

STATE OF INDIANA  
COUNTY OF MARION

)  
) SS:  
)

BEFORE THE INDIANA  
COMMISSIONER OF INSURANCE

IN THE MATTER OF:

Indiana Vision Services, Inc.  
3333 Quality Drive  
Rancho Cordova, CA 95670

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)  
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Examination of Indiana Vision Services, Inc.

**NOTICE OF ENTRY OF ORDER**

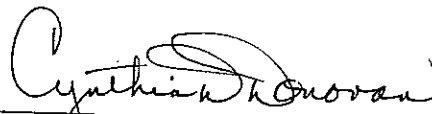
Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Indiana Vision Services, Inc., any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on April 14, 2015, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of Indiana Vision Services, Inc. shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

Date

May 28, 2015



Cynthia D. Donovan  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0057 9938 70**

STATE OF INDIANA )  
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IN THE MATTER OF: )  
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Indiana Vision Services, Inc. )  
3333 Quality Drive )  
Rancho Cordova, CA 95670 )

Examination of Indiana Vision Services, Inc.

### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Indiana Vision Services, Inc. (hereinafter "Company") for the time period January 1, 2013 through December 31, 2013.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on December 17, 2014.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on April 14, 2015 and was received by the Company on April 20, 2015.

The Company did not file any objections.

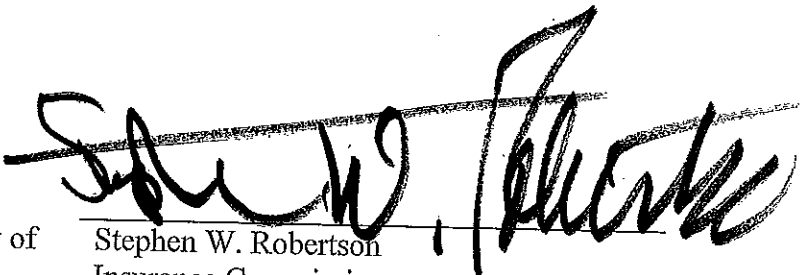
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Indiana Vision Services, Inc. as of December 31, 2013.
2. That the Examiner's Recommendations are reasonable and necessary in order for the Indiana Vision Services, Inc. to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 28<sup>th</sup> day of May, 2015.

  
Stephen W. Robertson  
Insurance Commissioner  
Indiana Department of Insurance

## ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

**STATE OF INDIANA**

**Department of Insurance**

**REPORT OF EXAMINATION**

**OF**

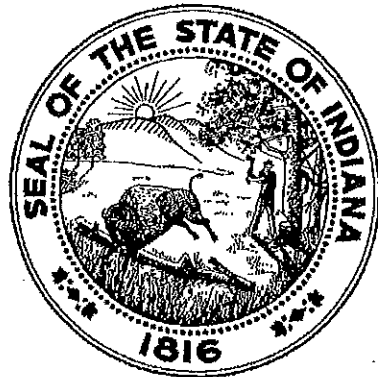
**INDIANA VISION SERVICES, INC.**

NAIC Co. CODE 52050

NAIC GROUP CODE 1189

As of

December 31, 2013



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# STATE OF INDIANA

# IDOI

MICHAEL R. PENCE, Governor

**Indiana Department of Insurance**  
311 W. Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787  
Telephone: (317) 232-2385  
Fax: (317) 232-5251  
Stephen W. Robertson, Commissioner

December 17, 2014

Honorable Stephen W. Robertson, Commissioner  
Indiana Department of Insurance  
311 West Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3842, an examination has been made of the affairs and financial condition of:

**Indiana Vision Services, Inc.**  
3333 Quality Drive  
Rancho Cordova, California 95670

hereinafter referred to as the "Company", or "IVS", an Indiana domestic health maintenance organization. The examination was conducted at the corporate offices of the Company in Rancho Cordova, California and the Noble Consulting Services, Inc. office in Indianapolis, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2013, is hereby respectfully submitted.

ACCREDITED BY THE  
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES  
(317) 232-2413

COMPANY COMPLIANCE  
(317) 233-0697

CONSUMER SERVICES  
(317) 232-2395

EXAMINATIONS/FINANCIAL SERVICES  
(317) 232-2385

MEDICAL MALPRACTICE

SECURITIES/COMPANY RECORDS

STATE HEALTH INSURANCE PROGRAM

## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2012. The present risk-focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2013 through December 31, 2013, and included 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 the NAIC *Financial Condition Examiners Handbook* (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 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 Annual Statement instructions, when applicable to domestic state regulations.

The examination of Vision Service Plan Insurance Company, a Connecticut domestic insurance company, was called by the Connecticut Insurance Department (CID) in accordance with the Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking System. The CID served as the lead state on the examination, and the Idaho Department of Insurance, Illinois Department of Insurance, INDOI, Missouri Department of Insurance, New York State Department of Financial Services, Ohio Department of Insurance, and Wisconsin Office of the Commissioner of Insurance served as participants.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## HISTORY

The Company is a wholly-owned subsidiary of VSP, a California corporation. The Company was organized as a not-for-profit corporation under the laws of the state of Indiana to provide and administer vision care plans in order to make professional optometric services available to eligible members of participating groups. The Company commenced business in 1975.

On April 1, 1990, the Company was acquired by VSP. VSP and its affiliates provide vision coverage in all fifty (50) states. In 2003, the Company requested the approval of the INDOI to transfer all vision business to an affiliate licensed in Connecticut as well as Indiana. This merger was put on hold while the Company waited for the Internal Revenue Service to finalize issues regarding the Company's tax status. Since this issue has been resolved, VSP will again consider merger options with its affiliate.

The Company is controlled and managed by VSP, who is the acting parent of approximately twenty-three (23) similar organizations. VSP purchased affiliated organizations at a time when they were all operating independently, VSP provides only prepaid vision insurance, and has grown in the area of Administrative Service Program plans as well as the traditional risk oriented coverage plans.

## CAPITAL AND SURPLUS

The Company has no outstanding shares of stock.



### DIVIDENDS TO STOCKHOLDERS

The Company paid the following dividends to VSP during the examination period:

<u>Year</u>	<u>Total</u>	<u>Ordinary Dividends</u>	<u>Extraordinary Dividends</u>
2013	\$ 4,400,000	\$ 4,400,000	\$ -
Total	\$ 4,400,000	\$ 4,400,000	\$ -

In accordance with Indiana Code (IC) 27-1-23-4(h), the payment of dividends to holding companies or affiliated insurers may not exceed the greater of 10% of the prior year's surplus or the net income of such insurer of the prior year. The Company paid one (1) ordinary dividend during the examination period with the prior approval of the INDOI. In accordance with IC 27-1-23-1.5, the Company notified the INDOI of all declared dividends to the parent during the examination period.

### TERRITORY AND PLAN OF OPERATION

IVS is licensed to conduct business in the state of Indiana. The Company provides one (1) line of business, prepaid group vision insurance. The Company offers and administers a vision care plan in order to make available professional optometric services to eligible members of participating groups. All business written is in the form of group vision coverage for groups of two (2) or more eligible employees. The Company pools all groups having between two (2) and five-hundred (500) eligible members, whose premiums are determined by guaranteed preset rates based on the plan and deductible chosen. Pooled rates are guaranteed for twenty-four (24) months from the effective date of the program and rate adjustments are determined by the claims experience of each pool. Any member group having over five-hundred (500) employees is individually rated by the Company. The renewal for an individually rated group is based upon its own experience. If a group has favorable experience and develops surplus beyond reserves, the group may be offered the option of an extended rate guarantee, improved benefits, or rate reductions.

### GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Total Revenues</u>	<u>Net Income</u>
2013	\$ 24,811,653	\$ 4,441,609	\$ 20,370,044	\$ 28,442,767	\$ 2,419,938

For 2013, decreases in total assets and capital and surplus were due primarily to a \$4.4 million distribution to VSP in December 2013.

The decrease in liabilities during 2013 stemmed from the decrease in the federal income tax liability and the change in the aggregate health policy reserve methodology. Increases in estimated payments for federal income taxes reduced liabilities during the year from a payable of \$736,040 to a receivable of \$75,019. The change in methodology for calculating the aggregate health policy reserves led to the decrease from \$925,036 at year-end 2012, to \$0 at year-end 2013.

Net income decreased \$2,049,272 from 2012 to 2013, due to an increase in federal income tax expense. This increase was due to the 2012 reversal of the Company's federal tax exempt status for tax years 2006 and 2007.

## MANAGEMENT AND CONTROL

### Directors

The Company is managed and controlled by a Board of Directors (Board). The Company's Bylaws state that the Board shall consist of at least three (3) members and not more than nine (9). The Board members are elected by the membership at the annual meeting. Each director shall serve for a period of three (3) years or until his or her successor has been elected and qualified. At least one (1) of the directors must be a resident of Indiana; however the Company did not have an Indiana resident on the Board as of December 31, 2013. See the Other Significant Issues section in this Report of Examination.

The following is a listing of persons serving as directors at December 31, 2013, and their principal occupations as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
Donald Joseph Ball, Jr. Sacramento, California	Chief Financial Officer VSP Global
James Robinson Lynch Sacramento, California	President and Chief Executive Officer Vision Service Plan
James Michael McGrann Sacramento, California	Chief Executive Officer Vision Service Plan

### Officers

The Bylaws state that the principal officers of the Company shall be chosen by the Board and consist of a President, a Treasurer, and a Secretary each of whom shall be elected by and from the Board. Such other officers and assistant officers as may be deemed necessary may be elected or appointed by the Board. The officers shall be elected annually at the first meeting of the Board held after each annual meeting of the membership.

The following is a list of key officers and their respective titles as of December 31, 2013:

<u>Name</u>	<u>Office</u>
James Robinson Lynch	President
James Michael McGrann	Secretary
Lester Earl Passuello	Treasurer and Chief Financial Officer

## CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of December 31, 2013.

## CORPORATE RECORDS

### Articles of Incorporation

There were no amendments made to the Articles of Incorporation during the examination period.

### Bylaws

There were no amendments made to the Bylaws during the examination period.

### Minutes

The Board and shareholders meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted.

IC 27-1-7-7(b) states an annual meeting of Shareholders, Members, or Policyholders shall be held within five (5) months after the close of each fiscal year of the Company and at such time within that period as the Bylaws may provide. The Company's Bylaws do not specify the date or time the annual meeting of shareholders is to be held. For the year under review, the annual meeting of shareholders was not held within five (5) months following the close of the fiscal year. See the Other Significant Issues section in this Report of Examination.

The Board committee meeting minutes for the examination period, and through the fieldwork date, were reviewed for the following committees: Audit Committee, Business Committee, Enterprise Integration Committee, Finance Committee, Governance Committee, and Patient and Provider Committee.

## AFFILIATED COMPANIES

### Organizational Structure

The following abbreviated organizational chart shows the Company and its direct upstream parent as of December 31, 2013:

	<u>NAIC Co. Code</u>	<u>Domiciliary State/Country</u>
Vision Service Plan <b>Indiana Vision Services, Inc.</b>	<b>52050</b>	CA <b>IN</b>

### Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI, as required, in accordance with IC 27-1-23-4.

#### *Administration and Marketing Agreement*

On January 1, 2008, the Company and VSP entered into an Administration and Marketing Agreement. Such services include claims processing, data processing, employee related services, and other administrative services. Total compensation paid under the agreement for the year ending December 31, 2013, was \$4,459,470.

*Intercompany Tax Sharing Agreement*

On August 15, 2008, the Company and VSP entered into an Intercompany Tax Sharing Agreement. However, the agreement was not executed in its current form until January 27, 2010, but was implemented retroactively to the tax year ending December 31, 2009.

**FIDELITY BOND AND OTHER INSURANCE**

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by St. Paul Fire and Marine Insurance Company. The bond has blanket coverage of \$9,000,000. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2013, including but not limited to business auto liability, commercial general liability, directors' and officers' liability, employed lawyers' liability, employment practices liability, fiduciary liability, and managed care.

**PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS**

Per the Administration and Marketing Agreement, VSP provides substantially all services necessary to conduct the business of the Company. As a result, the Company does not directly have any employees to which insurance plans, pension, and stock ownership would be applicable.

**STATUTORY DEPOSITS**

The Company reported the following statutory deposits, at December 31, 2013:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For All Policyholders:		
Indiana	\$ 2,697,289	\$ 2,734,838
Total Deposits	<u>\$ 2,697,289</u>	<u>\$ 2,734,838</u>

**REINSURANCE**

IVS had no reinsurance during the examination period.

**ACCOUNTS AND RECORDS**

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the year ended December 31, 2013, was agreed to the respective Annual Statement. The Annual Statement for the year ended December 31, 2013, was agreed to the independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

INDIANA VISION SERVICES, INC.

Assets

As of December 31, 2013

	<u>Per Examination*</u>
Bonds	<u>\$ 11,780,435</u>
Stocks:	
Common stocks	9,651,472
Cash, cash equivalents and short-term investments	1,459,793
Subtotals, cash and invested assets	<u>22,891,700</u>
Investment income due and accrued	83,584
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	556,610
Amounts receivable relating to uninsured plans	988,275
Current federal and foreign income tax recoverable and interest thereon	75,019
Net deferred tax asset	216,465
Totals	<u>\$ 24,811,653</u>

\* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

INDIANA VISION SERVICES, INC.  
 Liabilities, Capital and Surplus  
 As of December 31, 2013

	Per Examination*
Claims unpaid	\$ 1,400,299
Unpaid claims adjustment expenses	19,527
Premiums received in advance	216,542
General expenses due or accrued	104,719
Remittances and items not allocated	211,509
Amounts due to parent, subsidiaries and affiliates	598,789
Liability for amounts held under uninsured plans	455,399
Aggregate write-ins for other liabilities	1,434,825
Total liabilities	4,441,609
Aggregate write-ins for other than special surplus funds	250,000
Unassigned funds (surplus)	20,120,044
Total capital and surplus	20,370,044
Total liabilities, capital and surplus	\$ 24,811,653

\* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

INDIANA VISION SERVICES, INC.  
Statement of Revenue and Expenses  
For the Year Ended December 31, 2013.

	Per Examination*
Member months	4,726,950
Net premium income	\$ 26,948,760
Fee-for-service	907,606
Risk revenue	586,401
Total revenues	28,442,767
<b>Hospital and Medical:</b>	
Other professional services	21,274,339
Total hospital and medical	21,274,339
Claims adjustment expenses, including cost containment expenses	375,666
General administrative expenses	3,915,064
Total underwriting deductions	25,565,069
Net underwriting gain or (loss)	2,877,698
Net investment income earned	224,900
Net realized capital gains or (losses) less capital gains tax of \$1,410	2,619
Net investment gains or (losses)	227,519
Net gain or (loss) from agents' or premium balances charged off (amount charged off \$1,609)	(1,609)
Net income or (loss) after capital gains tax and before all other federal income taxes	3,103,608
Federal and foreign income taxes incurred	683,670
Net income (loss)	\$ 2,419,938

\* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

INDIANA VISION SERVICES, INC.  
Capital and Surplus Account Reconciliation

	<u>2013</u>
Capital and surplus prior reporting period	\$ 22,408,211
Net income or (loss)	2,419,938
Change in valuation basis of aggregate policy and claim reserves	601,273
Change in net unrealized capital gains and (losses) less capital gains tax of (\$121,985)	(226,543)
Change in net deferred income tax	(492,556)
Change in nonadmitted assets	59,721
Dividends to stockholders	(4,400,000)
Net change in capital and surplus	<u>(2,038,167)</u>
Capital and surplus end of reporting period	<u>\$ 20,370,044</u>



### COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of December 31, 2013, based on the results of this examination.

### OTHER SIGNIFICANT ISSUES

IC 27-13-2-10 and IC 27-1-7-11 stipulate that at least one (1) member of the Board reside in Indiana. It is recommended that the Company add an Indiana resident to its Board to come into compliance with the Indiana Code.

IC 27-1-7-7(b) states an annual meeting of Shareholders, Members, or Policyholders shall be held within five (5) months after the close of each fiscal year of the Company and at such time within that period as the Bylaws may provide. It is recommended that the Company comply with IC 27-1-7-7(b) and hold its annual meeting within five (5) months after the close of each fiscal year.

### SUBSEQUENT EVENTS

The Company provided documentation for the appointment of an Indiana resident director subsequent to the end of the examination period and prior to the completion of fieldwork, coming into compliance with IC 27-13-2-10 and IC 27-1-7-11.

**AFFIDAVIT**

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc., hereinafter collectively referred to as the "Examiners", performed an examination of Indiana Vision Services, Inc., as of December 31, 2013.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached Report of Examination is a true and complete report of condition of Indiana Vision Services, Inc., as of December 31, 2013, as determined by the undersigned.

\_\_\_\_\_  
James Kattman, CFE  
Noble Consulting Services, Inc.

State of: Indiana  
County of: Marion

On this \_\_\_\_\_ day of \_\_\_\_\_, 2015, before me personally appeared, James Kattman, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires: \_\_\_\_\_  
Notary Public


**AFFIDAVIT**

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc., hereinafter collectively referred to as the "Examiners", performed an examination of Indiana Vision Services, Inc., as of December 31, 2013.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.


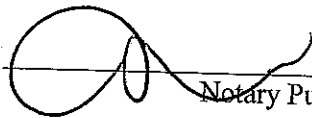
The attached Report of Examination is a true and complete report of condition of Indiana Vision Services, Inc., as of December 31, 2013, as determined by the undersigned.

  
James Kattman, CFE  
Noble Consulting Services, Inc.

State of: Indiana  
County of: Marion

On this 30 day of March, 2015, before me personally appeared, James Kattman, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires:    
Samantha Leigh Dougherty  
Notary Public, State of Indiana  
Hendricks County  
Commission # 627605  
My Commission Expires  
July 04, 2019  
Notary Public

