

EXAMINATION REPORT OF  
VERATRUS BENEFIT SOLUTIONS, INC.  
JOHNSTON, IOWA  
AS OF DECEMBER 31, 2016

Johnston, Iowa  
June 7, 2018

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, 2016

at its corporate home office, 9000 Northpark Drive, Johnston, Iowa.

INTRODUCTION

Veratrus Benefit Solutions, Inc., hereafter referred to as the "Company", was last examined as of December 31, 2011 by the Iowa Insurance Division.

The Company's parent, Delta Dental of Iowa ("DDIA"), was examined concurrently with this examination.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2012 to the close of business on December 31, 2016, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the National Association of Insurance Commissioners Financial Condition Examiners Handbook. The Handbook requires the examination to be planned and performed 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 organization, 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 instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The Company's assets were verified and evaluated, and the liabilities determined to reflect herein a statement of its financial condition as of December 31, 2016.

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 Health 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. DDIA invested \$100,000 in common stock in January 2010 and an additional \$250,000 of paid-in capital during 2010. The Company received additional cash contributions from DDIA of \$125,000 and \$60,000 during 2011 and 2012, respectively.

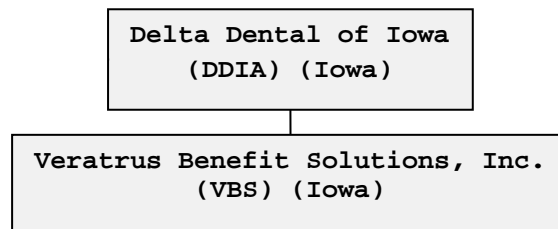
INSURANCE HOLDING COMPANY SYSTEM

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.

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.

The Company has an actuarial services agreement with Delta Dental of Wisconsin ("DDWI") whereby DDWI provides actuarial and reporting services to the Company.

An organizational chart identifying the Companies within the Holding Company System as of December 31, 2016 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.

Special meetings of the shareholders may be called at any time by the President or the Board of Directors. The time, date and place of any special meeting shall be determined by the Board of Directors or the President. Notice of the place, date and time of all meetings of shareholders shall be communicated not fewer than ten days nor more than 60 days before the date of the meeting to each shareholder entitled to vote at such meeting.

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. If a quorum exists, action on a matter is approved if the votes cast favoring the action exceed the votes cast opposing the action, unless a greater number is required by law.

Any action required or permitted by law to be taken at a meeting of the shareholders may be taken without a meeting or vote if one or more consents in writing setting forth the action taken shall be signed and dated by the holders of outstanding shares having not less than 90 percent of the votes entitled to be cast at a meeting at which all shares entitled to vote on the action were present and voted, and are delivered to the Company for inclusion in the minutes of filing with the Company's records.

#### 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 or more than 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.

Any director may resign at any time by delivering written notice to the Board of Directors or the Company. A director shall be subject to removal, with or without cause, at a meeting of the shareholders called for that purpose in the manner prescribed by law. Any vacancy occurring in the Board of Directors through death, resignation, removal or any other cause, including an increase in the number of directors, may be filled by the shareholders or by the Board of Directors.

The Board of Directors may hold its meetings at such place or places within or outside the state of Iowa as the Board may from time to time determine. Immediately after the final adjournment of each annual meeting of the shareholders for the election of directors, the Board of Directors shall meet, at the same place where said meeting of shareholders finally adjourned, for the purpose of organization, the election of officers and the transaction of other business. Notice of such meeting need not be given.

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.

Special meetings of the Board of Directors shall be held whenever called by direction of the President or by one-third of the directors at the time being in office. Notice of each special meeting shall be communicated to each director at least two days before the date on which the meeting is to be held.

Any action required or permitted by law to be taken at any meeting of the Board of Directors may be taken without a meeting if the action is taken by all members of the Board and if one or more consents in writing describing the action so taken shall be signed by each director then in office and included in the minutes or filed with the corporate records reflecting the action taken.

Board members are entitled to be reimbursed for any expenses incurred, and the Board may fix the compensation of directors from time to time by resolution of the Board.

The directors duly elected and serving as of December 31, 2016 were as follows:

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

#### 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, 2016 were as follows:

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

The compensation for the above officers is shown in Exhibit A to be found immediately following the signature page of this report.

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

Neither the Articles of Incorporation nor the Bylaws were amended or restated during the examination period.

The recorded minutes of the meetings of the Shareholder and Board of Directors and Committees were read and noted. During the Board of Directors meeting of September 20, 2013, the Board accepted the Iowa Insurance Division's Examination Report as of December 31, 2011.

FIDELITY BONDS AND OTHER INSURANCE

Under a financial institution bond in the name of its parent, the Company is protected against loss from any fraudulent or dishonest act of any employee up to \$5,000,000 each loss occurrence and \$5,000,000 aggregate limit of liability.

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

EMPLOYEES 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, 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, and a 457(f) incentive and retention benefits plan for selective executive employees.

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.

GROWTH OF COMPANY

The growth of the Company is reflected by the following data taken from the Company's copies of the filed annual statements.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Capital and Surplus</u>	<u>Total Revenues</u>	<u>Total Claims</u>	<u>Net Investment Income</u>
2012	\$ 404,093	\$233,508	\$ 862,458	\$ 599,900	\$ 503
2013	509,060	342,477	1,202,076	809,402	496
2014	699,456	460,828	1,564,161	1,114,501	451
2015	841,676	569,828	2,011,065	1,391,579	547
2016	1,004,357	678,102	2,284,547	1,507,746	1,829

ACCOUNTS AND RECORDS

The Company's general ledgers are maintained on an electronic accrual basis. The Company uses electronic data processing equipment and related software for processing and maintaining its accounts, records and files. The Information Systems controls were reviewed by this examination. No material exceptions were noted to accepted control practices and procedures.

Trial balances of the Company's general ledger accounts were prepared 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.

The records in the Company's policy administration systems were sampled and tested by comparing data contained in supporting documents to data contained in the computer records. No material differences were noted.

During the course of the examination, no material aggregate surplus differences were identified from the amounts reflected in the financial statements, as presented in the Annual Statement at December 31, 2016.

F I N A N C I A L   S T A T E M E N T S  
A N D   C O M M E N T S   T H E R E O N

NOTE: Except as otherwise stated, the financial statements immediately following reflect only the transactions for the period ending December 31, 2016, and the assets and liabilities as of that date.



STATEMENT OF ASSETS, LIABILITIES, CAPITAL AND SURPLUS

ASSETS

	<u>Assets</u>	<u>Not Admitted</u>	<u>Admitted</u>
Cash, cash equivalents and short-term investments	\$ 811,299		\$ 811,299
Uncollected premiums and agents' balances in the course of collection	5,370		5,370
Net deferred tax asset	12,447	2,785	9,662
Receivables from parent, subsidiaries and affiliates	178,026		178,026
Prepaid expenses and deposits	8,191	8,191	
	<u>8,191</u>	<u>8,191</u>	
Total Assets	<u>\$ 1,015,333</u>	<u>\$ 10,976</u>	<u>\$ 1,004,357</u>

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid		\$ 74,000
Unpaid claims adjustment expenses		2,220
Premiums received in advance		56,678
General expenses due or accrued		162,341
Current federal income tax payable		31,016
		<u>31,016</u>
Total Liabilities		<u>\$ 326,254</u>
Capital stock		\$ 100,000
Gross paid in and contributed surplus		435,000
Unassigned funds (surplus)		143,102
		<u>143,102</u>
Total Capital and Surplus		<u>\$ 678,102</u>
Total Liabilities, Capital and Surplus		<u>\$ 1,004,357</u>

STATEMENT OF REVENUES AND EXPENSES

Net premium income	\$ 2,284,547
Total Revenue	\$ 2,284,547
Hospital/medical benefits	\$ 1,507,746
Claims adjustment expenses	68,799
General administrative expenses	<u>555,868</u>
Total Underwriting Deductions	\$ 2,132,414
Net Underwriting Gain	\$ 152,133
Net investment income earned	<u>1,829</u>
Net Income Before Federal Income Taxes	\$ 153,962
Federal income taxes incurred	<u>\$ 44,656</u>
Net Income	<u>\$ 109,306</u>

STATEMENT OF CHANGES IN CAPITAL AND SURPLUS

Surplus, December 31, 2015	<u>\$ 569,828</u>
Net income	\$ 109,306
Change in net deferred income tax	1,037
Change in non-admitted assets	<u>(2,069)</u>
Net Change in Surplus	<u>\$ 108,274</u>
Surplus, December 31, 2016	<u>\$ 678,102</u>

STATEMENT OF CASH FLOWS

CASH FROM OPERATIONS

Premiums collected net of reinsurance	\$ 2,302,973	
Net investment income	1,829	
Total		\$ 2,304,802
Benefit and loss related payments	\$ 1,559,036	
Commissions, expenses paid and other deductions	564,602	
Federal and foreign income taxes paid, net	15,907	
Total		\$ 2,139,545
Net cash from operations		\$ 165,257

CASH FROM FINANCING AND MISCELLANEOUS SOURCES

Cash provided (applied):		
Other cash provided	\$ (42,157)	
Net cash from financing and miscellaneous sources		\$ (42,157)

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments		\$ 123,100
Cash and short-term investments:		
Beginning of year		\$ 688,199
End of year		\$ 811,299

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, Bouavan Kha, Janet Jones, Kathleen Madsen and Bob Wong, CFE (Information Systems Specialist), examiners for the Iowa Insurance Division, participated in the examination and the preparation of this report.

Respectfully submitted,

/s/ Thomas Allen \_\_\_\_\_  
Thomas Allen, CFE  
Examiner-in-Charge  
Assurity Resources, Inc. on behalf of the  
Iowa Insurance Division

/s/ Daniel Mathis \_\_\_\_\_  
Daniel Mathis, CFE  
Supervisor and Assistant Chief Examiner  
Iowa Insurance Division