

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Vision Service Plan Insurance Company for the period ended
December 31, 2013

ORDER

After full consideration and review of the report of the financial examination of Vision Service Plan Insurance Company for the period ended December 31, 2013 together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Vision Service Plan Insurance Company as of December 31, 2013 be and is hereby ADOPTED as filed and for Vision Service Plan Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 20th day of April, 2015.



A handwritten signature in blue ink, appearing to read "John M. Huff".

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE
FINANCIAL EXAMINATION OF
Vision Service Plan Insurance Company

AS OF
DECEMBER 31, 2013

FILED
APR 30 2015
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND
PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI

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Rancho Cordova, CA
February 17, 2015

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65102

Director Huff:

In accordance with your financial examination warrant, a full scope examination has been made of the records, affairs and financial condition of

Vision Service Plan Insurance Company

hereinafter referred to as VSPIC or as the Company. Its main administrative office is located at 3333 Quality Drive, Rancho Cordova, CA. The fieldwork for this examination began on August 19, 2014, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The previous examination of the Company was made as of December 31, 2011. This examination covers the period from January 1, 2012 through December 31, 2013. This examination also included the material transactions or events occurring subsequent to December 31, 2013.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners' (NAIC) Financial Condition Examiners Handbook (Handbook) except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. This examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement instructions.

All accounts and activities of the Company were considered in accordance with the risk-focused examination approach. Key activities for VSPIC included: Investments, Premiums, Underwriting, Actuarial Reserves, Claims, Related Parties, Taxes, Other Expenses, and Capital and Surplus.

Reliance Upon Others

The examination was a coordinated examination and was conducted concurrently with the examinations of other affiliated insurance entities within the Vision Service Plan Group (VSP Group) and included participation from the state insurance departments from the following states: Connecticut, Idaho, Illinois, Indiana, New York, Ohio and Wisconsin. Although each of the affiliated companies within the VSP Group write in a specific jurisdiction, the affiliated companies share the same operating systems, employees and management. Various workpapers, documents, and other information provided by the coordinating states' departments of insurance were relied upon during our examination of VSPIC. This information included, but was not limited to, IT review, and control and substantive testing for the following key activities: Investments, Actuarial Reserves, Claims, Related Parties, Other Expenses, and Capital and Surplus. The DIFP examination team was responsible for the key activities of Premiums, Underwriting, and Taxes on behalf of the coordinated examination.

SUMMARY OF SIGNIFICANT FINDINGS

The Company applies premium payments using a “first-in, first-out” method. Under this method, it is difficult for the Company to adequately determine balances over 90 days past due, which must be non-admitted in accordance with NAIC Statement of Statutory Accounting Principles (SSAP) No. 6 (Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers) of the Accounting Practices and Procedures Manual.

SUBSEQUENT EVENTS

There were no significant subsequent events noted from December 31, 2013 through the date of this report.

CORPORATE HISTORY

General

VSPIC was incorporated and commenced business on June 1, 1987, as a joint stock casualty insurance company under RSMo 379 (Insurance other than life). The Company was originally wholly-owned by California Vision Service (now known as Vision Service Plan or VSP). On April 1, 1993, VSP transferred all its shares of VSPIC to Altair Holding Company, Inc., a subsidiary of VSP. During 2009, the Company's stock was transferred to VSP Holding Company, Inc. (VSP Holding).

Capital Contributions

The Company received no contributions during the examination period.

Dividends

Dividends paid to the Company's immediate parent (VSP Holding) during the examination period are indicated below:

<u>Year Paid</u>	<u>Amount Paid</u>
2012	\$7,800,000
2013	7,400,000

Mergers and Acquisitions

The Company was not involved in any mergers or acquisitions during the examination period.

CORPORATE RECORDS**Board of Directors**

The property and business of the Company is controlled and managed by its Board of Directors. Pursuant to VSPIC's bylaws, the Board shall consist of nine members and shall meet annually. The Directors of VSPIC elected and serving as of December 31, 2013 are as follows:

<u>Name</u>	<u>Address</u>	<u>Title and Affiliation</u>
James Lynch	Lafayette, CA	President and CEO, VSP
James McGrann	Sacramento, CA	Secretary/Vice President, VSP
Donald Ball, Jr.	El Dorado Hills, CA	CFO, VSP
Lester Passuello	Fair Oaks, CA	Treasurer/CFO, VSPIC
Kate Renwick-Espinosa	Gold River, CA	Chief Marketing Officer, VSP
Cheryl Johnson	Granite Bay, CA	Vice President Health Care, VSP
Thomas Fessler	Roseville, CA	Chief Legal Officer, VSP
Richard Steere	Sacramento, CA	Senior Vice President, VSP Business
Susan Young	Kansas City, MO	Senior Account Executive, VSP

Committees

The Board of Directors of VSPIC does not have any committees; instead the VSPIC Board of Directors utilizes the committees of the ultimate parent, VSP. As of December 31, 2013, VSP had the following committees:

Audit Committee
 Business Committee
 Enterprise Integration Committee
 Governance Committee
 Public Policy Committee

Finance Committee
 Patient and Provider Committee
 Compensation Committee
 New Board or Committee Member Committee

Officers

According to the Company’s bylaws, the officers shall consist of a President, one or more Vice Presidents, a Secretary, and a Treasurer. These individuals are chosen annually and will hold office until their successors are elected and qualify. The officers elected and serving as of December 31, 2013 are as follows:

<u>Name</u>	<u>Title</u>
James Lynch	President
James McGrann	Secretary/Vice President
Lester Passuello	Treasurer/CFO

Conflict of Interest

The Company has procedures that require all officers and directors to complete a conflict of interest statement each year. Signed conflict of interest statements were reviewed for the examination period, and no significant conflicts were disclosed.

AFFILIATED COMPANIES

Holding Company, Affiliates, and Subsidiaries

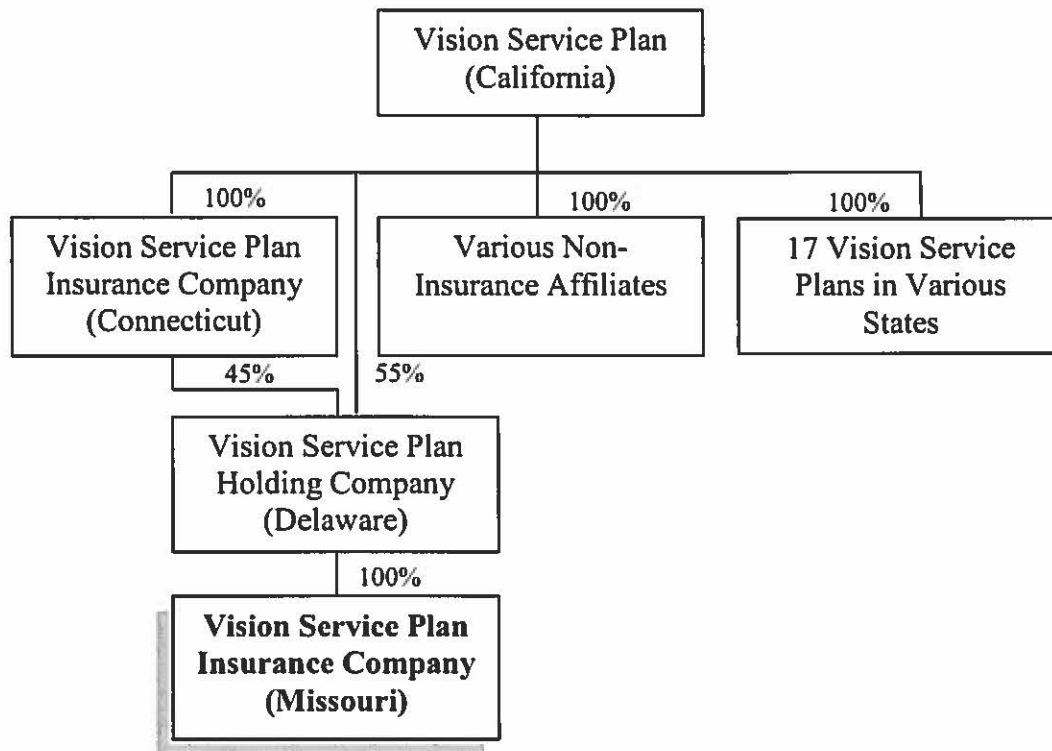
VSPIC is a member of an Insurance Holding Company system as defined by Section 382.010 RSMo (Definitions). Insurance Company Registration Statements were filed by the Company during each of the years under examination.

VSPIC is wholly owned by VSP Holding, which is in turn wholly owned by Vision Service Plan, the ultimate controlling entity of VSPIC.

Vision Service Plan is a nonprofit corporation under the laws of the State of California which provides and administers vision care plans to make professional optometric services available to eligible members of participating clients. Vision Service Plan exercises control over 17 affiliated vision service plans, a frame manufacturing and distribution company, a practice management software company and an internet services provider.

Organizational Chart

The following abbreviated organizational chart depicts the ownership and holding company structure of VSPIC as of December 31, 2013:



Intercompany Transactions

The Company has the following agreements with its affiliated companies:

1. Type: Administrative and Marketing Agreement

Parties: VSPIC and VSP

Effective: December 4, 2007

Terms: VSP provides certain administrative and marketing services to VSPIC for a fee and in return for the license to use the VSP service mark, administrative services, marketing services, and management. VSP shall receive a per claim charge equal to the total general and administrative expenses of VSP and its subsidiaries, excluding specifically charged expenses such as, but not limited to, commissions, taxes, audit and legal fees, divided by the total number of claims paid. VSPIC paid VSP \$22,396,434 and \$20,115,907 in expenses related to this agreement in 2013 and 2012, respectively.

2. Type: Tax Allocation Agreement

Parties: VSPIC, VSP, and all of VSP's affiliates

Effective: January 1, 2008

Terms: VSPIC will join the consolidated federal income tax return group of its ultimate parent, VSP. The tax agreement allows each company in VSP's consolidated tax return group (Group) with taxable income to compute its tax as if it were a separate company and remits such tax to its parent, and the parties agree that the apportionment of the Group's tax liability is for the purpose of determining the affiliates' actual payment obligation with respect to the affiliated Group's tax liability. VSPIC's tax paid under this agreement will be no greater than the tax paid as a separate company. Payment to VSP from VSPIC must not include any deferred tax liability incurred by VSPIC.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

VSPIC is a named insured on a Financial Institution Bond purchased by its ultimate parent, VSP. The bond has an aggregate liability of \$9,000,000, with a single loss limitation of \$9,000,000 and a single loss deductible of \$75,000. The fidelity coverage provided by this policy is within the range of the suggested minimum amount of insurance according to the NAIC guidelines.

The Company is also a named insured on the following insurance policies purchased by VSP: Commercial Liability Package, including Property coverage, Managed Care Professional Liability, Umbrella excess coverage, and Directors and Officers Liability.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

VSPIC has no direct employees. The employees who perform the Company's operations are employed by, and receive benefits from, the ultimate parent (VSP) pursuant to the Administration and Marketing Agreement described in the Intercompany Transactions section of this report.

VSP offers a variety of benefits to employees which include, but are not limited to, paid vacations and sick leave, medical, dental and vision coverage, group life insurance, accidental death and dismemberment insurance, short-term and long-term disability insurance, a defined contribution 401(k) retirement plan, and a long-term incentive plan for executive management. VSPIC has no additional liability for any of the benefits listed above.

TERRITORY AND PLAN OF OPERATIONS

VSPIC is licensed under RSMo Chapter 379 (Insurance other than life) to write accident and health insurance. As of December 31, 2013, the Company was also licensed in five other states: Florida, Georgia, Idaho, Maryland, and New Mexico. The amount of premium written in each state during 2013 as a percentage of total written premiums was as follows: Missouri, 38%;

Florida, 35%; Georgia, 20%; and New Mexico, 7%. No premiums were written in either Idaho or Maryland.

The Company specializes within the accident and health line, writing only group vision service insurance to subscriber groups on both a risk and self-funded basis. Subscriber groups which purchase coverage on a risk basis pay an agreed upon monthly premium based on the total number of eligible members. Subscriber groups which elect self-funded programs reimburse the Company for benefits paid and pay an administrative fee. For 2013, premiums from risk basis plans provided 57% of total revenues generated with the remaining 43% of revenues being generated from the administrative fees on self-funded plans.

Pursuant to the Administration and Marketing agreement, described in the Intercompany Transactions section of this report, all sales and marketing services are provided to the Company by its ultimate parent, VSP. VSP utilizes both in-house agents and independent brokers to market its products.

GROWTH OF THE COMPANY AND LOSS EXPERIENCE

The Company experienced growth from 2012 to 2013, with net premium income increasing \$6.3 million and a corresponding \$4.6 million increase in vision benefits. Although total net income during the examination period was \$16.0 million, capital and surplus did not correspondingly increase due to \$15.2 million paid in dividends. The growth and loss experience of the Company is summarized in the following schedule:

	2013	2012
Net Premium Income	\$126,292,509	\$119,974,061
Net Underwriting Gain	11,249,624	11,408,885
Net Income	8,437,755	7,593,872
Vision Care Services	100,991,197	96,427,508
Total Capital & Surplus	23,112,798	22,113,379
Net Premium Income to Capital & Surplus	546.4%	542.5%
Vision Care Services to Capital & Surplus	436.9%	436.1%
Vision Care Services to Premium Income	80.0%	80.4%

REINSURANCE

VSPIC does not participate in reinsurance in its normal course of business. During the period under examination, the Company did not assume or cede any reinsurance.

ACCOUNTS AND RECORDS

VSPIC's information systems are located at the Company's home office in Rancho Cordova, California, which is utilized in conjunction with its affiliates. The Company utilizes various IBM platforms with Windows and Unix operating systems. The Company's significant application for claims processing is ProClaim, and GroupFacts is used for premium and broker processing. During 2012, the Company began transitioning from the GlobalGL to SAP for general ledger functions. Investment processing is performed by Clearwater Analytics, a third party administrator.

The Company applies premium payments using a "first-in, first-out" method. Under this method, it is difficult for the Company to adequately determine to which months and which members' premiums subscriber group payments should actually apply. The current method may not accurately reflect balances over 90 days past due, which must be non-admitted in accordance with the NAIC Statement of Statutory Accounting Principles (SSAP) No. 6 of the Accounting Practices and Procedures Manual. It is noted that the Company is in the process of implementing SAP, a general ledger application which is designed to more accurately track premium payments, applications, and non-admitted balances.

The CPA firm for VSPIC and its affiliates for 2012 was PricewaterhouseCoopers, and Deloitte and Touche, LLP for 2013. Loss reserves of the Company were reviewed and certified by Frederick W. Kilbourne, FCAS, MAAA, of The Kilbourne Company of San Diego, California, for the years ending December 31, 2012 and 2013.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the DIFP as of December 31, 2013, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with RSMo Section 379.098 (Securities to be deposited by all companies). The Company's required deposit was \$800,000. The funds on deposit were as follows:

<u>Description</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Book/Adjusted Carrying Value</u>
U.S. Treasury Notes	\$ 2,400,000	\$ 2,464,923	\$ 2,428,742

Deposits with Other States

The Company also has funds on deposit with various other states. The funds on deposit as of December 31, 2013, were as follows:

<u>State</u>	<u>Type of Bond</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Georgia	Money Market	\$ 25,013	\$ 25,013	\$ 25,013
New Mexico	U.S. Treasury Notes	110,000	107,800	109,741
Totals		<u>\$ 135,013</u>	<u>\$ 132,813</u>	<u>\$ 134,754</u>

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of VSPIC for the period ending December 31, 2013. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the “Comments on Financial Statement Items”. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the “Comments on Financial Statement Items”. These differences were determined to be immaterial concerning their effect on the financial statements, and therefore; were only communicated to the Company and noted in the workpapers for each individual activity.

	<u>Assets</u>		
	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	\$ 18,225,078	\$ 1,409,198	\$ 16,815,880
Common Stocks	7,508,650	1,904,312	5,604,338
Cash, Cash Equivalents and Short-term Investments	4,866,732	-	4,866,732
Receivables for Securities	1,653	-	1,653
Investment Income Due and Accrued	146,760	-	146,760
Uncollected Premiums and Agents' Balances in Course of Collection	3,893,677	41,486	3,852,191
Amounts Receivable Relating to Uninsured Plans	8,443,179	306,057	8,137,122
Current Federal and Foreign Income Tax Recoverable and Interest Thereon	36,979	-	36,979
Net Deferred Tax Asset	2,479,246	410,719	2,068,527
TOTAL ASSETS	\$ 45,601,954	\$ 4,071,772	\$ 41,530,182

Liabilities, Capital and Surplus

Claims Unpaid	\$ 6,069,393
Unpaid Claims Adjustment Expenses	82,569
Premiums Received in Advance	3,966,279
General Expenses Due or Accrued	190,919
Remittances and Items Not Allocated	508,590
Payable to Parent, Subsidiaries and Affiliates	6,908,899
Payable for Securities	21,296
Liability for Amounts Held under Uninsured Plans	144,151
Aggregate Write-ins for Other Liabilities	
Taxes, Licenses and Fees Payable	362,631
Escheatable Checks	162,657
TOTAL LIABILITIES	\$ 18,417,384
Common Capital Stock	1,500,000
Unassigned Funds (Surplus)	21,612,798
Total Capital and Surplus	\$ 23,112,798
TOTAL LIABILITIES, CAPITAL AND SURPLUS	\$ 41,530,182

Statement of Revenue and Expenses

Net Premium Income	\$ 126,292,509
Fee-for-Service (Net of Medical Expenses)	5,241,759
Risk Revenue	132,934
Total Revenues	\$ 131,667,202
Less:	
Hospital and Medical: Other Professional Services	\$ 100,991,197
Claims Adjustment Expenses	1,631,576
General Administrative Expenses	17,794,805
Total Underwriting Deductions	\$ 120,417,578
Net Underwriting Gain	\$ 11,249,624
Investments:	
Net Investment Income Earned	\$ 270,774
Net Realized Capital Gains or (Losses) less tax	516,621
Net Investment Gains or Losses	\$ 787,395
Net Gain or (Loss) from Agents' or Premium Balances Charged Off	(10,447)
Net Income or (Loss) after Capital Gains Tax and Before All other Federal Income Taxes	\$ 12,026,572
Federal and Foreign Income Taxes Incurred	3,588,817
NET INCOME	\$ 8,437,755

Capital and Surplus Account

Capital and Surplus, December 31, 2012	\$ 22,113,379
Net Income	8,437,755
Change in Valuation Basis of Aggregate Policy and Claim Reserves	1,134,603
Change in Net Unrealized Capital Gains and (Losses) Less Capital Gains Tax	547,615
Change in Net Deferred Income Tax	72,059
Change in Non-Admitted Assets	(1,792,613)
Dividends to Stockholders	(7,400,000)
Net Change in Capital and Surplus for year	\$ 999,419
Capital and Surplus at December 31, 2013	\$ 23,112,798

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None

COMMENTS ON FINANCIAL STATEMENT ITEMS

None

SUMMARY OF RECOMMENDATIONS

It is recommended that the Company make necessary changes so that the aging of premium receivables will more accurately reflect any balances over 90 days past due, to ensure such balances are non-admitted and reported in accordance with the NAIC Statement of Statutory Accounting Principles (SSAP) No. 6 of the Accounting Practices and Procedures Manual.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Vision Service Plan Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Sara McNeely, AFE, participated in this examination.

VERIFICATION

State of Missouri)
County of Jackson)

I, Jennifer R. Danz, CPA, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Vision Service Plan Insurance Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



BEVERLY M. WEBB
My Commission Expires
April 14, 2016
Clay County
Commission #12464070

Jennifer R. Danz
Jennifer R. Danz, CPA, CFE

Examiner-In-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 3rd day of March, 2015.

My commission expires: 04-14-2016

Beverly M. Webb
Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed, except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.

Mark A. Nance

Mark A. Nance, CPA, CFE
Audit Manager
Missouri Department of Insurance, Financial
Institutions and Professional Registration



March 30, 2015

Leslie Nehring, CPA, CFE
Acting Chief Financial Examiner
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, MO 65102-0690

Re: Vision Service Plan Insurance Company (the "Company")

Dear Ms. Nehring:

We would like to request that the examination report of the Company dated March 3, 2015 include the following Company response to the recommendation included in the report:

PREMIUMS

As discussed during the field audit, the Company is aware of this issue and has already been working towards a solution by implementing new financial systems using SAP. In 2012, a new general ledger system was implemented as well as certain HR modules. Phase 1 for billings and receivables was implemented in July 2014 for our individual products. Phase 2 is in process and is scheduled to transition client billings and receivables beginning in 1Q2016. This is part of a multi-year implementation due to its complexities and the replacement of multiple legacy systems.

If you need any additional information please let us know.

Regards,

A handwritten signature in black ink that reads "Laura L. Olson". The signature is written in a cursive, flowing style.

LAURA L. OLSON
Senior Director, Finance
(916) 858-5388