

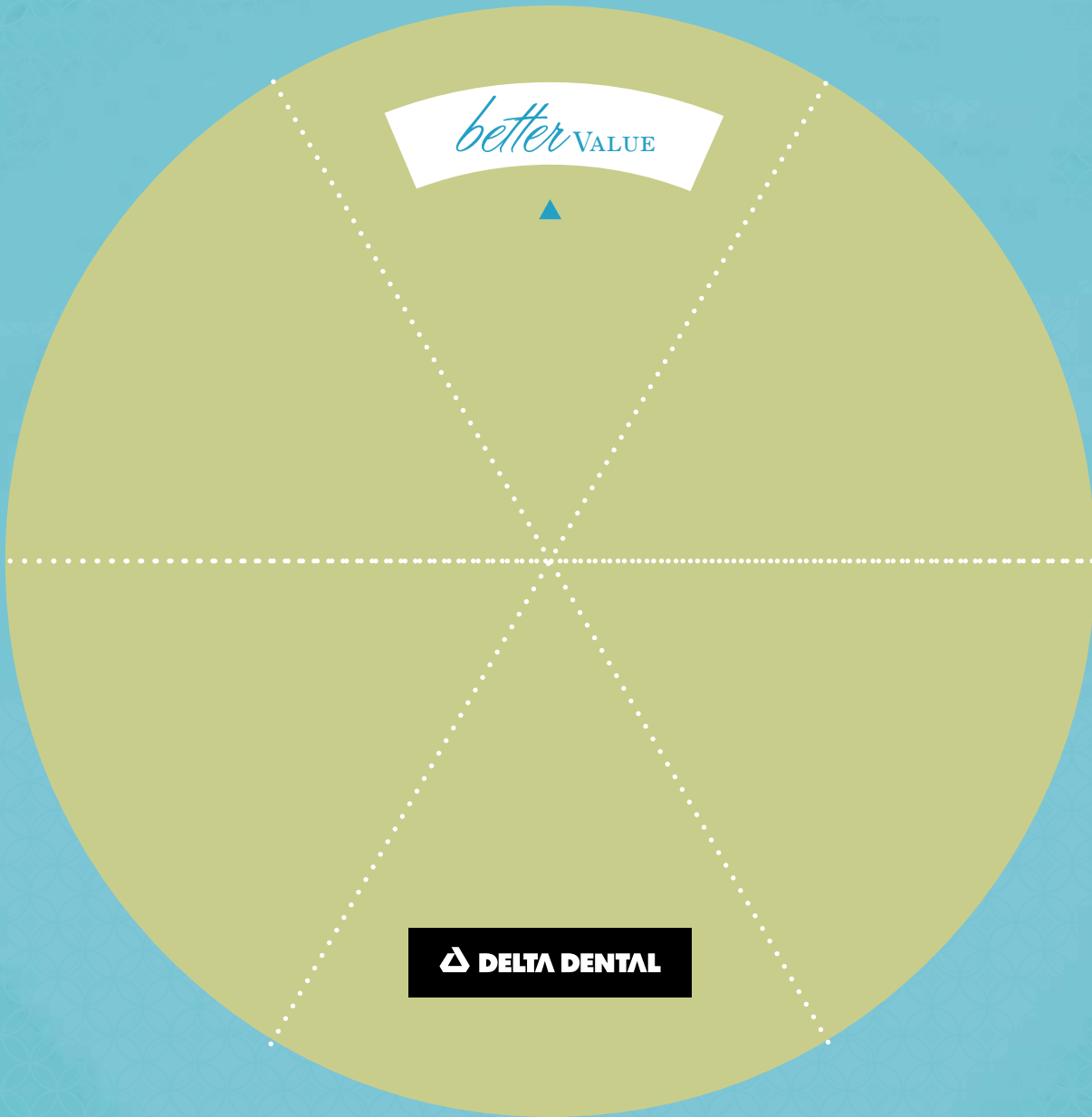
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WE DO DENTAL. *Better.*

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2008 ANNUAL REPORT  
DELTA DENTAL OF TENNESSEE



## FROM OUR CHAIRPERSON AND OUR CHIEF EXECUTIVE OFFICER

**W**e do dental. *Better.* It may be a bold statement, but it is one that we confidently stand behind.

Dental benefits have been Delta Dental's specialty for more than a half century and they remain our focus. Delta Dental established the dental benefits industry and, today, the members of the Delta Dental Plans Association collectively make up the largest dental benefits carrier in the world. It is no wonder that a 2008 national study conducted by The Long Group revealed that Delta Dental is the brand thought of first and most favorably by enrollees, dentists, benefit decision makers, and brokers.<sup>1</sup>

Our own enterprise is among the largest administrators of dental plans in the nation, as well as the market leader in Tennessee. Despite our success, we, like most organizations, faced challenges in 2008. Rising health care costs, a faltering economy and the roller coaster on Wall Street affected us as they did our clients. Fortunately, the demand for our plans remained strong, and we continued to grow despite attrition among our clients.

Contributing to this growth was an innovative retiree individual dental plan we developed to help people facing the reduction or elimination of their group health benefits. Today, our enterprise is the only organization able to provide employers with an individual dental plan that can be offered nationwide to their retired employees with no cost, group contract, or administration for their organization. Some of the nation's largest employers have made this plan available to their retired workers, and thousands of people have enrolled.

Overall, given this time of global economic uncertainty, it is satisfying to report that we remained financially strong in 2008 while maintaining an excellent market position.

Our enterprise achieved a business renewal rate of nearly 98 percent, and added new sales of more than \$106.6 million. An additional 200,000 enrollees were added to our rolls, bringing the total number of individuals covered enterprise wide under our benefit plans to 6.3 million, for whom we paid more than \$1.72 billion in dental care.


As we work to promote oral health, we seek partners who share our mission, as well as our vision of how best to build our businesses for the future. Under the umbrella of our non-profit parent organization, our enterprise took significant steps toward further expansion last year. We are pleased to report that Delta Dental of Illinois, Delta Dental of Kentucky, and Delta Dental of New Mexico made the decision to affiliate with our family of companies in 2008.

These affiliations, which are pending regulatory approval, will benefit all through the sharing of best practices, increased business and cost efficiencies, the ability to gain greater economies of scale, and the opportunity to offer new products.

We at Delta Dental take pride in the leadership role we have maintained in making dental care more accessible and affordable for millions of people. Today, we are leading the industry with innovative new products, advanced technology, and research to advance the science of oral health.

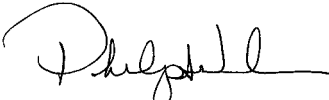
While it is apparent from our name, our history, and our products that we do dental, the accomplishments and corporate initiatives highlighted in this annual report clearly demonstrate how we do dental *better*.





JOHN R. COLLIER, JR.  
CHAIRPERSON OF THE BOARD OF DIRECTORS





PHILIP A. WENK, D.D.S.  
PRESIDENT AND  
CHIEF EXECUTIVE OFFICER

1. Brand Awareness and Perception Study,  
The Long Group, 2008.

## DELIVERING BETTER VALUE IN DENTAL BENEFITS

**H**aving a Delta Dental plan is a great investment in health, benefitting both the individuals who are covered by it and the employers who provide it.

One key reason is that dental plans encourage preventive care. According to a national study conducted by the Delta Dental Plans Association, individuals who did not seek preventive care from a dentist specified “lack of dental insurance” as the primary reason.<sup>1</sup>

It is estimated that the preventive care, early detection, and treatment encouraged by dental benefits save the United States \$4 billion annually.<sup>2</sup>

Those without dental benefits are less likely to see their dentist and more likely to defer necessary care. This can lead to significant—and more expensive—oral and overall health problems. The impact on the workplace can be considerable in terms of lost productivity since, among adults, more than 164 million work hours are lost each year due to dental problems.<sup>3</sup> Employees also risk missing additional work hours when their children suffer from poor oral health. The U.S. Surgeon General reports that children lose more than 51 million school hours each year due to dental-related illnesses.<sup>3</sup>

While rising healthcare costs continue to be a topic of concern across the United States, the cost of dental benefits remains relatively low. Dental benefits are approximately one-tenth the cost of medical benefits, and dental premiums have risen at half the rate of medical premiums during the past two decades. Delta Dental helps keep costs low for our clients by controlling our trend, the annual rate at which our clients’ claims cost increases. Data from the 2009 Segal Health Plan Cost Trend Survey shows that our trend is again lower than industry benchmarks and the dental consumer price index,<sup>4</sup> a credit to our expertise in cost management.

Today, employers are increasingly aware of the positive return on investment from a dental plan, valuing these benefits even more highly than they have in the past.







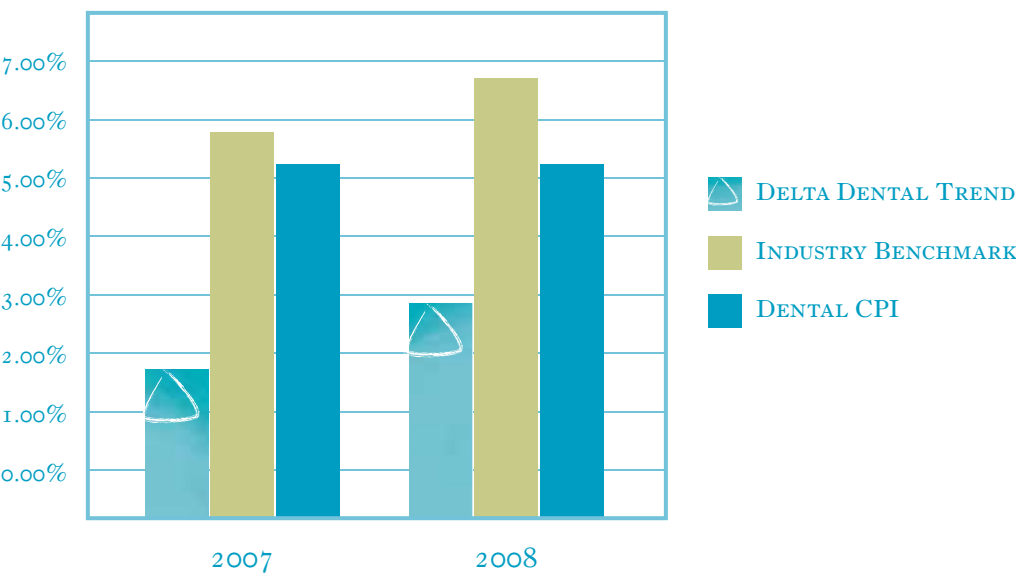
According to the Institute of Medicine, every \$1 spent on preventive care saves \$4 in the cost of more extensive treatment.<sup>2</sup>

According to a recent report issued by the National Association of Dental Plans, more than 60 percent of firms with six employees or more said they considered dental coverage an essential component of their employee benefits package. That’s a significant increase over the 53 percent who said they felt that way in 2005.<sup>5</sup>

Clearly, for a relatively low cost, the return from dental benefit plans in terms of improved health is high. And Delta Dental, with more than 50 years in the dental benefits industry, brings even more to the equation. Since we have the largest network of dentists in the nation, more enrollees can receive treatment from a participating dentist. This means our processing policies and fee determinations are applied to a larger number of claims, resulting in significant savings for our clients and enrollees.

Overall, our cost management expertise, combined with our expertise in creating smart plan designs, makes dental benefits from Delta Dental more than just a good investment in oral health—they are also an investment in higher employee satisfaction, higher employee productivity and better overall health.

Delta Dental Trend vs. Industry and Dental CPI



1. Delta Dental Plans Association, Dental Data and Analysis Center, 2004.

2. Business Courier, “Health insurers open up, say Ah!, to getting in on dental market,” November 3, 2003.

3. US Department of Health and Human Services. *Oral Health in America: A Report of the Surgeon General—Executive Summary*. Rockville, MD: US Department of Health and Human Services, National Institute of Dental and Craniofacial Research, National Institutes of Health, 2000.

4. Based on a blend of Indemnity and PPO trends from the 2009 Segal Health Plan Cost Trend Survey (2007 actual, 2008 projected).

5. Managed Dental Care, “NADP: Dental benefits increase in perceived value,” April 2009.

## LEADING THE INDUSTRY WITH BETTER PRODUCTS

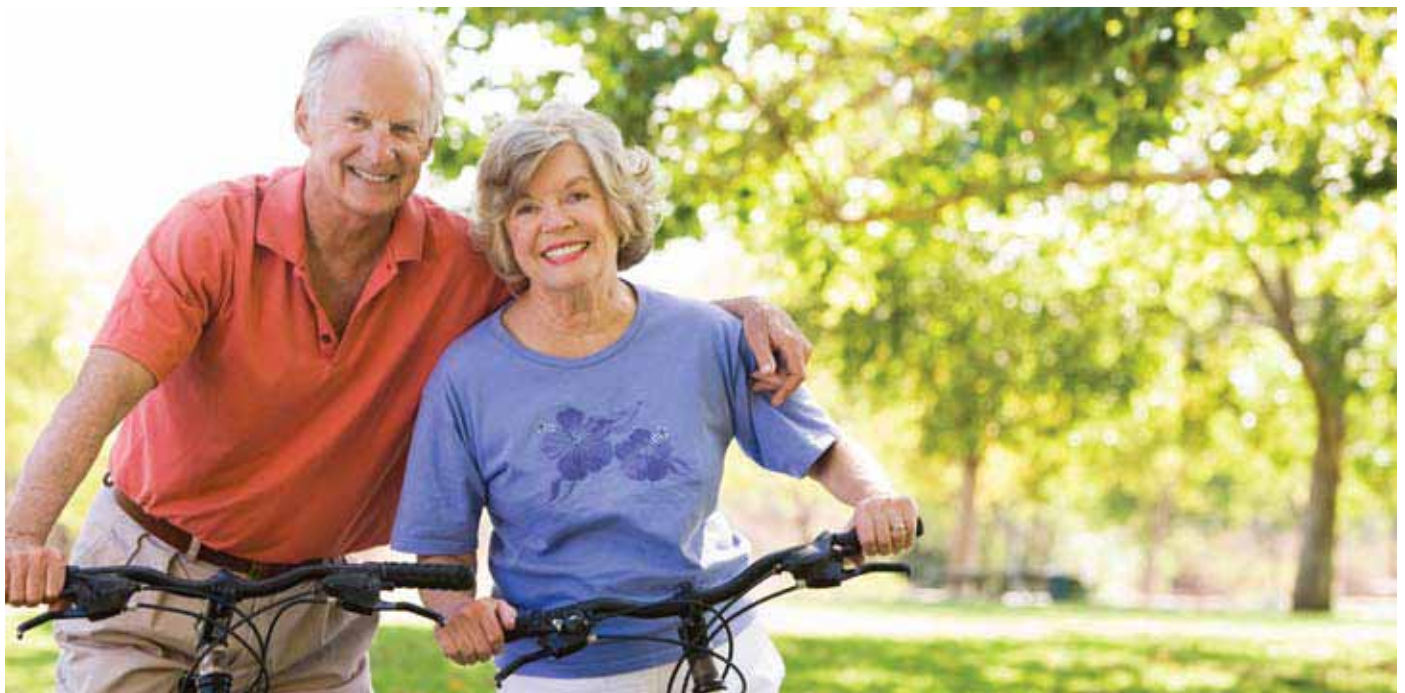
**W**ith a data warehouse of dental claims information that is more extensive than that of any other organization and a team of highly experienced researchers and analysts, we *are* the dental benefit experts. Through this expertise, we have been able to create a diverse, affordable portfolio of products.

In addition, we understand that the health benefits industry is changing, employers are taking a critical look at all of their benefit options, and government initiatives aimed at health care reform appear to be gaining momentum. All of those factors have led us to make the research and the development of new and innovative products a priority.

### New Individual Plans for Retirees

One of the newest additions to our product portfolio is our unique individual plan for retirees. As a complement to the Individual Plan introduced late 2007, this new plan helps companies that are reducing or eliminating benefits for their retired workers. This program provides a solution that enables employers to make an individual dental plan available for their retirees with no cost, group contract, or administration for their organization. It has been successfully implemented by some of the nation's largest employers, and to date covers more than 60,000 enrollees. As the individual market for health benefits expands, our ability to offer these plans meets an important need while providing a significant opportunity for future growth for our enterprise.

While dental is and will continue to be at the center of our product offerings, today we are further expanding our portfolio of ancillary products through our affiliated businesses. Among them are life, disability and vision insurance options that will be available in select locations through TruAssure Insurance Company, an organization developed by Delta Dental of Illinois that is joining our family of companies.



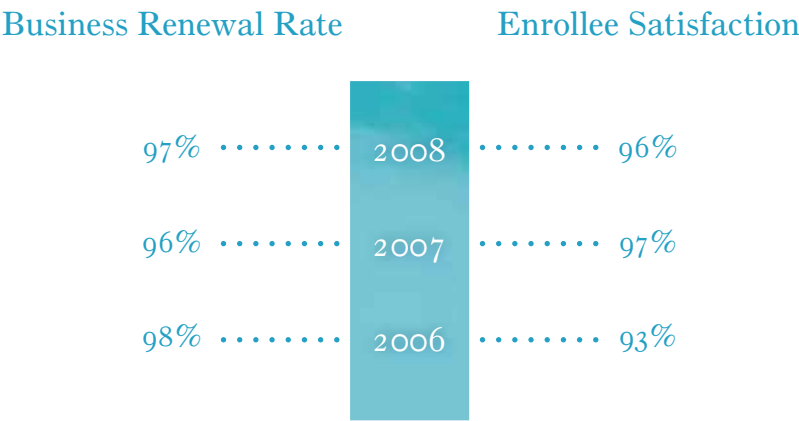


Delta Dental understands that the health benefits industry is changing, so we are making research and development of new and innovative products a priority.

Strong Sales and Satisfaction

Our success in creating and administering better benefits plans is evident in our sales and renewal statistics. Client satisfaction with our products remains high, evidenced by a 99 percent overall satisfaction rating in the 2008 group survey and a consistently high business renewal rate that reached nearly 97 percent in 2008. In a highly competitive market, not only did we retain our current clients, but our enterprise also sold a record amount of new business and added more than 200,000 enrollees to our benefit plans.

Another powerful indicator of our product strength is enrollee satisfaction. Consistent with previous years, our 2008 enrollee survey showed that 96 percent of respondents were satisfied with their experience with Delta Dental. In a similar survey by one of our affiliates, it was revealed that 92 percent of respondents felt that their dental benefit plan improved their health. This showed an increase of more than 20 percent over the last decade, reflecting the growing awareness among consumers of the connection between oral health and overall health—and the important role their dental plan played in helping them get needed treatment.



## IMPROVING ACCESS WITH BETTER NETWORKS



**B**etter products coupled with better networks mean better value for our clients. Delta Dental has a robust Delta Dental PPO<sup>SM</sup> network complemented by our extensive Delta Dental Premier<sup>®</sup> network. Year after year, this unique two-network system includes more dentists than any other. In 2008, we increased the size of each of our networks, including a significant 11.9 percent growth in our PPO network. Nationwide, the number of Delta Dental participating dentists grew to more than 127,000 by the end of 2008.

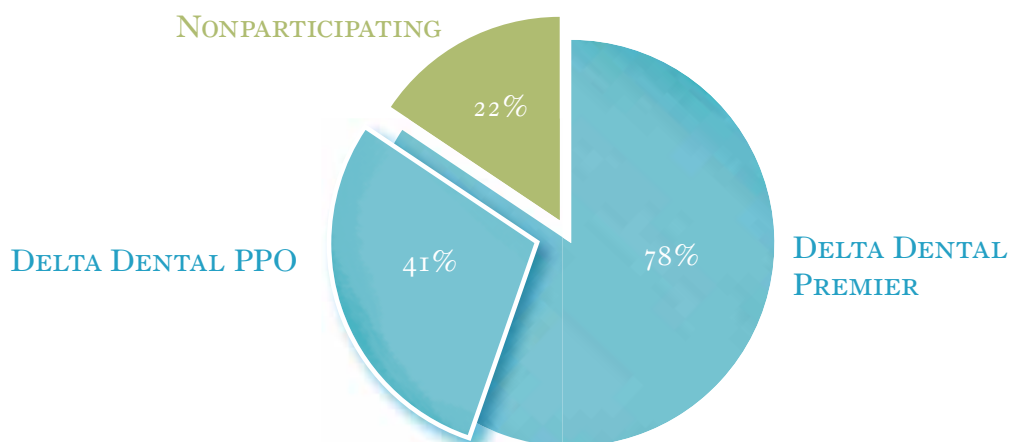
### Network Accuracy

The breadth of a network can make a big difference in the overall satisfaction of enrollees.

The more participating dentists, the greater the opportunity for enrollees to find in-network care where and when they need it. This translates into lower claims costs for our clients and lower out-of-pocket costs for our enrollees.

In an industry lacking strict standards for reporting the size of provider networks, accuracy is a priority at Delta Dental. Since enrollees can only seek treatment from active, practicing professionals with current licenses, we routinely adjust our network numbers to reflect dentists who have retired, reduced their workloads to fewer office locations or otherwise changed their work status. We also routinely check our databases against those of state regulatory agencies and conduct an annual audit of providers and corresponding service locations. Our clients and enrollees can trust our network numbers and have confidence that the dentists listed in our directories will be active, licensed and currently participating with Delta Dental.

### Delta Dental National Networks





In 2008, we increased the size of each of our networks, including a significant 11.9 percent growth in our PPO network. Nationwide, the number of Delta Dental participating dentists grew to more than 127,000 by the end of 2008.

### Dentist Satisfaction

It is also noteworthy that dentists overwhelmingly prefer Delta Dental, viewing Delta Dental two and a half times more favorably than other carriers.<sup>1</sup>

This is not surprising considering the accuracy with which Delta Dental processes claims and payments. In 2008, 63 percent of claims were submitted electronically—an 8 percent increase—and more than 99 percent of all claims were processed within 10 days.

1. Brand Awareness and Perception Study, The Long Group, 2008.



## SETTING THE STANDARD WITH BETTER QUALITY

Our corporate quality policy—“Bringing quality to all we do”—is more than just a slogan; it is integral to how we do business. For example, we regularly audit adherence to the policies and procedures designed to ensure quality and consistency in plan administration. Our participating dentists are required to abide by our processing policies, which are unique to the industry in terms of the protection and savings they produce for our customers and enrollees. In addition, our anti-fraud initiatives in conjunction with our claims review represent one of the most advanced cost and quality assurance programs in the industry.

### Providing Quality through Efficiencies

Our efforts to provide the highest quality service to our clients and members have driven us to create some of the most efficient processes and operations in the industry. We are continually reviewing and revising the way we do business to ensure our clients and our members will always be receiving the best service possible.

Delta Dental maintains one of the lowest administrative ratios in the industry, enabling us to keep our rates competitive while providing the high quality of products and service expected of our brand.





## Our Quality Policy: Bringing quality to all we do.

### Third-Party Validation

In 2008, the A.M. Best Company reaffirmed Delta Dental of Tennessee's A- (Excellent) rating. This rating, which the company has maintained for the past seven years, validates Delta Dental's operational performance, while also recognizing its capitalization and financial stability.



## INVESTING IN BETTER HEALTH

**W**e believe that, as a leader in the dental benefits industry, we have a responsibility to increase awareness of the importance of oral health, improve the oral health of the public, and support research that will advance scientific knowledge. Each year, through our corporate community relations program and research initiatives, we support programs to achieve these goals.

For example, Delta Dental of Tennessee provided funding and materials for the inaugural Oral Cancer Awareness Walk and Health Fair, a walk organized by the Student National Dental Association (SNDA) at Meharry Dental School. With our help, Meharry's SNDA was able to raise more than \$16,000 for oral cancer research and create one of the most successful events within the SNDA organization.

Delta Dental is also committed to developing Tennessee's dentists. In 1997, an endowment was established to provide scholarships for students at the University of Tennessee College of Dentistry. Since the program's inception, more than two dozen scholarships have been presented, totaling more than \$67,500.

### Corporate Citizenship

In addition to funding dental-related programs, Delta Dental has made significant contributions to many organizations in the communities we serve. For the last five years we have been a lead sponsor for Governor's Books from Birth Foundation, a funding partner of Dolly Parton's Imagination Library in Tennessee. This program provides a book a month for children from birth to age five, free of charge.

Delta Dental has also supported the community's fight against cancer through donations to the American Cancer Society and sponsorship of Susan G. Komen Race for the Cure. In addition to sponsoring the race, Delta Dental covered the cost of registration for approximately 40 employees to participate in the event.

Delta Dental employees are also involved in the community. For the eighth year, Delta Dental employees donated a Saturday in April to manning a water station along the Country Music Marathon route, providing refreshment and encouragement for the event's 30,000 runners.





Each year, we support programs to help improve the oral health of the public and fund research that will advance scientific knowledge.

### Leadership in Research

Delta Dental's Research and Data Institute sponsors several initiatives exploring the link between oral and overall health. One such project examines the impact periodontal treatment may have on the medical costs of people with diabetes. The study involves analyzing seven years of dental and medical claims data to determine if medical costs were lower for those with diabetes who also had treatment for periodontal disease.

Delta Dental is also investing in research to advance the science of oral health, including leading-edge biotechnology. For instance, we are supporting several clinical trials on the effectiveness of Chinese herbal extracts found to have bioactive ingredients that may help prevent tooth decay. These extracts were discovered by C3 Jian, a research and development company focusing on creating unique products to help prevent and treat dental disease. Results of the studies, which involve underserved children and elderly residents in nursing care facilities, are expected in 2009.



DR. CHARLENE DEWEY, FROM VANDERBILT UNIVERSITY, DR. ARTMAS WORTHY, FROM THE SCHOOL OF DENTISTRY AT MEHARRY MEDICAL COLLEGE, FORMER U.S. SENATOR DR. BILL FRIST, JOHN R. COLLIER, JR., CHAIRPERSON OF THE BOARD FOR DELTA DENTAL OF TENNESSEE, AND WAYNE J. RILEY, MD, PRESIDENT OF MEHARRY MEDICAL COLLEGE, DISPLAY THE PRESTIGIOUS SALT WAGON AWARD, AWARDED TO DELTA DENTAL FOR CONTRIBUTIONS TO THE COLLEGE.

## 2008 HIGHLIGHTS

### Financial Results<sup>1</sup> (as of December 31)

|  | 2008 TENNESSEE<br>(000S OMITTED) | 2008 COMBINED<br>(000S OMITTED) |
|--|----------------------------------|---------------------------------|
| Total Assets . . . . .                     | \$42,953                         | \$555,259                       |
| Capital and General Reserves . . . . .     | \$32,488                         | \$315,379                       |
| Total Revenues . . . . .                   | \$212,265                        | \$2,038,685                     |
| Total Benefits and Expenses . . . . .      | \$210,226                        | \$2,018,924                     |
| Contribution to General Reserves . . . . . | \$2,039                          | \$19,761                        |

### Operational Results<sup>2</sup>

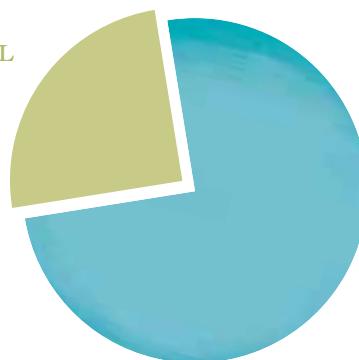
|   |               |               |
|---|---------------|---------------|
| Claims Processed . . . . .                        | 1.432 million | 12.41 million |
| Claims Processed within 10 Working Days . . . . . | 99.36 percent | 97.37 percent |

### Cost Management Results<sup>2</sup>

|   |                 |                |
|---|-----------------|----------------|
| Submitted Charges . . . . .             | \$396.8 million | \$3.40 billion |
| Paid Charges . . . . .                  | \$188.4 million | \$1.72 billion |
| Total Cost Management Savings . . . . . | \$208.4 million | \$1.68 billion |
| The Delta Dental Difference® . . . . .  | \$43.8 million  | \$362 million  |
| Other Savings . . . . .                 | \$164.6 million | \$1.32 billion |

### 2008 Cost Management Results

THE DELTA DENTAL  
DIFFERENCE®  
\$362 MILLION



OTHER SAVINGS  
\$1.32 BILLION

## Key Business Accomplishments<sup>3</sup>

### NEW BUSINESS RESULTS

Total New Business . . . . . \$7.445 million

### CALL CENTER RESULTS

Average Speed of Answer . . . . . 12.075 seconds

Calls Answered within 30 Seconds . . . . . 85.31 percent

### CUSTOMER SATISFACTION RESULTS

Total Covered People . . . . . 860,232

Business Renewal Rate . . . . . 96.9 percent

Overall Satisfaction with Delta Dental Program . . . . . 99.4 percent

### ENROLLEE SATISFACTION RESULTS

Satisfaction with Speed of Answer . . . . . 96.23 percent

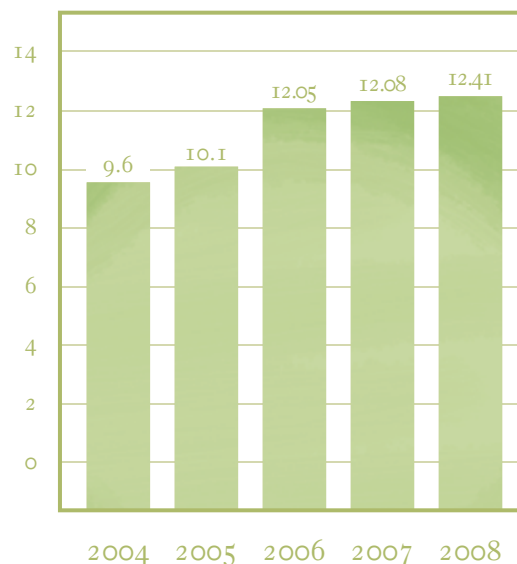
Satisfaction with Responses to Questions . . . . . 95.40 percent

Satisfaction with Resolution of Issues . . . . . 96.30 percent

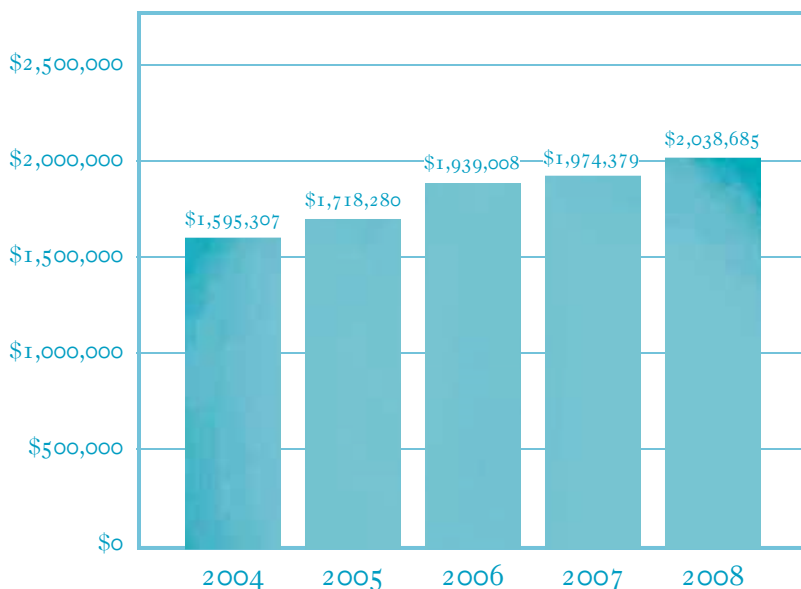
Satisfaction with Customer Representative . . . . . 97.38 percent

Overall Satisfaction with Delta Dental Services . . . . . 96.64 percent

## Claims Processed (in millions)



## Total Revenues (000s omitted)



1. Combined financial results are for Renaissance Health Service Corporation and Affiliates, which include Renaissance Health Service Corporation and Subsidiaries; Delta Dental Plan of Michigan, Inc., and Subsidiaries; Delta Dental Plan of Ohio, Inc.; Delta Dental Plan of Indiana, Inc., and Subsidiaries; Delta Dental Plan of Tennessee, Inc., and Subsidiaries; and Delta Dental Fund. Delta Dental is a registered trademark of the Delta Dental Plans Association. The Renaissance trade name and marks are owned by Delta Dental Plan of Michigan, Inc. and are not sponsored or endorsed by the Delta Dental Plans Association.

2. Operational results for 2008 include only those claims processed for Delta Dental of Michigan, Ohio, Indiana and Tennessee members. We processed an additional 3.02 million claims for other Delta Dental member companies in 2008, bringing the total number processed to 15.43 million. Cost management results for 2008 include data from Delta Dental of Michigan, Ohio, Indiana and Tennessee.

3. Statistics reported in key business accomplishments are for Delta Dental of Tennessee.



## DELTA DENTAL LEADERSHIP

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President and Chief Executive Officer

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Senior Vice President, Employee Relations

Kaye Martin  
Senior Vice President, Operations

Tom Perry  
Senior Vice President and  
Chief Financial Officer

Missy Acosta  
Vice President,  
Marketing and Account Service

Donald Beaty  
Vice President, Information Services

Kathy Fussell  
Director of Internal Control

Melissa Huschke  
Vice President, Operations

Henry Ramer, D.D.S.  
Vice President, Professional Relations

Jay Reavis  
Vice President, Sales and Underwriting

Frank Turbeville  
Controller

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Sellers Real Estate  
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Wayne L. Johnson, D.D.S.  
(Lebanon, Tennessee)

David C. Morton, D.D.S.  
(Clarksville, Tennessee)



## BUILDING FOR THE FUTURE

The world in which we live is changing faster than ever before. Technology is advancing at an exponential rate; research is leading to major breakthroughs in health science; and the environmental impact of our presence on this planet is becoming clearer. We know that in order to be successful, we need to continually evolve and adapt.

With a focus on a better future, we are proactively investing in better technology, we are leading the industry with better benefit plan designs based on innovative scientific research, and we are incorporating environmentally responsible practices into our operations to help create a better planet.

