Report

of the

Examination of

Wisconsin Vision Service Plan, Inc.

Rancho Cordova, California

As of December 31, 2011

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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February 25, 2013

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

WISCONSIN VISION SERVICE PLAN, INC.
Rancho Cordova, California

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Wisconsin Vision Service Plan, Inc. (the company) was conducted in 2012 as of December 31, 2011. The current examination covered the intervening period ending December 31, 2011, and included a review of such 2012 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Provider Contracts
Territory and Plan of Operations
Affiliated Companies
Growth of the Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing
Underwriting

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

Wisconsin Vision Service Plan, Inc. (hereinafter also WVSP or the company) was incorporated as a nonstock Wisconsin corporation on February 27, 1957, and commenced business on April 29, 1958. The company is now licensed as a nonprofit service insurance corporation for optometric care under ch. 613, Wis. Stat. The company provides vision care on a group basis through employer health benefit plans.

WVSP files the NAIC Health annual statement blank. The nature of the company's license permits it to operate on an indemnity basis and to provide services to its enrolled participants through contracts with providers who are paid directly by the company.

WVSP is an affiliate of Vision Service Plan, a California-domiciled nonstock, nonprofit corporation, formerly known as California Vision Service. WVSP entered an agreement dated July, 1, 1989, whereas, Vision Service Plan (hereinafter also VSP) became the sole voting member, thereby acquiring complete control over the election of directors and the appointment of officers. In exchange, VSP agreed to provide the surplus necessary for the operation of the company and to comply with the requirements of the state of Wisconsin. In this way, WVSP became a member of VSP's holding company system.

All services essential to the operation of the company including, but not limited to, accounting, claim administration, and executive management, are provided by VSP. The company has appointed the Milwaukee law firm of Demet & Demet as its registered agent, in order to comply with the requirements of s. 181.08, Wis. Stat.

WVSP has written agreements with 352 licensed optometrists and ophthalmologists throughout the state of Wisconsin and in bordering towns in Iowa and Minnesota to provide vision care to enrollees in the employer groups with whom WVSP contracts.

The provider contracts include a hold-harmless provision for the protection of the policyholders. This provision prevents the doctor from looking to the patient for money owed for covered services, except any deductible or co-payment. In the event that the company should become unable to pay all or any part of its obligations, the doctor is not to look to the patient for such payment.

The company markets its plan through approximately 250 independent agents, as well as five employees among its in-house marketing staff. In-house marketing staff is paid salary and benefits. Independent agents receive the following commissions for placing groups with VSP:

Annual Premium	Paid By Group	Commission Paid
First	$ 5,000	10.00%
Next	5,000	5.00
Next	10,000	3.56
Next	10,000	3.00
Next	20,000	2.31
Next	200,000	1.44
Next	250,000	0.73
Exceeding	500,000	0.35

Most revenues of the company are derived from two sources, premiums associated with funding optometric benefits and fees received for the administration of self-funded plans. WVSP accepts the risk associated with funding optometric benefits, while the employer accepts the risk under a self-funded group plan. For the self-funded groups, WVSP pays the claims and is reimbursed for the cost plus an administration fee. The risk associated with self-funded plans is a limited credit risk, while insured plans involve underwriting risk. Of the 223 employer groups who offered a benefit plan from WVSP at the examination date, 22 were self-funded. WVSP also has a contract with American Medical Security Life Insurance Company to cover the vision risks associated with certain of its plans.

For groups that are not self-funded, WVSP uses two methods of determining the premiums to be charged to the groups. Groups with over 500 employees are individually rated, while groups with 10-499 employees are quoted pooled rates. The company began offering coverage to individuals in 2007.

If a group has at least 500 employees, the group is individually rated based on pure premiums. Pure premiums are determined by analyzing the combined utilization of each plan and deductible offered. The claim frequency and average claim for each of the plans and deductibles are projected to determine the projected claim cost per employee. A reserve factor is added to this claim cost to obtain the pure premium. This pure premium is adjusted in accordance with factors such as effective date, contract term, group location, out-of-state employees, industry, prior vision coverage, and commission status relating to the specific group. The company then applies their retention percentage to this adjusted premium to obtain the final premium rate charged to the group. Retention is determined by enrollment, product, and annual premium. The retention percentage represents the percentage of the group's monthly premium that is estimated to cover WVSP's administrative expenses (operating costs and commission paid).

For groups with less than 500 employees, the rates are determined on a "pooled" basis. WVSP has eight pools divided between commercial (all businesses), political (schools, cities, counties, etc.), or Signature Choice (commercial or political) employer groups. The rates are determined based on the combined utilization of the groups in the pool. Factors that are analyzed to determine if an increase is needed in a current pool rate include claim frequency, average claim cost, reserve requirement, and retention percentage. Rates vary within a pool depending on the size and the deductible plan of the group.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members. Seven directors are elected annually to serve a three-year term. Officers for the board are elected at the board's annual meeting. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Catherine Amos, O.D. Hoover, AL	Doctor of Optometry	2013
Julia Edwards, O.D. DeForest, WI	Doctor of Optometry	2013
Daniel Mannen, O.D. St. Helens, OR	Doctor of Optometry	2013
Loran Membine, O.D. San Francisco, CA	Doctor of Optometry	2013
James Lynch Lafayette, CA	President and CEO of VPS Global	2013
Donald Ball Jr. El Doradao Hills, CA	Senior Vice President VSP Global	2013
James McGrann Sacramento, CA	Secretary and Vice President VSP Vision Care	2013

Officers of the company

The officers appointed by the board of directors and serving at the time of this examination are as follows. Officers are compensated by the company's parent, VSP. Executive personnel are among the employees supplied to the company pursuant to a written administrative and marketing agreement.

Name	Office	2011 Compensation*
James Lynch	President	$40,346
James McGrann	Secretary	7,339
Lester Passuello	Treasurer/CEO	5,810

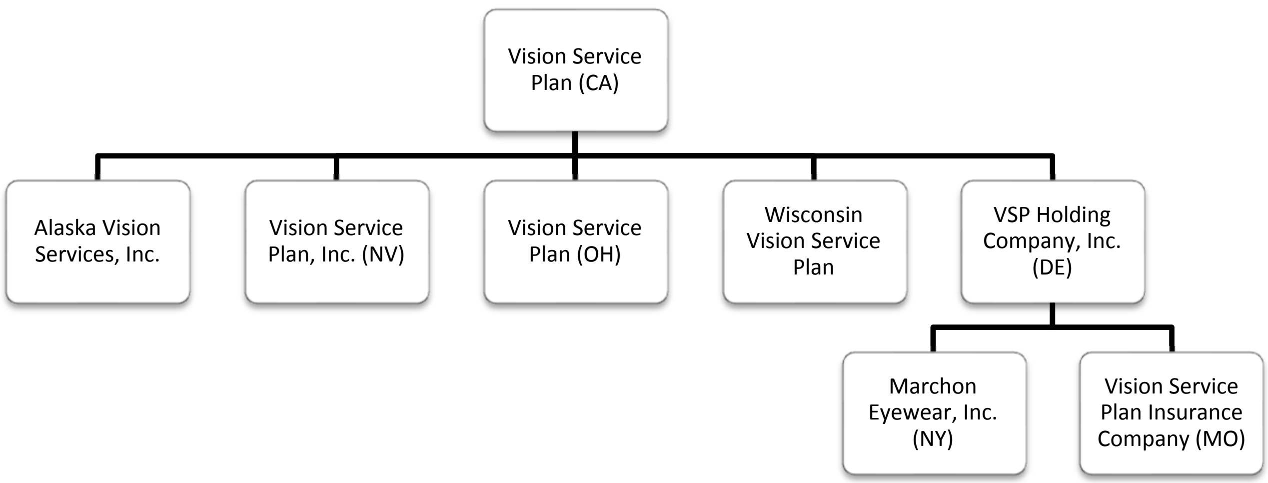
* The salaries shown represent the amount allocated to WVSP.

The company has no employees. Necessary staff is provided through a management agreement with Vision Service Plan (VSP). Under the agreement, effective February 10, 1998, amended December 18, 2007, VSP agrees to negotiate employer, provider, subscriber, and other contracts; advise the board; maintain accounting and financial records; recruit marketing, utilization review, and claims processing personnel; provide or contract for claims processing, and provide Management Information Systems services. VSP receives a per claim charge equal to the total general and administrative expenses of VSP and its subsidiaries, which will be settled within 90 days from the notice of amounts due. The agreement remains in effect unless terminated by either party upon 60 days' prior written notice.

IV. AFFILIATED COMPANIES

Wisconsin Vision Service Plan, Inc., is a member of a holding company system. Its ultimate parent is Vision Service Plan. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of the company follows the organizational chart.

Holding Company Chart
As of December 31, 2011



Note: Not all subsidiaries of the Vision Service Plan (CA) have been included in this organizational chart.

Vision Service Plan

Vision Service Plan is organized as a nonprofit corporation under the laws of the State of California to provide and administer vision care plans in order to make available professional optometric services to eligible members of participating clients. As of December 31, 2011, the company's combined audited financial statement reported assets of $1.8 billion, liabilities of $751 million, and capital and surplus of $1.1 billion. Operations for 2011 produced net income of $18 million on total revenues of $3.7 billion.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2011, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the company for the period under examination. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Capital and Surplus per Examination."

Wisconsin Vision Service Plan, Inc.
Assets
As of December 31, 2011

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 9,087,321	$	$ 9,087,321
Cash, cash equivalents and short-term investments	4,123,897		4,123,897
Investment income due and accrued	58,168		58,168
Uncollected premiums and agents' balances in the course of collection	479,301		479,301
Amounts receivable relating to uninsured plans	454,696	74	454,622
Net deferred tax asset	104,439	7,572	96,867
Total Assets	$14,307,822	$7,646	$14,300,176

Wisconsin Vision Service Plan, Inc.
Liabilities and Net Worth
As of December 31, 2011

Claims unpaid		$ 614,437
Unpaid claims adjustment expenses		7,845
Aggregate health policy reserves		161,363
Premiums received in advance		17,521
General expenses due or accrued		50,837
Current federal and foreign income tax payable and interest thereon		1,605,103
Remittance and items not allocated		78,610
Amounts due to parent, subsidiaries and affiliates		278,179
Liability for amounts held under uninsured accident and health plans		15,713
Aggregate write-ins for other liabilities:		
Taxes, licenses and fees		68,370
Total liabilities		2,897,978
Aggregate write-ins for other than special surplus funds:		
Statutory reserve	$ 1,201,418	
Unassigned funds (surplus)	10,200,780	
Total capital and surplus		11,402,198
Total Liabilities, Capital and Surplus		$14,300,176

Wisconsin Vision Service Plan, Inc.
Statement of Revenue and Expenses
For the Year 2011

Net premium income		$12,014,182
Fee-for-service [net of $(2,623,895) medical expenses]		555,009
Risk revenue		(146)
Total revenues		12,569,045
Medical and hospital:		
Hospital/medical benefits		
Other professional services	$10,072,705	
Claims adjustment expenses	99,286	
General administrative expenses	1,152,911	
Increase in reserves for life and accident and health contracts	(107,783)	
Total underwriting deductions		11,217,119
Net underwriting gain or (loss)		1,351,926
Net investment income earned	174,560	
Net realized capital gains or (losses)	(17,585)	
Net investment gains or (losses)		156,975
Net gain or (loss) from agents' or premium balances charged off		(800)
Net income or (loss) before federal income taxes		1,508,101
Federal and foreign income taxes incurred		508,176
Net income (loss)		$ 999,925

Wisconsin Vision Service Plan, Inc.
Capital and Surplus Account
As of December 31, 2011

Capital and surplus prior reporting year		$10,457,094
Net income or (loss)	$999,925	
Change in net deferred income tax	(46,727)	
Change in nonadmitted assets	(7,646)	
Aggregate write-ins for gains or (losses) in surplus:		
Interest adjustment	(446)	
Net change in capital and surplus		945,104
Capital and Surplus End of Reporting Year		$11,402,198

Wisconsin Vision Service Plan, Inc.
Statement of Cash Flows
As of December 31, 2011

Premiums collected net of reinsurance		$11,848,450
Net investment income		302,929
Miscellaneous income		554,863
Total		12,706,242
Less:		
Benefit- and loss-related payments	$10,118,943	
Commissions, expenses paid and aggregate write-ins for deductions	1,322,572	
Federal and foreign income taxes paid (recovered)	318,381	
Total		11,759,896
Net cash from operations		946,346
Proceeds from investments sold, matured or repaid:		
Bonds	5,010,577	
Cost of investments acquired—long-term only:		
Bonds	5,899,196	
Net cash from investments		(888,619)
Other cash provided (applied)		(64,157)
Net change in cash, cash equivalents, and short-term investments		(6,430)
Beginning of year		4,130,327
End of Year		$ 4,123,897

Growth of the Company

The following schedules reflect the growth of the company during the examination period:

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2011	$14,300,176	$2,897,978	$11,402,198	$12,014,182	$10,072,705	$ 999,925
2010	13,378,964	2,921,870	10,457,094	13,741,859	12,015,375	1,120,173
2009	12,535,579	3,250,269	9,285,310	11,655,254	10,301,325	70,568
2008	11,797,294	2,566,833	9,230,461	12,369,390	10,769,698	(578,668)
2007	10,810,518	1,155,428	9,655,090	12,669,503	10,430,697	1,702,664
2006	9,295,163	1,303,975	7,991,188	12,182,154	10,264,093	1,308,264

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Enrollment	Change in Enrollment
2011	8.3%	83.8%	8.9%	232,453	(13.3)%
2010	8.2	87.4	9.3	267,976	15.5
2009	0.6	88.4	8.7	231,953	(11.5)
2008	-4.7	87.1	9.1	262,136	(8.3)
2007	13.4	82.3	9.2	285,713	(22.7)
2006	10.7	84.3	9.6	369,595	(16.0)

Per Member Per Month Information

	2011	2010	Percentage Change
Premium	$4.25	$4.16	2.1%
Expenses:			
Other professional services	3.56	3.64	(2.2)
Claims adjustment expenses	.03	.03	(2.3)
General administrative expenses	.38	.39	(3.0)
Increase in reserves for accident and health contracts	(.04)	(.15)	(74.9)
Total Underwriting Deductions	$3.93	$3.91	

The company has reported fluctuations in enrollment over the examination period. The decrease in enrollment in 2011 was due to the transfer of one of their large groups from risk to an administrative service plan. The increase in enrollment in 2010 was due to the addition of several new large clients. The decrease in enrollment in 2007 was primarily attributed to the loss of clients.

The company has posted positive financial results over the examination period. They have posted a net income in four of the five years under examination. Total assets have increased 32% to $14.3 million from $10.8 million over the examination period. Capital and surplus has increased 18% to $11.4 million from $9.7 million over the examination period.

Reconciliation of Capital and Surplus per Examination

No adjustments to surplus or reclassifications were made as a result of the examination. The amount of surplus reported by the company as of December 31, 2011, is accepted.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were seven specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Biographical Data—It is again recommended that the company report biographical data relating to company officers and directors in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

   Action—Compliance.

2. Affiliated Agreements—It is again recommended that, pursuant to s. 617.21, Wis. Stat., the company amend the Administration and Marketing Agreement with VSP.

   Action—Compliance.

3. Affiliated Agreements—It is again recommended the company amend its Administration and Marketing Agreement to reflect the current practices of the company.

   Action—Compliance.

4. Schedule D—It is recommended that the company record zeros in the CUSIP number column for certificates of deposit or securities for which a recognized CUSIP number does not exist in accordance with the NAIC Annual Statement Instructions - Health.

   Action—Compliance.

5. Premium—It is recommended that WVSP make necessary changes so that the aging of premium receivables will more accurately reflect any balances over 90 days past due and report them in accordance with the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principle No. 6.

   Action—Noncompliance; see comments in the "Summary of Current Examination Results."

6. Reinsurance—It is again recommended the company recognize its arrangement with American Medical Security Life Insurance Company as reinsurance and properly report its direct premium, assumed premium and enrollment on the annual statement schedules described above pursuant to the NAIC Annual Statement Instructions - Health.

   Action—Compliance.

7. Agents—It is again recommended that the company report its agent appointments to OCI pursuant to s. 628.11, Wis. Stat., and s. Ins 6.57, Wis. Adm. Code.

   Action—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Premium

During the review of VSP's premium processing and application of premium payments, examiners noted that payments are applied on the "first-in/first-out" (FIFO) method. Under this method it is difficult for VSP to adequately keep track of which months and which members' employers are actually paying. The current design does not lend itself to adequate tracing of older balances and group enrollees. It is again recommended that VSP make necessary changes so that the aging of premium receivables will more accurately reflect any balances over 90 days past due and report them in accordance with the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principle No. 6.

Custodial Agreement

In review of the company's custodial agreement with Wells Fargo it was noted that the agreement does not contain the necessary clauses as set forth in the NAIC Financial Condition Examiners Handbook, including a proper indemnification clause. It is recommended that the company ensure their custodial agreements include all necessary clauses as set forth in the NAIC Financial Condition Examiners Handbook.

Financial Requirements

The financial requirements for an LSHO under s. Ins 9.04, Wis. Adm. Code, are as follows:

		Amount Required
1.	Minimum capital or permanent surplus	Not less than $75,000
2.	Security deposit	Each LSHO is required to maintain a deposit of securities with the state treasurer or an acceptable letter of credit on file with the Commissioner's office. The amount of the deposit or letter of credit shall not be less than $75,000. The letter of credit must be payable to the Commissioner whenever liquidation or rehabilitation proceedings are initiated against the company.

3.	Compulsory surplus	Not less than the greater of: 3% of the premiums earned by the company in the previous 12 months or $75,000 The Commissioner may accept the deposit or letter of credit under par. 2. to satisfy the compulsory surplus requirement if the company demonstrates to the satisfaction of the Commissioner that all risk for loss has been transferred to the providers.
4.	Security surplus	The company should maintain a security surplus to provide an ample margin of safety and clearly assure a sound operation. The security surplus should not be less than 110% of compulsory surplus.

The company's calculation as of December 31, 2011, as modified for examination adjustments is as follows:

Assets	$14,300,176	
Liabilities	2,897,978	
Net amount available to satisfy surplus requirements		$11,402,198
Net premium earned	12,014,182	
Compulsory factor	3%	
Compulsory surplus		2,000,000
Compulsory Excess/(Deficit)		$ 9,402,198
Net amount available to satisfy surplus requirements		$11,402,198
Compulsory surplus	2,000,000	
Security surplus factor	140%	
Security surplus		2,800,000
Security Excess/(Deficit)		$ 8,602,198

An LSHO which provides hospital services must demonstrate that, in the event of insolvency, enrollees hospitalized on the date of insolvency will be covered until discharge. This does not apply to this LSHO.

VII. CONCLUSION

Wisconsin Vision Service Plan's 2011 annual statement reported assets of $14,300,176, liabilities of $2,873,306, and surplus of $11,462,870. There were no adjustments to surplus or reclassifications as a result of this examination. Operations for 2011 produced a net income, after federal and foreign income taxes, of $1,060,595 on revenues of $12,569,045.

The company has posted positive financial results over the examination period. They have posted a net income in four of the five years under examination. Total assets have increased 32% to $14.3 million from $10.8 million over the examination period. Capital and surplus has increased 18% to $11.4 million from $9.7 million over the examination period.

The company complied with six of the seven recommendations contained in the prior examination report. The examination resulted in two recommendations as summarized on the following page, including one recommendation repeated from the prior examination.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 16 - Premium—It is again recommended that VSP make necessary changes so that the aging of premium receivables will more accurately reflect any balances over 90 days past due and report them in accordance with the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principle No. 6.

2. Page 16 - Custodial Agreement—It is recommended that the company ensure their custodial agreements include all necessary clauses as set forth in the NAIC Financial Condition Examiners Handbook.

IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Raymond Kangogo	Insurance Financial Examiner
Thomas Houston	IT Specialist

Respectfully submitted,

Terry Lorenz
Examiner-in-Charge