2018 Annual Report

Transforming for the future
In 2018, Delta Dental took a significant leap toward a new vision of our role in the health care ecosystem. With a focus on our customers, employees and dentists, we reorganized our leadership and committed to organizational values of trust, service, excellence and innovation. These principles form the building blocks of our foundation and provide us with the necessary tools to transform and shape the future of customer-centered health care.

**Trust**
Since 1974, Californians covered under Medi-Cal have relied on Delta Dental for dental benefits. The Medi-Cal dental program (Denti-Cal) provides essential care to 12.5 million low-income individuals. As a testament to our commitment and expertise, the State of California renewed our most recent contract, continuing this long-standing relationship — one of the many we are proud to have built over the decades.

**Service**
More than just a dental benefits provider, we’re dedicated to improving lives, whether that’s through expanding access to oral health, promoting education or providing disaster relief. In 2018, we donated $15.8 million in support of the communities in which we live, work and serve. Our employees stepped up to the challenge, volunteering their time and assembling thousands of dental kits for underserved populations and communities devastated by the California wildfires. To underscore the importance of giving back, we launched Smiling It Forward, our first employee volunteer and giving program.

**Excellence**
As we look to the future, we want to build on our respected position within health care. In 2018, our enrollment continued to grow, increasing by 1.4 million. For the third straight year, we earned an “A” (excellent) rating from A.M. Best, affirming our stable financial outlook.

**Innovation**
Trying new approaches is the driver behind change. In our partnerships and alliances, we’ve been exploring new opportunities in the health care ecosystem. In 2018, we began working with Moda Health. Together, we’re looking at new ways to serve our customers, promote overall wellness and provide broader health care solutions to more people and communities.

Looking ahead, I’m excited about the direction Delta Dental is going. Promoting health goes beyond providing access to dental services, and Delta Dental is committed to a holistic, long-term view of our customers’ wellness. With our organizational values and dedication to our customers, 2018 lays the groundwork for a bright future. I’m pleased to share our accomplishments of the past year and look forward to the continued transformation we can achieve together in 2019 and well beyond.

Mike Castro
President and CEO
Our mission
To advance dental health and access through exceptional dental benefits service, technology and professional support.

Highlights

Moving in a new direction
After three decades at our San Francisco headquarters at 100 First Street, we moved to new offices on both sides of the Bay. The bright, open spaces bring our transformation to life, fostering a culture of communication and collaboration. With locations in downtown San Francisco and Oakland, we’ve expanded our presence, improved accessibility for employees and strengthened our support for the Bay Area communities we serve.

As part of that community investment, we donated furniture, projectors and refrigerators to local schools in Alameda, San Geronimo, Hayward and Richmond and made additional contributions to the food banks serving San Francisco, Marin and Alameda counties. Beyond the Bay Area, we also support local communities served by our offices in Alpharetta, Georgia; Mechanicsburg, Pennsylvania; Rancho Cordova and Cerritos in California and Highland Village, Texas.

To build roots in our new neighborhood in Oakland, we established a relationship with the Oakland A’s, sponsoring a statue of the baseball team’s mascot Stomper. Part of a city-wide public art event, the piece by local artist Kevin Proctor commemorates the team’s 50th anniversary season and supports the Oakland A’s Community Fund. This laid the groundwork for the four-year partnership we launched with the A’s in 2019.

Living our values
Transformation happens from the inside out. And the key values that support our transformation are trust, service, excellence and innovation. These values guide our everyday work and decision-making and form the foundation of our organization.
Creating the partnerships of the future

We believe a healthy smile today is part of a healthy body tomorrow. Dental health isn’t just about sparkling white teeth — it’s part of a holistic, long-term picture. That’s why we’re proud to have established a relationship with Oregon-based Moda Health, an organization that shares our commitment to wellness. Moda’s family of enterprises provides dental benefits to more than 1 million members, medical coverage to 330,000 members and pharmacy services to over 1 million members. Working together, we can combine our knowledge and expertise to provide integrated health care solutions and improve access and care for a wider community.

Spreading smiles

Our rich history of service originates in our employees, who form the heart of Delta Dental’s community involvement. Inspired by their dedication, we launched Smiling It Forward, our first formal employee volunteer and giving program. With paid volunteer time off and dollar-for-dollar matching donations, we support our employees’ commitments to making the communities we serve better and stronger. In this first year, our employees supported 640 causes, and we matched nearly $79,000 in donations to charities of their choice.

In a company-wide can drive, our employees rallied to stop hunger. In addition to traditional food banks, we also donated to animal shelters, recognizing that hunger can also affect our furry friends. Overall, we collected 11,580 cans to support five food banks and two animal shelters:

- Alameda County Food Bank (San Francisco & Oakland)
- San Francisco-Marin Food Bank (San Francisco & Oakland)
- Los Angeles Regional Food Bank (Cerritos)
- City of Denton Animal Shelter (Highland Village)
- Noah’s Ark (Highland Village)
- Perry County Food Bank (Mechanicsburg)
- Hosea Williams Feed the Hungry (Alpharetta)
Delivering dental care access to underserved populations

In 2018, we developed key Medicare and Medicaid relationships to deliver access to quality dental care to those who need it most.

In California, we extended our contract with Medi-Cal, the largest Medicaid program in the country, serving over 12.5 million people. Dental health is an essential part of overall health, but less than half of Medi-Cal members use their dental coverage. With the California Department of Health Care Services, we launched a new bilingual campaign called “Smile, California” to raise awareness about the importance of dental care and encourage regular dental visits.

In New York, we began administering Medicare and Medicaid dental benefits through Capital District Physicians’ Health Plan (CDPHP). CDPHP shares our commitment to member-focused, high-quality health care. With its emphasis on preventive care and integration of dental health within overall wellness, the organization exemplifies our shared values, and we’re proud to jointly serve 100,000 Medicaid recipients and over 16,000 Medicare recipients.

And in the District of Columbia, we built a new partnership to provide dental benefits to Health Services for Children with Special Needs, Inc. (HSCSN), a Medicaid program for children and young adults with disabilities. A first-of-its-kind health system in Washington, D.C., HSCSN is committed to improving the lives of young people with disabilities and complex medical conditions.

Serving our military veterans

Military veterans and their families know they can count on Delta Dental. As the sole provider of the TRICARE Retiree Dental Program (TRDP) for 21 years, we offered quality dental coverage to 1.6 million retired servicemen and servicewomen. When the program ended in late 2018 as the result of a recent federal law, TRDP members were transitioned to the Federal Employees Dental and Vision Insurance Program (FEDVIP). Nearly half chose to stay with Delta Dental from a selection of 10 dental carriers in FEDVIP.
Transforming lives, one smile at a time

How powerful is a healthy smile? At Delta Dental, we know that the effects of oral wellness are far-reaching. Here are just a few examples of the life-changing power of dental care. Stories like these inspire us to work to expand dental access through our philanthropic arm, the Delta Dental Community Care Foundation.

After many years of suffering with painful, decayed teeth, Vietnam War veteran Robert Bennett finally received the care he needed when he visited the Sgt. Clint Ferrin Memorial Clinic in Las Vegas, Nevada. This community clinic is part of Delta Dental Community Care Foundation’s outreach with the University of Nevada, Las Vegas and offers services to uninsured, low-income veterans.

With a new set of dentures, he can confidently smile, talk and apply for jobs again. “It changes your life,” he said. “It just gives you your dignity back.”

Bennett isn’t the only person whose life has been transformed by dental care. Our Access to Care grants support community clinics that provide much needed care to underserved populations.

A 13-year-old boy in Huntsville, Alabama came into local clinic HEALS, Inc. with severe tooth decay in 15 teeth. Until that day, he had never seen a dentist and lacked basic dental supplies to brush at home. Now, with a restored smile, new braces and the basics of dental hygiene, the eighth grader has a healthy mouth he can be proud of.

An Arlington, Texas woman survived a battle with brain cancer but lost a front tooth and her job during treatment. Ashamed of her missing tooth and unable to afford a dentist, she avoided her friends and stopped going to church. With the help of Dental Health Arlington, a non-profit clinic and grant recipient, she received a brand-new smile and restored confidence to rejoin her community.

Giving kids a sporting chance

Our sports partnerships go beyond the Oakland A’s. To make dentist visits exciting for underserved children, our partner TeamSmile brings together at-risk children and their favorite sports teams. Children receive essential preventive dental care and restorative treatment and get to meet athletes from major and minor league baseball, the National Football League, the National Basketball Association and the National Hockey League. Our 2018 Access to Care grants supported events with a dozen teams across the country, including the Atlanta Falcons, the Las Vegas Golden Knights, the Pittsburgh Pirates and the Utah Jazz.
Financial statement

With $8.8 billion in revenue in 2018, our financial statement reflects a strong, stable organization. This success helps us support communities and causes across the enterprise.
## Combined Balance Sheets
December 31, 2018 and 2017
(In thousands)

The following selected financial data have been derived from Enterprise Companies’ financial statements.

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$901,456</td>
<td>$816,787</td>
</tr>
<tr>
<td>Marketable securities</td>
<td>1,615,539</td>
<td>1,479,800</td>
</tr>
<tr>
<td>Receivables</td>
<td>509,482</td>
<td>475,743</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>157,986</td>
<td>136,850</td>
</tr>
<tr>
<td>Other assets</td>
<td>158,219</td>
<td>172,629</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$3,342,682</td>
<td>$3,081,809</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities and general reserves</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unpaid claims and claims adjustment expenses</td>
<td>$495,439</td>
<td>$526,584</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>307,314</td>
<td>342,731</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>59,948</td>
<td>94,930</td>
</tr>
<tr>
<td>Refundable customer balances</td>
<td>630,516</td>
<td>460,758</td>
</tr>
<tr>
<td>Accrued retirement benefits</td>
<td>46,836</td>
<td>80,967</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>61,404</td>
<td>64,510</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>1,601,457</td>
<td>1,570,480</td>
</tr>
<tr>
<td><strong>General reserves</strong></td>
<td>1,741,225</td>
<td>1,511,329</td>
</tr>
<tr>
<td><strong>Total liabilities and general reserves</strong></td>
<td>$3,342,682</td>
<td>$3,081,809</td>
</tr>
</tbody>
</table>
### Combined Statements of Income and Expense and General Reserves

December 31, 2018 and 2017  
(In thousands)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial customers</td>
<td>$7,898,798</td>
<td>$7,503,742</td>
</tr>
<tr>
<td>State and federal programs</td>
<td>892,488</td>
<td>1,700,712</td>
</tr>
<tr>
<td>Investment income</td>
<td>61,976</td>
<td>43,580</td>
</tr>
<tr>
<td>Other income (expense), net</td>
<td>(25,412)</td>
<td>(54,485)</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>8,827,850</td>
<td>9,193,549</td>
</tr>
</tbody>
</table>

| **Expenses**   |             |             |
| Claims incurred | 7,617,013   | 8,046,116   |
| Administrative  | 995,776     | 921,504     |
| **Total Expenses** | 8,612,789  | 8,967,620   |

| **Net income** | 215,061     | 225,929     |
| Unrealized gains (losses) on securities | (18,795) | 35,171 |
| Pension liability and post-retirement adjustments | 33,630 | 1,356 |
| General reserves at beginning of year | 1,511,329 | 1,248,873 |
| **General reserves at end of year** | **$1,741,225** | **$1,511,329** |
Networks

Dentists are key partners in delivering health. Through our mutual relationship, we’re able to provide dental care to millions of enrollees around the country.

“Our relationship to our dentists is a partnership. We see our dentists as trusted partners working towards the same goal: bringing health to our enrollees, our dentists’ patients. We want to contribute to the provider’s success as a businessperson, as a healer, as a community member.”

— Daniel Croley, DMD
Vice President Network Development

Our dentist networks are among the largest in the U.S. Since we contract directly with dentists instead of leasing, our networks offer standard credentialing and ensure partnership and transparency for our dentists.

Delta Dental Insurance Company has received Credentialing Accreditation from the National Committee for Quality Assurance (NCQA). NCQA is a private, non-profit organization dedicated to improving health care quality.*

*NCQA has reviewed and accredited Delta Dental Insurance Company’s Credentialing functions only. For complete details on the scope of this review, visit www.ncqa.org.

**Delta Dental PPO™:**

4,724 more access points

**Delta Dental Premier®:**

2,360 more access points

**DeltaCare® USA:**

2,290 more dentist locations

An access point refers to the number of locations where a single dentist provides services. If a single practice includes multiple dentists or a single dentist belongs to multiple practices, each dentist at each practice is considered a distinct access point. A dentist location refers to a single DeltaCare USA facility, which may contain more than one dentist.

8 in 10 of dentists in the U.S. are Delta Dental PPO or Premier dentists

99.23% retention of Premier dentists

Compared to all National Provider File eligible dentists, as of December 2018.
Our enrollment grew by 1.4 million in 2018, reflecting a 38.5% increase since 2013.

<table>
<thead>
<tr>
<th>Year</th>
<th>Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>26.6 million</td>
</tr>
<tr>
<td>2014</td>
<td>31 million</td>
</tr>
<tr>
<td>2015</td>
<td>33.1 million</td>
</tr>
<tr>
<td>2016</td>
<td>34.7 million</td>
</tr>
<tr>
<td>2017</td>
<td>35.4 million</td>
</tr>
<tr>
<td>2018</td>
<td>36.8 million</td>
</tr>
</tbody>
</table>

Cost management

Value matters. Our enrollees and clients can count on access, quality and affordability, thanks to our cost management strategies.

How much each premium dollar pays for dental services

- Dental services: 88¢
- Reserves: 2¢
- Administrative costs: +10¢
- Premium = $1

We maintain strong reserves to meet our financial obligations, allowing us to withstand unforeseen circumstances.

- Submitted claims $19.01 billion
- Savings: $6.64 billion (35% of submitted amount)
Customer satisfaction

Our customers are at the focus of our business, and we're pleased to report that our enrollee and client satisfaction ratings in 2018 reflected that dedication.

Enrollees

- Enrollee satisfaction with dentist*: 95%
- Enrollee satisfaction with Delta Dental*: 98%
- Enrollee retention: 99%

*Based on PPO and Premier group enrollees across the enterprise

Clients

- Satisfied with Delta Dental: 97%
- Agree that Delta Dental provides comprehensive top-tier customer service*: 97%
- Client retention: 93%

*Based on 237 survey responses from benefits administrators

Awards

Rockwell Collins Trusted Supplier Program’s highest rating of 1-Platinum Premier
Claims and calls

Claims processed: 50.7 million
Average turnaround: 3.57 days
Claim accuracy rate: 99.9%

Our dentists and enrollees can rely on us for quick, accurate claim processing.

Calls answered: 20.1 million
Resolved on first call: 99.1%

Our customer service representatives are here to support our enrollees, dentists and clients. We are continually looking for ways to better serve our customers. In 2018, our Contact Center launched major upgrades to our automated phone system to help dentists and enrollees easily get the information they need.

Products

Delta Dental PPO and Delta Dental Premier
93% of enrollment
2.1% growth

DeltaCare USA
7% of enrollment
1.6% growth
Employees

It’s the people of Delta Dental who make our organization a trusted health partner to the communities we serve. By engaging and empowering our employees, we’re building a high-performing culture of ownership and service with our customers at the center.

- **44,335** hours of instructor-led employee training
- **3,447** Step-Up awards for peer-to-peer recognition
- **2,208** volunteer hours
- **51%** racial and ethnic minorities
- **68%** female
- **40%** of mid-level managers are women

Sustainability

As an organization dedicated to sustainability, we encourage our enrollees and dentists to opt for electronic document delivery. In 2018, dentists increased their paperless communications by 44%. The resulting decrease in paper significantly reduces our ecological footprint. Our offices across the enterprise aim to stay green, from recycling in all our offices to reducing the number of printers in 2018 by 33%.

- **7,870 trees saved** (510 more trees than in 2017)
- **5,910,000 pounds** of carbon dioxide saved (390,000 more than in 2017)
- **100% of energy use** is offset with renewable energy credits
- **75% of offices** are Energy Star certified and 50% of offices are LEED certified
- **243,160 pounds** of metal, paper and other materials recycled during move
- **43% of cartridge spending** for remanufactured (recycled) inks

*Based on enrollees and dentists who chose electronic documents. Statistics courtesy of Environmental Paper Network.*
Financial strength

A (Excellent)

Our enterprise received an “A,” or “excellent” rating, from A.M. Best in 2018. This score highlights the strong, stable financial outlook of Delta Dental of California, Delta Dental Insurance Company, Delta Dental of New York, Inc. and Delta Dental of Pennsylvania.

The leading independent health care rating agency underscored our “very strong” balance sheet, strong operating performance and appropriate risk management. Furthermore, the rating noted the value of our:

- Benefit design
- Favorable dental trends
- System upgrades that reduced expenses

About us

Our enterprise comprises one of the nation’s largest dental benefits carriers, with 36.8 million enrollees in the U.S. and Puerto Rico.
Companies within our enterprise

**Delta Dental companies**
The following companies in our enterprise are members, or affiliates of members, of the Delta Dental Plans Association, a network of 39 Delta Dental companies that together provide dental coverage to 80 million people around the country.

Delta Dental Insurance Company (AL, DC, FL, GA, LA, MS, MT, NV, TX and UT)
Delta Dental of California (CA)
Delta Dental of Delaware, Inc. (DE)
Delta Dental of the District of Columbia (DC)
Delta Dental of New York, Inc. (NY)
Delta Dental of Pennsylvania (PA and MD)
Delta Dental of West Virginia, Inc. (WV)
Delta Dental of Puerto Rico (PR and VI)
Delta Reinsurance Corporation (Barbados)
Alpha Dental of Alabama, Inc. (AL)
Alpha Dental of Arizona, Inc. (AZ)
Alpha Dental of Nevada, Inc. (NV)
Alpha Dental of New Mexico, Inc. (NM)
Alpha Dental of Utah, Inc. (UT)
Alpha Dental Programs, Inc. (HI, ID, IL, IN, KY, MD, MO, NJ, OH, and TX)

**Dentegra companies**
The enterprise companies below are not affiliated with Delta Dental Plans Association. However, the two U.S. insurance companies are authorized by Delta Dental Plans Association to market and underwrite certain multi-state and national Delta Dental-branded programs.

**Dentegra Group, Inc.**
Dentegra Insurance Company
Dentegra Insurance Company of New England
Dentegra Seguros Dentales, S.A. (Mexico)
Servicios Dentales Dentegra, S.A. de C.V. (Mexico)

**DeltaCare USA operations**
Delta Dental Plans Association has granted our enterprise the exclusive right to underwrite multi-state DHMO business across the nation under the DeltaCare USA brand.

**Delta Dental PPO and Delta Dental Premier operations**
In the following states, Delta Dental Plans Association has granted our enterprise the exclusive right to underwrite fee-for-service, preferred provider organization plans (also known as dental provider organization plans) under the Delta Dental brand:

Alabama • California • Delaware • District of Columbia • Florida • Georgia • Louisiana • Maryland • Mississippi • Montana • Nevada • New York • Pennsylvania • Puerto Rico • Texas • U.S. Virgin Islands • Utah • West Virginia

deltadentalins.com