



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

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

Sancho Cordova, CA

As of December 31, 2009

NAIC GROUP CODE 1189

NAIC COMPANY CODE 47093

EMPLOYER'S ID NO. 04-2718308

For Informational Purposes Only

MASSACHUSETTS VISION SERVICE PLAN, INC.

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June 17, 2011

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Honorable Superintendent and 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 (hereinafter referred to as the "Company", the "Corporation", or "MVSP") was last examined as of December 31, 2006 for the period January 1, 2004 thereto. The current examination is being conducted by the Massachusetts Division of Insurance (the "Division") and covers the intervening period from January 1, 2007 through December 31, 2009, including any material transactions and 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 Examination Committee, the requirements of the 2010 edition of the *NAIC Financial Condition Examination Handbook*, the examination standards of the Division, and with Massachusetts General Laws.

The principal focus of the examination was 2009 activity however transactions both prior and subsequent thereto were reviewed as deemed appropriate. The examination was conducted following the NAIC Risk Focused Examination Model. The risk focused approach 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 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 NAIC Annual Statement Instructions and Massachusetts regulations.

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, 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.

PricewaterhouseCoopers LLP ("PwC"), an independent certified public accounting firm, audits the Company annually. The firm expressed unqualified opinions on the Company's financial statements for all calendar years covered by this examination.

HISTORY

General

MVSP was founded by Vision Service Plan ("VSP"), a California non-stock, non-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 Corporation, 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 of groups may obtain vision services from licensed and qualified health service doctors.

Effective February 16, 2004, per its amended Bylaws, the Corporation shall operate as a nonprofit 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 Corporation shall maintain and operate a voluntary nonprofit vision care plan to provide care to subscribers to such plan under contracts which entitle 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.

Growth of Company

The growth of the Company for the years 2007 through 2009 is shown in the following schedule, which was prepared from the Company's Annual Statements.

<u>Year</u>	<u>Admitted Assets</u>	<u>Net Premiums Income</u>	<u>Unassigned Funds (Surplus)</u>	<u>Member Months</u>
2009	\$17,955,051	\$17,703,638	\$14,977,311	3,287,253
2008	14,525,008	16,416,341	12,556,564	3,048,280
2007	13,508,424	13,822,255	11,199,428	2,528,772

MANAGEMENT

MVSP is a non-stock, non-profit organization. The sole Voting Member of the Corporation shall be VSP. The annual meeting of the Member of the Corporation shall be held at the office of the Corporation or at such other time and place as the Member may determine, or to which any annual meeting may adjourn.

Board of Directors

The Board of Directors 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 Articles of Incorporation and the Bylaws of the Company. Except as otherwise required by law, the Articles of Organization or the Articles of Incorporation, the action of a majority of the directors present at a meeting at which a quorum is present shall be the action of the Board of Directors.

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 Corporation. Directors shall be appointed and duly qualified by the member at the annual meeting of the member.

In accordance with Article III 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 (3) classes. There shall be one (1) Director in the first class, to be elected for a term of one (1) year. There shall be one (1) Director in the second class, to be elected for a term of two (2) years. There shall be one (1) Director in the third class, to be elected for a term of three (3) 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 (3) years and until his or her successor is elected and qualify. At December 31, 2009, the Board was composed of three Directors, which is in compliance with the Company's Articles of Incorporation.

Directors duly elected and serving at December 31, 2009, with addresses and business affiliations, are as follows:

<u>Director</u>	<u>Business Affiliation</u>
James R. Lynch	President and Chief Executive Officer, Vision Service Plan
Gary N. Brooks	President, Vision Service Plan Vision Care
Roger McCarthy, O.D.	Ophthalmologist / Small Business Owner

Committees of the Board

The Company's management structure does not include any committees of the Board specific to MVSP. However, the Board of Directors of VSP do in-fact have numerous standing committees that function in a corporate-wide capacity and impact the overall operations of the Company. The committees structure of VSP include the following: Audit, Business, Compensation, Finance, Governance, Health Care Services, Patient and Provider Relations, Quality Care, and Public Policy Committees.

Officers

The Bylaws of the Company provide that the officers of the Company shall consist of a Chairman, a President, a Treasurer, a Secretary, and any 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 corporation

The Company's senior officers and their respective titles at December 31, 2009 were as follows:

<u>Officer</u>	<u>Title</u>
James R. Lynch	Chairman, President and Chief Executive Officer
Gary N. Brooks	Vice President and Secretary
***Patricia Cochran	Treasurer and Chief Financial Officer

*** Patricia Cochran retired effective December 31, 2009. Lester Passuello was appointed to fill the position of Treasurer and Chief Financial Officer effective January 1, 2010.

Conflict of Interest Disclosure Procedure

The Company has an established procedure for disclosure to the Board of Directors of any material interest or affiliation on the part of any officer or Director, which is in or is likely to conflict with his or her official duties.

Each officer, Director and responsible employee annually completes a statement disclosing any material conflicts of interest. The filed statements for the three-year period of this examination were reviewed, and no discrepancies were noted in the responses to the General Interrogatories regarding conflicts of interest as reflected in the Company's Annual Statements. The Company does not have any employees and the Conflict of Interest Statement pertains only to the Directors and the Officers of the Company.

Corporate Records

Articles of Incorporation and Bylaws

The Articles of Incorporation were last amended as of September 29, 1993. The Bylaws were last amended as of February 16, 2004. Based upon the reading of the Bylaws and Articles and amendments thereto, the Company is operating in compliance with its Bylaws and in accordance with the purpose, functions and policies as set forth in its Articles of Incorporation.

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. c.175, ss.180M-180Q.

Minutes of Meetings

The minutes of meetings of (1) the sole Member of the Corporation; (2) the Board of Directors; and (3) the Committees of the Board for the three-year examination period as of December 31, 2009 and subsequent were reviewed. Records indicate that all meetings were held in accordance

with the Company's Articles of Incorporation, Bylaws and the Laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at meetings of the Board of Directors.

AFFILIATED COMPANIES

The Company is a member of the Vision Service Plan group of non-stock, non-profit corporations controlled by the Board of Directors of Vision Service Plan, also a non-stock, non-profit corporation domiciled and headquartered in the State of California.

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 Center, Inc.
Plexus Optix, Inc.
VSP Labs, Inc.
VSP Retail, Inc.
VSP Vision Care – UK, Ltd.
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)
VSP Holding Company, Inc.
Vision Service Plan Insurance Company (MO)
OSS Holdings, Inc. (DE)
OfficeMate Software Solutions, Inc.
Altair Eyewear, Inc.
Marchon Eyewear, Inc.

Transactions and Agreements with Parent, Subsidiaries and Affiliates

Management and Service Agreement

The Administrative and Marketing Agreement was entered as of March 7, 2001, by and between the Company and Vision Service Plan ("VSP"), a California non-profit corporation.

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.
- MVSP currently operates a vision care plan engaged in providing vision care services in the Commonwealth of Massachusetts.
- VSP is the sole voting member of MVSP and MVSP is a wholly owned subsidiary of VSP.
- The Board of Directors of MVSP approved the affiliation between MVSP and VSP.
- VSP and MVSP desire to affiliate to permit national marketing on behalf of VSP and MVSP, and MVSP desire to have VSP provide administrative and marketing services to MVSP.
- Expenses and consideration settlement statements are rendered at least quarterly, and balances are settled within ninety (90) days.
- This agreement may be terminated without cause by either party upon sixty (60) 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 VSP 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 that in aggregate exceeds the NAIC suggested minimum.

The Company has further protected its interests and property by policies of insurance covering other insurable risks. Coverage was in force as of December 31, 2009.

SPECIAL DEPOSITS

The special deposits of the Company at December 31, 2009 were as follows:

Description of Deposits	Purpose of Deposit	Book Value	Fair Value
Certificate of Deposit, 0.80%	Massachusetts -- Benefit of All Policyholders	<u>\$80,826</u>	<u>\$80,826</u>
		<u>\$80,826</u>	<u>\$80,826</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is only licensed to write business in the Commonwealth of Massachusetts. The Company operates as an Optometric Service Corporation.

The Company currently operates a vision care plan engaged in providing vision care services in the Commonwealth of 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, 2009, there were 27,223 enrolled vision members. During the three-year examination period, the total enrolled members have increased approximately 48% from 187,232 at December 31, 2006. The Company does not issue participating policies and does not declare policyholder dividends. The Company's operation does not utilize third party administrators or managing general agents.

Treatment of Policyholders

Claims Settlement Practices

Procedures performed in conjunction with the claims test work indicated that the Company settles claims on a timely and equitable basis.

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 information technology ("IT") environment. All companies within the Group use the information systems of their parent, VSP. Consequently, the responses to the questions contained in the IT questionnaires related to the VSP systems.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2009 Annual Statement. 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 23.00.

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, 2009:

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2009

Statement of Revenues and Expenses for the Year Ended December 31, 2009

Reconciliation of Capital and Surplus For Each Year in the Three Year Period Ended December 31, 2009

**Statement of Assets, Liabilities, Capital and Surplus
as of December 31, 2009**

	Per Company	Examination Changes	Per Examination
Assets			
Bonds	\$10,416,276	\$0	\$10,416,276
Common Stock	1,406,438		1,406,438
Cash on hand and on deposit	4,169,606		4,169,606
Subtotals, cash and invested assets	15,992,320		15,992,320
Investment income due and accrued	67,653		67,653
Premiums and considerations:			
Uncollected premiums and agents' balances	596,680		596,680
Amounts receivable related to uninsured plans	1,208,399		1,208,399
Net deferred tax asset	89,999		89,999
Total Assets	\$17,955,051	\$0	\$17,955,051
Liabilities, Surplus and Other Funds			
Claims unpaid	\$952,404	\$0	\$952,404
Unpaid claim adjustment expense	9,847		9,847
Aggregate health policy reserves	175,605		175,605
Premiums received in advance	39,585		39,585
General expense due or accrued	116,322		116,322
Current federal income tax payable	1,063,881		1,063,881
Amounts due parent, subsidiaries and affiliates	326,782		326,782
Payable for securities	3,603		3,603
Liability for amounts held under uninsured plans	239,711		239,711
Total Liabilities	2,927,740		2,927,740
Aggregate write-ins for other than special surplus funds	50,000		50,000
Unassigned funds (surplus)	14,977,311		14,977,311
Total capital and surplus	15,027,311		15,027,311
Total liabilities, capital and surplus	\$17,955,051	\$0	\$17,955,051

**Statement of Revenue, Expenses, Capital and Surplus
For the Year Ended December 31, 2009**

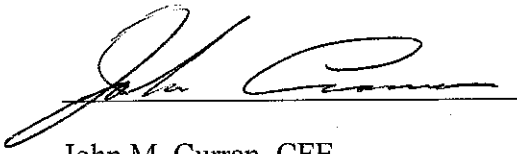
	Per Company	Examination Changes	Per Examination
Member months	<u>3,287,253</u>		<u>3,287,253</u>
Net premium income	\$17,703,638	\$0	\$17,703,638
Fee-for-service	<u>826,970</u>		<u>826,970</u>
Total revenue	<u><u>18,530,608</u></u>		<u><u>18,530,608</u></u>
Less:			
Other professional services	14,063,463		14,063,463
Claims adjustment expense	124,213		124,213
General administrative expenses	1,309,227		1,309,227
Increase in reserves for life and A&H contracts	<u>18,431</u>		<u>18,431</u>
Total underwriting deductions	<u>15,515,296</u>		<u>15,515,334</u>
Net underwriting gains or (losses)	<u>3,015,274</u>		<u>3,015,274</u>
Net investment income earned	286,715		286,715
Net realized capital gains or (losses)	<u>(179,588)</u>		<u>(179,588)</u>
Net investment gains or (losses)	<u>107,127</u>		<u>107,127</u>
Net gain or (loss) from agents' or premium balances charged off	<u>(2,262)</u>		<u>(2,262)</u>
Net income or (loss) after capital gains tax and before all other federal income taxes	3,120,139		3,120,139
Federal income taxes incurred	<u>1,050,857</u>		<u>1,050,857</u>
Net Income	<u><u>2,069,282</u></u>	<u><u>\$0</u></u>	<u><u>2,069,282</u></u>
Capital and Surplus Account			
Capital and surplus prior reporting period	\$12,606,564	\$0	\$12,606,564
Net income	2,069,282		2,069,282
Change in net unrealized capital gains or (losses)	338,540		338,540
Change in net deferred income tax	39,077		39,077
Change in nonadmitted assets	<u>(26,152)</u>		<u>(26,152)</u>
Net change in capital and surplus	<u>2,420,747</u>	<u>0</u>	<u>2,420,747</u>
Capital and surplus end of reporting period	<u><u>\$15,027,311</u></u>	<u><u>\$0</u></u>	<u><u>\$15,027,311</u></u>

Reconciliation of Capital and Surplus
For Each Year in the Three Year Period Ended December 31, 2009

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Capital and surplus prior reporting period	\$12,606,564	\$11,249,428	\$9,796,722
Net income (loss)	2,069,282	1,690,443	1,435,951
Change in net unrealized capital gains or (losses)	338,540	(392,573)	73,457
Change in net deferred income taxes	39,077	56,747	(54,449)
Change in nonadmitted assets	(26,152)	2,512	(2,255)
Net change in capital and surplus	<u>2,420,747</u>	<u>1,357,136</u>	<u>1,452,706</u>
Capital and surplus end of reporting period	<u>\$15,027,311</u>	<u>\$12,606,564</u>	<u>\$11,249,428</u>

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and courtesies extended by the officers and employees of the Company to the examiners during the course of the examination.



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

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