



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, 2015

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

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GARY D. ANDERSON
ACTING COMMISSIONER OF INSURANCE

May 25, 2017

The Honorable Gary D. Anderson
Acting 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, Inc. ("Company" or "MAVSP") was last examined as of December 31, 2012 by the Massachusetts Division of Insurance ("Division"). The current single state examination was also conducted by the Division and covers the three-year period from January 1, 2013 through December 31, 2015, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this 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 the current *NAIC Financial Condition Examiners Handbook*, the examination standards of the Division and with Massachusetts General Laws. 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.

All accounts and activities of the Company 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. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact as mentioned in Massachusetts General Laws, Chapter 176F, Section 9 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 Company.

The Company was audited annually by Deloitte & Touche LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2013 through 2015. 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 periods ending December 31 for the calendar years 2013 through 2015.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings as a result of this examination.

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 nonprofit vision care plan to provide care to subscribers to such plan under contracts which entitled the subscribers 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.

As of the examination date, the Company was one of 13 separate legal entities providing vision care coverage throughout the United States. The overall vision care segment has been streamlining its regulatory operations by consolidating numerous single state insurers into other entities. During 2014 and 2015, six entities were merged into other existing entities domiciled in Connecticut and Virginia.

Stockholder Dividends

On June 5, 2015, the Board of Directors voted to declare an extraordinary dividend in the amount of \$15,000,000 to its parent, VSP. The Company submitted notification to the Division in accordance with applicable provisions of Massachusetts General Law Chapter 175, Section 206C and the Division approved payment of said extraordinary dividend.

MANAGEMENT AND CONTROL

The Company is a wholly owned subsidiary of VSP, and VSP is the sole voting member of the Company. The Company is part of the VSP Insurance Group or Vision Care Segment, one of five complementary lines of business of VSP Global. The Company adheres to corporate governance policies and procedures established by the VSP Board of Directors and senior management leadership. The corporate governance structure at the VSP level includes numerous board committees including an independent audit committee and governance committee. The Company is also subject to the corporate ethics and compliance guidelines of the group. Enterprise Risk

Massachusetts Vision Service Plan, Inc.

Management is structured at the VSP Global level and attempts to identify, assess, and mitigate all risks throughout the entire organization, including those specific to the vision care segment.

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 optometrists 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.

Directors of the Company as of December 31, 2015 were as follows:

<u>Director</u>	<u>Title</u>
Kate A. Renwick-Espinosa	President, VSP Vision Care
James M. McGrann	President and Chief Executive Officer, VSP Global
John J. Grant, O.D.	Optometrist

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, 2015 were as follows:

<u>Officer</u>	<u>Title</u>
Kate A. Renwick-Espinosa	Chairman, President and Chief Executive Officer
James M. McGrann	Secretary
Lester E. Passuello	Treasurer and 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. The Company is a member of the vision care business unit of VSP Global, one of five complementary lines of business that also include eyewear, optical

laboratories, software solutions used in doctor's offices, and Omni-channel Solutions that include ecommerce and other benefit delivery strategies.

One affiliate, Vision Service Plan Insurance Company, domiciled in Connecticut meets the single company requirement under the NAIC Risk Management and Own Risk Solvency Assessment ("ORSA") Model Act for gross premiums written greater than \$500 million. On a combined basis all VSP domestic insurance companies regulated by their respective state of domicile insurance departments exceed the group gross premium written of \$1 billion. As such, VSP submitted and filed its first ORSA report with the Connecticut Insurance Department as the lead state in December 2015.

The Company has one subsidiary investment, owning 3.1% of the total voting and non-voting shares of VSP Optical Group, Inc., while 72.6% is owned by VSP and the remaining shares are owned by other subsidiaries of VSP. The Company made an initial investment in VSP Optical Group, Inc. of \$10 million in 2013 and as of the examination date, the reported carrying value of this investment in accordance with SSAP No. 97 was \$7.9 million.

Company Organization

As part to the VSP organization the Company has a number of affiliates, some of which are insurance entities and many of which are focused on the eye care industry in support of the overall mission of VSP. Many of these affiliates are located outside the United States.

The following is an abbreviated listing of affiliated companies under VSP ownership. The list only includes U.S. insurance entities and does not include other affiliates that make up the other four complimentary business segments of VSP.

Vision Service Plan (CA)

Eastern Vision Service Plan, Inc. (NY)
Eastern Vision Service Plan, IPA, Inc. (NY)
Massachusetts Vision Service Plan, Inc.
New Hampshire Vision Services Corporation
Southwest Vision Service Plan, Inc. (TX)
Vision Service Plan (HI)
Vision Service Plan (OH)
Vision Service Plan Insurance Company (CT)
Vision Service Plan Insurance Company (MO)
Vision Service Plan of Illinois, NFP
Vision Service Plan, Inc., Oklahoma
Vision Service Plan of Wyoming
VSP Vision Care, Inc. (VA)

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:

- 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.

Federal Income Tax Sharing Agreement

The Company and other affiliates file a consolidated federal income tax return with VSP and are subject to a written tax sharing agreement approved by the Board of Directors, whereby allocation is made primarily on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated tax return. Intercompany tax balances are settled monthly.

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, 2015, there were 474,118 vision care members in Massachusetts. During the three-year examination period, total enrolled members have increased approximately 23.3% from 384,608 at December 31, 2013.

REINSURANCE

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

FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2015. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2015

Statement of Revenues and Expenses for the Year Ended December 31, 2015

Reconciliation of Capital and Surplus for Each Year in the Three-Year Period Ended December 31, 2015

**Statement of Assets, Liabilities, Capital and Surplus
as of December 31, 2015**

	<u>Per Annual Statement</u>
Assets	
Bonds	\$1,750,000
Common stock	9,904,408
Cash, cash equivalents, and short-term investments	<u>3,173,580</u>
Subtotals, cash and invested assets	14,827,988
Investment income due and accrued	11,124
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	1,268,763
Amounts receivable related to uninsured plans	1,882,940
 Total Assets	 <u><u>\$17,990,815</u></u>
 Liabilities, Capital and Surplus	
Claims unpaid	\$1,803,676
Unpaid claim adjustment expenses	24,415
Premiums received in advance	174,467
General expenses due or accrued	76,351
Current federal income tax payable	539,009
Net deferred tax liability	18,054
Remittances and items not allocated	304,345
Amounts due to parent, subsidiaries and affiliates	837,228
Payable for securities	8,413
Liability for amounts held under uninsured plans	134,560
Aggregate write-ins for other liabilities	<u>95,091</u>
Total Liabilities	4,015,609
Aggregate write-ins for special surplus funds	579,294
Aggregate write-ins for other than special surplus funds	50,000
Unassigned funds (surplus)	<u>13,345,912</u>
 Total capital and surplus	 <u>13,975,206</u>
 Total liabilities, capital and surplus	 <u><u>\$17,990,815</u></u>

**Statement of Revenue and Expenses
For the Year Ended December 31, 2015**

	Per Annual Statement
Member months	<u>5,576,872</u>
Net premium income	\$32,914,416
Fee-for-service	<u>1,394,127</u>
Total revenues	<u>34,308,543</u>
Less:	
Other professional services	24,820,746
Claims adjustment expenses	426,636
General administrative expenses	<u>5,641,552</u>
Total underwriting deductions	<u>30,888,934</u>
Net underwriting gains or (loss)	<u>3,419,609</u>
Net investment income earned	107,811
Net realized capital gains or (losses)	<u>985,983</u>
Net investment gains or (losses)	<u>1,093,794</u>
Net gain or (loss) from agents' or premium balances charged off	<u>(15,899)</u>
Net income or (loss) after capital gains tax and before all other federal income taxes	4,497,504
Federal income taxes incurred	<u>1,395,630</u>
Net Income (loss)	<u><u>\$3,101,874</u></u>

Reconciliation of Capital and Surplus
For Each Year in the Three Year Period Ended December 31, 2015

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Capital and surplus prior reporting period	\$28,099,668	\$25,666,437	\$24,550,679
Net income or (loss)	3,101,874	4,595,950	(677,987)
Change in net unrealized capital gains or (losses)	(1,794,865)	(504,817)	487,427
Change in net deferred income tax	16,057	(1,464,680)	1,428,958
Change in nonadmitted assets	(447,528)	(193,222)	(122,640)
Dividends to stockholders	<u>(15,000,000)</u>		
Net change in capital and surplus	<u>(14,124,462)</u>	<u>2,433,231</u>	<u>1,115,758</u>
Capital and surplus end of reporting period	<u><u>\$13,975,206</u></u>	<u><u>\$28,099,668</u></u>	<u><u>\$25,666,437</u></u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There were no changes in the financial statements resulting from the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

As a result of the examination, no issues with non-compliance, adverse findings, or material changes to the financial statements were identified.

SUBSEQUENT EVENTS

Valuation of Investment in VSP Optical Group, Inc.

VSP Optical Group, Inc. is an affiliated company majority owned by the Company's parent, VSP. MAVSP owned 3.1% of VSP Optical Group, Inc. and as of the December 31, 2015, reported the GAAP equity value of this investment in accordance with SSAP No. 97 at approximately \$7.9 million. In December of 2016, management notified the Division of its decision to no longer conduct a standalone audit of VSP Optical, Inc., and therefore under the guidance established by SSAP No. 97, would no longer be reporting this affiliated investment as an admitted asset.

Affordable Care Act Annual Fee

On January 1, 2016, MAVSP was subject to an annual fee under Section 9010 of the Affordable Care Act ("ACA"). This annual fee is to be allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance entity's portion of the assessment becomes payable once the entity provides health insurance for each calendar year beginning on or after January 1 of the year the fee is due. The Company paid the 2015 assessment amounting to \$565,716. For the 2016 assessment, the Company paid the fee in 2017 in the amount of \$577,648.

The Company would have been subject to the annual fee for 2017, however the Consolidated Appropriations Act of 2016, Title II, Section 201 suspended collection of the health insurance provider fee for the 2017 calendar year.

Executive Leadership Change

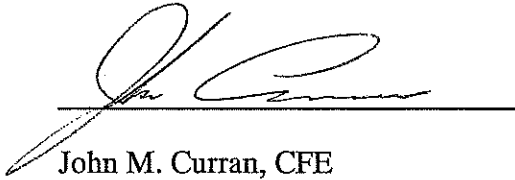
Effective April 10, 2017, Mr. James McGrann, President and CEO of VSP Global, Inc. resigned. Mr. McGrann was a member of the MAVSP Board of Directors as well as Company Secretary. Mr. McGrann has since been replaced as both a Director and as Secretary.

SUMMARY OF RECOMMENDATIONS

There are no formal recommendation as a result of this examination.

SIGNATURE PAGE

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

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

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