



COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE
MASSACHUSETTS VISION SERVICE PLAN, INC.

Rancho Cordova, CA

As of December 31, 2012

NAIC GROUP CODE 1189

NAIC COMPANY CODE 47093

EMPLOYER'S ID NO. 04-2718308

MASSACHUSETTS VISION SERVICE PLAN, INC.

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COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation

DIVISION OF INSURANCE

1000 Washington Street, Suite 810 • Boston, MA 02118-6200

(617) 521-7794 • Toll-free (877) 563-4467

<http://www.mass.gov/doi>

DEVAL L. PATRICK
GOVERNOR

GREGORY BIALECKI
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

BARBARA ANTHONY
UNDERSECRETARY OF CONSUMER AFFAIRS
AND BUSINESS REGULATION

JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

Date: May 21, 2014

Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 176F, Section 9, an examination has been made of the financial condition and affairs of the

MASSACHUSETTS VISION SERVICE PLAN, INC.

at its home office located at 3333 Quality Drive, Rancho Cordova, California 95670. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Massachusetts Vision Service Plan, Incorporated (“Company” or “MAVSP”) was last examined as of December 31, 2009 by the Massachusetts Division of Insurance (“Division”). The current examination was also conducted by the Division and covers the three-year period from January 1, 2010 through December 31, 2012, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners (“NAIC”) Financial Condition (E) Committee, and prescribed by current *NAIC Financial Condition Examiners 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 and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principals 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.

In addition to a review of the financial condition of the Company, the examination included a review of the Company’s business policies and practices, corporate records, conflict of interest disclosure statements, fidelity bonds and other insurance, disaster recovery plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

The Company was audited annually by PricewaterhouseCoopers LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2010 through 2012. A review and use of the Certified Public Accountants’ work papers were made to the extent deemed appropriate and effective. The Company also retained the services of an independent actuarial firm, The Kilbourne Company, to review the Company’s loss reserves and actuarial liabilities. An unqualified opinion was rendered by the Kilbourne Company for the period ending December 31 for the calendar years 2010 through 2012. The Division reviewed the adequacy and effectiveness of the IT systems controls to determine the level of reliance to be placed on the information generated by the data processing systems.

SUMMARY OF SIGNIFICANT FINDINGS

For a summary of findings contained in this report, refer to the “Summary of Recommendations” section on page 16. There were no recommendations as a result of the previous examination.

SUBSEQUENT EVENTS

The Company received notification from the Massachusetts Department of Revenue on June 6, 2013 that it had failed to file the appropriate tax return for the tax periods ending 2001 through 2012. The Company has responded to this notice by informing the Department of Revenue that the Company is an Optometric Service Corporation licensed under Chapter 176F of the Massachusetts General Laws ("M.G.L."). The Company believes that optometric service corporations organized under M.G.L., Chapter 176F are exempt from the annual assessments asserted by the Department of Revenue. Regardless, the Company calculated the estimated excise tax based on written premium, associated interest due, and the non-filing fee as of December 31, 2013 for tax years 2006 and later. The total of these three calculations amounted to \$4,168,657, which the Company accrued for and charged against 2013 income. The Company did not calculate any amounts due for tax years 2001 through 2005 based on its interpretation of a seven year look back period for non-filers. The Company did not calculate any amount for the applicable penalty associated with late filing.

COMPANY HISTORY

General

MAVSP was founded by Vision Service Plan ("VSP"), a California non-stock, not-for-profit organization. The Company was incorporated on December 31, 1980, under the laws of the Commonwealth of Massachusetts and commenced business on January 20, 1981. The purpose of the Company, as amended September 29, 1993, is to foster the conservation of human eyesight by making available a highly specialized vision service plan for the aid, comfort and relief of human vision problems, and to provide a prepayment plan whereby individuals or groups may obtain vision services from licensed and qualified health service doctors.

Effective February 16, 2004, per its amended bylaws, the Company shall operate as a not-for-profit corporation and shall be organized and operated exclusively for the promotion of social welfare within the meaning of Section 501 (c) (4) of the Internal Revenue Code of 1986, as amended, or any successor provision. The Company shall maintain and operate a voluntary non-profit vision care plan to provide subscribers under contract care to certain eye care; to provide eye care to medically underserved persons, whether or not subscribers to such plan; to provide public education regarding vision and vision care; to perform such services in a manner that benefits the community; and to engage in any and all lawful activities necessary and incidental thereto.

CORPORATE RECORDS

Board of Directors Minutes

The minutes of the meetings of the Board of Directors for the period under examination were read. The Board met once per year during the period covered by this examination and the

minutes indicated that a quorum was present and each meeting was held in accordance with the Company's bylaws and the Laws of the Commonwealth of Massachusetts.

Bylaws and Purpose Declaration

The Company has not changed or amended its bylaws or stated purpose during the period covered by this examination. The bylaws and Purpose Declaration were read and reviewed.

Conflict of Interest Procedures

The Company has a policy pertaining to conflict of interest. In support of its answer to Question 14 of Part 1 Common Interrogatories of the annual statement, the Company has an established procedure for the disclosure to the Board of Directors of any material interest or affiliation on the part of any officer or director or responsible employee which is in or is likely to conflict with his/her official duties. Annual acknowledgement of the policy is required to be signed by each employee.

Disaster Recovery and Business Continuity

The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with M.G.L., Chapter 175, Sections 180M-180Q.

MANAGEMENT AND CONTROL

MAVSP is a wholly owned subsidiary of VSP. No assets have been transferred to or from the Company to a related party and there are no guarantees or undertakings in place between the Company and any related party. VSP provides the Company with data processing, employee related services and other administrative services for an agreed upon fee under the Administrative and Marketing Agreement. The sole voting member of the Company is VSP. The annual meeting of the Member of the Company shall be held at the office of the Company or at such other time and place as the Member may determine, or to which any annual meeting may adjourn.

Board of Directors

According to the bylaws, the Company shall be managed by a Board of Directors which shall have general charge of the business and affairs of the Company and general supervision over the officers of the Company, and shall have the powers and duties prescribed both in accordance with the law and the Articles of Incorporation.

A majority of the Directors shall at all times be persons approved in writing by an optometric society incorporated in the Commonwealth of Massachusetts for not less than five years and having not less than 400 registered optometrist as members. Not less than one-third of the Directors shall be persons who are or agree to become subscribers to the non-profit optometric

service plan of the Company. Directors shall be appointed and duly qualified by the Member at the annual meeting of the Member.

In accordance with Article III, Section 4 of the bylaws, the Directors shall be classified in respect to the time for which they shall severally hold office, by dividing them into three classes. There shall be one Director in the first class, to be elected for a term of one year. There shall be one Director in the second class, to be elected for a term of two years. There shall be one Director in the third class, to be elected for a term of three years. As each Director's term to which he or she was elected expires, his or her successor shall be elected to serve a term of years and until his or her successor is elected and qualified.

Section 6 of Article III states the Board of Directors shall review and approve annual financial statements of the Corporation filed with the Commissioner. At December 31, 2012, the Board was composed of three directors.

<u>Name of Director</u>	<u>Title</u>
James R. Lynch	President and Chief Executive Officer, Vision Service Plan
James M. McGrann	President, VSP Vision Care
Roger McCarthy, O.D.	Optometrist

Section 6 of Article III of the bylaws state the Board of Directors shall review and approve annual financial statements of the Corporation filed with the Commissioner.

Committees of the Board of Directors

The Company's management structure does not include any committees of the Board specific to MAVSP. However the Board of Directors of the Company's immediate parent, VSP does in-fact have numerous standing committees that function in a corporate-wide capacity and impact the overall operations of the Company. The committee structure of VSP includes the following: Audit Committee, Business Committee, Compensation Committee, Enterprise Integration Committee, Finance Committee, Governance Committee, National Professional Committee, Patient and Provider Committee, and Public Policy Committee.

Officers

Article IV of the bylaws state that the officers of the Company shall consist of a Chairman, a President, a Treasurer and a Secretary, and such other officers as the Board of Directors may elect. The Chairman shall preside at all meetings of the Member and the Board of Directors. The President shall be the Chief Executive Officer of the Company.

The Company's senior officers and their respective titles at December 31, 2012 were as follows:

<u>Name of Officer</u>	<u>Title</u>
James R. Lynch	Chairman, President

Massachusetts Vision Service Plan, Inc.

James M. McGrann
Lester E. Passuello

Secretary
Treasurer, Chief Financial Officer

Affiliated Companies

The Company is a member of the VSP group of non-stock, not-for-profit corporations controlled by the Board of Directors of VSP, also a non-stock, not-for-profit corporation domiciled and headquartered in the State of California. In addition to the vision care business, VSP owns operating units that include an eyewear division and optics group specializing in ophthalmic lens products, and a software business serving the optometrist community.

Organization Chart

The following is an abbreviated listing of affiliated companies under VSP ownership that does not include entities owned under Marchon Eyewear, Inc.

Vision Service Plan (CA)

- Alaska Vision Services, Inc.
- Vision Service Plan (HI)
- Vision Service Plan of Idaho, Inc.
- Vision Service Plan of Illinois, NFP
- Indiana Vision Services, Inc.
- Massachusetts Vision Service Plan, Inc.**
- Vision Service Plan, Inc. (NV)
- New Hampshire Vision Service Corporation
- Eastern Service Plan, IPA, Inc. (NY)
- Vision Service Plan (OH)
- Vision Service Plan, Inc. Oklahoma
- Southwest Vision Service Plan, Inc. (TX)
- Mid-Atlantic Vision Service Plan, Inc. (VA)
- Vision Service Plan (WA)
- Wisconsin Vision Service Plan, Inc.
- Vision Service Plan of Wyoming
- Eastern Vision Service Plan, Inc. (NY)
- VSP Optical Group, Inc.
 - Plexus Optix, Inc.
 - VSP Labs, Inc.
 - VSP Ceres, Inc.
 - Eyeconic, Inc.
- VSP Global, Inc.
 - VSP Vision Care – UK, Ltd.
- VSP Global Inc, (Australian Branch)
- VSP Canada Vision Care Insurance
- VSP Vision Care Association (Canada)
- Vision Service Plan Insurance Company (CT)
 - Eyefinity, Inc.
 - Eyefinity OfficeMate Pty, Ltd. (Australia)
 - Monkey Software Pty, Ltd. (Australia)
 - Eyefinity Europe
 - VSP Holding Company, Inc.
 - Vision Service Plan Insurance Company (MO)
 - Altair Eyewear, Inc.
 - Marchon Eyewear, Inc.

Transactions and Agreements with Subsidiaries and Affiliates

Administrative and Marketing Agreement

The Administrative and Marketing Agreement was entered as of March 7, 2001, by and between the Company and VSP. The terms and conditions of this agreement are summarized in the following for the purpose of this examination:

- VSP currently operates the largest vision service plan in the United States and has significant expertise in all areas of prepaid vision care.
- MAVSP currently operates a vision care plan engaged in providing vision care services in the Commonwealth of Massachusetts.
- VSP is the sole voting member of MAVSP and MAVSP is a wholly owned subsidiary of VSP.
- The Board of Directors of MAVSP approved the affiliation between MAVSP and VSP.
- VSP and MAVSP desire to affiliate to permit national marketing on behalf of VSP and MAVSP, and MAVSP desire to have VSP provide administrative and marketing services to MAVSP.
- Expenses and consideration settlement statements are rendered at least quarterly, and balances are settled within ninety days.
- This agreement may be terminated without cause by either party upon sixty days prior written notice.
- This agreement shall be governed by the internal Laws of the Commonwealth of Massachusetts.

Federal Income Tax Sharing Agreement

The Company and other affiliates file a consolidated federal income tax return with Vision Service Plan (CA) and are subject to a written tax sharing agreement whereby the method of allocation is made on a separate return basis as though the Company filed a separate federal income tax return.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer, consistent with M.G.L., Chapter 175, Section 60. The aggregate limit of liability exceeds the NAIC suggested minimum.

The Company has further protected its interests and property by policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts, and policies were in force as of December 31, 2012.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company does not have any employees and as such does not sponsor any employee benefit plans. Similarly, the Company is a non stock not-for profit organization owned by a non stock not-for profit corporation and there is no issued stock to facilitate a stock ownership plan. As a

member of VSP group of companies, the Company shares in the employee benefit expenses incurred by its parent to provide certain benefits to employees of VSP. Employees of VSP have access to various employee benefits include health, life, dental, vision, and disability insurance, health savings accounts, 401(k) retirement plan, as numerous other employee related benefits.

TERRITORY AND PLAN OF OPERATION

The Company is only licensed to write business in Massachusetts. The Company operates as an Optometric Service Corporation operating a vision care plan engaged in providing vision care services in Massachusetts. In accordance with the Administrative and Marketing Agreement entered by and between the Company and its parent, VSP, the Company and VSP desire to affiliate to permit national marketing on behalf of the Company and VSP, and VSP provides administrative and marketing services to the Company.

As of December 31, 2012, there were 354,599 vision members in Massachusetts. During the three-year examination period, total enrolled members have increased approximately 28% from 277,223 at December 31, 2009.

Policy Forms and Underwriting Practices

The Company primarily markets group policies through a combination of an inside sales force and independent brokers. Pricing standards are based on the size of the group. In addition to issuing policies whereby the Company bears the underwriting risk associated with the policy, the Company also sells administrative services only plans, whereby no underwriting risk is retained, but rather a "credit risk" associated with collecting receivables under administrative service only contracts.

Treatment of Policyholders

Claims Settlement Practices

All claims are adjudicated in the Company's home office. The Company processes two types of claims based on the doctor's affiliation either as an in-network doctor or an out-of-network doctor. The claim process starts with the authorization of service after which claims are submitted for reimbursement. Approximately 98% of claims are received electronically from in-network doctors. Out-of-network claims are typically received via postal mail, sorted, imaged, and uploaded to VSP's claims processing system. In-network claims checks are issued 2 or 3 times per month, while out-of-network claim checks are issued nightly and mailed the next day to members. Total settlement time from out-of-network claims received via postal mail averages approximately 5 days.

GROWTH OF COMPANY

The growth of the Company for the years 2009 through 2012 is shown in the following schedule, which was prepared from the Company's annual statements.

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Direct and Net Premiums Written</u>
2012	\$28,370,174	\$3,819,495	\$24,550,679	\$23,735,666
2011	24,330,491	3,377,366	20,953,125	22,075,861
2010	20,802,649	2,476,586	18,326,063	20,390,585

REINSURANCE

The Company does not have in place reinsurance agreements of any kind, ceded or assumed, either affiliated or external.

ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires and through transaction testing and a review of the work performed by the Company's independent Certified Public Accountants. No material deficiencies were noted.

The NAIC provides a questionnaire covering the evaluation of the controls in the IT environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the IT controls. In addition to the questionnaire, interviews with Company staff were conducted to gather supplemental information and corroborate the Company's response to the questionnaire. A review was also made of the documentation supporting Management and Organizational Controls, Application Systems Development and Maintenance Controls, Operating and Processing Controls. Logical and Physical Security Controls, Contingency Planning Controls, Personal Computer, Local Area Network, Wide Area Network and Internet Controls. No material deficiencies were noted.

The Company maintains its accounts and records on an electronic data processing basis. All entries are input to this data processing system, which then generates general ledger and supporting reports as well as other reports common to the insurance industry. No material deficiencies were noted.

The books and records of the Company are audited annually by PricewaterhouseCoopers LLP, independent Certified Public Accountants, in accordance with 211 CMR 26.

STATUTORY DEPOSITS

The Company's statutory deposits as of December 31, 2012 are as follows:

<u>Description of Deposits</u>	<u>Purpose of Deposit</u>	<u>Book Value</u>	<u>Fair Value</u>
Certificate of Deposit, 0.80%	Massachusetts – Benefit of All Policyholders	<u>\$81,677</u>	<u>\$81,677</u>
		<u>\$81,677</u>	<u>\$81,677</u>

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division and the NAIC as of December 31, 2012:

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2012

Statement of Revenues, Expenses, Capital and Surplus for the Year Ended December 31, 2012

Reconciliation of Capital and Surplus for Each Year in the Three-Year Period Ended December 31, 2012

Massachusetts Vision Service Plan, Inc.

**Statement of Assets, Liabilities, Capital and Surplus
as of December 31, 2012**

	As Reported by the Company	Examination Changes	Per Statutory Examination
Assets			
Bonds	\$6,919,195	\$0	\$6,919,195
Common Stock	5,187,555		5,187,555
Cash on hand and on deposit	13,674,326		13,674,326
Receivables for securities	11,199		11,199
Subtotals, cash and invested assets	25,792,275	0	25,792,275
Investment income due and accrued	51,575		51,575
Premiums and considerations:			
Uncollected premiums and agents' balances	745,561		745,561
Amounts receivable related to uninsured plans	1,780,763		1,780,763
Total Assets	28,370,174	0	28,370,174
Liabilities, Surplus and Other Funds			
Claims unpaid	1,294,708	0	1,294,708
Unpaid claim adjustment expense	15,535		15,535
Premiums received in advance	28,648		28,648
General expense due or accrued	72,639		72,639
Current federal income tax payable	1,314,204		1,314,204
Net deferred tax liability	226,447		226,447
Remittances and items not allocated	109,532		109,532
Amounts due parent, subsidiaries and affiliates	573,556		573,556
Payable for securities	15,910		15,910
Liability for amounts held under uninsured plans	142,742		142,742
Aggregate write-ins for other liabilities	25,574		25,574
Total Liabilities	3,819,495	0	3,819,495
Aggregate write-ins for other than special surplus funds	50,000		50,000
Unassigned funds (surplus)	24,500,679		24,500,679
Total capital and surplus	24,550,679		24,550,679
Total liabilities, capital and surplus	\$28,370,174	\$0	\$28,370,174

Massachusetts Vision Service Plan, Inc.

**Statement of Revenue, Expenses, Capital and Surplus
For the Year Ended December 31, 2012**

	Per Company	Examination Changes	Per Examination
Member months	4,156,615		4,156,615
Net premium income	\$23,735,666	\$0	\$23,735,666
Fee-for-service	1,051,092		1,051,092
Total revenue	24,786,758	0	24,786,758
Less:			
Other professional services	18,119,312		18,119,312
Claims adjustment expense	205,408		205,408
General administrative expenses	1,987,093		1,987,093
Increase in reserves for life and A&H contracts	(175,263)		(175,263)
Total underwriting deductions	20,136,550	0	20,136,550
Net underwriting gains or (losses)	4,650,208	0	4,650,208
Net investment income earned	218,690		218,690
Net realized capital gains or (losses)	50,964		50,964
Net investment gains or (losses)	269,654	0	269,654
Net gain or (loss) from agents' or premium balances charged off	(2,138)	0	(2,138)
Net income or (loss) after capital gains tax and before all other federal income taxes	4,917,724		4,917,724
Federal income taxes incurred	1,561,837		1,561,837
Net Income	3,355,887	0	3,355,887
Capital and Surplus Account			
Capital and surplus prior reporting period	20,953,125	0	20,953,125
Net income	3,355,887		3,355,887
Change in net unrealized capital gains or (losses)	370,445		370,445
Change in net deferred income tax	(91,965)		(91,965)
Change in nonadmitted assets	(36,813)		(36,813)
Net change in capital and surplus	3,597,554	0	3,597,554
Capital and surplus end of reporting period	\$24,550,679	\$0	\$24,550,679

Reconciliation of Capital and Surplus
For Each Year in the Three Year Period Ended December 31, 2012

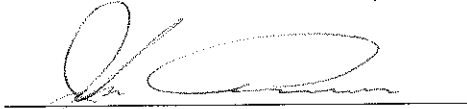
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Capital and surplus prior reporting period	<u>\$20,953,125</u>	<u>\$18,326,063</u>	<u>\$15,027,311</u>
Net income (loss)	3,355,887	2,928,854	2,944,255
Change in net unrealized capital gains or (losses)	370,445	(297,225)	330,147
Change in net deferred income taxes	(91,965)	(23,702)	16,420
Change in nonadmitted assets	<u>(36,813)</u>	<u>19,135</u>	<u>7,930</u>
Net change in capital and surplus	<u>3,597,554</u>	<u>2,627,062</u>	<u>3,298,752</u>
Capital and surplus end of reporting period	<u><u>\$24,550,679</u></u>	<u><u>\$20,953,125</u></u>	<u><u>\$18,326,063</u></u>

SUMMARY OF RECOMMENDATIONS

1. The Company submitted for approval amended bylaws, specifically amending Article III, Section 6 to state that the Board of Directors shall review and approve annual financial statements of the Company filed with the Massachusetts Commissioner of Insurance. We note that the Board historically meets only once per year and although the Board does vote to approve the financial statements, the meeting is held in December of each year which is typically nine months after the financial statements have been filed, essentially rendering the approval meaningless. We therefore recommend the Board meet earlier in the year to review and approve the financial statements prior to being filed with the Commissioner.

ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

A handwritten signature in dark ink, appearing to read "John M. Curran", is written over a horizontal line.

John M. Curran, CFE
Supervising Examiner
Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance