

Report of Examination of

**UDC Ohio, Inc.**  
Cincinnati, Ohio

As of December 31, 2013

## Table of Contents

Subject	Page
Salutation.....	1
Description of Company .....	1
Scope of Examination .....	1
Management and Control:	
Board of Directors.....	2
Officers .....	2
Insurance Holding Company System.....	2
Inter-Company Agreements .....	2
Territory and Plan of Operations.....	3
Reinsurance .....	3
Financial Statements:	
Statement of Assets, Liabilities, Capital and Surplus .....	4
Statement of Income .....	5
Statement of Changes in the Capital and Surplus Account.....	5
Notes to Financial Statements:	
Investments .....	6
Claims Unpaid .....	6
Conclusion.....	6
Subsequent Events.....	6
Acknowledgement.....	7

Columbus, Ohio  
June 30, 2015

Honorable Mary Taylor  
Lt. Governor/Director  
State of Ohio  
Department of Insurance  
50 West Town Street  
3<sup>rd</sup> 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

**UDC Ohio, Inc.**

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

**Scope of Examination**

The Department last examined the Company as of December 31, 2010. The Department’s current examination covers the period of January 1, 2011 through December 31, 2013.

Representatives of the Delaware Department of Insurance, as the Coordinating State regulator of Assurant, Inc., 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 certified public accounting firm of PricewaterhouseCoopers, LLP provided an unqualified opinion on the Company’s statutory financial statements. Representatives of the Department reviewed the independent auditors’ reports and supporting work papers during the examination.

## 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:

<b>Name</b>	<b>Principal Occupation</b>
Stacia N. Almquist	Senior Vice President, Dental, Assurant Employee Benefits, Union Security Insurance Company

### Officers

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

<b>Name</b>	<b>Title</b>
Stacia N. Almquist	President
Kenneth D. Bowen	Secretary
Amy Jo Goerke	Treasurer
James V. Barrett	Vice President
Gary L. Lau	Vice President

### 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 Union Security Insurance Company (“USIC”), which is directly owned by Interfinancial Inc., which is directly owned by Assurant, Inc., the ultimate controlling person. Assurant, Inc. is a Delaware corporation and its common stock is traded on the New York Stock Exchange.

### Inter-Company Agreements

The Company has a service agreement with USIC to provide and receive services related to management, policy administration, provider fees, claim payments, member and client administration, sales and marketing, and information technology.

The Company files a consolidated federal income tax return with affiliates. The method of allocation between the companies is subject to a written agreement.

The agreements were filed with, and approved by, the Department.

### Territory and Plan of Operations

The Company is licensed as a dental plan organization authorized in Ohio and Kentucky, although business was only written in Ohio during the examination period. The Company offers prepaid dental plans with different levels of dental coverage, including specialty care. Plans are marketed to employers primarily through agents, brokers and benefit consultants. Members may use participating providers, or non-contracting providers under certain circumstances, in order to receive benefits.

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

	2013	2012	2011
Premiums Earned	<u>\$ 1,005</u>	<u>\$ 1,096</u>	<u>\$ 1,112</u>
Underwriting Deductions:			
Total Medical and Hospital	642	716	724
Claims Adjustment Expense	6	6	5
General Administrative Expense	<u>346</u>	<u>376</u>	<u>383</u>
Total Underwriting Deductions	<u>994</u>	<u>1,098</u>	<u>1,112</u>
Net Underwriting Gain (Loss)	<u>\$ 11</u>	<u>\$ (2)</u>	<u>\$ 0</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 and audited by the Company's external auditors, are reflected in the following:

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

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

**Admitted Assets:**

Bonds	\$ 962,942
Cash, cash equivalents, and short term investments	<u>85,474</u>
Subtotal, cash and invested assets	1,048,416
Investment income due and accrued	302
Uncollected premiums in course of collection	27,020
Current federal income taxes recoverable	29,267
Net deferred tax assets	5,260
Receivable from affiliates	<u>21,254</u>
Total admitted assets	<u>\$ 1,131,519</u>

**Liabilities:**

Claims unpaid	\$ 19,520
Unpaid claims adjustment expenses	175
Aggregate health policy reserves	22,379
Premiums received in advance	15,389
General expenses due or accrued	97,720
Amounts due to parent and affiliates	417
Unclaimed funds	<u>550</u>
Total liabilities	<u>156,150</u>

**Capital and Surplus:**

Common capital stock	100
Gross paid in and contributed surplus	865,537
Unassigned funds	<u>109,732</u>
Total capital and surplus	<u>975,369</u>
Total liabilities, capital and surplus	<u>\$ 1,131,519</u>

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

Net premiums income	\$ 1,004,058
Change in unearned premium reserves	<u>833</u>
Total revenue	<u>1,004,891</u>
Professional services	642,227
Claims adjustment expenses	5,704
General administrative expenses	<u>345,553</u>
Total underwriting expenses	<u>993,484</u>
Net underwriting gain	<u>11,407</u>
Net investment gain	<u>2,057</u>
Net income before federal income taxes	<u>13,464</u>
Federal income taxes incurred	<u>(21,067)</u>
Net income	<u>\$ 34,531</u>

**Statement of Changes in the Capital and Surplus Account**

Capital and surplus, December 31, 2010	\$ <u>954,493</u>
Net income	37,814
Change in net deferred income tax	(32,192)
Change in non-admitted assets	15,230
Surplus adjustment: paid in	<u>24</u>
Change in surplus during the exam period	<u>20,876</u>
Capital and surplus, December 31, 2013	<u>\$ 975,369</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's Board of Directors appointed Eric Vandenberg, FSA, MAAA, an employee of USIC, to render the Company's Statement of Actuarial Opinion ("Opinion").

The Delaware Department of Insurance retained INS Consultants, Inc. ("INS") to perform an actuarial review of the claims unpaid liability as of December 31, 2013. INS performed a retrospective calculation of the claims unpaid liability using actual claims reported through December 31, 2014 and an estimate of claims expected to be paid thereafter. Based on analysis and other procedures performed, INS concluded the claims unpaid liability reported by the Company at December 31, 2013 is fairly stated.

### 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>\$ 1,131,519</u>
Liabilities	156,150
Capital and Surplus	<u>975,369</u>
Total Liabilities, Capital and Surplus	<u>\$ 1,131,519</u>

### Subsequent Events

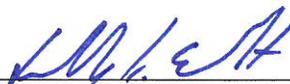
The Department is not aware of any events occurring subsequent to the examination date that would have a material impact on the financial position of the Company.

### 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,



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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. K. Ebert*  
Assistant Chief Examiner

6/30/15  
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 30 day of June, 2015.

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