

Report of Examination of

**Vision Service Plan**  
Columbus, Ohio

As of December 31, 2013

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Columbus, Ohio  
April 10, 2015

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 (“the 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, 2011. The Department’s current examination covers the period of January 1, 2012 through December 31, 2013.

Representatives of the Connecticut Insurance Department (“CID”) led the multi-state coordinated examination of certain affiliated companies that included representatives from the States of Idaho, Illinois, Indiana, Missouri, New York, 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 corporate governance, identify and assess current and prospective 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 the year 2012, the Certified Public Accounting firm of PricewaterhouseCoopers LLP (“PwC”) provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles. For the year 2013, the Certified Public Accounting firm of Deloitte & Touche, LLP (“D&T”) provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles. Representative of the Department reviewed the independent auditors’ reports and supporting work papers 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, VSP Global
James M. McGrann	President, VSP Vision Care
Donald J. Ball, Jr.	Chief Financial Officer, VSP Global

### 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 2013, the outstanding balance of the loan was \$6.7 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 2013, the Company paid \$11.7 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, 2013**

**Assets**

Bonds	\$ 14,619,105
Preferred stocks	29,463
Common stocks	13,454,582
Real estate	2,861,762
Cash and short term investments	16,329,607
Receivables for securities	<u>5,949</u>
Subtotal, cash and invested assets	47,300,468
Investment income due and accrued	113,832
Uncollected premiums in course of collection	1,850,712
Amounts receivable relating to uninsured plans	3,005,729
Furniture and equipment	755,371
Other receivables	<u>2,833,117</u>
Total admitted assets	<u>\$ 55,859,229</u>

**Liabilities**

Claims unpaid	\$ 4,450,427
Unpaid claims adjustment expenses	54,866
Premiums received in advance	356,583
General expenses due or accrued	3,450,847
Current federal income taxes payable	184,201
Deferred tax liability	250,837
Remittances and items not allocated	232,903
Amounts due to parent and affiliates	5,424,544
Payable for securities	9,426
Liability for amounts held under uninsured plans	593,066
Taxes, licenses and fees	<u>990,074</u>
Total liabilities	<u>15,997,774</u>

**Capital and Surplus**

Statutory reserve	500,000
Unassigned funds	<u>39,361,455</u>
Total capital and surplus	<u>39,861,455</u>
Total liabilities, capital and surplus	<u>\$ 55,859,229</u>

**Statement of Revenue and Expenses  
As of December 31, 2013**

Net premium income		\$ 90,534,630
Fee for service		2,419,158
Risk revenue		<u>138,340</u>
Total revenue		<u>93,092,128</u>
Professional services		72,422,560
Claims adjustment expenses		912,688
General administrative expense		<u>9,168,130</u>
Total underwriting deductions		<u>82,503,378</u>
Net underwriting gain		<u>10,588,750</u>
Net investment income earned		663,728
Net realized capital gains		<u>536,901</u>
Net investment gains		<u>1,200,629</u>
Net gain (loss) from premium balances charged off		(7,023)
Optical lab revenues	\$ 34,541,079	
Optical lab expenses	<u>(36,431,387)</u>	
Net gain (loss) from optical lab operations		<u>(1,890,308)</u>
Total other expense		<u>(1,897,331)</u>
Net income before federal income taxes		9,892,048
Federal income taxes incurred		<u>2,986,255</u>
Net income		<u>\$ 6,905,793</u>

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

Capital and surplus, December 31, 2011	<u>\$ 45,312</u>
Net income	11,128
Change in valuation basis of aggregate policy and claim reserves	1,508
Net unrealized capital gains (losses)	2,142
Change in net deferred income tax	2,253
Change in non-admitted assets	517
Dividends to parent company	(22,999)
Other gains (losses) in surplus	<u>0</u>
Net change in capital and surplus during the period	<u>(5,451)</u>
Capital and surplus, December 31, 2013	<u>\$ 39,861</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, 2013 Annual Statement.

Representatives from the Connecticut Department of Insurance evaluated the processes and controls used by VSP (CA) and its affiliates to establish a best estimate of the carried reserves. Based on the procedures performed, the carried reserves make a reasonable provision for the Company's actuarial liabilities as of December 31, 2013. 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, 2013, and is summarized as follows:

Total Assets	<u>\$55,859,229</u>
Liabilities	\$15,997,774
Capital and Surplus	<u>39,861,455</u>
Total Liabilities, Capital and Surplus	<u>\$55,859,229</u>

### Subsequent Events

On January 1, 2014, the Company was subject to an annual fee under Section 9010 of the Affordable Care Act. An expense for the fee of \$1,810,800 was booked by the Company in the first quarter of 2014.

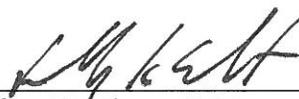
On November 10, 2014, the Company requested approval from the Department to dividend the Ohio optical laboratory assets from the Company to its parent, VSP (CA). The Department approved the transaction and the Company transferred the assets in the fourth quarter of 2014.

### 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, Michael Overmyer, CPA (inactive) of the Department, participated in this examination.

Respectfully,



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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, 2013.

Jeffrey K. Ebert  
Assistant Chief Examiner

4/10/15  
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 10 day of April, 2015.

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