

REPORT ON EXAMINATION AS TO THE CONDITION OF

DENTAQUEST OF NEW JERSEY LLC

WELLESLEY HILLS, MA 02481

AS OF DECEMBER 31, 2023

NAIC GROUP CODE 0549

NAIC COMPANY CODE 16647

FILED

MAY 22 2025

**COMMISSIONER
NJ DEPT OF BANKING & INSURANCE**

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State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
DIVISION OF INSURANCE
OFFICE OF SOLVENCY REGULATION
PO Box 325
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Governor

TAHESHA L. WAY
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JUSTIN ZIMMERMAN
Commissioner

TEL (609) 292-7272
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April 15, 2025

Honorable Justin Zimmerman
Commissioner of Banking and Insurance
State of New Jersey
20 West State Street
P.O. Box 325
Trenton, New Jersey 08625-0325

Commissioner:

In accordance with the authority vested in you by the Revised Statutes of New Jersey, a financial examination has been made of the financial condition and affairs of:

DENTAQUEST OF NEW JERSEY, LLC
96 WORCESTER STREET
WELLESLEY HILLS, MA 02481
NAIC GROUP CODE 0549
NAIC COMPANY CODE 16647

a domestic licensed Organized Delivery System ("LODS") authorized to transact business in the State of New Jersey, and hereinafter referred to in this report as the "Company" or "DQNJ".

SCOPE OF EXAMINATION

This financial condition examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by N.J.S.A. 17:23-22. The examination of DQNJ was conducted by the New Jersey Department of Banking and Insurance (“NJ DOBI”) as part of a multi-state, coordinated full scope risk-focused examination of the Sun Life Financial U.S. Group and its insurance subsidiaries (the “Group”) led by the Michigan Department of Insurance and Financial Services (“MI DIFS”). Other state participants included Arizona, Delaware, Missouri, New Mexico, Ohio, and Texas. The examination of DQNJ is being conducted concurrently with the examination of its New Jersey affiliate, Union Security DentalCare of New Jersey, Inc.

The examination addresses the period from January 1, 2019 through December 31, 2023, which is the first financial examination of the Company. During the five-year exam period, the Company’s assets increased \$4,351,763 from \$482,692 to \$4,834,455; liabilities increased \$3,409,701 from \$31,524 to \$3,441,225 and total surplus increased \$942,062 from \$451,168 to \$1,393,230.

The examination was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (“NAIC”) and prescribed by the 2024 NAIC *Financial Condition Examiners Handbook* (the “Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process as defined in the Handbook. This included assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. 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 is documented separately following the Company’s financial statements presented within this Report of Examination.

This examination report includes significant findings of fact 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 separately communicated to other regulators and/or the Company.

The Company’s statutory financial statements were audited annually, for the years 2019 through 2021, by Ernst & Young LLP, and for the years 2022 through 2023, by Deloitte & Touche LLP (“Deloitte”). Among the procedures incorporated into this examination was a review of Deloitte’s annual audit work papers. Certain work papers developed by Deloitte were relied upon by the examiners and were incorporated into the examiner’s work papers.

HISTORY

DQNJ was organized under the laws of Wisconsin on April 22, 2003. On January 13, 2010, the Company was authorized to commence business as a Third Party Administrator and received certification as an Organized Delivery System (“ODS”) for dental business in the State of New Jersey. In 2015, the Company additionally obtained approval as a certified ODS for vision business. Effective December 21, 2017, DQNJ was approved to operate as a LODS. DQNJ is wholly owned by DentaQuest, LLC (“DQLLC”), a Delaware limited liability

company and wholly owned subsidiary of DentaQuest Group, Inc. (“DentaQuest”), a Delaware corporation. DentaQuest was previously a wholly owned subsidiary of Dental Service of Massachusetts, Inc. (“DSM”), a not-for-profit dental service corporation.

On October 11, 2016, DSM formed Catalyst Institute, Inc. (“Catalyst”), a not-for-profit Massachusetts corporation, which obtained its 501(c)(4) exemption from the Internal Revenue Service (“IRS”), effective January 11, 2017. On January 1, 2018, Catalyst became the sole member of DSM, and on June 6, 2018, DSM transferred ownership of DentaQuest to Catalyst.

On January 2, 2020, Catalyst sold a 40% minority interest in the stock of DentaQuest to CP Monarch, L.P., a Cayman Islands-based company. Effective March 1, 2021, Catalyst changed its name to CareQuest Institute for Oral Health, Inc. (“CareQuest”). On June 1, 2022, a subsidiary of Sun Life Financial Inc. (“SLF”) acquired DentaQuest from CareQuest and minority shareholder, CP Monarch, L.P., effecting SLF as the ultimate parent of DQNJ.

The main administrative office and primary location of books and records is located at 96 Worcester Street, Wellesley Hills, Massachusetts 02481. The registered agent for whom due process may be served is Corporation Service Company, Princeton South Corporate Ctr, Suite 160, 100 Charles Ewing Blvd, Ewing, New Jersey 08628.

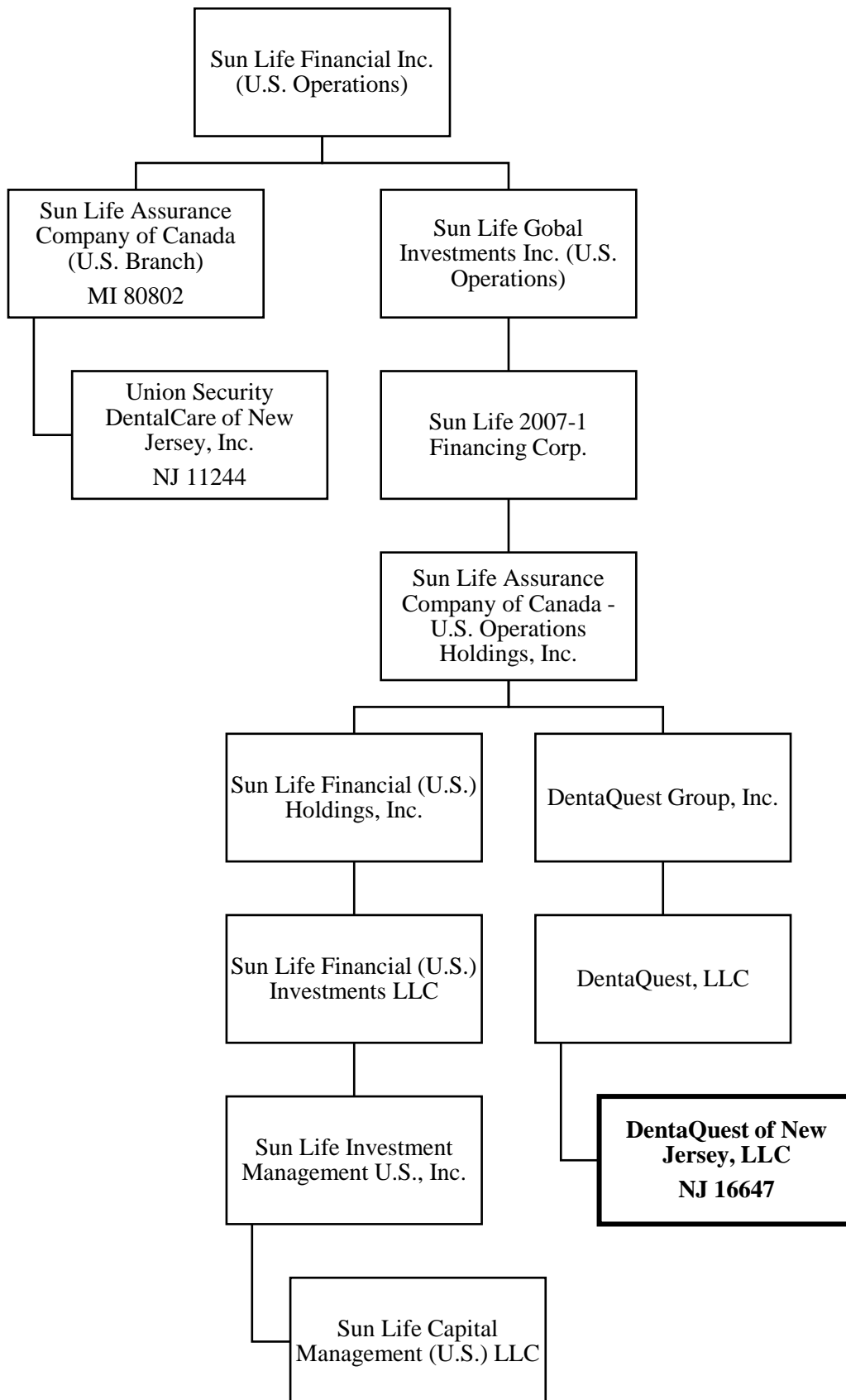
TERRITORY AND PLAN OF OPERATION

The Company is authorized to operate as a LODS to provide only a supplemental network for dental services and is only licensed in the State of New Jersey to transact the business of dental insurance. During the examination year, the Company solely operated under administrative services only (“ASO”) contracts and did not write any at-risk business. Under its ASO contracts, uninsured plan revenues are derived from arrangements to provide claims adjudication services and other administrative and management services for dental plans. Revenue for services is earned as services are rendered. DQNJ does not incur underwriting risk associated with its uninsured plan business. In accordance with Statement of Statutory Accounting Principles (SSAP) 47, ASO fees and reimbursements are deducted from general expenses.

The Company utilizes an established network of dentists to provide comprehensive services to its members. Providers are compensated by DQNJ on a fee-for-service basis based upon discounted fee schedules.

HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined in N.J.S.A. 17:27A-1, and as such has filed a holding company registration statement with the New Jersey Commissioner of Banking and Insurance in compliance with N.J.S.A. 17:27A-3. The Company’s ultimate controlling person is SLF, an international financial services organization that provides a diverse range of protection and wealth products and services to individuals and corporate customers operating in markets worldwide, including Canada, the United States, the United Kingdom, Ireland, Hong Kong, the Philippines, Japan, Indonesia, India, China, Australia, Singapore, Vietnam, Malaysia, and Bermuda. An abbreviated organizational chart as of December 31, 2023 follows:



INTERCOMPANY AGREEMENTS

Management and Services Agreement

Effective January 1, 2010, an agreement was made and entered into with DQLLC pursuant to which DQLLC provides general administrative, management and other services to DQNJ and other DentaQuest LLCs. For services performed, DQNJ reimburses DQLLC for costs incurred in performance of services attributable solely for DQNJ. For services performed among DQNJ and certain affiliates, DQNJ reimburses DQLLC for its apportioned share of the reasonable expenses incurred. Statements are provided and payments are made no less than frequently than on a quarterly basis. Services include information technology services, facilities and equipment, human resource services, executive and managerial support, legal services, regulatory filing and compliance services, accounting services, cash management services, actuarial and underwriting services, sales and marketing services, enrollment services, claims processing services, billing and collection services, customer services, provider relations and credentialing services and additional services as necessary for proper conduct of the business.

The first amendment to the agreement, effective January 1, 2018, added a New Jersey addendum as Exhibit B which includes "NJ Provisions" that shall be applied to services in support of business in New Jersey and the relationship between DQNJ and DQLLC; removed the dissolved party, DentaQuest Administrative Services, LLC; and added DentaQuest of Iowa, LLC as a party to the agreement.

Investment Advisory Agreement

Effective October 1, 2023, an investment advisory agreement was entered into between DQNJ and Sun Life Capital Management (U.S.) LLC ("SLCMUS"), under which SLCMUS acts as an investment adviser and manager and provides certain other services, with respect to certain of DQNJ's investments identified by the Company from time to time. The investment advisory fee shall be the "cost of providing services", calculated as the budgeted direct and indirect cost to SLCMUS of providing the services required by this agreement. Payment for fees is due within 30 days following receipt of each monthly statement, provided within 45 days after each month's end.

MANAGEMENT AND CONTROL

DQNJ does not seat a board of directors, and rather, is governed by its sole member, DQLLC, or by the officers of DQNJ appointed by DQLLC. The member, or such officers, shall have and may exercise on behalf of DQNJ all of its rights, powers, duties and responsibilities, pursuant to its Limited Liability Agreement.

DQLLC, as the member of DQNJ, largely functions as a board of directors and audit committee for DQNJ. The individuals representing the sole member in written actions pertaining to DQNJ and serving at December 31, 2023 were as follows:

<u>Name</u>	<u>Role</u>
Steven Pollock	President of DQLLC
Miles Yakre	Treasurer of DQLLC

At the holding company level, the following Board Committees were established as of December 31, 2023 and had partial oversight of certain subsidiaries, including the Company, which also allowed DQNJ to comply with provisions of N.J.S.A. 17:27A-4d(4): Audit Committee, Governance, Nomination & Investment Committee, Management Resources Committee, and Risk Committee.

Officers

As of December 31, 2023, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Brett A. Bostrack	President
Colleen L. Kallas	Secretary
Miles Yakre	Treasurer

Subsequent to the examination date, Craig Wright was appointed as Vice President, Chief Financial Officer and Treasurer, effective January 1, 2025, replacing Miles Yakre as Treasurer.

CORPORATE RECORDS

A review of the minutes of the Company's sole member meetings indicated that transactions and events were adequately authorized and supported. The sole member's review and approval of key investment transactions and other strategically relevant and important matters were duly noted and documented in its minutes.

POLICY ON CONFLICTS OF INTEREST

The sole member of the Company has adopted the SLF Code of Conduct ("Code of Conduct"), which sets out minimum standards of ethical conduct that apply to all employees, officers and directors of SLF and its subsidiaries, including DQNJ. Annually, all officers of the Company are required to complete an annual code acknowledgment and the sole member is provided an annual report concerning compliance with the Code of Conduct, as required by the established risk management policies.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The Company is covered under a blanket financial institution bond policy in effect, covering SLF and subsidiaries, which includes coverage for ERISA, property, financial documents, computer/funds transfer, extortion, fraud, theft by deception and fraudulent signature. Based on the NAIC exposure index guidelines for minimum amounts of fidelity insurance, the amount of coverage maintained is more than adequate. DQNJ is compliant with N.J.A.C. 11:22-4.8 (h) requiring a minimum \$100,000 in fidelity bond with the blanket policy coverage.

In addition, the Group maintains an insurance program designed to protect its assets and employees arising out of property and liability risks with coverage including fire and theft, general liability, director and officer liability and cybersecurity.

CONTINUITY OF OPERATIONS

The Group's business continuity and disaster recovery plans were reviewed and found to be adequate. Plans are updated and tested annually and data is mirrored to the disaster recovery environment. A multi-location strategy is utilized to permit the resumption of operations in the event of a loss of a facility.

ACCOUNTS AND RECORDS

The Company's general ledger system is Oracle EBS. Internal control reviews on the general ledger system are performed on a regular basis and the Company has segregation of duties controls around its general ledger.

The Company's premium and loss processing system is Windward, an internally developed system. Revenue is accrued for when it is billed, and cash receipts are applied to these accruals when cash is received. Unpaid accounts receivables are evaluated for collectability on a monthly basis, with allowances for doubtful accounts recorded as necessary. Claims, which are all ASO, are adjudicated in the Windward system prior to authorization for payment. Most claims auto-adjudicate based on pre-programmed eligibility and claims-based rules. If manual adjudication is required, the claims processing team reviews for appropriateness prior to payment.

FINANCIAL STATEMENTS

Financial statements are presented in the following three pages as listed below:

- Exhibit – A Statement of Assets, Liabilities, Capital and Surplus
as of December 31, 2023
- Exhibit – B Statement of Revenue and Expenses
for the Five-Year Period Ending December 31, 2023
- Exhibit – C Capital and Surplus Account
for the Five-Year Period Ending December 31, 2023

Exhibit A - Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2023

	Current Examination at 12/31/2023	Balance per Company at 12/31/2023	Examination Change	Note Number
<u>Assets</u>				
Bonds	\$300,000	\$300,000	\$0	1
Cash, cash equivalents and short-term investments	3,440,604	3,440,604	0	
Investment income due and accrued	18,429	18,429	0	
Amounts receivable relating to uninsured plans	1,072,420	1,072,420	0	
State tax receivable	3,002	3,002	0	
Total Net Admitted Assets	<u>4,834,455</u>	<u>4,834,455</u>	<u>0</u>	
<u>Liabilities</u>				
Current federal and foreign income tax payable and interest thereon	5,912	5,912	0	
Amounts due to parent, subsidiaries and affiliates	2,085,313	2,085,313	0	
Liability for amounts held under uninsured plans	1,350,000	1,350,000	0	
Total Liabilities	<u>3,441,225</u>	<u>3,441,225</u>	<u>0</u>	
<u>Capital and Surplus</u>				
Unassigned funds (surplus)	<u>1,393,230</u>	<u>1,393,230</u>	<u>0</u>	
Total Capital and Surplus	<u>1,393,230</u>	<u>1,393,230</u>	<u>0</u>	
Total Liabilities, Capital and Surplus	<u>\$4,834,455</u>	<u>\$4,834,455</u>	<u>\$0</u>	

Exhibit B - Statement of Revenue and Expenses for the Five-Year Period Ending December 31, 2023

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
<u>Revenues</u>					
Risk revenue	\$1,708,971	\$192,252	\$474,385	\$0	\$0
Total Revenues	1,708,971	192,252	474,385	0	0
<u>Hospital and Medical</u>					
Other professional services	806,771	65,828	317,714	4,228	980
Total Hospital and Medical	806,771	65,828	317,714	4,228	980
Claims adjustment expenses, including cost containment expenses	97,054	(10,137)	(16,094)	(79,281)	47,794
General administrative expenses	442,133	(46,177)	(73,317)	(361,171)	217,727
Total Underwriting Deductions	1,345,958	9,514	228,303	(436,224)	266,500
Net Underwriting Gain or (Loss)	363,013	182,738	246,082	436,224	(266,500)
<u>Investment Income</u>					
Net investment income earned	(981)	4,507	2,128	4,503	141,500
Net Investment Gains (Losses)	(981)	4,507	2,128	4,503	141,500
Net income or (loss) after capital gains tax and before all other federal income taxes	362,032	187,245	248,210	440,727	(125,000)
Federal and foreign income taxes incurred	81,279	29,242	55,927	87,966	(25,583)
Net Income (Loss)	\$280,753	\$158,003	\$192,283	\$352,761	(\$99,417)

Exhibit C - Capital and Surplus Account for the Five-Year Period Ending December 31, 2023

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Capital and Surplus, Prior Reporting Year	\$451,168	\$802,715	\$411,869	\$1,213,716	\$1,551,503
Net income or (loss)	280,753	158,003	192,283	352,761	(99,417)
Change in net deferred income tax	30,214	(28,534)	4,449	(3,805)	(2,324)
Change in nonadmitted assets	40,580	(520,315)	605,116	(11,170)	14,245
Correction of error	0	0	0	0	(70,776)
Net change in capital and surplus	351,547	(390,846)	801,848	337,787	(158,273)
Capital and Surplus, End of Reporting Year	\$802,715	\$411,869	\$1,213,716	\$1,551,503	\$1,393,230

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Bonds

At December 31, 2023, the Company reported an asset for bonds of \$300,000, in excess of the deposit requirement pursuant to N.J.A.C. 11:22-4.8(e), which was accepted for purposes of this examination.

SUBSEQUENT EVENTS

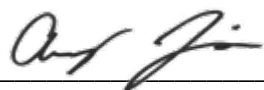
On February 27, 2025, DQLLC made a capital contribution of \$2,500,000 to DQNJ.

CONCLUSION

The examination of DentaQuest of New Jersey, LLC as of December 31, 2023, was conducted under the supervision of the State of New Jersey, Department of Banking and Insurance, by the undersigned.

The courteous cooperation and assistance extended during the course of this examination by the officers of the Company and members of the staff are hereby acknowledged.

Respectfully submitted,



Andy Jennings, CFE, ARM
Examiner-In-Charge
Risk & Regulatory Consulting, LLC
Representing the New Jersey Department of Banking and Insurance

Under the Supervision of,



Nancy Lee Chice, CFE
CFE Reviewer, Supervising Examiner
New Jersey Department of Banking and Insurance

AFFIDAVIT

I, Andy Jennings, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of DentaQuest New Jersey, LLC as of December 31, 2023 to the best of my information, knowledge and belief.

Respectfully submitted,




Andy Jennings, CFE, ARM
Examiner-In-Charge
Risk & Regulatory Consulting, LLC

Under the supervision of,



Nancy Lee Chice, CFE
CFE Reviewer, Supervising Examiner
New Jersey Department of Banking and Insurance



State of New Jersey
County of Mercer

Subscribed and sworn to before me,

On this 15th day of April, 2025

Signed,



Notary Public of the State of New Jersey

My commission expires on:

July, 2025