

Report on Examination
of
Liberty Dental Plan of Florida, Inc.
Tampa, FL
as of
December 31, 2017



**FLORIDA OFFICE OF
INSURANCE REGULATION**



OFFICE OF INSURANCE REGULATION

DAVID ALTMAIER
COMMISSIONER

**FINANCIAL SERVICES
COMMISSION**

RON DESANTIS
GOVERNOR

JIMMY PATRONIS
CHIEF FINANCIAL OFFICER

ASHLEY MOODY
ATTORNEY GENERAL

NICOLE "NIKKI" FRIED
COMMISSIONER OF AGRICULTURE

David Altmaier, Commissioner
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399

Dear Sir:

In accordance with Section 636.039, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Liberty Dental Plan of Florida, Inc. as of December 31, 2017. Our report on the examination follows.

Florida Office of Insurance Regulation
May 23, 2019

Contents

Scope of Examination	1
Summary of Significant Findings	2
Company History	2
Corporate Records.....	2
Dividends and Capital Contributions.....	3
Management and Control	3
Affiliated and Other Agreements.....	4
Territory and Plan of Operation	5
Company Growth.....	7
Reinsurance.....	7
Accounts and Records.....	7
Surplus Notes	7
Statutory Deposits.....	8
Financial Statements	8
Comments on Financial Statements.....	13
Summary of Recommendations	13
Subsequent Events.....	13
Conclusion	14

SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2017 of Liberty Dental Plan of Florida, Inc. (Company), a Florida prepaid limited health service organization (PLHSO). The examination covered the period of January 1, 2014 through December 31, 2017 and took place primarily in the Company's Irvine, California office and Tallahassee, FL. The examination was performed as part of a multi-state, full-scope, coordinated examination of the Liberty Dental Plan Group (Parent) NAIC Group #4692 as of December 31, 2017, with the State of Nevada serving as the lead state. Missouri and Florida participated and assessed the financial condition and corporate affairs of their domestic Companies. and compliance with Missouri and Florida state insurance laws and regulations. This was the first financial condition examination of the Company by the Florida Office of Insurance Regulation (Office).

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify current and prospective risks of the Company. It required that we do so by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and 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.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statute (F.S.) and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g. subjective conclusions, proprietary information, etc.), are not included within the examination report but were separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no findings of a significant nature to report for the period of this examination.

COMPANY HISTORY

The Company was incorporated in Florida on September 16, 2009 and licensed by the Office as a PLHSO on December 29, 2009. It was authorized by the State of Florida to operate as a PLHSO in accordance with Part I of Chapter 636, F.S. The Company exclusively offers dental products in Florida by arranging dental care to a defined enrolled population for a predetermined, prepaid periodic fee. The Company uses its own statewide network of contracted general and specialty dental providers. The Company is a wholly owned subsidiary of the Parent.

Mergers and Acquisitions

There were no merger and acquisition activities during the period of examination.

CORPORATE RECORDS

We reviewed the minutes of the Company's stockholder and Board of Director meetings. The Board's approval of Company transactions was recorded in the minutes of its meetings.

DIVIDENDS AND CAPITAL CONTRIBUTIONS

The Company distributed a \$230,000 dividend to its Parent on May 1, 2014. The Company distributed a \$2,500,000 dividend to its Parent on May 23, 2016. No dividends were distributed in 2015 and 2017. The Company received \$750,000 in capital contributions during 2014. No capital contributions were received during 2015 through 2017.

MANAGEMENT AND CONTROL

The Company is was a wholly owned subsidiary of the Parent. The Parent wais the ultimate controlling entity of the holding company system. The Parent is was owned by various individuals, including the sole director of the Company.

The Company's senior officers and directors were:

Senior Officers

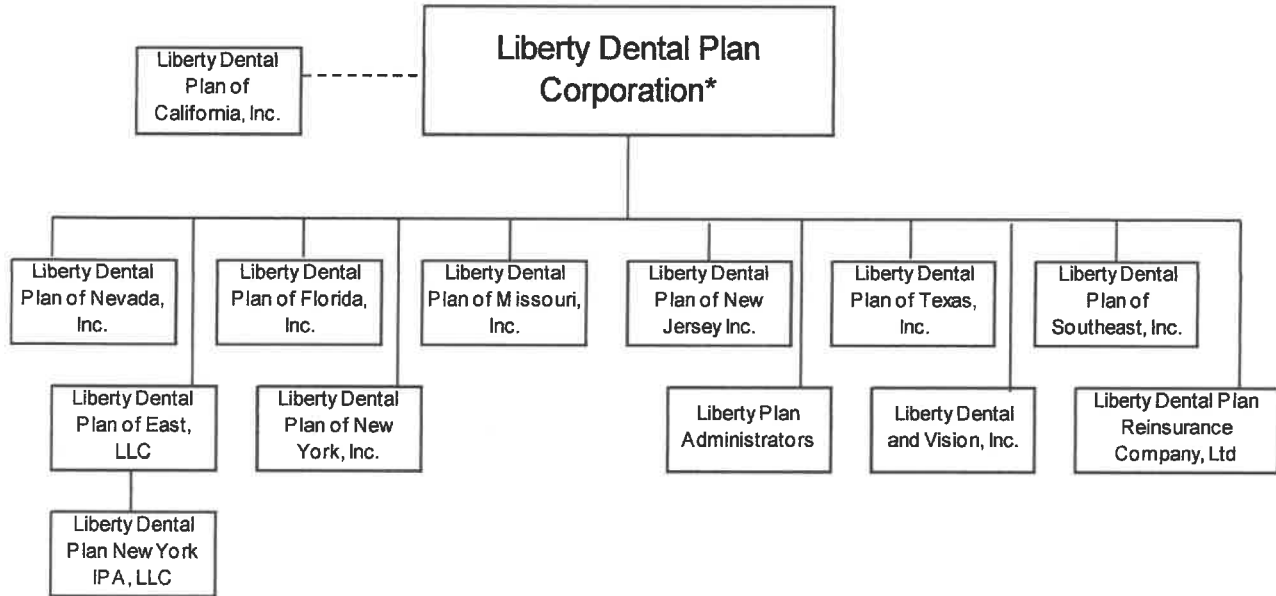
Name	Title
Amir H. Neshat	President
John J. Carvelli	Vice President/Secretary
Maja Kapic	Treasurer

Board of Directors

Name	Location
Amir H. Neshat	Newport Coast, CA

The Company is was a member of an insurance holding company system. An organizational chart reflecting the holding company system is shown below.

**Liberty Dental Plan of Florida, Inc.
Organizational Chart
December 31, 2017**



*All affiliates are 100% owned by the Parent with the exception of Liberty Dental Plan of Nevada, Inc. which is owned 97% by the Parent and 3% by an individual. Liberty Dental Plan New York IPA, LLC is a wholly owned subsidiary of Liberty Dental Plan of East, LLC. Liberty Dental Plan of California, Inc. is was affiliated through common control and ownership.

AFFILIATED AND OTHER AGREEMENTS

The following agreements were in effect between the Company and its affiliates.

Intercompany Services Agreement

The Company is was party to an Intercompany Services Agreement with its Parent effective April 1, 2010. The agreement covers covered executive oversight as well as operational and shared services.

During 2017, two amendments were enacted. The first was effective January 1, 2017 to adjust the fee to \$0.50 PMPM. The second amendment was ratified by the Company on July 1, 2017, adjusting to a flat fee of \$600,000 per month. The Company incurred \$6,004,600 in Affiliate

Administrative Services fee expenses to the Parent for the twelve months ended December 31, 2017.

Tax Allocation Agreements

The Company filed a consolidated federal income tax return with the Parent and subsidiaries. The Company entered into a federal tax sharing agreement with the Parent and each of the specific subsidiaries that are parties to the agreement on September 16, 2009. The agreement provides that each member of the consolidated return shall reimburse the parent for its respective share of the consolidated federal income tax liability and shall receive a benefit for its losses at the statutory rate. It provides for the manner of calculation and the amounts and timing of the payments between the parties as well as other related matters in connection with the filing of consolidated federal income tax returns. The Company has also entered into a state tax sharing agreement with the Parent and each of the specific subsidiaries that are parties to the agreement. The state tax agreement applies to situations in which the Parent and all or some of the subsidiaries joined in the filing of a state or local franchise, income tax, or other tax return on a consolidated, combined or unitary basis.

TERRITORY AND PLAN OF OPERATION

The Company exclusively offered throughout the State of Florida dental products in Florida by arranging dental care to a defined enrolled population for a predetermined, prepaid periodic fee. The Company used its own statewide network of contracted general and specialty dental providers. Subsequent to year-end 2017, the Company was awarded a Medicaid contract with the state of Florida that will significantly increase its total members. This contract will be implemented in a three-phase roll-out beginning December 1, 2018 in Medicaid regions 9, 10, and 11. The

second phase will begin January 1, 2019 in regions 5, 6, 7, and 8. The final phase will begin February 1, 2019 in regions 1, 2, 3, and 4.

COMPANY GROWTH

The Company reported the following for years 2014 through 2017:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Member months	2,373	686	536	296,350
Year-end enrollment	17	59	43	20,583
Premiums	\$ 14,948	\$ 6,832	\$ 5,160	\$ 1,752,274
Revenues	\$ 40,390,948	\$ 80,521,150	\$ 81,168,975	\$ 82,443,307
Underwriting deductions	\$ 39,771,470	\$ 77,373,585	\$ 80,682,698	\$ 81,176,084
Net income	\$ 445,207	\$ 2,040,306	\$ 354,042	\$ 604,057
Shareholder dividends	\$ 230,000	\$ -	\$ 2,500,000	\$ -
Paid in surplus received	\$ 750,000	\$ -	\$ -	\$ -
Admitted assets	\$ 4,942,237	\$ 6,728,731	\$ 6,368,793	\$ 6,426,450
Liabilities	\$ 3,806,477	\$ 3,247,141	\$ 4,872,447	\$ 4,259,951
Capital and surplus	\$ 1,135,760	\$ 3,481,590	\$ 1,496,346	\$ 2,166,499

REINSURANCE

The company had no reinsurance arrangements.

ACCOUNTS AND RECORDS

There were no findings of a significant nature related to the accounts and records of the Company.

SURPLUS NOTES

The Company had no surplus notes.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$50,000 in accordance with Section 636.046, F.S.

FINANCIAL STATEMENTS

The examination 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 would be documented separately following the Company's financial statements.

Financial Statements, as reported and filed by the Company with the Office, are reflected in the following pages:

Liberty Dental Plan of Florida, Inc.
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2017

	Per Company	Examination Adjustments	Per Examination
Admitted Assets			
Cash, cash equivalents and short-term investments	\$ 6,036,489	\$ -	\$ 6,036,489
Regulatory deposit with the state of Florida	\$ 50,000	-	\$ 50,000
	6,086,489	-	6,086,489
Investment income due and accrued	281	-	281
Uncollected premiums and agents' balances	88,345	-	88,345
Net deferred tax asset	151,288	-	151,288
Health care and other amounts receivable	100,047	-	100,047
Total admitted assets	\$ 6,426,450	\$ -	\$ 6,426,450
Liabilities			
Claims unpaid	\$ 2,724,383	\$ -	\$ 2,724,383
Unpaid claims adjustment expenses	26,705	-	26,705
Premiums received in advance	130,989	-	130,989
General expenses due or accrued	713,038	-	713,038
Current federal income tax payable	664,836	-	664,836
Total liabilities	\$ 4,259,951	\$ -	\$ 4,259,951
Capital and Surplus			
Common capital stock	\$ -	\$ -	\$ -
Gross paid in and contributed surplus	1,310,000	-	1,310,000
Unassigned funds (surplus)	856,499	-	856,499
Total capital and surplus	\$ 2,166,499	\$ -	\$ 2,166,499
Total liabilities, capital and surplus	\$ 6,426,450	\$ -	\$ 6,426,450

**Liberty Dental Plan of Florida, Inc.
Statement of Revenue and Expenses
Year Ended December 31, 2017**

Net premium income	\$ 1,752,274
Risk revenue	80,398,737
Aggregate write-ins for other non-health revenues	292,296
Total revenues	82,443,307
Other professional services	70,206,891
Emergency room and out-of-area	1,208,261
Total hospital and medical	71,415,152
Claims adjustment expenses	955,216
General administrative expenses	8,805,716
Total underwriting deductions	81,176,084
Net underwriting gain	1,267,223
Net investment gains	834
Income before federal income tax	1,268,057
Federal income tax	664,000
Net income	\$ 604,057

**Liberty Dental Plan of Florida, Inc.
Statement of Changes in Capital and Surplus
Four Years Ended December 31, 2017**

Capital and surplus - December 31, 2013	\$ 601,181
Net income	445,207
Change in net deferred income tax	131,844
Change in nonadmitted assets	(562,472)
Paid in capital	750,000
Dividends to stockholder	(230,000)
<hr/>	
Capital and surplus - December 31, 2014	1,135,760
Net income	2,040,306
Change in net deferred income tax	111,156
Change in nonadmitted assets	194,368
<hr/>	
Capital and surplus - December 31, 2015	3,481,590
Net income	354,042
Change in net deferred income tax	(144,000)
Change in nonadmitted assets	304,714
Dividends to stockholder	(2,500,000)
<hr/>	
Capital and surplus - December 31, 2016	1,496,346
Net income	604,057
Change in net deferred income tax	52,288
Change in nonadmitted assets	13,808
<hr/>	
Capital and surplus - December 31, 2017	2,166,499
Examination adjustments	-
<hr/>	
Capital and surplus - December 31, 2017	\$ 2,166,499

**Liberty Dental Plan of Florida, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2017**

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

Capital and surplus, December 31, 2017 - per annual statement			\$ 2,166,499
	Per	Per	Increase
	Company	Examination	(Decrease)
			In Capital
			& Surplus
Total assets	\$6,426,450	\$6,426,450	\$ -
Total liabilities	\$ 4,259,951	\$ 4,259,951	\$ -
Capital and surplus, December 31, 2017 - per examination			<u>\$ 2,166,499</u>

COMMENTS ON FINANCIAL STATEMENTS

There are were no comments of a significant nature during this examination period.

SUMMARY OF RECOMMENDATIONS

THROUGHOUT THE EXAMINATION, VARIOUS REPORTING ISSUES WERE DISCUSSED WITH MANAGEMENT AND ARE FOUND IN THE MANAGEMENT LETTER TO THE COMPANY.

RECOMMEDATIONS

There were no recommendations for findings of a significant nature during this examination period.

SUBSEQUENT EVENTS

Subsequent to year-end 2017, the Company was awarded a Medicaid contract with the state of Florida that significantly increased its Medicaid membership by approximately 410,000. This contract was implemented in a three-phase roll-out beginning December 1, 2018, January 1, 2019 and February 1, 2019.

On December 14, 2018, Stuart Williams was appointed as President President and Amir Neshat continued as CEO of the Company. All other officers and the sole director remained the same as reported above.

On December 14, 2018, the Sole Board of Director amended the Company's bylaws in order to allow for separate chief executive officer and president roles, rather than one dual role, and to make minor corrections and terminology changes.

On March 29, 2019, the board approved a dividend to Parent in the amount of \$1,500,000.

In its 2018 annual statement, the Company reported premiums, total revenues, and net income of \$2,836,846, \$79,289,316, and \$340,159, respectively, for the year 2018, and total capital and surplus of \$2,387,589 as of December 31, 2018.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Liberty Dental Plan of Florida, Inc. consistent with the insurance laws of the State of Florida.

At December 31, 2017, the Company's capital and surplus was \$2,166,499 and the Company was in compliance with the minimum capital and surplus requirement of Section 636.045, F.S.

In addition to the undersigned, the following individuals participated in the examination: Rick Nelson, CFE; CIE, EIC; Lori Brock, CFE, ALMI, Supervisor; and Megan Hubbuch, CPA, CPCU, AIAF, Participating Examiner, associated with the firm of Johnson Lambert LLP; and from the Florida Office of Insurance Regulation: Shantia Simmons, APIR, Financial Examiner/Analyst Supervisor, Exam Manager.

Respectfully submitted,



Carolyn M. Morgan, APIR
Director, Life & Health Financial Oversight
Florida Office of Insurance Regulation