

**EXAMINATION REPORT
of
VSP VISION CARE, INC.
Rancho Cordova, California
as of
December 31, 2018**

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of VSP Vision Care, Inc., as of December 31, 2018, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 19th day of June 2020

A handwritten signature in black ink, appearing to read 'Scott A. White', written over a horizontal line.

Scott A. White
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
June 10, 2020

Honorable Scott A. White
Commissioner of Insurance
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by the authority of Section § 38.2-1317 of the Code of Virginia, we have performed an examination of the financial condition, records and affairs of

VSP VISION CARE, INC.

Rancho Cordova, California

hereinafter referred to as the Corporation. The report thereon is submitted for your consideration.

SCOPE OF THE EXAMINATION

The last examination of the Corporation was made by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2017. The current examination covers the one year period from January 1, 2018 through December 31, 2018.

This examination was conducted in accordance with the NAIC Financial Condition Examiners' Handbook (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Corporation's financial condition, assess corporate governance, identify current and prospective risks of the Corporation and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

The coordinated examination of the Vision Service Plan Group, of which the Corporation is a member, was led by the Ohio Department of Insurance. The examination of the Corporation was conducted concurrently with the examination of the following insurers:

<u>Insurer</u>	<u>Domiciliary State</u>
Vision Service Plan of Illinois, NFP	Illinois
Vision Service Plan Insurance Company	Missouri
Eastern Vision Service Plan, Inc.	New York
Vision Service Plan	Ohio
Vision Service Plan Insurance Company	Ohio

All accounts and activities of the Corporation were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein.

The examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Corporation.

HISTORY

The Corporation was incorporated under the laws of Maryland in 1960 as Vision Care Services, Inc. The Corporation changed its name to Mid-Atlantic Vision Service Plan, Inc. in 1982. In March 1988, the Corporation executed an agreement with Vision Service Plan ("VSP") whereby VSP became the sole voting member of the Corporation. The Corporation was licensed in Virginia as an optometric service plan on December 13, 1996. The Corporation redomiciled from Maryland to Virginia effective May 31, 2002 as a non-agent nonstock corporation. Effective November 6, 2014, the Corporation changed its name from Mid-Atlantic Vision Service Plan to VSP Vision Care, Inc.

MANAGEMENT AND CONTROL

The bylaws of the Corporation provide that the Board of Directors (the "Board") shall control and manage the affairs and business of the Corporation. The Board shall consist of no less than twelve nor more than twenty directors. Directors shall be elected at an annual membership meeting and shall serve until his/her successor has been elected and qualified.

The officers of the Corporation shall be a President, who shall also be the Chairman of the Board, a Secretary, a Treasurer and such other officers as the Board may elect. Officers shall be elected at an annual Board meeting and shall serve until his/her successor

has been elected and qualified. Additional officers may be elected by the Board according to its needs.

At December 31, 2018, the Board and Officers were as follows:

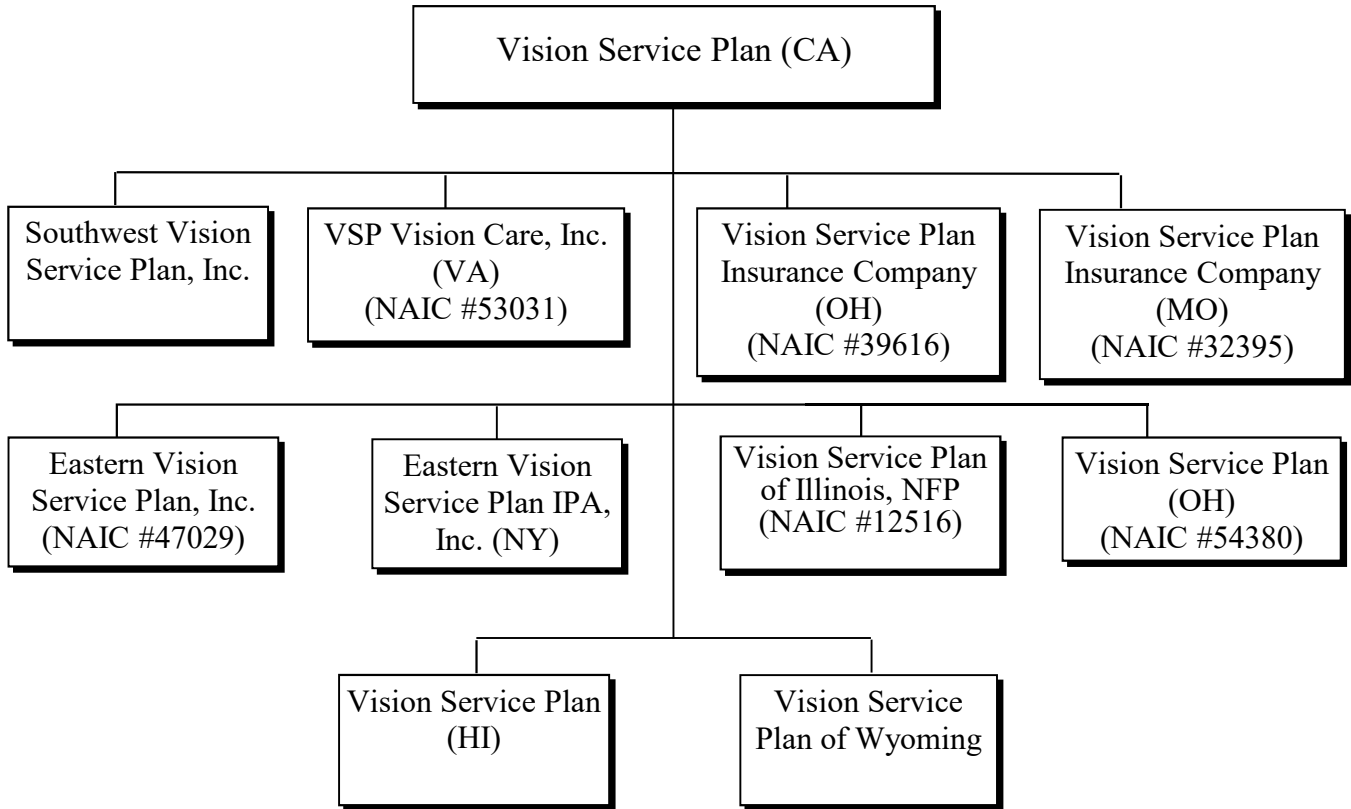
<u>Directors</u>	<u>Principal Occupation</u>
Robert L. Bass, O.D.	Doctor of Optometry Optometric Associates, P.C. Manassas, Virginia
Michael J. Guyette	President and Chief Executive Officer VSP Global, Inc. Rancho Cordova, California
Kate A. Renwick-Espinosa	President VSP Vision Care, Inc. Rancho Cordova, California

Officers

Kate A. Renwick-Espinosa	President
Michael J. Guyette	Secretary
Daniel J. Schauer	Treasurer

AFFILIATED COMPANIES

At December 31, 2018, the Corporation was wholly controlled by VSP. The chart on the following page illustrates the organizational structure of the Corporation and selected affiliated entities at December 31, 2018:



TRANSACTIONS WITH AFFILIATES

Administration and Marketing Agreement

Effective December 31, 2007, the Corporation entered into an Administration and Marketing Agreement with VSP. Under the terms of the agreement, VSP shall provide personnel for the normal operation of the Corporation, maintain accounts and records, prepare financial statements, pay all accounts payable and collect all accounts receivable. As compensation, the Corporation shall pay VSP a per-claim charge equal to the total general and administrative expenses of VSP divided by the total number of claims paid on behalf of all VSP vision plan subsidiaries. During 2018, the Corporation incurred \$40,019,423 in expenses related to this agreement.

Tax Sharing Agreement

Effective for the tax years beginning on and after January 1, 2008, the Corporation became a party to a tax sharing agreement with and among VSP and its affiliates. Pursuant to the agreement, the Corporation is included in the consolidated federal income tax return filed by VSP. The Corporation's federal income tax liability or refund is determined as if it was filing its own separate federal income tax return. If the Corporation's tax benefits (i.e. losses or credits) are used to reduce the consolidated federal tax liability, VSP will pay the Corporation the amount equal to the reduction in the consolidated federal income tax liability. If the Corporation's tax liabilities are used to increase the consolidated federal tax liability, the Corporation will pay VSP the amount equal to the increase in the consolidated federal income tax liability. Consolidated quarterly estimated taxes are paid by VSP and the Corporation's share is reimbursed to VSP within ten days of receiving notice. As soon as the consolidated federal income tax liability for the year is determined the Corporation makes or receives payments to or from VSP less amounts paid for estimated taxes.

Dividend

On August 24, 2018, the Bureau approved an extraordinary cash dividend of \$67,100,000 . The dividend was paid to VSP on September 19, 2018.

Investment in Subsidiary

The Corporation owns a 4.5% interest in VSP Optical Group, whose carrying value exceeds 10% of its admitted assets. The Corporation carries VSP Optical Group at a GAAP equity value of \$26,245,994. However, since stand-alone audits were not completed, the investment was nonadmitted at December 31, 2018 in accordance with SSAP No. 97. The investment was admitted in prior years when stand-alone audits were completed.

SPECIAL DEPOSIT

At December 31, 2018, the Corporation had a deposit with the State of Alaska in the amount of \$8,662,743. The deposit was a condition established by the Alaska Insurance Department as part of its approval of the merger of Alaska Vision Services, Inc. into the Corporation. Code of Virginia Section 38.2-1446 A prohibits an insurer from pledging, hypothecating, or otherwise encumbering more the 5% of its admitted assets. At December 31, 2018, the Corporation nonadmitted the entire balance of its deposit with Alaska to comply with Code of Virginia Section 38.2-1446 A.

TERRITORY AND PLAN OF OPERATION

The Corporation is licensed to issue contracts for future optometric services. Services are provided by optometric providers within the Corporation's service area which encompasses the entire states of Alaska, Idaho, Maryland, Nevada, Virginia and Washington. Contracts offered by the Corporation for vision services can be categorized into two general classes:

1. Prepaid Group Contracts. Group prepaid optometric contracts are written for a member fee usually fixed for a one-year period. These contracts require monthly payment of member fees based on the number of employees comprising the group. Underwriting risk to the Plan is involved under these contracts.
2. Administrative Services Contracts (ASC). Contracts provide for the processing and payment of optometric claims incurred by an ASC group. The Corporation is reimbursed for the claim payments as well as an administrative fee. There is no underwriting risk to the Corporation under these contracts.

GROWTH OF THE CORPORATION

The following data is representative of the growth of the Corporation for the ten-year period ending December 31, 2018. The data is compiled from the Corporation's filed Annual Statements, previous examination reports, and the current examination report.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital And Surplus</u>
2009	\$73,141,934	\$16,761,028	\$56,380,906
2010	67,235,912	13,037,059	54,198,853
2011	66,083,331	14,782,006	51,301,325
2012	80,566,377	11,245,916	69,320,461
2013	147,456,905	12,986,531	134,470,374
2014	190,043,046	15,914,347	174,128,699
2015	124,051,585	17,325,514	106,726,071
2016	105,971,173	21,270,624	84,700,549
2017	113,680,058	24,111,214	89,568,844
2018	49,258,856	26,586,576	22,672,280

<u>Year</u>	<u>Total Revenue</u>	<u>Net Investment Gains</u>	<u>Vision Expenses</u>	<u>Administrative Expenses</u>	<u>Pre-Tax Income (Loss)</u>
2009	\$52,748,601	\$26,347	\$41,162,048	\$4,824,001	\$6,788,899
2010	56,105,713	1,255,042	43,550,604	4,652,699	9,157,452
2011	58,122,676	1,863,732	45,804,194	5,746,941	8,435,273
2012	68,116,423	1,388,317	54,292,245	9,330,437	5,882,058
2013	81,242,545	1,669,503	64,040,124	8,944,262	9,927,662
2014	133,971,500	2,142,473	102,912,920	20,920,251	12,280,802
2015	147,451,192	4,102,618	109,092,249	26,193,292	16,268,269
2016	154,815,626	746,292	112,848,512	26,088,388	16,625,018
2017	170,104,415	1,716,366	122,420,806	26,321,470	23,078,505
2018	209,614,905	4,049,767	158,572,287	39,965,877	15,126,508

<u>Year</u>	<u>Members</u>
2009	857,041
2010	875,927
2011	870,308
2012	1,078,317
2013	1,957,504
2014	2,179,983
2015	2,194,339
2016	2,207,888
2017	2,527,966
2018	2,857,201

FINANCIAL STATEMENTS

The following statutory financial statements present the financial condition of the Corporation for the period ending December 31, 2018. No examination adjustments were made to the statutory financial statements filed by the Corporation with the Bureau for the period ending December 31, 2018.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$13,338,630	\$4,025,318	\$9,313,312
Common stocks	29,313,913	26,245,994	3,067,919
Cash, cash equivalents and short-term investments	19,552,744	4,637,425	14,915,319
Receivables for securities	119		119
	<hr/>	<hr/>	<hr/>
Subtotals, cash and invested assets	\$62,205,406	\$34,908,737	\$27,296,669
Investment income due and accrued	75,230		75,230
Uncollected premiums and agents' balances in the course of collection	7,645,376	1,358,423	6,286,953
Amounts receivable relating to uninsured plans	14,691,814	1,270,740	13,421,074
Net deferred tax asset	2,127,482	788,341	1,339,141
Receivables from parent, subsidiaries and affiliates	839,789		839,789
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$87,585,097</u>	<u>\$38,326,241</u>	<u>\$49,258,856</u>

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid	\$11,558,838
Unpaid claims adjustment expense	200,170
Premiums received in advance	2,234,922
General expenses due or accrued	2,024,845
Current federal income tax payable and interest thereon	2,658,799
Remittances and items not allocated	1,239,221
Amounts due to parent, subsidiaries and affiliates	4,024,107
Payable for securities	1,928
Liability for amounts held under uninsured plans	516,109
Aggregate write-ins for other liabilities	<u>2,127,637</u>
Total liabilities	<u>\$26,586,576</u>
Aggregate write-ins for other than surplus funds	\$4,000,000
Unassigned funds (surplus)	<u>18,672,280</u>
Total capital and surplus	<u>\$22,672,280</u>
Total liabilities, capital and surplus	<u><u>\$49,258,856</u></u>

STATEMENT OF REVENUE AND EXPENSES

Net premium income	\$200,333,257
Fee-for-service	8,566,725
Risk revenue	714,923
Total revenues	<u>\$209,614,905</u>
 Hospital and Medical:	
Other professional services	<u>\$158,572,287</u>
Subtotal	\$158,572,287
Claims adjustment expenses	3,191,067
General administrative expenses	36,586,900
Total underwriting deductions	<u>\$198,350,254</u>
Net underwriting gain	<u>\$11,264,651</u>
Net investment income earned	\$1,036,713
Net realized capital gains	3,013,054
Net investment gains	<u>\$4,049,767</u>
Net loss from agents' or premium balances charged off	<u>(\$187,910)</u>
Net income before federal income taxes	\$15,126,508
Federal income taxes incurred	3,181,482
Net income	<u><u>\$11,945,026</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2018</u>
Capital and surplus prior reporting year	<u>\$89,568,844</u>
Net income	\$11,945,026
Change in net unrealized capital gains and (losses) less capital gains tax	(1,979,313)
Change in net deferred tax income	(33,199)
Change in nonadmitted assets	(9,729,078)
Dividends to stockholders	<u>(67,100,000)</u>
Net change in capital and surplus	<u>(\$66,896,564)</u>
Capital and surplus end of reporting year	<u><u>\$22,672,280</u></u>

CASH FLOW**CASH FROM OPERATIONS**

Premiums collected net of reinsurance	\$200,026,576
Net investment income	1,252,368
Miscellaneous income	9,281,648
Total	<u>\$210,560,592</u>
Benefit and loss related payments	\$155,637,292
Commissions, expenses paid and aggregate write-ins for deductions	40,400,014
Federal income taxes paid	6,048,121
Total	<u>\$202,085,427</u>
Net cash from operations	<u>\$8,475,164</u>

CASH FROM INVESTMENTS

Proceeds from investments sold, matured or repaid:	
Bonds	\$31,359,562
Stocks	26,026,925
Miscellaneous proceeds	22,141
Total investment proceeds	<u>\$57,408,628</u>
Cost of investments acquired (long-term only):	
Bonds	\$244,083
Stocks	9,492,355
Miscellaneous applications	10,232
Total investment acquired	<u>\$9,746,670</u>
Net cash from investments	<u>\$47,661,958</u>

CASH FROM FINANCING AND MISCELLANEOUS SOURCES

Cash provided (applied):	
Dividends to stockholders	(\$67,100,000)
Other cash provided	563,661
Net cash from financing and miscellaneous sources	<u>(\$66,536,339)</u>

RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Net change in cash, cash equivalents and short-term investments	(\$10,399,217)
Cash and short-term investments:	
Beginning of the year	<u>29,951,961</u>
End of the year	<u>\$19,552,744</u>

RECOMMENDATION FOR CORRECTIVE ACTION

Management and Control

1. The Corporation's bylaws state that the Board shall consist of no less than twelve nor more than twenty directors. Additionally, Section 38.2-4508 of the Code of Virginia states that the number of directors shall not be less than twelve nor more than twenty and that a majority of these directors shall be participating optometrists. At December 31, 2018, there were only three directors on the Board in violation of the Corporation's bylaws and Section 38.2-4508. During the examination, this was brought to the attention of the Corporation and, effective December 12, 2019, twelve directors, including seven participating optometrists, were elected to the Board.

SUBSEQUENT EVENT

On March 11, 2020, the World Health Organization declared the spreading coronavirus (COVID-19) outbreak a pandemic. On March 13, 2020, President Donald J. Trump declared COVID-19 a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the global supply chain as well as the demand for labor, products and services in the U.S. The economic disruptions caused by COVID-19 and the increased uncertainty about its magnitude has also caused extreme volatility in the financial markets. While the full effect of COVID-19 is still unknown at the time of this report, the Bureau and all insurance regulators, with the assistance of the NAIC, are monitoring the situation through a coordinated effort and will continue to assess the impacts of COVID-19 on U.S. insurers.

ACKNOWLEDGEMENT

The courteous cooperation extended by the Corporation's officers and employees during the course of the examination is gratefully acknowledged. In addition to the undersigned, Gerald Hicks II, Kevin Knight, CFE, and Ben MacKercher, AFE, participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Kenneth G. Campbell". The signature is written in a cursive style with a large initial 'K' and a distinct 'G'.

Kenneth G. Campbell, CFE
Assistant Chief Examiner



June 18, 2020

David H. Smith, CFE, CPA, CPCU
Chief Examiner
Bureau of Insurance
State Corporation Commission
PO Box 1157
Richmond, VA 23218

Re: VSP Vision Care, Inc.
Examination as of December 31, 2018

Dear Mr. Smith,

We have received the Report of the Examination for VSP Vision Care, Inc., (the "Plan") and accept the report as written without any modifications or corrections.

We thank the Department for the professionalism and courtesy with which the examination was conducted.

Cordially,

A handwritten signature in black ink, appearing to read "Michael J. Guyette".

Michael J. Guyette
President and Chief Executive Officer
Vision Service Plan