

STATE OF CONNECTICUT

INSURANCE DEPARTMENT

ORDER ADOPTING REPORT OF EXAMINATION

I, Thomas R. Sullivan, Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of VISION SERVICE PLAN INSURANCE COMPANY (the "Company") as of December 31, 2008, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions, **TO WIT:**

1. I, Thomas R. Sullivan, as the Insurance Commissioner of the State of Connecticut, and as such is charged with the duty of administering and enforcing the provisions of Title 38a of the Connecticut General Statutes;
2. VISION SERVICE PLAN INSURANCE COMPANY ("Company") is a domestic insurer authorized to transact the business of insurance in the State of Connecticut;
3. On December 2, 2009, the verified Examination Report of VISION SERVICE PLAN INSURANCE COMPANY ("Company") was filed with the Connecticut Insurance Department.
4. In accordance with Conn. Gen. Statutes §38a-14(e)(3), VISION SERVICE PLAN INSURANCE COMPANY was afforded a period of thirty (30) days within which to submit to the Connecticut Insurance Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On January 6, 2010, the Company filed a written submission indicating that they were in agreement with all the recommendations contained in the Report. A copy of the Report is attached hereto and incorporated herein as Exhibit A.

NOW, THEREFORE, it is ordered as follows:

1. That the Examination Report of VISION SERVICE PLAN INSURANCE COMPANY (“Company”) hereby is adopted as filed with the Insurance Department.
2. That VISION SERVICE PLAN INSURANCE COMPANY (“Company”) shall comply with all of the recommendations set forth in the Report, and that failure by VISION SERVICE PLAN INSURANCE COMPANY (“Company”) to so comply shall result in sanctions or administrative action as provided by Title 38a of the Connecticut General Statutes.

Dated at Hartford, Connecticut, this 19th day of January, 2010.

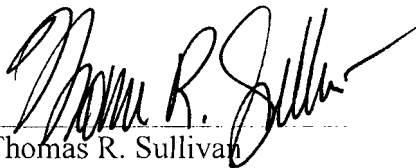

Thomas R. Sullivan
Insurance Commissioner

EXHIBIT A

ASSOCIATION EXAMINATION REPORT

OF THE

VISION SERVICE PLAN INSURANCE COMPANY

AS OF

DECEMBER 31, 2008

BY THE

CONNECTICUT INSURANCE DEPARTMENT

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December 2, 2009

The Honorable Alfred W. Gross
Chair, Financial Condition (E) Committee
Commissioner, Virginia State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, Virginia 23218

The Honorable Paulette Thabault
Secretary, Northeastern Zone
Insurance Commissioner
Vermont Insurance Division
Department of Banking, Insurance, Securities and
Health Care Administration
89 Main Street
Montpelier, Vermont 05620-3101

The Honorable Thomas R. Sullivan
Insurance Commissioner
State of Connecticut
153 Market Street, 6th Floor
Hartford, Connecticut 06103

Dear Commissioners:

In compliance with your instructions and pursuant to the requirements of Section 38a-14 of the Connecticut General Statutes (CGS), the undersigned has made an association examination of the financial condition and affairs of

VISION SERVICE PLAN INSURANCE COMPANY

(hereinafter referred to as the "Company" or "VSPIC"), a corporation with capital stock, incorporated under the laws of the State of Connecticut and having its statutory home office located at 185 Asylum Street, Hartford, Connecticut. The main administrative office is located at 3333 Quality Drive, Rancho Cordova, California. The report on such examination is submitted herewith.

SCOPE OF EXAMINATION

The Connecticut Insurance Department conducted the previous examination of the Company as of December 31, 2003. The current examination, which covers the subsequent five-year period, was conducted under the zone plan of the National Association of Insurance Commissioners (NAIC) at the Company's main administrative office.

VISION SERVICE PLAN INSURANCE COMPANY

As part of the examination planning procedures, the Financial Regulation Division (the Division) of the Connecticut Insurance Department (the Department) reviewed the following material submitted by the Company:

- Audit report by the Company's independent certified public accountants, PricewaterhouseCoopers, LLP (PwC).
- Minutes of the Board of Directors (Board) meetings from 2004 through 2008.
- Management Discussion and Analysis for 2008.
- Annual statements filed with the Division.
- Statements of Actuarial Opinion.

A comprehensive review was made of the financial analysis files and documents submitted to the Financial Analysis Unit of the Division, as well as Examination Jumpstart and Solvency Tracking System reports that were obtained from the NAIC database.

Workpapers prepared by PwC, in connection with its annual statutory audit, were reviewed and relied upon to the extent deemed appropriate.

The examination was conducted on a full scope, comprehensive basis in accordance with the procedures outlined in the NAIC Financial Examiners Handbook (Handbook).

Comments in this report are generally limited to exceptions noted or to items considered to be of a material nature.

Failure of items in this report to add to totals, or for totals to agree with captioned amounts, is due to rounding.

HISTORY

The Company was granted a charter by the General Assembly of the State of Connecticut on June 23, 1987. The Company commenced business on July 1, 1987. The charter was most recently amended and restated on November 23, 1994, and the bylaws were amended on June 17, 1999, by resolutions of the directors and stockholders.

On April 26, 2002, the Department approved an agreement and plan of merger between the Company and Vision Service Plan, Inc. (Vision), a New Jersey not-for-profit corporation, whereby Vision merged with and into the Company leaving the Company as the surviving corporation.

Effective the fourth quarter of 2006, the Company non-admitted its investment of an affiliate, Eyefinity, in compliance with the NAIC Practices and Procedures Manual (Manual), Statements of Statutory Accounting Principles (SSAP) No. 88, "Investments in Subsidiary, Controlled and Affiliated Entities".

Effective January 1, 2008, the Company's Illinois book of business was transferred to Vision Service Plan of Illinois through an assumptive reinsurance agreement.

VISION SERVICE PLAN INSURANCE COMPANY

The Company's sole shareholder is Vision Service Plan (VSP), a non-stock, nonprofit California health service organization.

In connection with the purchase of Marchon Eyewear, Inc. (Marchon) in August of 2008, the following companies contributed capital to the formation of VSP Holding Company, Inc. (VSP Holding) and received common stock:

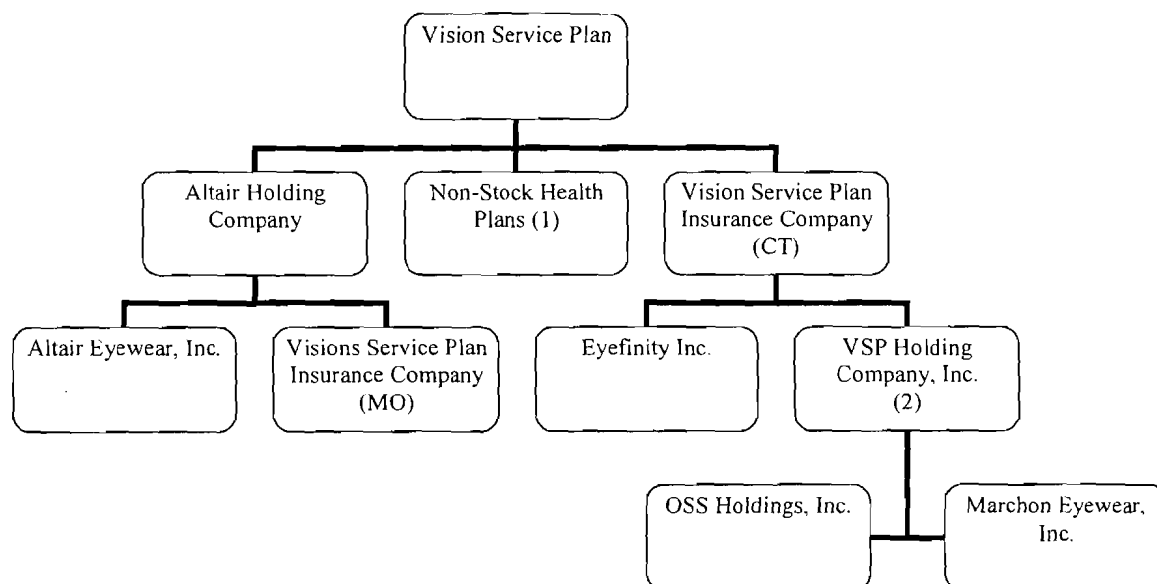
- The Company made an investment of \$285 million for a 49.6% interest.
- VSP made an investment of \$240 million for a 41.7% interest.
- Altair Holding Company made an investment of \$50 million for an 8.7% interest.

VSP Holding then purchased Marchon and OSS Holdings, Inc., (OSS) via a stock purchase agreement. This transaction closed in August of 2008, with VSP Holding becoming the immediate parent of Marchon and OSS. Marchon and its subsidiaries are engaged primarily in the design, manufacture, marketing and global distribution of quality eyewear primarily servicing independent opticians, optometrists and ophthalmologists as well as optical and sunglass retail chains and department stores. OSS is the largest provider of practice management, electronic health record and retail point of sale software to the eye care industry.

Beginning with the Company's third quarter 2008 statutory statement filing, the entire VSP Holding affiliated investment was non-admitted in compliance with SSAP No. 88 of the Manual.

ORGANIZATIONAL CHART

The following is an organizational chart as of December 31, 2008, of the Company and its parent, subsidiary and affiliate companies within the VSP group:



VISION SERVICE PLAN INSURANCE COMPANY

Notes to Organizational Chart:

(1) The Non-Stock Health Plans are:

- Alaska Vision Services, Inc.
- Vision Service Plan of Idaho, Inc.
- Indiana Vision Services, Inc.
- Vision Service Plan, Inc. (NV)
- Eastern Vision Service Plan, Inc. (NY)
- Vision Services Plan, Inc. Oklahoma
- Mid-Atlantic Vision Service Plan, Inc. (VA)
- Wisconsin Vision Service Plan, Inc.
- Vision Service Plan (HI)
- Vision Service Plan of Illinois, NFP
- Massachusetts Vision Service Plan, Inc.
- New Hampshire Vision Services Corporation
- Vision Service Plan (OH)
- Southwest Vision Service Plan, Inc. (TX)
- Vision Service Plan (WA)
- Vision Service Plan of Wyoming
- Eastern Vision Service Plan IPA, Inc. (NY)

(2) It should be noted that VSP Holding is owned by VSPIC, VSP and Altair Holding Company as described in the History section of this report.

MANAGEMENT AND CONTROL

The Company was organized to establish, maintain and operate a voluntary nonprofit vision care plan. The Company's charter states that the corporation has the power:

- to write accident and health, liability, indemnity and any and all other forms of insurance against hazards or risks of every kind and description which now or hereafter may lawfully be the subject of insurance which may be written by any other corporation now or hereafter chartered by Connecticut;
- to accept and cede reinsurance, except the corporation shall not write life and endowment insurance, mortgage guaranty insurance, title insurance or contracts for the payment of annuities; and
- to engage in any other lawful act or activity for which corporations may be formed under Chapter 599 of the CGS, except as expressly limited by this act or by the provisions of Title 38a of the CGS.

Annual Shareholders Meetings

The bylaws state that the annual meeting of stockholders shall be held for the election of directors and the transaction of such other business as may properly come before the meeting on such date as may be fixed by the Board. Voting by proxy shall be allowed.

VISION SERVICE PLAN INSURANCE COMPANY

The Chairman of the Board (Chairman) may call a special meeting of the stockholders at any time. All meetings shall be held at the office of the corporation or at such other place as the notice may designate.

At any annual or special meeting of the stockholders, the presence of a majority of stockholders in person or by proxy shall constitute a quorum.

Board of Directors

The Company's charter states that its Board shall manage the affairs of the Company. Its bylaws require the number of directors shall not be less than three. Each director shall hold office until his or her successor is elected and duly qualifies by the stockholders, subject to earlier termination by removal or resignation.

The annual meeting of the Board shall be held each year on the date and at the time and place to be designated by the Board.

The Chairman or any two directors may call for special meetings of the Board and fix the time and place for said meetings.

Members of the Board serving the Company at December 31, 2008, were as follows:

<u>Director</u>	<u>Title and Principal Business Affiliation</u>
James Lynch	President and Chief Executive Officer, VSP
Gary Brooks	President of the VSP Vision Care Division
Patricia Cochran	Chief Financial Officer, VSP

Officers

According to the bylaws, the officers of the Company shall be the Chairman, president, one or more vice presidents, secretary, treasurer and any such other officers as the directors may from time to time appoint. When the duties do not conflict, one person may hold more than one of these offices, except the offices of president and secretary.

The president shall manage the affairs of the Company under the direction of the Chairman. The president shall also be responsible for the appointment of one or more vice presidents to act on behalf of the Company and shall perform such other duties and obligations as may be imposed by the Board.

The secretary shall keep a full and complete record of the proceedings of the Board and shall keep the seal of the Company.

The treasurer shall have charge and custody of, and be responsible for, all funds and securities of the Company.

VISION SERVICE PLAN INSURANCE COMPANY

The following individuals were serving the Company as officers as of December 31, 2008:

<u>Officer</u>	<u>Title</u>
James Lynch	President
Gary Brooks	Secretary
Patricia Cochran	Treasurer and Chief Financial Officer

Committees

The Company does not have any committees as all committees are at the VSP level. However, the Board may, by resolution of a majority of the directors, establish committees of three or more directors to conduct the management of the corporation. All committees shall function in accordance with the rules and procedures established by the Board.

INSURANCE COVERAGE

The Company, VSP and affiliates are insured on a financial institution blanket fidelity policy with the St. Paul Fire and Marine Insurance Company. The policy has a limit of liability per occurrence of \$2,000,000, with a \$75,000 deductible, and an aggregate limit of \$4,000,000, which exceeds the suggested minimum limits of insurance pursuant to the Handbook. This policy is in the name of VSP with the Company listed as a covered subsidiary.

All other insurance coverages are in the name of VSP with the Company listed as a covered subsidiary.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in 42 states and the District of Columbia. The state of Texas accounted for the largest percentage (23%) of direct written premium for 2008.

The Company is authorized to write only accident and health business and specifically markets vision care programs to subscriber groups on both a risk and self-funded basis. Subscriber groups that purchase plans pay an agreed upon monthly premium based on the total number of eligible group members. Subscriber groups that elect self-funded programs reimburse the Company for benefits paid and pay an administrative fee. Providers of care are optometrists and ophthalmologists. Coverage includes the cost of examinations and ophthalmic appliances such as eyeglasses and contact lenses.

Under the terms of the Administration and Marketing Agreement, VSP provides all services to the Company. VSP has twenty-six branch offices and markets its products through seventy-six account executives who are VSP employees or independent agents. The Company has no managing general agents.

VISION SERVICE PLAN INSURANCE COMPANY

INFORMATION SYSTEMS AND CONTROLS

An evaluation of information systems (IS) controls was conducted to gain familiarity with the existing controls, policies and procedures established by the IS area. The Company's response to the Handbook's IS Controls Questionnaire (ISQ) was evaluated and the Company's IS control environment was tested to assess the degree of reliance that could be placed on internal controls and to establish the appropriate approach to the examination of the Company's financial records.

The evaluation of IS controls was performed for the following financially significant systems that directly impact the financial reporting of premium and claim transactions by the Company:

System	Description
Groupfacts	Groupfacts is a vendor system residing on an IBM mainframe. This system is responsible for policy administration including billing, accounting for receivables, revenue reporting, and commission processing.
Proclaim System (PRO)	PRO is an internally created system residing in a Microsoft Windows NT environment that is linked to a mainframe. This system is responsible for processing claims including adjudication and reporting.

The evaluation of IS controls focused on the following areas: management and organizational controls; logical and physical security; changes to applications; contingency planning; operations; and network and internet controls.

There were no material findings which affected the Division's overall reliance on VSP's IS controls.

ACCOUNTS AND RECORDS

The Company uses the Global GL general ledger system to produce its generally accepted accounting principle (GAAP) accounting trial balance and general ledger reports. Adjustments, reclassifications and eliminating accounting entries are then recorded to the general ledger to convert the GAAP financial statement balances to the statutory balances recorded in the annual statement.

The Company uses the Complete Package Insurance Company Annual Statement Preparation Software from Booke Seminars to produce its statutory annual statement.

Accounts payable are also processed through Global AP, a subsystem of Global GL.

Detail analyses were performed on individual general ledger accounts throughout the examination. The 2008 year-end trial balance was reconciled to the 2008 Annual Statement without exception.

VISION SERVICE PLAN INSURANCE COMPANY

FINANCIAL STATEMENTS

The following statements reflect the assets, liabilities, capital and surplus, and statement of revenue and expenses as of December 31, 2008, as reported by the Company and as determined by the examination:

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$32,602,749		\$32,602,749
Preferred stocks	1,256,696	\$1,256,696	
Common stocks	263,596,416	263,574,735	21,681
Cash, cash equivalents and short-term investments	40,548,310		40,548,310
Investment income due and accrued	273,237		273,237
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	21,371,060	242,235	21,128,825
Amounts receivable relating to uninsured plans	27,614,013	432,498	27,181,515
Current federal and foreign income tax recoverable and interest thereon	1,835,036		1,835,036
Net deferred tax asset	13,258,239	7,856,423	5,401,816
Aggregate write-ins for other than invested assets	3,010,742	3,010,742	
Totals	\$405,366,498	\$276,373,329	\$128,993,169

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid	\$25,438,560
Unpaid claims adjustment expenses	302,284
Aggregate health policy reserves	26,826,792
Premiums received in advance	820,611
General expenses due or accrued	1,553,480
Current federal and foreign income tax payable and interest thereon	3,364,678
Amounts due to parent, subsidiaries and affiliates	1,676,522
Liability for amounts held under uninsured plans	3,558,892
Aggregate write-ins for other liabilities	2,774,180
Total liabilities	66,315,999
Common stock	2,500,000
Gross paid in and contributed surplus	38,462,582
Unassigned funds	21,714,588
Total capital and surplus	62,677,170
Total liabilities, capital and surplus	\$128,993,169

VISION SERVICE PLAN INSURANCE COMPANY

STATEMENT OF REVENUE AND EXPENSES

REVENUES		
Member months		102,987,042
Net premium income		\$544,440,130
Fee-for-service		17,382,205
Risk revenue		1,601,676
Total revenues		563,424,011
DEDUCTIONS		
Hospital and Medical:		
Other professional services		466,563,877
Total hospital and medical		466,563,877
Claim adjustment expenses		4,241,390
General administrative expenses		56,379,321
Increase in reserves for life and accident and health contracts		3,276,111
Total underwriting deductions		530,460,699
Net underwriting gain or (loss)		32,963,312
Net investment income earned		16,079,254
Net realized capital gains or (losses)		(842,128)
Net investment gains or (losses)		15,237,126
Net gain or (loss) from agents' or premium balances charged off		24,106
Aggregate write-ins for other income or expenses		442,065
Net income or (loss) after capital gains tax and before all other federal income taxes		48,666,609
Federal and foreign income taxes incurred		13,784,309
Net income (loss)		\$34,882,300
<u>CAPITAL AND SURPLUS ACCOUNT</u>		
Capital and surplus prior reporting period		\$319,898,571
Net income or (loss)		34,882,300
Change in net unrealized capital gains and (losses)		(30,293,286)
Change in net deferred income tax		1,874,984
Change in nonadmitted assets		(263,685,399)
Net change in capital and surplus		(257,221,401)
Capital and surplus end of reporting period		<u>\$62,677,170</u>

BONDS

\$32,602,749

The Company received numerous bonds and cash in settlement of the Columbia Strategic Solutions mutual fund liquidation on January 3, 2008. Although activity for the year for these investments was supported by an EXCEL spreadsheet, it was not properly reported on the Company's investment schedules of the Annual Statement. It is recommended that the Company properly record investment transactions in accordance with the NAIC Annual Statement Instructions (Instructions).

VISION SERVICE PLAN INSURANCE COMPANY

INVESTMENT INCOME DUE AND ACCRUED \$273,237

The Company included accrued investment income for certain securities that were over 90 days past due and over-calculated accrued investment income for other securities. The Company's interest collection for the NAIC rated 6 securities was reviewed and it was determined that interest was not received through the period of examination field work. According to SSAP No. 34 of the Manual, investment income due and accrued over 90 days past due should be nonadmitted. It is recommended that the Company nonadmit investment income in accordance with SSAP No. 34 of the Manual. It is further recommended that the Company more accurately calculate accrued interest for balance sheet reporting.

<u>CLAIMS UNPAID</u>	<u>\$25,438,560</u>
<u>UNPAID CLAIMS ADJUSTMENT EXPENSES</u>	<u>\$302,284</u>
<u>AGGREGATE HEALTH POLICY RESERVES</u>	<u>\$26,826,792</u>

The Division engaged National Actuarial Network, Inc. (NAN) to review the Company's significant actuarial reserves. This included:

- An evaluation of the process and controls used to establish a best estimate of the Company's carried reserves for the captioned accounts.
- An evaluation of various Underwriting and Investment (U&I) Exhibits and Note 24 of the Notes to Financial Statements (Note 24), of the 2008 Annual Statement.
- An evaluation of significant reinsurance arrangements affecting the actuarial reserves.

A review by the Division of the Company's underlying data for reserves and claims concluded that there were no indications of any significant inaccuracies.

Although the Division concluded that the reserves were reasonable, the following items were noted:

- A review of the 2008 Annual Statement and prior years revealed examples of inaccuracy and inconsistency in financial reporting and disclosure information in Parts 2A, 2B and 2C of the U&I Exhibits and Note 24. It is recommended that the Company develop documentation relating to the preparation of the U&I Exhibits and Note 24 to include identification of data sources, calculations involved and controls. It is noted that the Company has been provided with a detailed road map in order to eliminate the difficulties encountered in the preparation of Note 24 and the U&I exhibits.
- The "aggregate health policy reserves" liability is comprised of a premium deficiency reserve (PDR). Although the Company is conservative in its approach in determining the PDR, it is recommended that SSAP No. 54 of the Manual be reviewed to verify that the PDR is in compliance with statutory guidelines.

VISION SERVICE PLAN INSURANCE COMPANY

COMMON CAPITAL STOCK \$2,500,000

The Company is authorized to issue one hundred thousand shares of common stock with a par value of one hundred dollars per share. There were twenty-five thousand shares issued and outstanding as of December 31, 2008. All shares are owned by VSP.

GROSS PAID IN AND CONTRIBUTED SURPLUS \$38,462,582

During the period under examination there were no changes to the balance of this account.

UNASSIGNED FUNDS (SURPLUS) \$21,714,588

The following is a reconciliation of unassigned funds (surplus) during the period under examination:

Unassigned Funds (Surplus) as of December 31, 2003	\$135,792,510
Net Income	166,473,104
Change in Net Unrealized Capital Gains and (Losses)	(24,262,656)
Change in Net Deferred Income Tax	6,891,983
Change in Nonadmitted Assets	(276,211,765)
Aggregate Write-ins for Gains or (Losses) in Surplus	<u>13,031,412</u>
Unassigned Funds (Surplus) as of December 31, 2008	<u>\$21,714,588</u>

RECOMMENDATIONS

Page

9 BONDS

It is recommended that the Company properly record investment transactions in accordance with the Instructions.

10 INVESTMENT INCOME DUE AND ACCRUED

It is recommended that the Company nonadmit investment income in accordance with SSAP No. 34 of the Manual. It is further recommended that the Company more accurately calculate accrued interest for balance sheet reporting.

10 CLAIMS UNPAID, UNPAID CLAIMS ADJUSTMENT EXPENSES, AGGREGATE HEALTH POLICY RESERVES

- It is recommended that the Company develop documentation relating to the preparation of the U&I Exhibits and Note 24, to include identification of data sources, calculations involved and controls. It is noted that the Company has been provided with a detailed road map in order to eliminate the difficulties encountered in the preparation of Note 24 and the U&I exhibits.
- It is recommended that SSAP No. 54 of the Manual be reviewed to verify that the PDR is in compliance with statutory guidelines.

VISION SERVICE PLAN INSURANCE COMPANY

CONCLUSION

The results of this examination disclosed that as of December 31, 2008, the Company had admitted assets of \$128,993,169, liabilities of \$66,315,999, and capital and surplus of \$62,677,170. During the period under examination, admitted assets decreased \$105,148,211, liabilities increased \$8,929,711, and surplus as regards policyholders decreased \$114,077,922.

It was determined that the Company's assets were fairly stated in accordance with guidance outlined in the Manual. Assets were acceptable under Section 38a-102 of the CGS. The liabilities established were adequate to cover the Company's obligations to policyholders.

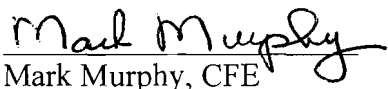
VISION SERVICE PLAN INSURANCE COMPANY

SIGNATURE

In addition to the undersigned, William Arfanis, CFE, Michael Estabrook, Richard Marcks, FCAS, MAAA, Kenneth Roulier, AFE, CISA, Alan Sundell, AFE, of the Connecticut Insurance Department and the consulting firm of NAN participated in this examination.

I, Mark Murphy, CFE, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2008, to the best of my information, knowledge and belief.

Respectfully submitted,

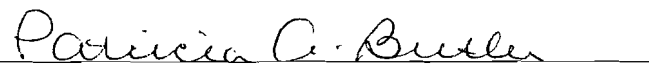

Mark Murphy, CFE
Insurance Certified Financial Examiner
State of Connecticut
Insurance Department

State of Connecticut

ss

County of Hartford

Subscribed and sworn to before me, Patricia A. Butler, Notary Public/Commissioner of the Superior Court, on this 2nd day of December, 2009.


Notary Public/Commissioner of the Superior Court

My commission expires September 30, 2013