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 for the period ended December 31, 2011

ORDER

After full consideration and review of the report of the financial examination of Vision Service Plan for the period ended December 31, 2011, 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 as of December 31, 2011, be and is hereby ADOPTED as filed and for Vision Service Plan 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 4th day of June, 2013.

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

REPORT OF THE

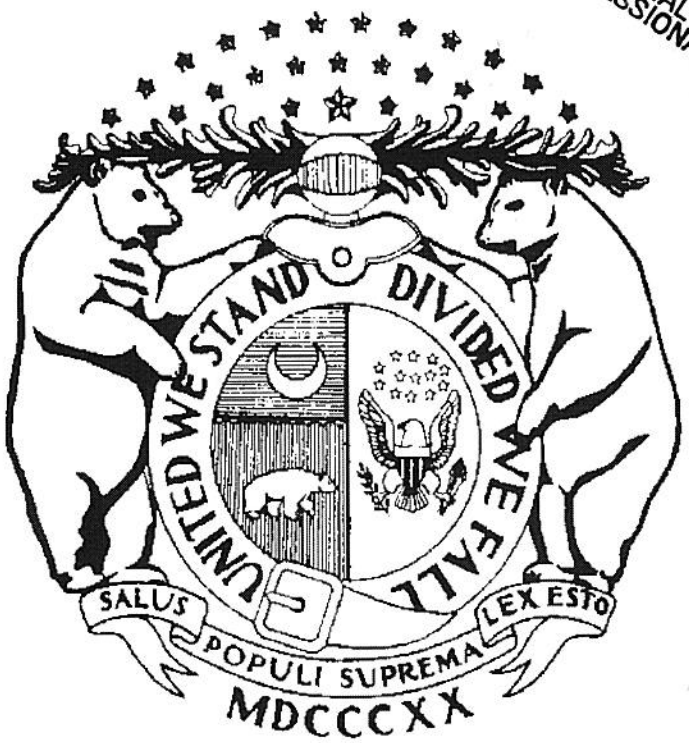
FINANCIAL EXAMINATION OF

Vision Service Plan Insurance Company

AS OF

DECEMBER 31, 2011

FILED
JUN 14 2013
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
April 11, 2013

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 financial association 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 September 11, 2012, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a multi-state examination of Vision Service Plan Insurance Company. The last examination was completed as of December 31, 2006. This examination covers the period of January 1, 2007 through December 31, 2011. The examination also includes the material transactions and/or events occurring subsequent to December 31, 2011.

Procedures

We conducted our examination in accordance with the 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 that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, inherent risks within the Company, 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, and Taxes.

Reliance Upon Others

The examination relied heavily upon information provided by the Company and its management. Where the examiners have deemed appropriate, this information has been tested or verified with external sources. The examiners also relied upon information supplied by the Company's independent auditor, PricewaterhouseCoopers (PWC), of Sacramento, CA for its audit covering the period from January 1, 2011 through December 31, 2011 and VSP's Internal Audit Department. Information relied upon included fraud risk analysis; process narratives; control testing for investments, premiums, claims, and taxes; and investment confirmations.

The examination was conducted concurrently with the examinations of several other affiliated companies within the Vision Service Plan Group (VSP Group) which were performed by various other state insurance departments. 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 Wisconsin Office of the Commission of Insurance were relied upon during our examination of VSPIC. This information included, but was not limited to, IT review, premium control and substantive testing, underwriting control and substantive testing, and taxes control and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

SUBSEQUENT EVENTS

There were no significant subsequent events noted from December 31, 2011 through the date of this report.

CORPORATE HISTORY

General

Vision Service Plan Insurance Company was incorporated under the laws of the state of Missouri on June 1, 1987 as a stock insurance company. All 10,000 shares authorized are issued and outstanding. The Company is a wholly-owned subsidiary of VSP Holding Company (a California corporation), which is a wholly-owned subsidiary of Vision Service Plan (VSP), a California non-profit corporation.

Prior to March 2009, the Company was organized as a wholly-owned subsidiary of Altair Holding Company, Inc. (Altair). On March 21, 2009, the Board of Directors of VSP and Altair approved the merger of Altair into VSP Holding Company.

Capital Contributions

The Company received no contributions during the examination period.

Dividends

Dividends paid to the Company's immediate parent, VSP Holding Company, as approved by the Board of Directors, are indicated below.

Year Paid	Amount Paid
2011	$25,000,000
2010	9,000,000
2009	30,000,000
2008	8,000,000
2007	10,000,000

Mergers and Acquisition

On March 21, 2009, the Company's parent, Altair, was merged with and into VSP Holding. VSP Holding is now the direct parent of VSPIC. VSP acquired seven additional companies during the examination period. These companies were related to technology and/or other entities within lines of business other than vision care.

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, 2011 are as follows:

Name	Address	Title and Affiliation
James Lynch	Lafayette, CA	President and CEO, VSP
Kate Renwick-Espinosa	Gold River, CA	Chief Marketing Officer, VSP
James McGrann	Sacramento, CA	Secretary/Vice President, VSP
Donald Ball, Jr.	El Dorado Hills, CA	Senior Vice President, VSP
Thomas Fessler	Roseville, CA	Chief Legal Officer, VSP
Lawrence Price *	Sacramento, CA	Vice President Provider Relations, VSP
Richard Steere	Sacramento, CA	Senior Vice President, VSP Business
Cheryl Johnson	Granite Bay, CA	Vice President Health Care, VSP
Susan Young	Kansas City, MO	Senior Account Executive, VSP

* Lester Passuello replaced Lawrence Price as a Director during 2012.

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, 2011, 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
National Professional Committee
New Board or Committee Member Committee (as needed)

Officers

According to the Company's bylaws, the officers shall consist of a President, one or more Vice Presidents, a Secretary and Treasurer and shall be chosen annually and will hold office until their successors are elected and qualify. The officers elected and serving in that capacity as of December 31, 2011 are as follows:

Name	Title
James Lynch	President
James McGrann	Secretary/Vice President
Lester Passuello	Treasurer

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.

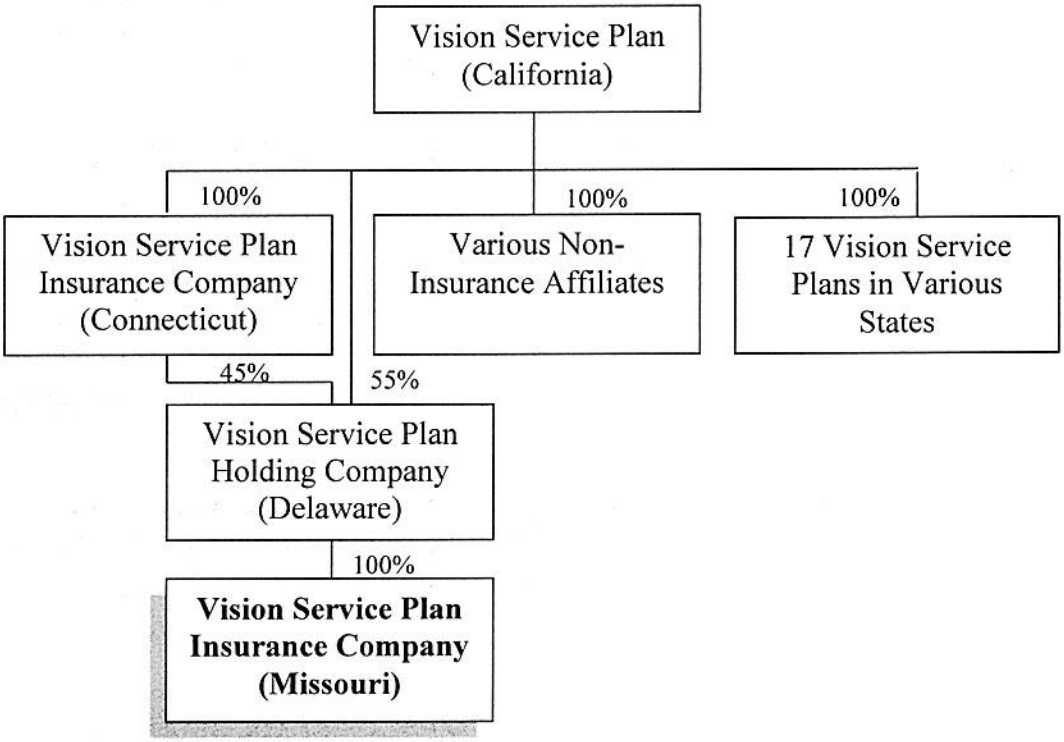
VSPIC is wholly owned by VSP Holding Company, Inc. (VSP Holding) VSP Holding is in turn wholly owned by Vision Service Plan, the ultimate controlling entity of VSPIC.

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 18 affiliated

vision service plans, a frame manufacturing and distribution company, a practice management software company, and an internet services provider.

Organizational Chart

The following organizational chart depicts the ownership and holding company structure of Vision Service Plan Insurance Company, as of December 31, 2011:



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. For 2011 VSPIC paid VSP $19,271,887.

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

Vision Service Plan Insurance Company is a named insured on a Financial Institution Bond purchased by its ultimate parent, Vision Service Plan. The bond has an aggregate liability of $4,000,000, with a single loss limitation of $2,500,000 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 and Section 354.425 RSMo (Surety Bond Requirements), which requires at least $ 2,500,000 to $ 3,000,000 coverage.

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

Vision Service Plan Insurance Company 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.

INSURANCE PRODUCTS AND RELATED PRACTICES

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, 2011, 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 2011 as a percentage of total written premiums was as follows: Missouri, 39.4%; Florida, 33.0%; Georgia, 20.8%; and New Mexico, 6.8%. 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 2011, premiums from risk basis plans provided 51% of total revenues generated with the remaining 49% 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 has experienced steady growth during the examination period with net premium income increasing $40 million and a corresponding increase in vision benefits of $36 million. Capital and surplus has significantly declined by $38 million; however, this decline is a direct result of the $72 million of dividends issued throughout the examination period. The growth and loss experience of the Company is summarized in the following schedule:

	2011	2010	2009	2008	2007
Net Premium Income	$111,981,319	$105,226,997	$97,431,071	$85,882,524	$71,000,159
Net Underwriting Gain	12,014,400	15,173,797	9,508,045	13,215,985	10,365,303
Net Income	7,918,535	11,073,124	5,505,115	10,038,681	8,003,634
Vision Care Services	90,299,376	84,054,351	78,625,075	68,301,517	54,242,076
Total Capital & Surplus	21,440,332	39,830,173	38,106,216	61,121,227	59,482,645
Net Premium Income to Capital & Surplus	522.3%	264.2%	255.7%	140.5%	119.4%
Vision Care Services to Capital & Surplus	421.2%	211.0%	206.3%	111.7%	91.2%
Vision Care Services to Premium Income	80.6%	79.9%	80.7%	79.5%	76.4%

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 applications are ProClaim, GroupFacts, and GlobalGL; which are utilized for claims processing, premium and broker processing, and general ledger functions respectively.

The CPA firm for VSPIC and its affiliates for the years 2007 – 2011 was PricewaterhouseCoopers, of Sacramento, California. 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, 2007 – 2011.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the DIFP as of December 31, 2011, 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:

Description	Par Value	Fair Value	Book/Adjusted Carrying Value
U.S. Treasury Notes	$ 2,400,000	$ 2,525,125	$ 2,418,592

Deposits with Other States

The Company also has funds on deposit with various other states. The funds on deposit as of December 31, 2011, were as follows:

State	Type of Bond	Par Value	Fair Value	Statement Value
Georgia	Money Market	$ 25,000	$ 25,000	$ 25,000
New Mexico	U.S. Treasury Notes	110,000	118,138	110,191
Totals		$ 135,000	$ 143,191	$ 143,163

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Vision Service Plan Insurance Company for the period ending December 31, 2011. 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.

Assets

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$ 11,099,086	$ 433,601	$ 10,665,485
Preferred Stocks	19,624	19,624	-
Common Stocks	5,190,925	1,562,385	3,628,540
Cash, Cash Equivalents and Short-term Investments	12,694,919	-	12,694,919
Receivables for Securities	4,171	-	4,171
Investment Income Due and Accrued	112,003	-	112,003
Uncollected Premiums and Agents' Balances in Course of Collection	4,453,824	41,637	4,412,187
Amounts Receivable Relating to Uninsured Plans	6,892,555	22,541	6,870,014
Net Deferred Tax Asset	2,641,702	261,781	2,379,921
TOTAL ASSETS	**$ 43,108,809**	**$ 2,341,569**	**$ 40,767,240**

Liabilities, Surplus and Other Funds

Claims Unpaid	$ 5,366,543
Unpaid Claims Adjustment Expenses	64,833
Aggregate Health Policy Reserves	1,379,852
Premiums Received in Advance	3,056,910
General Expenses Due or Accrued	230,388
Federal and Foreign Income Tax Payable	3,279,274
Remittances and Items Not Allocated	2,692,301
Payable to Parent, Subsidiaries and Affiliates	2,231,899
Payable for Securities	1,507
Liability for Amounts Held under Uninsured Plans	168,921
Aggregate Write-ins for Other Liabilities	
Taxes, Licenses and Fees Payable	708,805
Escheatable Checks	145,675
TOTAL LIABILITIES	**$ 19,326,908**
Common Capital Stock	1,500,000
Unassigned Funds (Surplus)	19,940,332
Surplus as Regards Policyholders	**$ 21,440,332**
TOTAL LIABILITIES AND SURPLUS	**$ 40,767,240**

Statement of Income

Net Premium Income	$ 111,981,319
Fee-for-Service (Net of Medical Expenses)	4,128,758
Risk Revenue	629,275
Total Revenues	**$ 116,739,352**
Less:	
Hospital and Medical: Other Professional Services	$ 90,299,376
Claims Adjustment Expenses	983,808
General Administrative Expenses	12,922,695
Increase in Reserves	519,073
Total Underwriting Deductions	**$ 104,724,952**
Net Underwriting Gain	**$ 12,014,400**
Investments:	
Net Investment Income Earned	333,124
Net Realized Capital Gains or (Losses) less tax	105,325
Net Investment Gains or Losses	**$ 438,449**
Net Gain or (Loss) from Agents' or Premium Balances Charged Off	**(9,759)**
Net Income or (Loss) after Capital Gains Tax and Before All other Federal Income Taxes	**$ 12,443,090**
Federal and Foreign Income Taxes Incurred	4,524,555
NET INCOME	**$ 7,918,535**

Capital and Surplus Account

Capital and Surplus, December 31, 2010	$ 39,830,173
Net Income	7,918,535
Change in Net Unrealized Capital Gains and (Losses) Less Capital Gains Tax	(225,989)
Change in Net Deferred Income Tax	938,603
Change in Non-Admitted Assets	(2,020,990)
Dividends to Stockholders	(25,000,000)
Net Change in Capital and Surplus for year	**$ (18,389,841)**
Capital and Surplus at December 31, 2011	**$ 21,440,332**

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None

COMMENTS ON FINANCIAL STATEMENT ITEMS

None

SUMMARY OF RECOMMENDATIONS

None

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 and Kimberly Dobbs, CFE examiners for the DIFP, participated in this examination.

VERIFICATION

State of Missouri)
County of Jackson)

I, Leslie A. Nehring, 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.

Leslie A. Nehring, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial Institutions and Professional Registration

Sworn to and subscribed before me this 11th day of April, 2013.

My commission expires: 04-14-2016

Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

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

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, CFE, CPA
Audit Manager
Missouri Department of Insurance, Financial Institutions and Professional Registration