



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**WILLAMETTE DENTAL INSURANCE, INC.
HILLSBORO, OREGON**

NAIC COMPANY CODE 52555

AS OF

DECEMBER 31, 2008

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SALUTATION

August 7, 2009

Honorable Cory Streisinger, Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE, Room 440
Salem, Oregon 97301-3883

Dear Director:

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

**WILLAMETTE DENTAL INSURANCE, INC.
6950 NE Campus Way
Hillsboro, Oregon 97124**

NAIC Company Code 52555

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

SCOPE OF EXAMINATION

The examination of this limited health care service contractor was conducted as of December 31, 2008, covered the four 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.

The examination was conducted pursuant to ORS 731.300 and in accordance with procedures and guidelines prescribed by the NAIC for the purpose of determining the Plan's financial condition, ability to fulfill its obligations, nature of operations, and compliance with the Insurance Code. Accounting methods, internal control procedures, records and other supporting evidence were examined or tested by appropriate methods to the extent deemed necessary and appropriate for the type, volume and complexity of the accounting system and operations utilized by the Plan. A review was also made of the corrective actions taken by the Plan with respect to comments and recommendations in the previous financial report of examination as of December 31, 2004, published by the Oregon Insurance Division.

PLAN HISTORY

The Plan is the successor insurer of Willamette Health Service, Inc., a nonprofit corporation incorporated on March 12, 1982, and issued a Certificate of Authority by the Oregon Insurance Division on May 5, 1983, which granted the Plan the authority to transact dental insurance in Oregon pursuant to ORS Chapter 750.

Beginning in 1997, the predecessor company sought to convert to a for-profit corporation using an existing shell company which had been incorporated as Columbia Health Service of Oregon, Inc., on October 26, 1994. Effective December 31, 1999, Willamette Health Service, Inc., was merged into the shell company, which was then renamed Willamette

Dental Insurance, Inc. As a result, the Plan acquired all assets and assumed all liabilities and obligations, including the obligations under the existing insurance policies in force. A Certificate of Authority was issued to the Plan on the same date.

On February 24, 2003, the Oregon Insurance Division approved a reorganization, whereby ownership of the Plan was transferred to Willamette Dental of Idaho, Inc. Dr. Eugene Skourtes remained the ultimate controlling person through his ownership of 100% of the direct parent, Willamette Dental of Idaho, Inc.

CAPITALIZATION

The Plan's Articles of Incorporation authorize 1,000 shares of non-par voting common stock. At December 31, 2008, the Plan had 100 shares issued and outstanding, with a stated value of \$10 per share.

MANAGEMENT AND CONTROL

Board of Directors

Article III of the Bylaws vest the management and control of the Plan in a Board of Directors, consisting of three members. The Board of Directors meets all the provisions of ORS 750.015 which requires not less than one-third of the group of persons vested with the management of the affairs of a health care service contractor to be representatives of the public who are not practicing doctors or employees or trustees of a participant hospital. A majority of directors constitutes a quorum. Members of the Board of Directors serving as of December 31, 2008, were:

<u>Name and Address</u>	<u>Title and Affiliation</u>	<u>Member Since</u>
Eugene Constantine Skourtes Beaverton, Oregon	President and CEO Willamette Dental Insurance, Inc.	1999
Norman Wapnick Beaverton, Oregon	Retired Attorney	1999
Stephen J. Petruzelli Beaverton, Oregon	Special Assistant to the Chairman Willamette Dental Insurance, Inc.	1999

The examiners noted the 2008 annual statement listed only two directors, omitting Mr. Petruzelli. A review of the Board minutes did not disclose any resignation or replacement. **I recommend the Plan comply with Article III of its Bylaws by having a Board of Directors consisting of three members.**

Officers

Operating management of the Plan as of December 31, 2008, was under the direction of the following principal officers:

<u>Name</u>	<u>Office</u>
Eugene C. Skourtes	President, CEO and Secretary
Wee Yuen Chin	COO and Treasurer
Stephen J. Petruzelli	Special Asst. to the Chairman

CONFLICT OF INTEREST

The Plan has an employee handbook that contains a policy requiring disclosure of any material interest or affiliation on the part of its directors, officers, and key personnel which may conflict with official duties. A review of the completed disclosures did not reveal any exceptions.

CORPORATE RECORDS

Board of Director Minutes

In general, the review of 2005 to 2008 Board meeting minutes indicated that the minutes support the transactions of the Plan and clearly describe the actions taken by its directors and officers. A quorum met at all of the meetings held during the period under review. A review

of the Plan's Board of Director's Meeting minutes showed evidence that the salaries of the officers were approved pursuant to ORS 732.320(3).

Articles of Incorporation

The Articles of Incorporation conformed with Oregon statutes. No amendments were made to the articles during the period covered by this examination.

Bylaws

The Bylaws conformed with Oregon statutes. No amendments were made to the Bylaws during the period covered by this examination.

Parent, Subsidiaries and Affiliated Companies

The Plan is a member of an insurance holding company system as defined in ORS 732.548. The ultimate controlling person of the holding company is Eugene C. Skourtes, who owns 100% of the following (except where indicated otherwise):

Willamette Dental Management Corporation (WDMC) is an Oregon corporation that provides management and administrative services to all the companies within the insurance holding company system. Dr. Skourtes owns 75% of this corporation.

Willamette Dental Group, P.C. (WDG) is an Oregon professional corporation that is the dental professional provider within the states of Idaho and Oregon.

Eugene C. Skourtes, Inc., P.S., d.b.a. Willamette Dental Group Washington is a Washington S Corporation that is the dental professional provider within the state of Washington.

McClusky, Petruzelli, Skourtes Real Estate is an Oregon S Corporation that purchases dental clinics. Dr. Skourtes owns 33% of this corporation.

Acorn Corporation is an Oregon corporation incorporated on August 23, 1991. Dr. Skourtes owns 50% of this corporation.

ENS Corporation is an Oregon corporation incorporated on April 1, 2004. Dr. Skourtes owns 75% of this corporation.

Willamette Dental of Idaho, Inc. is a licensed health insurer in the state of Idaho. This corporation owns 100% of the following insurance subsidiaries:

Willamette Dental of Washington, Inc., is a Washington corporation licensed as a health care service contractor.

Willamette Dental Insurance, Inc., (the Plan) is an Oregon corporation licensed as a health care service contractor.

INTERCOMPANY AGREEMENTS

As of December 31, 2008, the Plan was party to the following agreements with affiliates:

Business Service Agreement

Effective January 1, 2004, the Plan entered into an agreement with WDMC to provide such management and administrative services as are necessary and appropriate for the day-to-day operations of the Plan. WDMC agrees to perform all support services, management, administration, financial record keeping and reporting, and other business services. In exchange, the Plan will pay all direct expenses actually paid, plus an amount equal to five percent (5%) of all charges, premiums and other fees on plans sold by the Plan. Payments shall be made monthly no later than the 5th day of the calendar month immediately following the calendar month for which the business fees are due (approximately 35 days).

Intercompany Tax Sharing Agreement

Effective July 1, 2003, the Plan and an affiliate, Willamette Dental of Washington, entered into an agreement with the direct parent, Willamette Dental of Idaho. The affiliates and parent file a consolidated tax return, allocating the regular tax liability on a separate return basis, after taking into account all consolidated tax attributes available to reduce its separate tax liability. Similarly, any AMT (alternative minimum tax) liability shall be allocated on a separate return basis and without regard to the regular tax for such taxable year, after taking into account all consolidated tax attributes available to reduce its AMT tax liability. In the event of any adjustment, the liability shall be redetermined, and the parties shall promptly settle any amounts owed. Payments are due quarterly, not later than the due date of the estimated quarterly payments, with an adjustment made upon preparation of the consolidated return.

A review of the agreements discussed above concluded the terms appeared reasonable and fair. In addition, as of December 31, 2008, the Plan did not have any management contract or exclusive agency contracts in effect that are prohibited by ORS 732.215 and ORS 732.220, respectively.

FIDELITY BOND AND OTHER INSURANCE

The examination of insurance coverages involved a review of adequacy of limits and retentions, the authority to write in the State of Oregon, and the solvency of the insurers providing the coverages. At December 31, 2008, the Plan was insured up to \$1,000,000 per event, after a \$10,000 deductible, against losses from employee theft, forgery or alterations. This coverage exceeds the NAIC suggested minimum level of fidelity bond coverage for the size and volume of its operation.

The Plan has directors and officers liability coverage for \$5,000,000, after a \$5,000 deductible. Other insurance coverages in force at December 31, 2008, were as follows:

Managed care liability	Business owners property
Employee benefits liability	Commercial automobile
Real property liability	Umbrella liability

The limits for the above coverages were found to be adequate as of December 31, 2008.

TERRITORY AND PLAN OF OPERATION

The Plan and its predecessor insurer have written dental business in Oregon since 1983. The business is comprised of commercial plans, government plans, and individual plans. The Plan contracts with WDG for the provision of dental services to the Plan's membership. Pursuant to the provisions of ORS 750.095(2), the Plan's contracting dental office agreement contains a "hold harmless" provision. The hold harmless provision requires, in the event of failure to pay by the Plan for any reason, the contracting dental office shall look solely to the Plan for compensation for covered services and not to the policyholder.

During the period under examination, the Plan obtained authority to write dental business in the State of Nevada. In early 2007, the Plan developed a dental HMO (DHMO) network in Washoe County to offer dental coverage. The Nevada State Board of Dental Examiners objected to this arrangement and the Plan filed a suit of declaratory relief. On August 18, 2008, the Board approved entering into a settlement and the Plan appears to be winding down its operations in the State of Nevada.

GROWTH OF THE PLAN

The growth of the Plan over the last five years is reflected in the following table. The stated amounts were derived from the Plan's filed annual statements and from reports of examination published by the Oregon Insurance Division.

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Net Income</u>
2004*	\$3,060,944	\$1,271,910	\$1,789,034	\$418,468
2005	3,593,333	1,337,759	2,255,574	454,823
2006	3,874,729	1,091,142	2,783,587	590,489
2007	3,653,812	992,463	2,661,350	5,619
2008*	3,500,664	803,036	2,697,628	95,190

*Per examination

LOSS EXPERIENCE

The following exhibit reflects the underwriting results of the Plan over the past five years.

The amounts were compiled from the Plan's filed annual statements.

<u>Year</u>	<u>A</u> <u>Net Premium</u> <u>Income</u>	<u>B</u> <u>Total Hospital and</u> <u>Medical</u>	<u>C</u> <u>CAE and Gen'l</u> <u>Expenses</u>	<u>(B+C)/A</u> <u>Combined Ratio</u>
2004*	\$13,474,574	\$12,121,988	\$ 883,610	96.5%
2005	16,736,257	15,097,972	1,065,826	96.6%
2006	17,769,961	16,070,566	1,127,638	96.8%
2007	19,961,078	17,713,534	2,391,617	100.7%
2008*	23,698,002	20,595,910	2,945,407	99.3%

* Per examination

A combined loss incurred and expense to premium ratio of more than 100% indicates an underwriting loss. The Plan reported underwriting gains in four of the last five years, but recorded an underwriting loss of \$118,511 during 2007.

The Plan has an exclusive provider arrangement with WDG whereby the Plan remits a capitated fee of approximately 90% of collected premiums to WDG for covered dental services. In addition, the Plan offers a noninsurance discount product, called Dental Plus, which provides discounts on dental procedures. The Plan charges an annual fee, which allows enrollees to receive discounted services from a panel of providers in which WDG participates.

REINSURANCE

The Plan does not have reinsurance. Reinsurance is not necessary since the entire risk for claims is transferred to WDG through the provider arrangement described above. The Oregon Insurance Division allows, under Director's Bulletin 96-2, the transfer of risk to a nonlicensed entity, if the capitation is internal to a policy of insurance that is delivered by the health care service contractor.

ACCOUNTS AND RECORDS

All records were made available to the examiners in compliance with the provisions of ORS 733.170. Assets are maintained in accordance with the provisions of ORS 732.245. However, the following examination issues were noted:

The Plan reported a negative cash balances in an account as general expenses due or accrued. This practice is contrary to SSAP No. 2, paragraph 5, which states that cash accounts with positive balances shall not be reported separately from cash accounts with negative balances. If in the aggregate, the reporting entity has a net negative cash balance, it shall be reported as a negative asset and shall not be recorded as a liability. The balance of the misreported account was not material, and no adjustments were made. **I recommend the Plan report all cash account balances according to statutory reporting requirements in a manner described in SSAP No. 4, paragraph 5, pursuant to ORS 731.574(6).**

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company has taken corrective action with respect to the five recommendations made in the 2004 report of examination. A follow-up report was prepared on April 21, 2007.

FINANCIAL STATEMENTS

The following examination financial statements show the financial conditions of Willamette

Dental Insurance, Inc., as of December 31, 2008:

Statement of Assets

Statement of Liabilities, Capital and Surplus

Statement of Revenues and Expenses

Reconciliation of Surplus Since the last Examination

WILLAMETTE DENTAL INSURANCE, INC.
BALANCE SHEET
As of December 31, 2008

<u>ASSETS</u>	<u>Balance Per Plan</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Common stocks (Note 1)	\$ 207,652	\$ 0	\$ 207,652
Cash and short-term investments (Note 1)	2,524,517		2,524,517
Investment income due and accrued	0		0
Uncollected premiums in the course of collection	283,167		283,167
Current FIT recoverable and interest thereon	45,382		45,382
Net deferred tax asset	0		0
Receivable from parent, subsidiaries and affiliates	100,959		100,959
Deferred compensation	338,987		338,987
Total Assets	<u>3,500,664</u>	<u>0</u>	<u>3,500,664</u>
 <u>LIABILITIES</u>			
Claims unpaid (Note 2)	0		0
Unpaid claims adjustment expense (Note 2)	0		0
Premiums received in advance	89,797		89,797
General expenses due or accrued	73,777		73,777
Amounts withheld or retained on account of other	458,270		458,270
Amounts due to parent, subsidiaries and affiliates	181,192		181,192
Total Liabilities	<u>803,036</u>	<u>0</u>	<u>803,036</u>
 <u>CAPITAL & SURPLUS</u>			
Common capital stock	1,000		1,000
Gross paid in and contributed surplus	829,505		829,505
Unassigned funds	1,867,123		1,867,123
Total Capital & Surplus	<u>2,697,628</u>	<u>0</u>	<u>2,697,628</u>
Total Liabilities, Capital & Surplus	<u>\$ 3,500,664</u>	<u>\$ 0</u>	<u>\$ 3,500,664</u>

WILLAMETTE DENTAL INSURANCE, INC.
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2008

	<u>Balance Per Plan</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Net premium income	\$23,698,002	\$ 0	\$23,698,002
Net management fee income	<u>12,454</u>	<u>0</u>	<u>12,454</u>
Total revenues	<u>23,710,456</u>	<u>0</u>	<u>23,710,456</u>
Other professional services	<u>20,595,910</u>	<u>0</u>	<u>20,595,910</u>
Total hospital and medical	<u>20,595,910</u>	<u>0</u>	<u>20,595,910</u>
Claims adjustment expenses	0		0
General administrative expenses	<u>2,945,407</u>	<u>0</u>	<u>2,945,407</u>
Total underwriting deductions	<u>23,541,317</u>	<u>0</u>	<u>23,541,317</u>
Net underwriting gain	<u>169,139</u>	<u>0</u>	<u>169,139</u>
Net investment income earned	35,341		35,341
Net realized capital gains or (losses)	<u>(109,291)</u>	<u>0</u>	<u>(109,291)</u>
Net investment gains or (losses)	<u>(73,950)</u>	<u>0</u>	<u>(73,950)</u>
Net income or (loss) before federal income taxes	95,190		95,190
Federal and foreign income taxes incurred	<u>0</u>	<u>0</u>	<u>0</u>
Net income (loss)	<u>\$ 95,190</u>	<u>\$ 0</u>	<u>\$ 95,190</u>

NOTE: There may be minor differences due to rounding.

WILLAMETTE DENTAL INSURANCE, INC.
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Years Ended December 31,

	2008	2007	2006	2005
Capital and surplus, December 31, previous year	<u>\$ 2,661,350</u>	<u>\$ 2,783,587</u>	<u>\$ 2,255,574</u>	<u>\$ 1,912,625</u>
Net income	95,190	5,619	590,489	454,823
Net unrealized capital gains or (losses)	(94,318)	(36,693)	36,103	16,910
Change in net deferred income tax		(21,180)	10,845	7,591
Change in nonadmitted assets	35,404	(69,983)	(109,424)	(136,376)
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)				
Change in treasury stock				
Examination adjustment				
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Change in surplus as regards policyholders	<u>36,276</u>	<u>(122,237)</u>	<u>528,013</u>	<u>342,949</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 2,697,626</u>	<u>\$ 2,661,350</u>	<u>\$ 2,783,587</u>	<u>\$ 2,255,574</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Investments

The Plan did not report any long-term bond investments during the period under examination. The Plan did report common stock investments, comprised of seven mutual funds. Cash and short-term deposits consisted of cash on deposit, short-term Treasury bills, and investments in three separate money market funds. A comparison of the investments over the past five years is as follows:

<u>Year</u>	<u>A Common Stocks</u>	<u>B Cash and Short-term</u>	<u>Ratio A/ Total Assets</u>	<u>Ratio B/ Total Assets</u>
2004	277,555	2,031,250	8.7%	63.9%
2005	303,449	2,582,991	8.4%	71.9%
2006	344,505	2,358,187	8.9%	60.9%
2007	354,934	1,568,050	9.7%	42.9%
2008	207,652	2,524,517	5.9%	72.1%

The minutes indicated that the Board reviews and approves investments in accordance with the provisions of ORS 733.730 and ORS 733.740. As of December 31, 2008, invested assets with a reported book value of \$385,664, representing 14% of the total invested assets, were invested in amply secured obligations of the United States or FDIC insured cash deposits. This amount was below the amount required by ORS 733.580. On July 8, 2009, the Plan purchased approximately \$754,000 of US Treasury Bills, which combined with the \$250,000 FDIC limit in the operating checking account at Key Bank, would bring the Plan into compliance.

ORS 733.580 requires an insurer to keep assets equal to its required capital and surplus invested in certain types of assets. These assets include, but are not limited to, amply secured obligations of the United States, a state or a political subdivision of this state and deposits or certificates of deposit to the extent such investments are insured by the federal deposit insurance corporation. **I recommend the Plan maintain at all times investments totaling no less than \$1,000,000 that are identified in ORS 733.580.**

Note 2 – Claims Unpaid and Unpaid Claims Adjustment Expense Reserves

There were no reserves for unpaid claims since the Plan has an agreement with WDG to provide dental services for subscribers in return for a capitated payment. After payment of the capitation fee, the Plan is no longer obligated to pay for any further dental claims costs. Under the dental plus coverage, the subscriber pays an annual premium to the Plan in return for discounts on dental procedures

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were two comments or recommendations made as a result of this examination, as follows:

Page

- 6 I recommend the Plan comply with Article III of its Bylaws by having a Board of Directors consisting of three members.
- 12 I recommend the Plan report all cash account balances according to statutory reporting requirements in a manner described in SSAP No. 4, paragraph 5 pursuant to ORS 731.574(6).
- 17 I recommend the Plan maintain at all times investments totaling no less than \$1,000,000 that are identified in ORS 733.580.

CONCLUSION

During the four-year period covered by this examination, the surplus of the Plan has increased from \$1,789,034, as presented in the December 31, 2004, report of examination, to \$2,697,628, as shown in this report of examination. The comparative assets and liabilities are shown below:

	<u>2008</u>	December 31, <u>2004</u>	<u>Change</u>
Assets	\$3,500,664	\$3,060,944	\$439,720
Liabilities	<u>803,036</u>	<u>1,271,910</u>	<u>468,874</u>
Surplus	<u>\$2,697,628</u>	<u>\$1,789,034</u>	<u>\$908,594</u>

ACKNOWLEDGMENT

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

In addition to the undersigned, Raymond W. Anderson, CFE, 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 Willamette Dental Insurance, Inc.

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 Willamette Dental Insurance, Inc., 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 _____, 2009.

Notary Public for the State of Oregon

My Commission Expires: _____