

Report of Examination of

Managed DentalGuard, Inc.
Independence, Ohio

As of December 31, 2013

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Columbus, Ohio
May 29, 2015

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Lt. Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Managed DentalGuard, Inc.

an Ohio domiciled, health insuring corporation, hereinafter referred to as the “Company.”

Scope of Examination

The Department issued the Company’s qualifying examination report as of August 31, 2011. The Department’s current examination covers the period of September 1, 2011 through December 31, 2013.

Representatives of the New York State Department of Financial Services, as the Coordinating State regulator of The Guardian Life Insurance Company of America (“Guardian”) and its subsidiaries, led the multi-state coordinated examination. The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and corporate governance, identify and assess current and prospective risks, and evaluate the Company’s system of 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 Statements of 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.

For each year under examination, the Company requested an exemption from filing audited financial statements with the Department. The Department determined the Company met the statutory criteria, and therefore granted the requests.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

| Name | Principal Occupation |
|-----------------------|---|
| Jermaine D. Jones | Assistant Vice President and Controller, Group Products, The Guardian Life Insurance Company of America |
| Raymond J. Marra | Vice President, Group Products, The Guardian Life Insurance Company of America |
| Thomas A. McInteer | Second Vice President, Group Dental, Financial and Actuarial, The Guardian Life Insurance Company of America |
| Jolynne I. Williamson | Assistant Vice President, Product Development Group, The Guardian Life Insurance Company of America |

Officers

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

| Name | Title |
|-----------------------|--|
| Jolynne I. Williamson | President, Chief Executive Officer and Chief Operating Officer |
| Walter R. Skinner | Treasurer |
| Margherita L. DiManni | Secretary |
| Sanford E. Penn | Vice President and Appointed Actuary |

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. The Company is a wholly-owned subsidiary of First Commonwealth, Inc., which in turn is 100% owned by Guardian, a mutual insurance company organized under the laws of the State of New York.

The Company and Guardian entered into a Management Services Agreement (“Agreement”) effective December 16, 2011, whereby Guardian provides certain day-to-day management functions as outlined within the Agreement. The Agreement was filed with, and approved by, the Department.

The Company's federal income tax return is consolidated with Guardian. The method of allocation between the companies is subject to written agreement, approved by the Board of Directors. Allocation is based upon separate return calculations with current credit for net losses. The Agreement was filed with, and approved by, the Department.

Territory and Plan of Operations

The Company operates under Section 1751.01 of the ORC and provides prepaid dental services for employer groups and unions in Cuyahoga, Lake, Lorain, Stark and Summit counties in Ohio. The Company's products and services are distributed exclusively through insurance brokers that have selling agreements with Guardian. The Company reported the following underwriting results during the examination period:

| | 2013 | 2012 | 2011 |
|--------------------------|------------------|-------------------|-------------|
| Total Revenue | \$ 208,812 | \$ 26,034 | \$ - |
| Hospital and Medical | 125,959 | 25,416 | - |
| Administrative Expenses | <u>30,653</u> | <u>7,594</u> | <u>-</u> |
| Underwriting Gain (Loss) | <u>\$ 52,200</u> | <u>\$ (6,976)</u> | <u>\$ -</u> |

Reinsurance

The Company does not assume or cede reinsurance.

Financial Statements

The financial condition and the results of its operations for the period under examination as reported and filed by the Company with the Department, are reflected in the following:

- Statement of Assets, Liabilities, Capital and Surplus
- Statement of Revenues and Expenses
- Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus
December 31, 2013**

Assets

| | |
|---|-------------------|
| Bonds | \$ 318,556 |
| Cash, cash equivalents, and short term investments | <u>32,956</u> |
| Subtotal, cash and invested assets | 351,512 |
| Investment income due and accrued | 480 |
| Premiums in course of collection | 2,631 |
| Receivable from parent, subsidiaries and affiliates | 2,083 |
| Miscellaneous receivables | <u>30</u> |
| Total admitted assets | <u>\$ 356,736</u> |

Liabilities, Capital and Surplus

| | |
|--|-------------------|
| Claims unpaid | \$ 10,457 |
| Unpaid claims adjustment expenses | 448 |
| Aggregate health policy reserves | 611 |
| Premiums received in advance | 1,620 |
| General expenses due or accrued | 3,130 |
| Current federal and foreign income taxes | 6,867 |
| Amounts due to parent, subsidiaries and affiliates | <u>2,824</u> |
| Total liabilities | <u>25,957</u> |
| Common capital stock | 10 |
| Gross paid in and contributed surplus | 299,990 |
| Unassigned funds | <u>30,779</u> |
| Total capital and surplus | <u>330,779</u> |
| Total liabilities, capital and surplus | <u>\$ 356,736</u> |

**Statement of Revenues and Expenses
As of December 31, 2013**

| | |
|--|------------------|
| Net premium income | \$ 209,423 |
| Change in unearned premium reserves | <u>(611)</u> |
| Total revenues | <u>208,812</u> |
| Other professional services | 125,899 |
| Outside referrals | <u>60</u> |
| Total hospital and medical | 125,959 |
| Claims adjustment expenses | 1,257 |
| General administrative expenses | <u>29,396</u> |
| Total underwriting deductions | <u>156,612</u> |
| Net underwriting gain | <u>52,200</u> |
| Net investment income earned | <u>1,256</u> |
| Net investment gain | <u>1,256</u> |
| Net income before federal income taxes | 53,456 |
| Federal income taxes incurred | <u>18,793</u> |
| Net income | <u>\$ 34,663</u> |

Statement of Changes in the Capital and Surplus Account

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|--|-------------------|-------------------|-------------------|
| Capital and surplus, beginning of the year | \$ <u>296,164</u> | \$ <u>300,069</u> | \$ <u>-</u> |
| Net income or (loss) | 34,663 | (3,905) | 69 |
| Change in net deferred income tax | 83 | - | - |
| Change in non-admitted assets | (131) | - | - |
| Capital paid in | - | - | 10 |
| Surplus paid in | <u>-</u> | <u>-</u> | <u>299,990</u> |
| Change in surplus during the year | <u>34,615</u> | <u>(3,905)</u> | <u>300,069</u> |
| Capital and surplus, end of the year | <u>\$ 330,779</u> | <u>\$ 296,164</u> | <u>\$ 300,069</u> |

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 1751.25 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Claims Unpaid

The Company requested exemptions from filing annual statements of actuarial opinion with the Department. The Department determined the Company met the statutory criteria for the exemptions and granted the requests.

The Company's carried reserve at year-end 2013 appears reasonable based on a review of subsequent claim payments. Since dental claims are short tailed in nature, the risk of material adverse deviation from current expectations is remote.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2013, and is summarized as follows:

| | |
|--|-------------------|
| Total Assets | <u>\$ 356,736</u> |
| Liabilities | 25,957 |
| Capital and Surplus | <u>330,779</u> |
| Total Liabilities, Capital and Surplus | <u>\$ 356,736</u> |

Subsequent Events

The Department is not aware of any subsequent events that would have a material impact on the financial position of the Company.

Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Company and its affiliates during the course of this examination.

In addition to the undersigned, Bryan Radecky, CPA, CFE, of the Department, participated in this examination.

Respectfully,



Jeffrey K. Ebert, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2013.

J. M. Ebert 6/3/15
Assistant Chief Examiner Date

State of Ohio
County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 3 day of June, 2015.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires