2012 STATE OF THE DENTAL BENEFITS MARKET

March 2013
The National Association of Dental Plans is a non-profit trade association representing the entire spectrum of the dental benefits industry, including dental HMOs, dental PPOs, discount dental plans and dental indemnity products. NADP’s member dental plans provide dental benefits to more than 160 million of the 177 million Americans with dental benefits. NADP’s members include major national, regional and single state-companies.

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# Table of Contents

**About the Report**  
4

**Major Trends in 2011**  
5

**Enrollment Trends**  
6
  - Overall Enrollment Trend  
    7
  - Commercial Enrollment Trend  
    8
  - Benefit Structure  
    11
  - Dental Benefits Offered by Employer Size  
    12

**Out of Pocket Trends**  
13
  - Annual Maximum Benefit  
    14
  - Annual Deductible  
    15
  - Premium Trends  
    16

**Children’s Access to Dental Care**  
17

**Customer Service Trends**  
20

**Developments in Claims Processing**  
24

**Market Size and Sales Trends**  
27

**What to Expect in 2013**  
30
  - Market Dynamics  
    31
  - Dental Plan ACA Initiatives  
    33
  - State and Federal Legislative Initiatives  
    36
  - State and Federal Exchange Initiatives  
    37

**Appendix**  
39
About this Report

- This document is NADP’s Executive Summary of industry research conducted in 2012.
- Except where noted, industry data is as of December 31, 2011 or encompassing all of calendar year 2011.
Major trends in 2011

- Commercial dental plan enrollment continued to recover from losses experienced in 2008 and 2009.
- Premiums showed signs of growth after stalling the previous year.
- Consumers are bearing more of the cost of their dental benefits.
- With little improvement in operational metrics, the opportunities to improve profitability is minimal.
- Health care reform will continue to impact the business of dental benefits as federal regulations are finalized and state-based exchanges are implemented.
Enrollment Trends
Enrollment in 2011 improved slightly compared to 2010 (less than ½%), but the percentage of Americans with dental benefits remained unchanged.

<table>
<thead>
<tr>
<th>Year</th>
<th>Population with Dental Benefits</th>
<th>% of Pop with Dental Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>154,544,868</td>
<td>54%</td>
</tr>
<tr>
<td>2003</td>
<td>155,939,275</td>
<td>54%</td>
</tr>
<tr>
<td>2004</td>
<td>160,700,534</td>
<td>55%</td>
</tr>
<tr>
<td>2005</td>
<td>162,484,533</td>
<td>55%</td>
</tr>
<tr>
<td>2006</td>
<td>170,534,923</td>
<td>57%</td>
</tr>
<tr>
<td>2007</td>
<td>174,296,987</td>
<td>57%</td>
</tr>
<tr>
<td>2008</td>
<td>177,659,877</td>
<td>58%</td>
</tr>
<tr>
<td>2009</td>
<td>167,849,289</td>
<td>55%</td>
</tr>
<tr>
<td>2010</td>
<td>175,626,768</td>
<td>57%</td>
</tr>
<tr>
<td>2011</td>
<td>176,266,379</td>
<td>57%</td>
</tr>
</tbody>
</table>
Commercial dental benefits enrollment tracks very closely to full time employment.

As full time employment recovered in 2011 and has continued to improve through 2012, enrollment in dental benefits should also continue to increase.
In 2011, DPPO continued to expand market share of commercial dental benefits, particularly at the expense of Dental Indemnity products. There is nothing to suggest that this long term trend will abate in 2012 or 2013.
The Affordable Care Act creates incentives for employers to move from fully insured plans to self-insured plans. The trend toward self-insurance for dental benefits should continue and may even accelerate as the law is implemented.
While the Affordable Care Act may have encouraged a children's dental benefit to be integrated with medical benefits, the market has not yet moved in that direction. Recent releases of clinical rules regarding Essential Health Benefits in products offered on and off Exchanges appear to mitigate the need for insurers to create an integrated dental benefit.

Long term, the structure of Exchanges appear to encourage small employers to move toward a dental benefit that is more like a voluntary or individual product. Although in 2014, employers are allowed to designate the plan in which their employees are enrolled. This effect will only accelerate a trend toward employees bearing more of the costs of their dental benefit.
More and more, smaller employers are providing dental benefits to their employees. The disruption in the benefits market caused by the implementation of Health Exchanges makes anticipation of enrollment trends in dental benefits too difficult to project at this time.

Source: 2011 NADP Purchaser Behavior Study
Consumer Out of Pocket Trends
Price pressures from previous years are starting to impact plan design. Greater price sensitivity to dental premiums has resulted in generally lower Annual Maximum benefits.
Annual Deductibles - Trend

Greater sensitivity to premium cost is also affecting the amount enrollees must pay for deductibles. For DPPO plans the Annual Deductibles are trending higher.
Generally, premiums increased slightly for ALL GROUPS for each product type, ranging from 0.1% for DPPO plans to nearly 2% for Dental Indemnity plans.

Carriers have had to contain premiums in a highly price sensitive market, but to do so has required them to sell plans with greater out of pocket expenses for consumers.

Improving full time employment should ease price sensitivity for employers.

However, implementation of the Affordable Care Act will strain budgets employers have available for benefits.

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Subgroup</th>
<th>Per Enrollee per Month</th>
<th>2011</th>
<th>2012</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>DHMO</td>
<td>Less than 50</td>
<td>$ 12.60</td>
<td>$ 14.27</td>
<td>13.2%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>50 to 99</td>
<td>$ 12.30</td>
<td>$ 12.97</td>
<td>5.4%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>100 to 499</td>
<td>$ 12.01</td>
<td>$ 12.50</td>
<td>4.1%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>500 or more</td>
<td>$ 11.05</td>
<td>$ 11.30</td>
<td>2.2%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>ALL GROUPS</td>
<td>$ 13.63</td>
<td>$ 13.86</td>
<td>1.7%</td>
<td></td>
</tr>
<tr>
<td>DPPO</td>
<td>Less than 50</td>
<td>$ 29.35</td>
<td>$ 29.06</td>
<td>-1.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>50 to 99</td>
<td>$ 26.98</td>
<td>$ 26.16</td>
<td>-3.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>100 to 499</td>
<td>$ 25.88</td>
<td>$ 25.48</td>
<td>-1.5%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>500 or more</td>
<td>$ 23.57</td>
<td>$ 24.17</td>
<td>2.6%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>ALL GROUPS</td>
<td>$ 25.69</td>
<td>$ 25.72</td>
<td>0.1%</td>
<td></td>
</tr>
<tr>
<td>Dental Indemnity</td>
<td>Less than 50</td>
<td>$ 35.34</td>
<td>$ 36.30</td>
<td>2.7%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>50 to 99</td>
<td>$ 31.50</td>
<td>$ 31.78</td>
<td>0.9%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>100 to 499</td>
<td>$ 26.20</td>
<td>$ 27.05</td>
<td>3.2%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>500 or more</td>
<td>$ 22.64</td>
<td>$ 22.43</td>
<td>-0.9%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>ALL GROUPS</td>
<td>$ 27.12</td>
<td>$ 27.60</td>
<td>1.8%</td>
<td></td>
</tr>
</tbody>
</table>
Children’s Dental Access
Starting in 2014, the Affordable Care Act requires a child dental benefit as one of the Essential Health Benefits in policies sold in the small group and individual markets. For those purchasing their benefits on the exchange the potential for splitting the child’s dental benefit from the parent’s dental benefit is greatest. Considering that 82% of all children receive their benefit through their parents’ coverage, the impact of this change in how or what dental benefits are sold could be significant.

**Family Members Covered by a Dental Benefit**

- **myself**: 100%
- **spouse / partner**: 46%
- **children**: 26%

[82% of children covered have a parent with dental benefits]
Children covered by dental benefits are far more likely to visit the dentist than children without dental benefits.

More children with dental benefits should result in greater utilization by children. In many areas this could further strain the provider workforce.
Customer Service Trends
Customer Satisfaction levels have dropped substantially for all dental benefit product types. For dental benefits, value is a main driver for satisfaction.

Declining levels of satisfaction leave dental benefits vulnerable to reductions in enrollment as consumers conclude dental benefits do not provide enough value.
First call resolution is one measure of customer service. Despite high first call resolution rates, satisfaction is declining. While customer service may be an important component of satisfaction, it is clearly not the major driver of satisfaction for the consumer.
Performance Guarantees

Group size and types

Minimum group size for offering performance guarantees

- 100 or less: 29%
- 101 to 500: 50%
- 501 or more: 21%

Does your company offer performance guarantees on any of these metrics?

- Do not offer guarantees on metrics: 38%
- Call abandonment rate: 63%
- Average speed to answer: 58%
- Member satisfaction rate: 46%
- 90% or higher of calls answered in 30 seconds: 29%
- 90% or higher of calls answered in 20 seconds: 8%
- Other: 33%

Service guarantees are often a contract consideration for employers and they provide a means for carriers to differentiate their product and add value. Most carriers do not offer service guarantees to small employers. Without the added value of service guarantees, employer loyalty may not be strong enough to prevent small employers from sending their employees to the state health Exchanges for coverage.
Developments in Claims Processing
The Affordable Care Act provides direct incentives for the adoption and implementation of Electronic Health Records. Electronic Claims are one component of that record.

Compared to last year:

The industry median for electronic claims increased from 56% to 61%.

Low volume companies (less than 1 million claims) are just as likely to receive electronic claims as high volume companies as the percentage of claims received was higher for low volume companies, but remained static for high volume companies compared to last year.

NOTE: Data in this chart represents a weighted average based on the total number of claims reported. Not all respondents reported a total number of claims, so this chart represents a subset of the total number of respondents.
The Affordable Care Act creates incentives for all health care plans to implement quality measures and using diagnostic codes is a way to study the impact of treatment on various health conditions. Although the timelines and standards have not been set for dental, and few diagnostic codes were available for dental until late 2012, NADP surveyed its members on their use of diagnostic codes in dental claims processing operations.
Market Size and Sales Trends
The Dental Insurance Market was valued at $41.6 billion in 2011.

Compared to NADP’s 2010 market size estimate, the dental benefits market grew by about $3 billion to $41.6 billion.

NOTE: Dollar figures represent estimated total size of the dental insurance market based on estimated in-force premiums collected for each product type.

The 10-year CAGR (compound annual growth rate) for new sales subscribers is a negative 3.8 percent, and a 10-year CAGR for in force subscribers is 2.1 percent.
What to expect in 2013
As projected, 2011 commercial enrollment rebounded from recent enrollment lows of 2009 and 2010.

Enrollment trends in commercial benefits should continue to show improvement through 2012 and into 2013.

However, the Affordable Care Act includes provisions that may affect employment practices in the small group market, which could impact enrollment in dental benefits.
Market Dynamics

- As the US economy continues to expand, anticipate the following:
  - Price competition should ease as more employers and individuals seek out dental benefits
  - Easing price pressures will make transition to a new regulatory environment easier to manage for dental plans
  - The Dental Benefits Industry will continue to experience mergers and acquisition activity, but consolidation is more likely to be vertical rather than horizontal as health plans seek access to dental benefits as a way to comply with state Exchange rules and Essential Health Benefit provisions.
Initiative: Equitable Treatment

Result: Essential Health Benefit Final Rules allow “Exchange-certified stand-alone dental plans” in the small group and individual market to meet Essential Health Benefits (EHB) in conjunction with a medical carrier. Focus now on how to implement.

Initiative: Allowance of Outside Coverage

Result: Push to allow dental policies purchased outside an Exchange to meet EHB inside Exchanges was obviated by EHB Final Rules clarification that there is not a “required purchase” of pediatric dental inside Exchanges.
Dental Plan ACA Initiatives 2013

- Initiative: Correct Inclusion of Dental in Exchanges

  - Result: Application of “Relevant” Consumer Protections to pediatric oral services of EHB
    - EHB Final Rules allow separate reasonable OOP maximum for stand-alone dental in lieu of coordination with medical
    - EHB Final Rules provide for dental AV of 70%, +/-2%, and 85%, +/-2%, which differs from medical AV levels
    - Prohibition on annual and lifetime limits applies to pediatric dental only

  - Result: Criteria for Qualified Dental Plans remain under discussion but accreditation will not apply
Initiative: Pediatric oral services benchmarked to small employer dental coverage for EHB.

Result: Pediatric dental benchmark remains either a state’s CHIP program or the FEDVIP dental plan with the largest enrollment.

- FFE Exchanges will default to FEDVIP
- Most state Exchanges chose CHIP
State and Federal Legislative Initiatives

- **Dental Plans**
  - Year-end ACA Conformity Bills (based on election results)
    - Exchanges, EHB, Market Reforms, Brokers/Agents
  - Non-Covered Services (NCS)

- **Providers**
  - Expansion of Duties/Scope of Practice for mid-level providers
  - Provider reimbursement, external review, coordination of benefits, etc.

- **Interested Stakeholders**
  - Consumer Advocates concern over state’s setting “reasonable” OOP limit for stand-alone dental plans covering pediatric dental for EHB
State and Federal Exchange Initiatives

- Allow fair competition, which parallels today’s dental market
  - NADP advocates medical carriers with embedded dental to also offer medical policies without dental
    - Several states are considering this option
  - QHPs will not have to embed dental on FFE (see slide 38)
  - HHS will not allow “bundled” medical and dental products at this time on FFE
  - OPM is allowing the option for dental plans as Multi-State Plans

- Provide certification standards that are relevant to dental plans
  - FFE has included: EHB, AV, OOP Max, licensure/Solvency, Network Adequacy, ECPs, Marketing, Service Area, Non-Discrimination

- Fair Exchange Pricing
  - NADP advocates Exchange fees be based on premium not on transaction
    - FFE and most states are utilizing this option
Most states have opted to allow the Department of Health and Human Resources to develop and manage the state’s exchange (a federally facilitated exchange). This map depicts the number of plans that anticipated participating in the various state exchanges and the management structure of the state exchanges, as of December 2012. As regulations are adopted, the number of dental plans intending to offer may change.
Appendix A
NADP Research Reports and Activities

- Core Statistical Reports
  - NADP/DDPA Enrollment Report
  - NADP/DDPA Network Statistics
  - NADP Financial Operations
  - NADP/LIMRA Dental Metrics
  - LIMRA/NADP Quarterly Sales
  - State of the Market Report
- Shared Research
- Industry Snapshots
Appendix A
NADP/DDPA Dental Enrollment

- Jointly conducted with Delta Dental Plans Association
- Provides the most complete census of the industry’s total enrollment
- Estimates dental benefits enrollment at the state level and by benefit type
- Identifies funding sources and underwriting classifications by benefit type
Appendix A
NADP/DDPA Network Statistics

- Jointly conducted with Delta Dental Plans Association
- Provides the most complete census of dentists participating in networks
- Measures trends in provider networks by product type and dental specialty at the national and state level
Appendix A

NADP Premium and Benefit Utilization Trends

- Sampling methodology
- Tracks in-force premium by product type
- Tracks utilization of dental benefit by product type
- Tracks changes in core benefit design elements
Appendix A
NADP/LIMRA Dental Metrics

- Jointly conducted with LIMRA
  - Customer Service Metrics
  - Claims Processing Metrics
  - Administrative Metrics
- Sampling methodology
- Benchmarks customer service and claims processing metrics
Appendix A
LIMRA/NADP Quarterly Sales

- Jointly conducted with LIMRA
- The only report that identifies the responding company
- Reports new sales for Q1, Q2, Q3, and Q4
- Reports in-force in Q2 and annually
- Limited to responding companies only; does not attempt to estimate the entire market
Appendix A
Ad hoc Shared Primary Research

- Developed to provide member companies a means for conducting expensive, primary market research by sharing costs with other interested companies
- Topics are developed by recommendation of member companies
- Participating companies fund the research, NADP acts as project manager
- Benefits include:
  - Exclusive access to the raw data file
  - Exclusive rights to the final survey instrument