Dividend)	-	-	-
Transferred from capital	-	-	-
Dividends to stockholders (cash)	-	-	-
Examination adjustment	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-
Change in surplus as regards policyholders for the year	<u>296,056</u>	<u>(1,228,989)</u>	<u>654,008</u>
Surplus as regards policyholders, December 31, current year	<u>\$11,310,213</u>	<u>\$11,014,157</u>	<u>\$12,243,146</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Investments

Most of the Company's long-term bond investments were in US government obligations, federal agency bonds, special revenue bonds, and corporate issues. The Company did not have a significant exposure to mortgaged-backed and asset-backed securities. All MBS/ABS issues were investment rated at year-end 2009, with a book carrying value of \$2.5 million, comprised over 22.1% of the total long-term bond portfolio. An additional \$1.1 million was invested in banks and financial institutions, equaling 10% of the portfolio.

Common stocks were comprised of investments in a single corporation and in five separate mutual funds, primarily invested in small cap stocks and stock index portfolios. The fair value of all common stocks was \$1,651,839.

Cash and short-term deposits consisted of cash on deposit and investments in two money market mutual funds. Under the Company's cash management system, HSG holds all of the Company's cash, as described earlier in this report. A comparison of the investments over the past five years is as follows:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Common</u> <u>and</u> <u>Preferred</u> <u>Stocks</u>	<u>C</u> <u>Cash and</u> <u>Short-term</u>	<u>Ratio</u> <u>A/</u> <u>Total</u> <u>Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total</u> <u>Assets</u>	<u>Ratio</u> <u>C/</u> <u>Total</u> <u>Assets</u>
2005	7,536,999	3,691,511	248,316	57.2%	28.0%	1.9%
2006*	2,561,869	9,650,258	3,456	17.6%	66.2%	0.0%
2007	2,565,586	10,256,272	17,000	16.3%	65.2%	0.1%
2008	9,702,132	2,627,691	298,419	62.8%	17.0%	1.9%
2009*	11,433,112	1,651,839	910,891	68.9%	9.9%	5.5%

Approval of investment transactions was performed by the finance committee of the Board of Directors, pursuant to ORS 733.740. As of December 31, 2009, invested assets of \$4,260,335 representing 29% of the total invested assets were invested in amply secured obligations of the United States or FDIC insured cash deposits, which exceeded the required capitalization amount required by ORS 733.580.

Effective April 1, 2006, the Company entered into a custodial agreement with the US Bank, NA. The agreement contains all of the relevant protections described in OAR 836-027-0200(4)(a) through (l).

Note 2 – Claims Unpaid and Unpaid Claims Adjustment Expense Reserves

David Dahl, FCAS, MAAA, Property/Casualty actuary for the Oregon Insurance Division, reviewed the liabilities established as of the December 31, 2009. His review consisted of the following:

1. The data, methods, and calculations used in the actuarial report supporting the actuarial opinion as of December 31, 2009.
2. The data, methods, and calculations used by the Company to establish its liabilities as of December 31, 2009.
3. The Statement of Actuarial Opinion as of December 31, 2009.
4. The 2009 Management and Discussion Analysis as of December 31, 2009.

The Company's liabilities were found to be redundant by approximately \$63,000 on a net basis. This amount is 0.6% of the Company's reported surplus as of December 31, 2009, and consequently, not material. The actuarial report used paid and incurred developments, and hindsight techniques consisting of paid and incurred Bornhuetter-Ferguson methods to estimate the loss and defense and cost containment expense on a combined basis. Separate estimates were made for other loss adjustment expense using the ratio of historical paid other loss adjustment expense to the loss and defense and cost containment expense and the common assumption that 50% of the other loss adjustment expense is paid when opening a claim and 50% paid when closing a claim. The experience for loss and defense and cost containment was grouped by annual statement line, and the experience for other loss adjustment expense is on an overall basis.

In Mr. Dahl's opinion, the liability for Losses and Loss Adjustment Expense for Dentist Benefits Insurance Company was found to be reasonably stated as of December 31, 2009.

Note 3 – Other Invested Assets (Schedule BA)

The Company reported an investment in Aurora Limited Partnership, domiciled in Illinois, which is a hedge fund managed by Harris Associates. Because hedge funds are not addressed in the Oregon Insurance Code, and likewise are not expressly prohibited, the Company was directed to limit its investment to no more than 7.5% of total admitted assets pursuant to the "prudent investor" standards of ORS 733.670(2). When we compared the total investment of \$696,000 to the total admitted assets as of the most recently filed statement (September 30, 2009), the hedge fund represented 4.1% of assets, and the Company was in compliance. At December 31, 2009, the book value of the investment represented 4.9% of total admitted assets.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no comments or recommendations made as a result of this examination.

CONCLUSION

During the three-year period covered by this examination, the surplus of the Company has decreased from \$11,589,138, as presented in the December 31, 2006, report of examination, to \$11,310,213, as shown in this report of examination. The comparative assets and liabilities are shown below:

	<u>2009</u>	December 31, <u>2006</u>	<u>Change</u>
Assets	\$16,595,609	\$14,577,498	\$ 2,018,111
Liabilities	<u>5,285,396</u>	<u>2,988,360</u>	<u>2,297,036</u>
Surplus	<u>\$11,310,213</u>	<u>\$11,589,138</u>	<u>\$ (278,925)</u>

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, Raymond W. Anderson, CFE, Mark Giffin, CFE, and Michael P. Phillips, CPA, CFE, AES, insurance examiners for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,

Greg A. Lathrop, CFE
Supervising Financial Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Greg A. Lathrop, CFE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of Dentists Benefits Insurance Company.

2. The Insurance Division of the Department of Consumer and Business Services of the State of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

3. I have reviewed the examination work papers and examination report, and the examination of Dentists Benefits Insurance Company was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

Greg A. Lathrop, CFE
Supervising Financial Examiner
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to me this _____ day of _____, 2010.

Notary Public for the State of Oregon

My Commission Expires: _____