

EXAMINATION REPORT OF
VERATRUS BENEFIT SOLUTIONS, INC.
JOHNSTON, IOWA
AS OF DECEMBER 31, 2022

Johnston, Iowa
June 5, 2024

HONORABLE DOUG OMMEN
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner,

In accordance with your authorization and pursuant to Iowa statutory provisions, an examination has been made of the records, business affairs, and financial condition of

VERATRUS BENEFIT SOLUTIONS, INC.

JOHNSTON, IOWA

AS OF DECEMBER 31, 2022

with its headquarters at 9000 Northpark Drive, Johnston, Iowa.

INTRODUCTION

Veratrus Benefit Solutions, Inc., hereinafter referred to as the “Company”, was last examined as of December 31, 2021, by the Iowa Insurance Division.

The Company’s parent, Delta Dental of Iowa (“DDIA”), was examined concurrently with this examination with a separate report prepared for each entity.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2022, to the close of business on December 31, 2022, including any material transactions and events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Division plan and perform the examination to evaluate the financial condition, 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.

The examination report includes significant findings of fact and general information about the insurer and its financial condition.

HISTORY

The Company was formed by DDIA as a wholly owned for-profit stock company on January 1, 2010. The Company is organized under Chapter 514B, Code of Iowa, as a Limited Services Organization. Its purpose is to distribute the DeltaVision product through contractual agreements with employer-sponsored vision care plans which provide vision services to subscribers through a contract with EyeMed Vision Care, LLC.

On February 27, 2017, DDIA set up a for-profit holding company, Veratrus Health, Inc. (“VHI”), and purchased 10,000 shares of common stock of VHI for consideration of \$1,050,000 and all common stock of the Company. VHI is incorporated in the State of Iowa as a for-profit corporation and is the holding company of various organizations offering services in the State of Iowa.

On February 27, 2017, DDIA created Veratrus Investments, LLC (“VILLC”), an Iowa limited liability company, as a subsidiary of VHI. VHI is the sole member of VILLC.

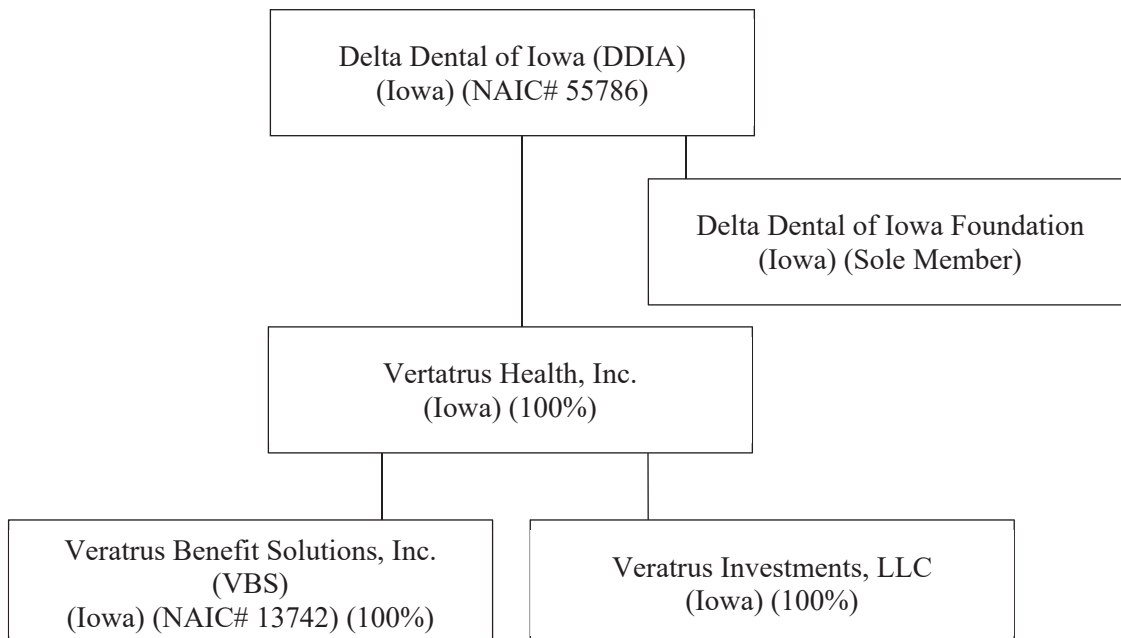
CAPITAL STOCK AND DIVIDENDS THEREON

The aggregate number of shares of stock that the Company is authorized to issue is 1,000,000 shares of common stock. As of December 31, 2022, the Company has 100,000 shares issued and outstanding represented by \$100,000 in common capital stock and \$435,000 of gross paid in and contributed surplus. All shares are held by the Company’s parent, VHI. The Company paid stockholder dividends of \$700,000 in 2022.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of a Holding Company System as defined by Chapter 521A of the Code of Iowa. DDIA is the ultimate controlling person for the group. An Insurance Holding Company System Registration Statement was filed with the Iowa Insurance Division for each year of the examination period.

An organizational chart identifying the Companies within the Holding Company System as of December 31, 2022, is as follows:



MANAGEMENT AND CONTROL

SHAREHOLDERS

The Bylaws provide that the annual meeting of the shareholders is to be held during the second calendar quarter of each year, on a date determined by the Board of Directors, at such place as the Board of Directors shall fix each year.

At any meeting of the shareholders, a majority of the votes entitled to be cast on the matter constitutes a quorum for action on that matter, unless the representation of a different number is required by law and, in that case, the representation of the number so required shall constitute a quorum. Every shareholder entitled to vote may vote in person or by proxy. Each outstanding share entitled to vote, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of shareholders.

BOARD OF DIRECTORS

The Bylaws provide that all corporate powers are to be exercised by or under the authority of, and the business affairs of the Company are to be managed under the direction of, the Board of Directors.

The number of directors of the Company shall be not less than three (3) or more than twenty-one (21), with the number of directors within this range to be determined by resolution of the Board of Directors. Each director shall hold office until the next succeeding annual meeting and until his or her successor shall have been elected and qualified, or until his or her death, resignation, or removal.

A majority of the directors shall be residents of the state of Iowa. Not less than 30 percent of the Board of Directors shall be persons who are Covered Persons under the Company's vision services products, and such persons shall not be ophthalmologists, optometrists or opticians, or persons associated with ophthalmologists, optometrists, or opticians, who provide vision services to the Company's Covered Persons. "Covered Persons" are persons covered by the Company's covered group/individual plans. Employees of DDIA and the Company are not eligible to be counted as Covered Persons directors; but may otherwise serve as directors.

A quorum of the Board of Directors consists of a majority of the number of directors prescribed according to the determination described in the previous paragraph. At all meetings of directors, a quorum being present, the act of a majority of the directors present at any meeting shall be the act of the Board of Directors.

Regular meetings of the Board of Directors shall be held at such place and at such times as the Board of Directors shall by resolution fix and determine from time to time. No notice shall be required for any such regular meeting of the Board.

The directors duly elected and serving as of December 31, 2022, were as follows:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Jeffrey S. Russell* Des Moines, Iowa	President and Chief Executive Officer Delta Dental of Iowa	2023
Sherry M. Perkins Des Moines, Iowa	Vice President, Finance and Controller, Secretary and Treasurer Delta Dental of Iowa	2023
Gary L. Bridgewater Johnston, Iowa	Chief Executive Officer Baker Group	2023

*Effective June 22, 2023, the Board accepted the resignation of Jeff Russell as President and CEO and appointed April Schmaltz, SVP Marketing and Sales, and Todd Herren, SVP Technology and Operations, as interim Co-CEOs. April Schmaltz was elected to serve as President and Chief Executive Officer for Veratrus Benefit Solutions, Inc., Veratrus Health, Inc., and Veratrus Investments, LLC on June 23, 2023. On January 8, 2024, April Schmaltz was named the new President & CEO.

BOARD COMMITTEES

The Bylaws provide that the Board of Directors may establish one or more committees, including an Executive Committee, each committee to contain one or more directors appointed by the Board of Directors, except as otherwise required under the Iowa Business Corporation Act. Each Committee shall have the powers and duties delegated to it by the Board of Directors. The Board has not established any Committees.

OFFICERS

As stated in the Bylaws, the officers of the Company shall consist of a President, one or more Vice Presidents, a Secretary, a Treasurer and such other officers as may from time to time be elected by the Board of Directors. The officers of the Company are elected annually by the Board of Directors at the annual meeting thereof. Each officer shall hold office until the next succeeding annual meeting of the Board of Directors and until his or her successor shall have been duly chosen and shall qualify or until his or her death or until he or she resigns or is removed.

An officer may resign at any time by delivering notice to the Secretary. An officer may be removed at any time with or without cause by any of the following: (a) the Board of Directors; (b) the officer who appoints such officer, unless the Bylaws or Board of Directors provide otherwise; or (c) any other officer if authorized by the Bylaws or the Board of Directors.

The officers duly elected and serving as of December 31, 2022, were as follows:

<u>Name</u>	<u>Title</u>
Jeffrey S. Russell*	President and Chief Executive Officer
Sherry M. Perkins	Secretary and Treasurer

*Effective June 22, 2023, the Board accepted the resignation of Jeff Russell as President and CEO and appointed April Schmaltz, SVP Marketing and Sales, and Todd Herren, SVP Technology and Operations, as interim Co-CEOs. April Schmaltz was elected to serve as President and Chief Executive Officer for Veratrus Benefit Solutions, Inc., Veratrus Health, Inc., and Veratrus Investments, LLC on June 23, 2023. On January 8, 2024, April Schmaltz was named the new President & CEO.

CONFLICT OF INTEREST

The Company has an established procedure for the annual disclosure to its Board of Directors of any material interest or affiliation on the part of its officers, directors or key employees which is in conflict with, or is likely to be in conflict with, the official duties of such persons. A review of these statements indicated there were no conflicts found that would appear to interfere with that person's official duties.

CORPORATE RECORDS

The minutes of the Company's Board of Directors meetings did not evidence review and receipt of the Iowa Insurance Division 2021 Financial Examination Report of the Company. Rather the report was reviewed at the Company's parent, Delta Dental of Iowa Board of Directors meeting held December 8, 2023.

There were no amendments to the Articles of Incorporation or Bylaws during the examination period.

FIDELITY BONDS AND OTHER INSURANCE

Under its Insurance Company Bond coverage, the Company is protected against loss from Employee Dishonesty up to \$5,000,000 for single loss and \$5,000,000 aggregate limit of insurance for bond coverage.

The other interests of the Company appear to be adequately protected through coverages afforded by policies in force.

INTERCOMPANY AGREEMENTS

Management Agreement

The Company has a management agreement with DDIA whereby DDIA makes its employees available to the Company to perform services necessary to conduct its business operations. The Company reimburses DDIA for all direct costs incurred on behalf of the Company. Direct costs are based upon allocation percentages agreed upon in writing by the two parties.

EMPLOYEE WELFARE

The Company's only employees are the officers listed above. The Company's officers, through DDIA, are provided group life insurance, disability insurance, medical insurance, vision insurance, and dental insurance. DDIA also provides a qualified contributory 401(k) Plan, a nonqualified deferred compensation plan ("SERP Plan"), a 457(b) deferred compensation plan, a 457(f) incentive and retention benefits plan for selective executive employees, and an executive long-term incentive plan ("LTIP Plan").

REINSURANCE

The Company did not have any reinsurance agreements during the examination period.

TERRITORY AND PLAN OF OPERATION

The Company is a for-profit stock corporation licensed as a limited health services organization in the state of Iowa. The Company maintains and operates employer sponsored vision care plans which provide vision services to subscribers through a contract with EyeMed Vision Care, LLC. The Company's focus is on growth through cross-selling to existing group dental clients and key broker relationships.

Beginning in 2021, the Company has partnered with ARAG Insurance Company to offer legal insurance and identity theft protection for small businesses.

GROWTH OF COMPANY

The growth of the Company is reflected by the following data taken from the filed annual statements for the years indicated.

<u>Year</u>	Total Admitted <u>Assets</u>	Capital and <u>Surplus</u>	Net Total <u>Revenues</u>	Total <u>Claims</u>	Investment <u>Income</u>
2022	\$ 2,769,839	\$ 1,483,153	\$ 8,659,740	\$ 5,268,594	\$ 19,630
2021	2,348,548	1,255,332	7,401,376	4,929,009	1,708
2020	2,154,866	1,333,874	5,657,905	3,523,520	5,009
2019	1,683,693	1,035,520	5,015,458	3,404,894	13,794
2018	1,868,699	1,025,530	4,239,243	2,863,870	9,428

ACCOUNTS AND RECORDS

Trial balances of the Company's general ledgers were taken for each year under examination and were found to be in agreement with the office copies of the filed annual statements for those years. Cash receipts and disbursements were tested to the extent deemed necessary.

During the course of the examination, no material aggregate surplus difference was identified from the amount reflected in the financial statements, as presented in the annual statement at December 31, 2022.

SUBSEQUENT EVENTS

*Effective June 22, 2023, the Board accepted the resignation of Jeff Russell as President and CEO and appointed April Schmaltz, SVP Marketing and Sales, and Todd Herren, SVP Technology and Operations, as interim Co-CEOs. April Schmaltz was elected to serve as President and Chief Executive Officer for Veratrus Benefit Solutions, Inc., Veratrus Health, Inc., and Veratrus Investments, LLC on June 23, 2023. On January 8, 2024, April Schmaltz was named the new President & CEO.

FINANCIAL STATEMENTS
AND COMMENTS THEREON

Note: The following financial statements are based on the statutory financial statements filed by the Company with the Iowa Insurance Division and present the financial condition of the Company for the period ending December 31, 2022.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Assets</u>	<u>Non-Admitted</u>	<u>Admitted</u>
Cash, cash equivalents and short-term investments	\$ 2,034,501	\$	\$ 2,034,501
Uncollected premiums and agents' balances in the course of collection	53,993	1,336	52,657
Net deferred tax asset	26,550		26,550
Receivables from parent, subsidiaries and affiliates	655,335		655,335
Health care and other amounts receivable	796		796
Prepaid expenses	26,068	26,068	
Inventory of sunglasses from One and Sun	58,469	58,469	
	<hr/>	<hr/>	<hr/>
Total Assets	\$ 2,855,712	\$ 85,873	\$ 2,769,839

LIABILITIES, SURPLUS AND OTHER FUNDS

Claims Unpaid		\$ 146,300
Unpaid claims adjustment expenses		4,389
Premiums received in advance		173,083
General expenses due or accrued		876,335
Current federal and foreign income tax payable and interest thereon		76,579
Other liabilities		10,000
		<hr/>
Total Liabilities		\$ 1,286,686
		<hr/>
Common capital stock		\$ 100,000
Gross paid in and contributed surplus		435,000
Unassigned funds (surplus)		948,153
		<hr/>
Total capital and surplus		\$ 1,483,153
		<hr/>
Total liabilities, capital and surplus		\$ 2,769,839

STATEMENT OF REVENUE AND EXPENSES

Member Months	1,349,901
Net premium income	\$ 8,656,343
Legal services	3,397
	<hr/>
Total revenues	\$ 8,659,740
	<hr/>
<u>Hospital and Medical:</u>	
Hospital/medical benefits	\$ 5,268,594
	<hr/>
Subtotal	\$ 5,269,594
	<hr/>
<u>Less:</u>	
Claims adjustment expenses, including cost containment expenses	\$ 266,772
General administrative expenses	1,950,907
	<hr/>
Total underwriting deductions	\$ 7,486,273
	<hr/>
Net underwriting gain or (loss)	\$ 1,173,467
	<hr/>
Net investment income earned	\$ 19,630
	<hr/>
Net income after capital gains tax and before all federal income taxes	\$ 1,193,097
	<hr/>
Federal and foreign income taxes incurred	251,579
	<hr/>
Net income	\$ 941,518
	<hr/>

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus prior reporting year	\$ 1,225,332
	<hr/>
Net income	\$ 941,518
Change in net deferred income tax	4,353
Change in non-admitted assets	(18,050)
Dividend to stockholders	(700,000)
	<hr/>
Net change in capital and surplus for the year	\$ 227,821
	<hr/>
Capital and surplus end of reporting period	\$ 1,483,153
	<hr/>

CASH FLOW

Cash from Operations

Premiums collected net of reinsurance	\$ 8,700,233	
Net investment income	19,630	
Miscellaneous income	3,397	
Total	<u>8,723,260</u>	\$ 8,723,260
Benefit and loss related payments	\$ 5,537,735	
Commissions, expenses paid and aggregate write-ins for deductions	1,752,270	
Federal and foreign income taxes paid	288,573	
Total	<u>7,578,578</u>	<u>7,578,578</u>
Net cash from operations		<u>\$ 1,144,682</u>

Cash from Financing and Miscellaneous Sources

Dividends to stockholders	\$ 700,000	
Other cash provided (applied)	<u>(123,837)</u>	
Net cash from financing and miscellaneous sources		<u>\$ (823,837)</u>

Reconciliation of Cash, Cash Equivalents, and Short-Term Investments

Net change in cash, cash equivalents and short-term investments		\$ 320,845
Cash, cash equivalents and short-term investments:		
Beginning of year		<u>1,713,656</u>
End of year		<u>\$ 2,034,501</u>

CONCLUSION

The cooperation and assistance extended by the officers and employees of the Company during the course of this examination is hereby acknowledged.

In addition to the undersigned, examiners from the Iowa Insurance Division participated in the examination and the preparation of this report.

Respectfully submitted,

/s/ Bob Wong

Bob Wong, CFE
Examiner-in-Charge
Iowa Insurance Division
State of Iowa