

STATE OF CONNECTICUT

INSURANCE DEPARTMENT

ORDER ADOPTING REPORT OF EXAMINATION

I, Anne Melissa Dowling, Deputy Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of the Vision Service Plan Insurance Company ("VSP") as of December 31, 2013, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions,

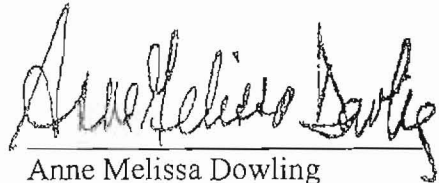
TO WIT:

1. I, Anne Melissa Dowling, Deputy 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 ("CGS").
2. VSP is a domestic insurer authorized to transact the business of insurance in the State of Connecticut.
3. On December 22, 2014, the verified Report of VSP was filed with the Connecticut Insurance Department (the "Department").
4. In accordance with CGS §38a-14(e) (3), the 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 13, 2015, the Company notified the Department of certain responses and comments relating to matters contained in the Report.
6. Following a review of the Report, it was deemed necessary and appropriate to modify 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 Report of VSP hereby is adopted as filed with the Department.
2. That VSP shall comply with all of the recommendations set forth in the Report, and that the failure of VSP to so comply shall result in sanctions or administrative action as provided by Title 38a of the CGS.

Dated at Hartford, Connecticut this 4th day of February, 2015

A handwritten signature in cursive script, appearing to read "Anne Melissa Dowling".

Anne Melissa Dowling
Deputy Insurance Commissioner

EXHIBIT A

EXAMINATION REPORT

OF THE

VISION SERVICE PLAN INSURANCE COMPANY

AS OF

DECEMBER 31, 2013

BY THE

CONNECTICUT INSURANCE DEPARTMENT

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December 17, 2014

The Honorable Anne Melissa Dowling
Deputy Commissioner of Insurance
State of Connecticut Insurance Department
153 Market Street
Hartford, Connecticut 06103

Dear Deputy Commissioner Dowling:

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

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 previous examination of the Company was conducted as of December 31, 2008. The current examination which covers the subsequent five-year period was conducted at the main administrative office of the Company.

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

- Board of Director (Board) minutes from 2009 through the latest 2014 meeting;
- statutory audit reports from 2009 through 2012, completed by the Company's independent certified public accountants, PricewaterhouseCoopers, LLP (PwC);
- statutory audit reports for 2013, completed by the Company's independent certified public accountants, Deloitte & Touche, LLP (D&T);
- Management's Discussion and Analysis from 2009 through 2013;
- Statements of Actuarial Opinion from 2009 through 2013;
- Annual Statements filed with the Department; and
- Internal Audit Department reports from 2009 through 2013.

A comprehensive review was made of the financial analysis files and documents submitted to the Financial Analysis Unit of the Department, reports from the National Association of Insurance Commissioners (NAIC) database, as well as the independent

VISION SERVICE PLAN INSURANCE COMPANY

audit reports which indicated no material concerns with respect to financial condition or regulatory compliance issues.

Work papers prepared by D&T in connection with its annual statutory audit were reviewed and relied upon to the extent deemed appropriate.

Noble Consulting Services, Inc. (Noble) was engaged by the Department to conduct an evaluation of the Information Technology (IT) controls.

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.

The examination was conducted on a full scope, comprehensive basis in accordance with the procedures outlined in the NAIC Financial Condition Examiners Handbook (the Handbook). 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, identifying inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management compliance with the NAIC Accounting Practices & Procedures Manual (Manual) and the NAIC Health Annual Statement Instructions (Instructions).

Concurrent examinations were or are scheduled to be completed for the following non-Connecticut domestic Health companies within the Vision Service Plan group of companies, collectively referred to as the Group as of December 31, 2013:

- Vision Service Plan of Idaho, Inc. (ID)
- Vision Services Plan Insurance Company (MO)
- Eastern Vision Service Plan, Inc. (NY)
- Indiana Vision Services, Inc. (IN)
- Wisconsin Vision Service Plan, Inc. (WI)
- Vision Service Plan of Illinois, NFP (IL)
- Vision Service Plan (OH)

HISTORY

The Company was granted a charter by the General Assembly of the State of Connecticut on June 23, 1987, and 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.

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

The Company's sole shareholder is Vision Service Plan (VSP), a non-stock, not-for-profit California health service organization.

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

- 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 purchased Marchon and OSS Holdings, Inc., (a holding company) via a stock purchase agreement becoming the direct parent of both. Further transactions in 2012 merged the holding company into the practice management line of business dominated by Eyefinity while Marchon maintained its position under VSP Holding.

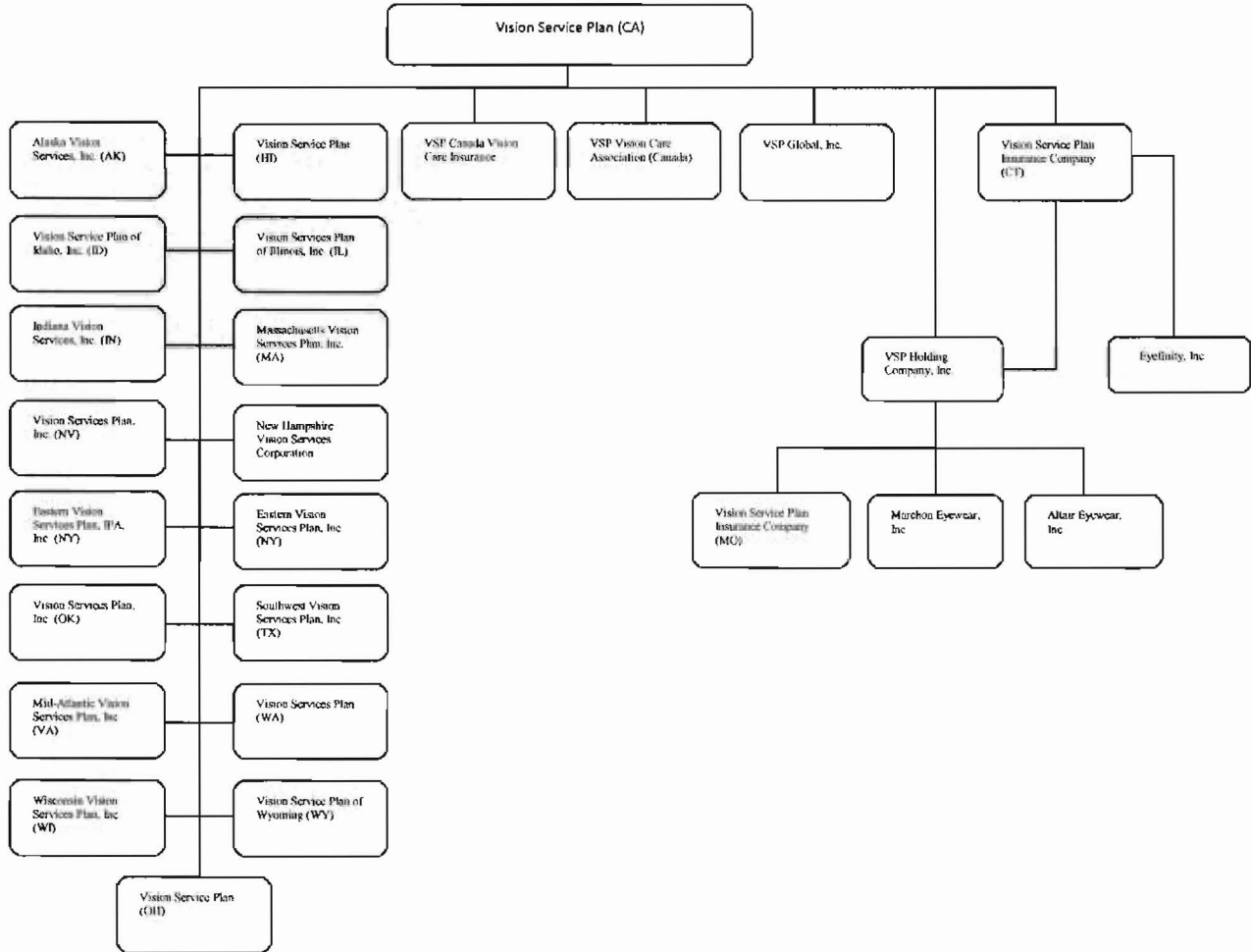
Marchon and its subsidiaries represent the VSP global eyewear line of business. The VSP global eyewear business is an industry-leading manufacturer, designer and distributor of high quality fashion and technologically-advanced eyewear and sun wear. Primary markets are independent opticians, optometrists and ophthalmologists but also include optical retail businesses. Eyefinity leads the practice management business offering comprehensive business solutions including an on-line claim filing portal, electronic health record and retail point-of-sale software for optometrists, ophthalmologists, opticians, and eye care office administrators.

In 2012, the Company also invested in its affiliate, VSP Optical Group, Inc., receiving shares via a dividend distribution. With the purchase of additional shares in 2013, the Company currently owns 10% of the voting shares. The balance of shares is held by other companies in the VSP holding system. VSP Optical Group, Inc. focuses on supply-chain management as an integrated network of labs and eyewear delivery systems of wholly owned and partner laboratory services providing high-quality and cost-effective ophthalmic lens products to eyecare professionals.

VISION SERVICE PLAN INSURANCE COMPANY

ORGANIZATIONAL CHART

The following is an organizational chart of the Company and its parent, subsidiaries and affiliated companies within the Group as of December 31, 2013:



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

VISION SERVICE PLAN INSURANCE COMPANY

- 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.

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 qualified 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 as of December 31, 2013, were as follows:

<u>Director</u>	<u>Title and Principal Business Affiliation</u>
James Lynch	President and Chief Executive Officer, VSP Global
Don Ball, Jr.	Chief Financial Officer, VSP Global
James McGrann	President of the VSP Vision Care Division

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

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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.

The following individuals serving the Company as officers as of December 31, 2013, were as follows:

<u>Officer</u>	<u>Title</u>
James Lynch	President
James McGrann	Vice President and Secretary
Lester Passuello	Treasurer

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.

RELATED PARTY AGREEMENTS

Intercompany Tax Sharing Agreement (TSA)

The Company is party to a TSA with VSP and its subsidiaries. The TSA governs the tax return filing, payment and allocation of federal, state and local income tax liability between VSP and its subsidiaries. Each affiliate will calculate its separate tax liability, and the consolidated federal regular income tax liability will be apportioned among the affiliates in accordance with the TSA. VSP shall pay on behalf of the affiliated group, on or before the due date for each consolidated return year, and each affiliate shall reimburse VSP for its share of the tax liabilities.

Administrative and Marketing Agreement (AMA)

The Company is party to an AMA with VSP and its subsidiaries. VSP performs all administrative services for the Company including, but not limited to, marketing services, sales and marketing personnel, payment of all normal operating expenses including salaries, other compensation, business and travel expenses, and all services relating to the Company's social welfare or community benefit activities, such as charitable or educational activities. Monthly, the Company will reimburse VSP for its share of the liabilities.

VISION SERVICE PLAN INSURANCE COMPANY

During the examination period the Company requested approvals from the Department (via Form D filings in 2009 and 2010) for intercompany tax sharing agreements that had already been executed.

Pursuant to CGS §38a-136(b) (1) transactions involving a domestic insurance company and any person in its holding company system may not be entered into unless the insurance company has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has approved or not disapproved it within such period. While the Company did not begin using said agreement prior to its approval by the Department, it should be noted that all agreements must be approved by the Department prior to execution. It is recommended that the Company implement procedures to ensure compliance with CGS §38a-136(b) (1).

INSURANCE COVERAGE

The Company, VSP and its affiliates are insured under a financial institution blanket fidelity policy with the St. Paul Fire and Marine Insurance Company. The policy exceeds the suggested minimum limits of insurance pursuant to the Handbook. This policy and 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 (20%) of direct written premium for 2013.

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 AMA, VSP provides all services to the Company. VSP has twenty-six branch offices. The Company has no managing general agents.

INFORMATION TECHNOLOGY CONTROLS

Noble performed a risk-focused assessment and review of the Company's IT general controls in accordance with NAIC requirements as outlined in the Handbook. The guidance and direction used to perform the review of the Company's IT general controls was derived from Exhibit C Part 1 – Information Technology Planning Questionnaire (ITPQ) and Exhibit C Part 2 – Information Technology Work Program (collectively,

VISION SERVICE PLAN INSURANCE COMPANY

Exhibit C). The Company's responses to the ITPQ were evaluated, and certain controls within the IT control environment were tested to assess whether the selected controls were designed effectively and were functioning properly.

Noble's objectives were to determine that information systems resources align with the Company's objectives and ensure that significant risks (strategic, operational, reporting, and compliance) arising out of its IT environment were appropriately mitigated by strategies and controls as outlined in Exhibit C.

The objectives above were achieved through a combination of reviewing the Company's policies and procedures, testing in key areas related to Exhibit C, interviewing the Company's IT senior management, reviewing IT risk assessment processes, and leveraging the risk assessment procedures performed by the Company's internal and external auditors.

The Company's core transaction processing system runs on two primary platforms: (1) an IBM Z/OS Mainframe and (2) a windows-based server environment. The Company's primary financial application systems include Group Facts (premium and commissions processing), ProClaim (claim processing) and Systems, Applications and Products (SAP (financial reporting)).

No significant findings were noted during the review that would represent a substantial increase in risk surrounding the IT control structure.

ACCOUNTS AND RECORDS

The Company uses the SAP general ledger system to produce its generally accepted accounting principle (GAAP) trial balance and general ledger reports. The statutory ledger, a mirror of the GAAP ledger, is then updated with relevant adjustments, reclassifications and/or eliminating accounting entries to convert the GAAP financial statement balances to the statutory balances recorded in the annual statement. Accounts payable are processed through an accounts payable module, a feature in the SAP system.

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

The 2013 year-end trial balance was reconciled to the 2013 Annual Statement without exception. Further detail analyses were performed on individual general ledger accounts, as well as on the GAAP to statutory reconciliation and adjustments throughout the examination.

VISION SERVICE PLAN INSURANCE COMPANY

FINANCIAL STATEMENTS

The following statements represent the Company's financial position as filed by the Company, as of December 31, 2013. There were no adjustments to surplus as a result of the examination.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$58,120,406		\$58,120,406
Preferred stocks	46,005,200	\$46,005,200	0
Common stocks	337,883,415	305,876,497	32,006,918
Cash, cash equivalents and short-term investments	48,912,541		48,912,541
Investment income due and accrued	402,526		402,526
Premiums and considerations: Uncollected premiums and agents' balances in course of collection	32,239,620	1,314,696	30,924,924
Amounts receivable relating to uninsured plans	32,736,127	55,065	32,681,062
Net deferred tax asset	3,189,980	353,253	2,836,727
Totals	<u>\$559,489,815</u>	<u>\$353,604,711</u>	<u>\$205,885,104</u>

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid	\$34,624,158
Unpaid claims adjustment expenses	436,386
Premiums received in advance	2,520,208
General expenses due or accrued	813,167
Current federal and foreign income tax payable and interest thereon	5,326,471
Remittances and items not allocated	2,874,737
Amounts due to parent, subsidiaries and affiliates	10,203,890
Liability for amounts held under uninsured plans	2,373,523
Aggregate write-ins for other liabilities	4,009,246
Total liabilities	<u>63,181,786</u>
Common stock	2,500,000
Gross paid in and contributed surplus	38,462,582
Unassigned funds	101,740,736
Total capital and surplus	<u>142,703,318</u>
Total liabilities, capital and surplus	<u>\$205,885,104</u>

VISION SERVICE PLAN INSURANCE COMPANY

STATEMENT OF REVENUE AND EXPENSES

	REVENUES	
Member months		113,127,374
Net premium income		\$678,289,823
Fee-for-service		25,729,189
Risk revenue		779,121
Total revenues		704,798,133
	DEDUCTIONS	
Hospital and Medical:		
Other professional services		554,603,525
Total hospital and medical		554,603,525
Claim adjustment expenses		8,481,513
General administrative expenses		88,767,295
Total underwriting deductions		651,852,333
Net underwriting gain or (loss)		52,945,800
Net investment income earned		866,708
Net realized capital gains or (losses)		112,975
Net investment gains or (losses)		979,683
Net gain or (loss) from agents' or premium balances charged off		(46,444)
Net income or (loss) after capital gains tax and before all other federal income taxes		53,879,039
Federal and foreign income taxes incurred		13,237,256
Net income (loss)		\$40,641,783
	<u>CAPITAL AND SURPLUS ACCOUNT</u>	
Capital and surplus prior reporting period		\$134,267,213
Net income or (loss)		40,641,783
Change in valuation basis of aggregate policy and claims reserves		8,898,277
Change in net unrealized capital gains and (losses)		(6,947,564)
Change in net deferred income tax		(5,329,410)
Change in nonadmitted assets		14,173,019
Dividend to stockholders		(43,000,000)
Net change in capital and surplus		8,436,105
Capital and surplus end of reporting period		<u>\$142,703,318</u>

VISION SERVICE PLAN INSURANCE COMPANY

PREMIUMS

The Company applies premiums using a “first-in, first-out” method. Under this method, it is difficult for the Company to adequately keep track of which months and which members’ employers are actually paying. The current method does not lend itself to adequate aging of older balances and employer payments. 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 and report them in accordance with the NAIC Statement of Statutory Accounting Principles (SSAP) No. 6 of the Manual. It is noted that the Company is in the process of implementing SAP, which is designed to more accurately track premium payments, applications, and non-admitted balances.

<u>CLAIMS UNPAID</u>	\$34,624,158
<u>UNPAID CLAIMS ADJUSTMENT EXPENSES</u>	\$436,386
<u>AGGREGATE HEALTH POLICY RESERVES</u>	\$0

The review of the actuarial reserves was conducted by the Department. In 2013, the company’s method of estimating the Aggregate Health Policy Reserves changed which resulted in a zero balance for the Premium Deficiency Reserve.

The Department’s review of the Company’s significant actuarial reserves included the following procedures:

- evaluation of the process and controls used to establish a best estimate of the Company’s carried reserves for the above captioned accounts;
- review of the consistency of the actuarial assumption and methodologies used in determining the statutory reserve;
- verification that the statutory reserves meet the requirements of the insurance laws of the State of Connecticut and comply with SSAP’s (3, 5R, 25, 55, 50, and 54);
- review of claims unpaid and unpaid claim adjustment expenses for proper disclosure and compliance with the Manual and Instructions;
- perform an assessment of the Premium Deficiency Reserve calculation worksheet;
- review of the actuarial opinion and reserve reports as of December 31, 2013 and December 31, 2012, generated by Frederick Kilbourne, an independent consulting actuary, retained by VSP and appointed by the Board to render an opinion on the loss reserves and actuarial liabilities; and
- examination of the statutory financial statements and independent auditors reports as of December 31, 2013 and December 31, 2012.

Conclusion

Based on the procedures performed by the Department, no material concerns were noted regarding the reasonableness of the Company’s processes and controls for the identified actuarial reserve liabilities noted above.

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, 2013. 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) \$101,740,736

2013	101,740,736
2012	93,304,631
2011	78,523,152
2010	77,253,639
2009	53,178,162

The fluctuation in unassigned surplus during the examination period was attributed to steady earnings growth and paid stockholders dividends.

RECOMMENDATIONS

Page

6 Related Party Agreements

It is recommended that the Company implement procedures to ensure compliance with CGS §38a-136(b) (1).

11 Premiums

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 and report them in accordance with SSAP No. 6 of the Manual.

SUBSEQUENT EVENTS

On January 1, 2014, the Company was subject to an annual fee under Section 9010 of the Affordable Care Act.

On October 1, 2014, Vision Services Plan of Washington State and Vision Service Plan of Idaho, Inc. merged into Mid-Atlantic Vision Service Plan, Inc.

VISION SERVICE PLAN INSURANCE COMPANY

CONCLUSION

The results of this examination disclosed that as of December 31, 2013, the Company had admitted assets of \$205,885,104, liabilities of \$63,181,786, and surplus of \$142,703,318. During the period under examination, admitted assets increased \$27,578,467, liabilities decreased \$20,984,107, and surplus as regards policyholders increased \$48,562,574.

VISION SERVICE PLAN INSURANCE COMPANY

SIGNATURE

In addition to the undersigned, the following members of the Department participated in the examination: Keith Kleindienst, AFE; Mark Murphy, CFE; Susan Gozzo-Andrews, FCAS, MAAA, RPLU +; Kenneth Roulter, AFE, CISA, AES; Michael Daniels, CFE; and the professional service firm of Noble.

I, Wayne Shepherd, CFE, do solemnly swear that the foregoing report on examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2013, to the best of my information, knowledge and belief.

Respectfully submitted,

Wayne Shepherd

Wayne Shepherd, CFE
Examiner-In-Charge
State of Connecticut
Insurance Department

State of Connecticut

ss.

County of Hartford

Subscribed and sworn to before me, Patricia Butler
Notary Public on this 22nd day of December, 2014.

Patricia Butler

Notary Public

My commission expires September 30, 2018