

Report of Examination of

**Vision Service Plan**  
Columbus, Ohio

As of December 31, 2011

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Columbus, Ohio  
February 19, 2013

Honorable Mary Taylor  
Lt. Governor/Director  
State of Ohio  
Department of Insurance  
50 West Town Street  
3<sup>rd</sup> Floor – Suite 300  
Columbus, Ohio 43215

Dear Lt. Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

### **Vision Service Plan**

an Ohio domiciled, not-for-profit, non-stock health insuring corporation, hereinafter referred to as the “Company.”

### **Scope of Examination**

The Department last examined the Company as of December 31, 2006. The Department’s current examination covers the period of January 1, 2007 through December 31, 2011.

Representatives of the Missouri Department of Insurance, Financial Institutions and Professional Registration (“MO DIFP”), led the multi-state coordinated examination of certain affiliated companies that included representatives from the States of Alaska, Nevada, Ohio and Wisconsin. The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate 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’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For all years under examination, the Certified Public Accounting firm of PricewaterhouseCoopers LLP provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles. The audited financial reports were reviewed during the examination.

## **Management and Control**

### **Board of Directors**

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

<b>Name</b>	<b>Principal Occupation</b>
J. Robinson Lynch	President and Chief Executive Officer, Vision Service Plan (CA)
James M. McGrann	Vice President, Operations, Vision Service Plan (CA)
Donald J. Ball, Jr.	Chief Financial Officer, Vision Service Plan (CA)

### **Officers**

As of the examination date, the following officers were serving in the designated position:

<b>Name</b>	<b>Title</b>
J. Robinson Lynch	President
James M. McGrann	Secretary
Lester E. Passuello	Treasurer

### **Insurance Holding Company System**

The Company is a member of an insurance holding company system, as defined in ORC Section 3901.32, and is wholly-controlled by Vision Service Plan (CA), organized as a not-for-profit, non-stock corporation under the laws of the State of California, hereinafter referred to as "VSP (CA)." VSP (CA) is the ultimate controlling person in the holding company system.

VSP (CA) operates on a consolidated basis in all fifty states and the District of Columbia under the federally registered service mark "Vision Service Plan". VSP (CA) offers products and services to eyecare professionals, employers and members through companies providing comprehensive eyecare coverage, frame manufacturing and distribution, practice management solutions and optical lab services.

The Company entered into a promissory note on March 29, 2011 with VSP (CA). The \$14 million note receivable maturing in March 2016 requires VSP (CA) to pay the Company sixty equal monthly installments of principal and interest commencing in April 2011. The interest rate is 4.5%. As of year-end 2011, the outstanding balance of the loan was \$12.1 million which the Company reported as a non-admitted asset.

### **Territory and Plan of Operations**

The Company is licensed to transact business in Ohio under ORC 1751.01(c) and offers prepaid vision care plans that provide access to professional optometry services to eligible members of participating groups.

VSP (CA) provides services to the Company under the terms of an Administration and Marketing Agreement (“Agreement”), effective December 31, 2007, approved by the Department. Services provided by VSP (CA) include, but are not limited to: (a) premium collection; (b) payment of claims and other accounts payable; (c) records maintenance; and (d) preparation of financial statements. During 2011, the Company paid \$10.3 million to VSP (CA) for services performed under the Agreement.

### **Reinsurance**

The Company does not assume or cede reinsurance.

### **Financial Statements**

The Company’s financial condition and the results of its operations for the period under examination as reported and filed by the Company with the Department and audited by its external auditors, are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus

Statement of Revenue and Expenses

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus  
December 31, 2011**

**Assets**

Bonds	\$ 28,923,642
Preferred stocks	14,896
Common stocks	8,150,469
Real estate	3,037,429
Cash and short term investments	<u>9,090,072</u>
Subtotal, cash and invested assets	49,216,508
Investment income due and accrued	295,090
Uncollected premiums in course of collection	2,189,410
Amounts receivable relating to uninsured plans	3,064,130
Net deferred tax asset	1,294,942
Furniture and equipment	1,444,960
Other receivables	<u>407,314</u>
Total admitted assets	<u>\$ 57,912,354</u>

**Liabilities**

Claims unpaid	\$ 4,394,449
Unpaid claims adjustment expenses	46,761
Aggregate health policy reserves	1,494,061
Premiums received in advance	237,109
General expenses due or accrued	675,288
Current federal income taxes payable	3,194,700
Remittances and items not allocated	392,093
Amounts due to parent and affiliates	599,363
Payable for securities	7,395
Liability for amounts held under uninsured plans	732,333
Taxes, licenses and fees	<u>827,147</u>
Total liabilities	<u>12,600,699</u>

**Capital and Surplus**

Statutory reserve	500,000
Unassigned funds	<u>44,811,655</u>
Total capital and surplus	<u>45,311,655</u>
Total liabilities, capital and surplus	<u>\$ 57,912,354</u>

**Statement of Revenue and Expenses  
As of December 31, 2011**

Net premium income	\$ 81,906,039
Fee for service	1,855,467
Risk revenue	236,066
Lab revenue	<u>17,688,095</u>
Total revenues	<u>101,685,667</u>
Professional services	68,674,928
Claims adjustment expenses	606,522
General administrative expense	7,662,970
Increase in reserves	<u>(347,924)</u>
Total underwriting deductions	<u>76,596,496</u>
Net underwriting gain	<u>25,089,171</u>
Net investment income earned	1,178,507
Net realized capital gains	<u>435,168</u>
Net investment gains	<u>1,613,675</u>
Net gain (loss) from premium balances charged off	(16,911)
Lab expenses	<u>18,488,081</u>
Total other expense	<u>18,504,992</u>
Net income before federal income taxes	8,197,854
Federal income taxes incurred	<u>2,079,180</u>
Net income	<u>\$ 6,118,674</u>

**Statement of Changes in the Capital and Surplus Account**  
(in thousands)

Capital and surplus, December 31, 2007	<u>\$ 47,179</u>
Net income	21,141
Net unrealized capital gains (losses)	(316)
Change in net deferred income tax	33
Change in non-admitted assets	(14,142)
Dividends to parent company	(6,201)
Other gains (losses) in surplus	<u>(2,382)</u>
Net change in capital and surplus during the period	<u>(1,867)</u>
Capital and surplus, December 31, 2011	<u><u>\$ 45,312</u></u>

**Notes to Financial Statements**

**Investments**

The Company's investments were in compliance with ORC Section 3907.14 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

**Claims Unpaid**

The Company's Board of Directors appointed Frederick Kilbourne, FCAS, MAAA, an independent consulting actuary, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Kilbourne prepared an analysis supporting the Opinion in connection with the preparation of the Company's December 31, 2011 Annual Statement. Based on his analysis, Mr. Kilbourne concluded that the carried reserves make a reasonable provision for the Company's actuarial liabilities as of December 31, 2011.

The year-end reserves appear reasonable based on a review of claim payments made through the third quarter of 2012. Since vision claims are short tailed in nature, the risk of material adverse deviation is remote.

### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2011, and is summarized as follows:

Total Assets	<u>\$57,912,354</u>
Liabilities	\$12,600,699
Capital and Surplus	<u>45,311,655</u>
Total Liabilities, Capital and Surplus	<u>\$57,912,354</u>

### Subsequent Events

In December 2011, the Company requested approval from the Department to pay an extraordinary dividend of \$18.8 million to its parent, VSP (CA). The Department approved the transaction and the Company paid the dividend in the first quarter of 2012.

### Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the VSP (CA) and its affiliates during the course of this examination.

In addition to the undersigned, Zachary Wheatley, CPA, of the Department, participated in this examination.

Respectfully,

  
\_\_\_\_\_  
Jeffrey K. Ebert, CFE  
Assistant Chief Examiner  
Office of Risk Assessment  
Ohio Department of Insurance

**Verification**

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2011.

*[Signature]*  
Assistant Chief Examiner

3/20/13  
Date

State of Ohio  
County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 20 day of March 2013.

*Elizabeth Chase*  
(Notary Public)  
ELIZABETH CHASE  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 22, 2017  
My Commission Expires