



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

UNITED DENTAL CARE OF UTAH, INC.

of

Midvale, Utah

as of

December 31, 2018



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March 1, 2020

Honorable Todd E. Kiser, Commissioner
Utah Insurance Department
3110 State Office Building
Midvale, Utah 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2018, has been made of the financial condition and business affairs of:

**United Dental Care of Utah, Inc.
Midvale, Utah**

hereinafter referred to in this report as UDC-UT , or as the “Company” and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The Utah Insurance Department (Department) has performed a multi-state coordinated financial examination of the Sun Life Group. Michigan served as the lead and facilitating state, and participating states include Arizona, Delaware, Missouri, New Mexico, Ohio, Texas, Utah, and Vermont. The last examination of the Company by the Department covered the period of January 1, 2013, through December 31, 2017. The current examination covers the period of January 1, 2018, through December 31, 2018, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

We conducted our examination in accordance with the risk-focused examination approach as prescribed by the National Association of Insurance Commissioners Financial Condition Examiners Handbook (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition of the Organization and its holding company system. In addition, the purpose of the examination is to assess corporate governance, identify current and prospective risks that could cause the Company’s surplus to be materially misstated, and evaluate controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating management's compliance with Statutory Accounting Principles and annual statement instructions. The examination, however, does not attest to the fair presentation of the financial statements included herein. If during the course of the examination, an adjustment was identified, the impact of such adjustment will be documented separately following the Financial Statements section of this report.

For the year ending December 31, 2018, the Certified Public Accounting firm of Deloitte & Touché, LLP provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles. Representatives of the Department reviewed the audit report and supporting work papers during the examination.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

HISTORY OF THE ORGANIZATION

General

Up until February 29, 2016, the Company was a wholly-owned subsidiary of Union Security Insurance Company, which is a wholly owned subsidiary of Interfinancial Inc., which is a wholly-owned subsidiary of Assurant, Inc. (AIZ). On March 1, 2016, after receiving all required regulatory approvals, Sun Life Assurance Company of Canada (SLOC) acquired substantially all of the U.S. employee group benefits business of AIZ, including all of the issued and outstanding stock of the Company.

The ultimate parent of the holding company is Sun Life Financial Inc. (SLF), a corporation registered with the Securities Exchange Commission. SLF and its subsidiaries are collectively referred to herein as "Sun Life Financial."

The Company is a stock insurance entity licensed and operated only in the state of Utah.

Dividends and Capital Contributions

UDC-UT did not pay any dividends to stockholders or receive any capital contributions during the examination period.

Mergers and Acquisitions

Other than the acquisition by SLOC as discussed under the "General" subsection above, there were no mergers or acquisitions during the examination period.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

Board of Directors

On an annual basis, the Company's sole shareholder appoints a Board of Directors to manage the business and affairs of the Company.

The following persons served as directors of the Company as of December 31, 2018:

Name	Principal Occupation
Stacia N. Almquist	Vice President, Dental & Vision SunLife Financial U.S.
Amy J. Goerke	AVP Group & Stop Loss Accounting, SunLife Financial U.S.
Corinne Gayle Hanson	Associate Director of Dental & Vision Quality Improvement, SunLife Financial U.S.

Officers

As of the examination date, the following officers were serving in the designated position:

Name	Title
Stacia N. Almquist	President
Amy J. Goerke	Treasurer
Colleen L. Kallas	Secretary
Eric S. Vandenberg	Appointed Actuary

Committees

The Company's Bylaws provide the Board of Directors the ability to establish an executive committee and/or other committees as needed. As of the date of this report, the UDC-UT Board has not established any committees. However, the UDC-UT Board relies upon certain committees of its direct parent (SLOC). These committees include but are not limited to, the Audit Committee, the Risk and Conduct Review Committee, the Governance, Nomination, and Investment Committee, and the Management Resources Committee.

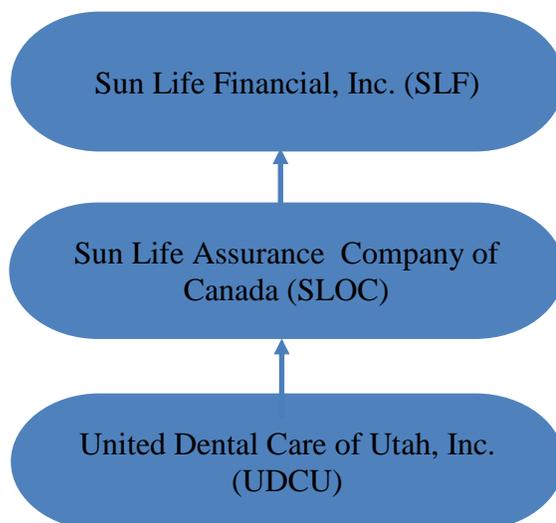
Insurance Holding Company System

The Company is part of a holding company system as defined in Utah Code § 31A-16. The Company is a wholly-owned direct subsidiary of (SLOC), a Canadian life insurance company that does business through its United States Branch, whose port of entry is in Michigan. SLOC is a wholly-owned indirect subsidiary of Sun Life Financial Inc. (SLF), the ultimate controlling person in the holding company system.

On March 1, 2016, SLF acquired substantially all of the U.S. employee benefits business of Assurant, Inc., the former ultimate controlling person of the Company. As part of this transaction, SLOC acquired all of the issued and outstanding common shares of the Company.

Holding Company Organizational Chart

There are numerous companies within the holding company system, which were not included in the following organizational chart. The direct ownership of the Company only is represented in the organizational chart below:



UDC-UT has no employees but is operated as part of the Dental and Vision division of SLOC, which has primary management and administrative duties handled by various departments out of Kansas City, MO or Wellesley, MA.

Transactions and agreements with Affiliates

The Company has significant transactions with affiliates. Management believes intercompany revenues and expenses are calculated on a reasonable basis; however, these amounts may not necessarily be indicative of costs that would be incurred if the Company operated on a stand-alone basis.

The Company has an administrative services agreement with its affiliate, SLOC, under which SLOC provides general administrative services. The services provided include personnel, facilities, actuarial, legal and other administrative services on a cost-reimbursement basis.

The Company is a party to an investment advisory agreement with its affiliate, Sun Life Institutional Investments (U.S.) LLC, under which Sun Life Institutional Investments (U.S.) LLC acts as the investment manager for certain of the Company's portfolios.

TERRITORY AND PLAN OF OPERATIONS

The Company is licensed as a prepaid dental plan organization that contracts with independent practitioners. The Company's source of revenue is managed dental care plans. The Company markets its plans principally to private and government employers. Dental services are provided through a network of selected independent dentists who are responsible for each member's individual dental care.

Provider capitation consists of monthly fees paid to providers and is expensed in the month in which the provider is obligated to render dental services. The Company is not obligated to providers for services exceeding the basic benefit coverage. Emergency services to members while temporarily out of their provider's area, as well as specialty services not covered by capitation fees, are recorded as incurred.

OPERATING RESULTS

The Company reported the following net underwriting results during the examination period:

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net income (loss)	<u>\$ (15,189)</u>	<u>\$ (20,979)</u>	<u>\$ (2,501)</u>	<u>\$ 51,899</u>	<u>\$ 35,265</u>
Total hospital and medical expenses	111,206	138,772	157,645	180,140	179,983
Claim adjustment expenses	2,471	2,994	3,242	2,201	1,489
General administrative expenses	158,007	171,357	166,646	78,755	117,007
Total underwriting deductions	<u>271,684</u>	<u>313,123</u>	<u>327,533</u>	<u>261,096</u>	<u>298,479</u>
Net underwriting gain (loss)	<u>\$ (16,050)</u>	<u>\$ (21,215)</u>	<u>\$ 6,983</u>	<u>\$ 84,050</u>	<u>\$ 57,505</u>

REINSURANCE

The Company did not participate in any assumed or ceded reinsurance transactions during the examination period.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory annual statement filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2018. The accompanying comments (if any) on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

UNITED DENTAL CARE OF UTAH, INC.
STATEMENT OF ASSETS, LIABILITIES, CAPITAL, AND SURPLUS
As of December 31, 2018

Admitted Assets

Bonds	\$ 50,030
Cash, cash equivalents and short-term investments	<u>804,684</u>
Subtotal, cash and invested assets	854,714
Investment income due and accrued	221
Uncollected premiums and agents' balances in course of collection	829
Current federal and foreign income tax recoverable and interest thereon	<u>10,996</u>
Total Admitted Assets	<u><u>\$ 866,760</u></u>

Liabilities

Claims unpaid	\$ 3,369
Unpaid claims adjustment expenses	23
Premiums received in advance	1,732
General expenses due or accrued	100,457
Amounts due to parent, subsidiaries, and affiliates	4,384
Aggregate write-ins for other liabilities	<u>660</u>
Total liabilities	<u><u>\$ 110,625</u></u>

Capital and Surplus

Common capital stock	\$ 10,000
Gross paid in and contributed surplus	361,487
Unassigned funds (surplus)	<u>384,648</u>
Total capital and surplus	<u><u>\$ 756,135</u></u>
Total liabilities, capital and surplus	<u><u>\$ 866,760</u></u>

UNITED DENTAL CARE OF UTAH, INC.
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2018

Revenue

Net premium income	\$ <u>255,634</u>
Total revenues	\$ 255,634

Expenses

Other professional services	\$ 111,206
Claims adjustment expenses	2,471
General administrative expenses	<u>158,007</u>
Total underwriting deductions	\$ 271,684

Net underwriting gain (16,050)

Net investment income earned 861

Net Income \$ (15,189)

STATEMENT OF CHANGES IN THE CAPITAL AND SURPLUS ACCOUNT

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Capital and surplus, prior year-end	\$ 786,790	\$ 802,090	\$ 944,283	\$ 986,831	\$ 975,369
Net income or (loss)	(15,189)	(20,979)	(179,216)	(39,140)	11,008
Change in net deferred income tax	(8,219)	1,465	(4,541)	259	(978)
Change in non-admitted assets	<u>(7,247)</u>	<u>4,214</u>	<u>8,224</u>	<u>(3,667)</u>	<u>1,432</u>
Net change in capital and surplus	<u>(30,655)</u>	<u>(15,300)</u>	<u>(175,533)</u>	<u>(42,548)</u>	<u>11,462</u>
Capital and surplus, current year-end	<u>\$ 756,135</u>	<u>\$ 786,790</u>	<u>\$ 768,750</u>	<u>\$ 944,283</u>	<u>\$ 986,831</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No financial adjustments were made to surplus as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

The Company's Capital and Surplus in the amount of \$756,135 was determined to be the same as that reported in the Company's annual statement as of December 31, 2018. The capital and surplus significantly exceeded the authorized control level risk-based capital.

SUBSEQUENT EVENTS

In 2019, the Company was not subject to an annual fee under Section 9010 of the Federal Affordable Care Act (ACA), as the United States Congress, placed a moratorium on ACA fees for the 2019 calendar year. The moratorium is expected to be lifted effective January 1, 2020, and annual fees will be due in 2020. This annual fee will be allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1 of the year the fee is due. As of December 31, 2018, the Company has written health insurance subject to the ACA Assessment, expects to conduct health insurance business in 2019, and estimates their portion of the annual health insurance industry fee to be payable on September 30, 2019, to be \$0. As a result, the Company has not reflected an ACA Assessment in special surplus as of December 31, 2018. There was also no impact on the ACL risk-based capital (RBC) ratio. Reporting the ACA Assessment as of December 31, 2018, would not have triggered an RBC action level.

ACKNOWLEDGEMENT

Malis Rasmussen, MSA, CFE, SPIR, Chief Examiner, Utah Insurance Department, supervised the examination. She joins the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Company.

Respectfully Submitted,

Luze Pierre, APIR, MBA
Examiner-in-Charge
Utah Insurance Department