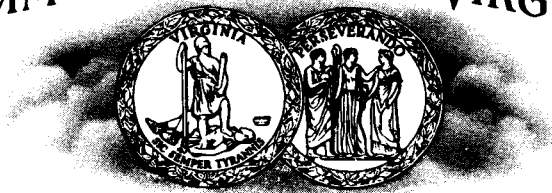


**EXAMINATION REPORT**  
**of**  
**CIGNA DENTAL HEALTH OF VIRGINIA, INC.**  
**Sunrise, Florida**  
**as of**  
**December 31, 2009**

# COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS  
COMMISSIONER OF INSURANCE



P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
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## STATE CORPORATION COMMISSION BUREAU OF INSURANCE

I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of CIGNA Dental Health of Virginia, Inc. as of December 31, 2009, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand  
and affixed to the original the seal of the Bureau at the City  
of Richmond, Virginia this 30<sup>th</sup> day of June, 2010

A handwritten signature in cursive script that reads 'Alfred W. Gross'.

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Alfred W. Gross  
Commissioner of Insurance

(SEAL)

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Richmond, Virginia  
March 25, 2010

Honorable Alfred W. Gross  
Commissioner of Insurance  
Richmond, Virginia

Dear Sir:

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

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

Sunrise, Florida

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

**DESCRIPTION**

The Corporation became licensed in Virginia as a health maintenance organization ("HMO") offering limited health care services pursuant to Chapter 43 of Title 38.2 of the Code of Virginia on June 26, 2000. The Corporation was last examined by representatives from the State Corporation Commission's (the "Commission") Bureau of Insurance (the "Bureau") as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2009.

**HISTORY**

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

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

## **CAPITAL AND SURPLUS**

At December 31, 2009, the Corporation's Capital and surplus was \$1,831,612. According to the Articles of Incorporation, the Corporation has the authority to issue 1,000 shares of common capital stock with a par value of \$1.00 per share. At December 31, 2009, 1,000 shares of common capital stock were issued and outstanding, with Gross paid in and contributed surplus of \$1,005,000 and Unassigned funds of \$825,612.

## **NET WORTH REQUIREMENT**

Section 38.2-4302 of the Code of Virginia states that an HMO licensed in Virginia shall maintain a minimum net worth in an amount at least equal to the sum of uncovered expenses, but not less than \$600,000, up to a maximum of \$4,000,000. 14 VAC 5-210-60 A requires that an HMO report the sum of its uncovered expenses for each three-month period ending December 31, March 31, June 30 or September 30. Because the sum of the Corporation's uncovered expenses for the three-month period ending December 31, 2009 was \$265,616, the Corporation's minimum net worth requirement at December 31, 2009 was \$600,000.

## **MANAGEMENT AND CONTROL**

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

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

At December 31, 2009, the Board of Directors and Officers were as follows:

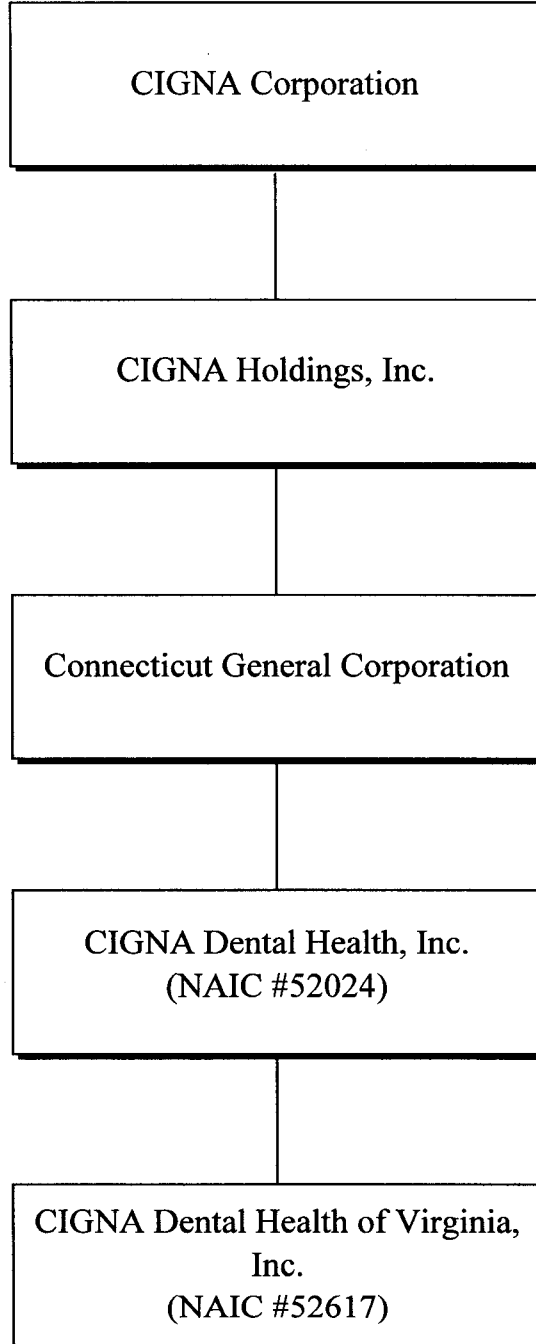
<u>Directors</u>	<u>Principal Occupation</u>
Matthew G. Manders	President CIGNA Dental Health, Inc. Sunrise, Florida
Julie A. Vayer	Vice President CIGNA Dental Health, Inc. Sunrise, Florida
Justin J. Warrington	Vice President and Treasurer CIGNA Dental Health, Inc. Sunrise, Florida

Officers

Matthew G. Manders	President
Shermona S. Mapp	Secretary
Justin J. Warrington	Treasurer

**AFFILIATED COMPANIES**

According to its Articles of Incorporation, the Corporation has the authority to issue 1,000 shares of common capital stock with a par value of \$1.00 per share. At December 31, 2009, the 1,000 outstanding shares of common stock were owned by CIGNA Dental Health, Inc. ("CDH"). The chart on the following page illustrates the organizational structure of the Corporation and selected affiliated entities at December 31, 2009.



## TRANSACTIONS WITH AFFILIATES

### Administrative Services Agreement

Effective December 31, 2007, the Corporation entered into an amended Administrative Services Agreement with CIGNA Dental Health of Florida, Inc. ("CDHF"). Under the terms of the agreement, CDHF shall provide the Corporation with all necessary administrative and management services in connection with the Corporation's operations. These services shall include data processing, premium reconciliation, fund transfers, financial services, marketing direction, local sales monitoring, and quality management activity monitoring. In return for providing the services, the Corporation shall pay CDHF a monthly fixed fee per member based on the coverage chosen by the member. The Corporation incurred fees related to this agreement equaling \$932,501 and \$1,064,333 in 2009 and 2008, respectively.

### Consolidated Federal Income Tax Agreement

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

### Insolvency Guarantee

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



### Investment Advisory Agreement

Effective September 17, 2009, the Corporation entered into an Investment Advisory Agreement with CIGNA Investments, Inc. ("CII") Under terms of the agreement, CII shall make and carry out decisions with respect to the acquisition, holding and disposition of securities, real estate or any other asset of the Corporation's portfolio subject to investment goals and limitations set by the Corporation. As compensation for investment advisory services, the Corporation shall pay CII a fee based upon its proportionate share of the costs and expenses incurred by CII. The Corporation's proportionate share of costs and expenses is based on the Corporation's proportionate share of assets under CII's management as of the last day of the immediately preceding quarter. The Corporation incurred fees related to this agreement equaling \$1,446 and \$2,358 in 2009 and 2008, respectively.

### Dividends to Stockholders

The Corporation paid the following cash dividends to CDH during the three-year period under review, January 1, 2007 to December 31, 2009:

<u>Dividend Type</u>	<u>Amount</u>	<u>Dividend Request Date</u>	<u>Bureau Approval Date</u>	<u>Date Paid to CDH</u>
Extraordinary	\$1,250,000	11/26/07	12/11/07	12/28/07
Extraordinary	750,000	9/4/08	9/24/08	10/15/08
Extraordinary	750,000	8/14/09	9/8/09	9/17/09

### **TERRITORY AND PLAN OF OPERATION**

At December 31, 2009, the Corporation's service area, as reported in its 2009 Annual Statement, included the Virginia cities of Alexandria, Chesapeake, Colonial Heights, Fairfax, Falls Church, Fredericksburg, Hampton, Hopewell, Manassas, Newport News, Norfolk, Petersburg, Portsmouth, Richmond, and Virginia Beach and the Virginia counties of Alexandria, Arlington, Chesapeake, Chesterfield, Dinwiddie, Fairfax, Hanover, Henrico, Loudoun, Nottoway, Prince George, Prince William, Richmond, Spotsylvania, Stafford, and Waynesboro.

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

### **CONFLICT OF INTEREST**

The Corporation has adopted CIGNA Corporation's code of ethics and compliance policy. The policy, as it relates to conflicts of interest, states that directors, officers, and employees should avoid any situation that involves, or appears to involve, a conflict between personal interests and the interests of the Corporation. To ensure compliance with the Corporation's policy, directors, officers, and key employees must complete a conflict of interest questionnaire annually.

### **FIDELITY BOND AND OTHER INSURANCE**

At December 31, 2009, the Corporation was listed as a named insured on CIGNA Corporation's crime/fidelity policy with a \$5,000,000 limit of liability, subject to \$2,500,000 self-insured retention/deductible, to insure against losses arising from dishonest acts of its officers and employees. Additionally, the Corporation was listed as a named insured on a professional liability insurance policy, a commercial general liability insurance policy, a commercial automobile insurance policy, an umbrella liability policy and a workers compensation and employers liability insurance policy.

### **PROVIDER AGREEMENTS**

The Corporation has entered into agreements with numerous participating general dentists and specialists to provide dental services to members. Participating general dentists are paid a monthly capitation fee based on the number of members enrolled with the participating general dentist and the type of product chosen by the member. Specialists are compensated according to published fee schedules for services performed. At December 31, 2009, the Corporation had agreements with the following specialists: endodontists, oral surgeons, orthodontists, pediatric dentists, and periodontists.

### **CONTRACT FORMS**

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

### GROWTH OF THE CORPORATION

The following data is representative of the growth of the Corporation, at year-end, for the ten-year period ending December 31, 2009. The data is compiled from the Corporation's filed Annual Statements, the previous examination report, and the current examination report.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital And Surplus</u>
2000	\$682,821	\$9,061	\$673,760
2001	3,406,834	522,524	2,884,310
2002	5,014,607	338,239	4,676,368
2003	3,750,222	292,226	3,457,996
2004	2,461,505	299,688	2,161,817
2005	2,989,629	426,789	2,562,840
2006	2,041,336	314,986	1,726,350
2007	1,817,367	255,260	1,562,107
2008	1,962,895	323,448	1,639,447
2009	2,238,812	407,200	1,831,612

<u>Year</u>	<u>Total Revenue</u>	<u>Net Investment Gains</u>	<u>Medical &amp; Hospital Expenses</u>	<u>Administrative Expenses</u>	<u>Pre-Tax Income (Loss)</u>
2000	\$24,631		\$0	\$0	\$24,631
2001*	12,157,934	50,736	7,700,879	1,990,997	2,516,794
2002	10,819,502	61,816	6,491,308	1,627,550	2,762,460
2003	9,845,147	22,330	5,816,784	1,641,239	2,409,454
2004	9,452,676	29,075	5,609,576	1,563,243	2,308,932
2005	8,473,679	59,411	4,855,284	1,330,758	2,347,048
2006	7,466,045	97,849	4,424,552	1,083,495	2,055,847
2007	7,265,966	86,102	4,626,536	1,027,096	1,698,436
2008	6,700,524	41,058	4,472,726	948,039	1,320,817
2009	6,546,732	18,832	4,311,463	915,288	1,338,813

\*Prior to 2001, Net investment gains or losses were included in Total Revenue.

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

<u>Year</u>	<u>Number of Members</u>
2000	0
2001	105,869
2002	73,785
2003	68,534
2004	62,449
2005	52,937
2006	43,934
2007	42,653
2008	37,683
2009	34,810

#### **SPECIAL RESERVES AND DEPOSITS**

At December 31, 2009, the Bureau required the Corporation to maintain a minimum deposit of \$400,000 with the Treasurer of Virginia.

**SCOPE**

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2007 through December 31, 2009. Assets were verified and liabilities established at December 31, 2009.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the Bureau plan and perform the examination to evaluate the financial condition and identify prospective risks of the Corporation, assess corporate governance, identify and assess inherent risks within the Corporation, and evaluate 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 instructions when applicable to domestic state regulations.

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

**FINANCIAL STATEMENTS**

There follows a statement of financial condition as of December 31, 2009; a statement of revenue and expenses for the year ending December 31, 2009; a reconciliation of capital and surplus for the period under review; and a statement of cash flow for the year ending December 31, 2009. The financial statements are presented in accordance with Statutory Accounting Principles.

**ASSETS**

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$889,571		\$889,571
Cash and short-term investments	<u>715,273</u>		<u>715,273</u>
Subtotals, cash and invested assets	\$1,604,844	\$0	\$1,604,844
Investment income due and accrued	7,307		7,307
Uncollected premiums and agents' balances in the course of collection	554,940	324	554,616
Net deferred tax asset	68,082		68,082
Receivables from parent, subsidiaries, and affiliates	185,420	185,420	0
Aggregate write-ins for other than invested assets	<u>3,963</u>		<u>3,963</u>
Total assets	<u><u>\$2,424,556</u></u>	<u><u>\$185,744</u></u>	<u><u>\$2,238,812</u></u>

**LIABILITIES, CAPITAL AND SURPLUS**

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$216,512	\$16,489	\$233,001
Unpaid claims adjustment expenses	6,371		6,371
Premiums received in advance	30,698		30,698
General expenses due or accrued	17,904		17,904
Current federal income tax payable and interest thereon	96,130		96,130
Remittance and items not allocated	3,497		3,497
Amounts due to parent, subsidiaries and affiliates	19,599		19,599
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>\$390,711</u>	<u>\$16,489</u>	<u>\$407,200</u>
Common capital stock			\$1,000
Gross paid in and contributed surplus			1,005,000
Unassigned funds (surplus)			825,612
			<hr/>
Total capital and surplus			<u>\$1,831,612</u>
			<hr/>
Total liabilities, capital and surplus			<u><u>\$2,238,812</u></u>



**STATEMENT OF REVENUE AND EXPENSES**

	<u>Uncovered</u>	<u>Total</u>
Net premium income	XXX	\$6,546,732
Total revenues	XXX	\$6,546,732
<b>Hospital and Medical:</b>		
Other professional services	\$602	\$4,154,710
Outside referrals	156,753	156,753
Total hospital and medical	\$157,355	\$4,311,463
Claims adjustment expenses	19,937	19,937
General administrative expenses	895,351	895,351
Total underwriting deductions	\$1,072,643	\$5,226,751
Net underwriting gain	XXX	\$1,319,981
Net investment income earned	XXX	\$18,685
Net realized capital gains	XXX	147
Net investment gains	XXX	\$18,832
Net income before federal income taxes	XXX	\$1,338,813
Federal income taxes incurred	XXX	470,237
Net income	XXX	\$868,576

**RECONCILIATION OF CAPITAL AND SURPLUS**

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Capital and surplus prior reporting year	<u>\$1,726,350</u>	<u>\$1,562,107</u>	<u>\$1,639,447</u>
<b>GAINS AND LOSSES TO CAPITAL AND SURPLUS:</b>			
Net income	\$1,108,093	\$860,351	\$868,576
Change in net deferred income tax	5,761	17,171	12,738
Change in nonadmitted assets	(28,097)	(50,182)	(31,756)
Dividends to stockholders	(1,250,000)	(750,000)	(750,000)
Aggregate write-ins for gains in surplus	<u>                    </u>	<u>                    </u>	<u>92,607</u>
Net change in capital and surplus	<u>(\$164,243)</u>	<u>\$77,340</u>	<u>\$192,165</u>
Capital and surplus end of reporting year	<u><u>\$1,562,107</u></u>	<u><u>\$1,639,447</u></u>	<u><u>\$1,831,612</u></u>

**CASH FLOW****Cash from Operations**

Premiums collected net of reinsurance	\$6,742,406
Net investment income	25,694
Total	<u>\$6,768,100</u>
Benefit and loss related payments	\$4,290,997
Commissions, expenses paid and aggregate write-ins for deductions	917,005
Federal income taxes paid	455,921
Total	<u>\$5,663,923</u>
Net cash from operations	<u>\$1,104,177</u>

**Cash from Investments**

Proceeds from investments sold, matured or repaid:	
Net gains on cash and short-term investments	\$242
Total investment proceeds	<u>\$242</u>
Net cash from investments	<u>\$242</u>

**Cash from Financing and Miscellaneous Sources**

Cash provided (applied):	
Dividends to stockholders	(\$750,000)
Other cash provided	15,066
Net cash from financing and miscellaneous sources	<u>(\$734,934)</u>

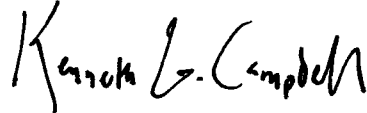
**RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS**

Net change in cash and short-term investments	\$369,485
Cash and short-term investments:	
Beginning of the year	345,788
End of the year	<u>\$715,273</u>

**CONCLUSION**

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

Respectfully submitted,

A handwritten signature in black ink that reads "Kenneth G. Campbell". The signature is written in a cursive style with a large initial 'K' and a distinct 'G'.

Kenneth G. Campbell, CFE  
Assistant Chief Examiner



June 14, 2010

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

**RE: CIGNA Dental Health of Virginia, Inc.  
Examination Report as of December 31, 2009**

Dear Mr. Smith:

Thank you for your letter dated May 24, 2010 regarding the Draft Financial Examination Report for CIGNA Dental Health of Virginia, Inc. as of December 31, 2009. We have reviewed the report and have no objections to its content. Therefore, we accept the information contained in the Financial Examination Report for CIGNA Dental Health of Virginia, Inc. as of December 31, 2009.

Sincerely,

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Matthew G. Manders, President