

Report
of the
Examination of
Vision Care Network Insurance Corporation
Racine, Wisconsin
As of December 31, 2014

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

October 6, 2015

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Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
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Commissioner:

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

VISION CARE NETWORK INSURANCE CORPORATION
Racine, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Vision Care Network Insurance Corporation was conducted in 2010 as of December 31, 2009. The current examination covered the intervening period ending December 31, 2014, and included a review of such 2015 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
- Enrollee Complaint Procedure

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 not annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. However, an independent accounting firm compiles the company's cash receipts and disbursements and prepares the annual statements at year-end. Trial balances prepared by the independent accountant were provided as workpapers during the examination. Likewise, the examination workpapers contain documentation with respect to the alternative examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

The Vision Care Network Insurance Corporation (VCN or the company) is described as a for-profit group model limited service health organization (LSHO) insurer. A LSHO insurer is defined by s. 609.01 (3), Wis. Stat., as ". . . a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, a limited range of health care services performed by providers selected by the organization." Under the group model, the company contracts with a sponsoring clinic to provide primary and specialist services. LSHOs compete with traditional fee-for-service health care delivery.

The company was incorporated August 8, 1989, and commenced business January 1, 1990. The company is owned by Dr. Bruce Savin, O.D., as the sole shareholder of the company.

VCN provides subscriber-group member enrollees with covered vision care services through contracts with one provider group, Dr. Savin and Associates d/b/a Vision Clinic, LTD. (Clinic).

The provider contract with the Clinic lists separate benefits for a) eligible employees and their dependents and b) eligible retirees and their dependents. The Clinic covers the following benefits for eligible employees/eligible dependents:

1. vision examination every 12 months,
2. frames priced up to \$79 retail—replacement allowed every 12 months,
3. lenses every 12 months provided there is a change in the prescription that necessitates the new lenses
4. contact lenses allowance up to \$90 every 12 months.

Also, the eligible employee/eligible dependent can select either one pair of glasses or one pair of contact lenses every 12 months, but not both. Eligible retirees and their eligible dependents have the same benefits except that the benefits are provided once every 24 months as opposed to once every 12 months.

The Clinic is reimbursed on a capitation basis for providing benefits to VCN enrollees. The capitation fee to be paid to the Clinic shall be 75% of the premiums collected by the company from its member enrollees. One-third of the capitation fee payment is designated for

administrative services, and the remaining two-thirds is designated as payment for eye care services.

The contract includes hold-harmless provisions for the protection of policyholders. In the agreement, the Clinic looks solely to VCN for payment of covered services and looks solely to the enrolled member for payment of noncovered services, including applicable copayments. The contract term is indefinite but may be terminated by written notice of intent to terminate mailed to the other party by certified mail at least 90 days prior to the intended effective date of such termination.

The company is not currently marketing its products. In the past VCN used an outside agent. There was no written agreement between VCN and the agent.

The company currently has zero employer groups/members. Previously, each employer group/member would have a master contract (service agreement). Premium rates are reviewed by the President and adjusted to the current cost plus desired profit, accordingly.

Any master contract with an employer contains a paragraph regarding the grievance procedure. Each participant may submit a written grievance to VCN. Within ten days of receipt, VCN will acknowledge the receipt of the grievance. VCN will promptly notify the participant of the results of its investigation and any corrective action taken. The word "grievance" includes a complaint by a participant regarding the provider-patient relationship.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of four members. All directors are elected annually to serve a one-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
Bruce A. Savin, O.D. Racine, WI	President, Vision Care Network Insurance Corporation	2016
Rick D. Andersen, O.D. Racine, WI	Optometrist	2016
Dale R. Savin Racine, WI	Marketing	2016
Adam K. Savin Chicago, IL	Business/IT Consultant	2016

Officers of the company

The officers serving at the time of this examination are as follows:

Name	Office	Compensation
Bruce A. Savin, O.D.	President	None
Adam K. Savin	Secretary	None
Dale R. Savin	Treasurer	None

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Patient Care Committee

Rick D. Andersen, O.D., Medical Director,
Chairman
Bruce A. Savin, O.D., Provider
Betsy Nelson, Optical Manager
Sharon Itzenhauser, Participant

Patient Relations Committee

Michelle Titzkowski, Administrative
Director, Chairman
Bruce A. Savin, O.D., Provider
Betsy Nelson, Optical Manager
Sharon Itzenhauser, Participant

Provider Relations Committee

Michelle Titzkowski, Administrative
Director, Chairman
Bruce A. Savin, O.D., Provider
Rick D. Andersen, O.D., Medical Director

The company has no employees. Necessary staff is provided through an Administrative Services and Management Agreement with Dr. Savin and Associates d/b/a Vision Clinic, LTD. (Administrator). Under the agreement, most recently revised and executed effective January 6, 2015; the Administrator agrees to provide administrative and managerial services to the company as reasonably necessary for the administration and operation of VCN. Such services shall include, but are not limited to, program planning and development, financial systems and services, provider and subscriber services, including complaint resolution, benefit administration, utilization review services, office management and billings, collections and accounts administration, including record keeping required to effectively perform such services. The Administrator shall provide such services in a manner satisfactory to the company. Such services shall not result in the delegation by VCN to the Administrator of control of the company, or of its underwriting, loss adjustment, decisions or managerial function specifically reserved to the company's board of directors and officers.

VCN shall pay to the Administrator a monthly capitation fee, as determined by the company, to provide both general eye care services and general administrative services for the company. The capitation fee to be paid to the Administrator shall be 75% of the premiums collected by the company for subscribers/participants receiving capitated eye care benefits through the company. One-third of this capitation fee payment is designated as payment for administrative services and the remaining two-thirds is designated as payment for eye care services.

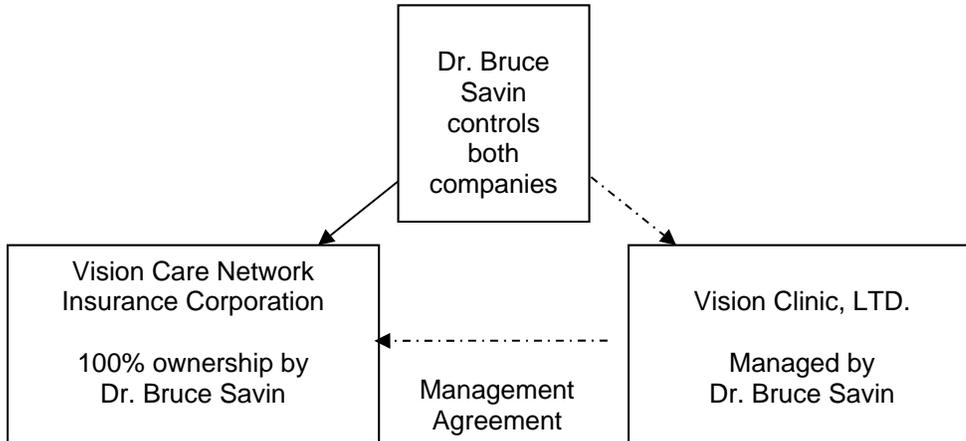
The Administrator shall adopt or continue to operate a quality assurance program which examines the quality of eye care provided to the subscribers of the company. Such quality assurance program shall entail a review of the status of the equipment used by the provider of the services to subscribers, and in making recommendation to such provider on furnishing new equipment, tools and other items commonly used in the practice in which the provider engages as necessary.

The term of previous agreements was three years from the date of the signing. Unless cancelled no less than 30 days prior to the end of the term, the contract would automatically renew for an additional three years.

IV. AFFILIATED COMPANIES

Vision Care Network Insurance Corporation is a member of a holding company system. Both VCN and Vision Clinic, LTD., are under the control of Dr. Bruce Savin. The organizational chart below depicts the relationships among the affiliates in the group.

**Holding Company Chart
As of December 31, 2014**



Pursuant to ch. Ins 40, Wis. Adm. Code, a holding company system is defined as, "...two or more persons who are affiliates, one or more of which is an insurer." Pursuant to ch. 600, Wis. Stat., an "affiliate of a person means any other person who controls, is controlled by, or is under common control with, the first person. A corporation is an affiliate of another corporation, regardless of ownership, if substantially the same group of persons manages the two corporations." The company's relationship with Vision Clinic, a noninsurer, and the company status as an insurer meet the above definitions of an insurance holding company system.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2014, annual statement.

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." Also included in this section are schedules which reflect the growth of the company for the period under examination.

Vision Care Network Insurance Corporation
Assets
As of December 31, 2014

	Assets	Nonadmitted Assets	Net Admitted Assets
Cash, cash equivalents and short-term investments	<u>\$34,834</u>	<u>\$0</u>	<u>\$34,834</u>
Total Assets	<u>\$34,834</u>	<u>\$0</u>	<u>\$34,834</u>

Vision Care Network Insurance Corporation
Liabilities and Net Worth
As of December 31, 2014

Total liabilities		\$
Common capital stock	\$ 1,000	
Unassigned funds (surplus)	<u>33,834</u>	
Total capital and surplus		<u>34,834</u>
Total Liabilities, Capital and Surplus		<u>\$34,834</u>

Vision Care Network Insurance Corporation
Statement of Revenue and Expenses
For the Year 2014

Net premium income		\$ 0
Medical and hospital:		
Other professional services	\$ 0	
Total medical and hospital	0	
General administrative expenses	<u>5,498</u>	
Total underwriting deductions		<u>5,498</u>
Net underwriting gain or (loss)		(5,498)
Federal and foreign income taxes incurred		<u>0</u>
Net Income (Loss)		<u>\$(5,498)</u>

Vision Care Network Insurance Corporation
Capital and Surplus Account
For the Five-Year Period Ending December 31, 2014

	2014	2013	2012	2011	2010
Capital and surplus, beginning of year	\$40,332	\$43,250	\$44,666	\$44,560	\$30,743
Net income (loss)	<u>(5,498)</u>	<u>(2,918)</u>	<u>(1,416)</u>	<u>106</u>	<u>13,817</u>
Surplus, End of Year	<u>\$34,834</u>	<u>\$40,332</u>	<u>\$43,250</u>	<u>\$44,666</u>	<u>\$44,560</u>

Vision Care Network Insurance Corporation
Statement of Cash Flows
As of December 31, 2014

Total revenue		\$ <u>0</u>
Less:		
Commissions, expenses paid and aggregate write-ins for deductions	<u>\$5,498</u>	
Net cash from operations		<u>(5,498)</u>
Net change in cash, cash equivalents, and short- term investments		(5,498)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>40,332</u>
End of Year		<u>\$34,834</u>

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
2014	\$34,834	\$ 0	\$34,834	\$ 0	\$ 0	\$ (5,498)
2013	40,332	0	40,332	11,592	5,955	(2,918)
2012	43,250	0	43,250	12,856	6,612	(1,416)
2011	44,666	0	44,666	46,387	24,833	106
2010	45,450	890	44,560	73,824	42,787	13,817
2009	30,743	0	30,743	62,734	34,576	2,296

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Enrollment	Change in Enrollment
2014	N/A*	N/A*	N/A*	0	-100.0%
2013	-25.2%	51.4%	73.8%	316	27.0
2012	-11.0	51.4	59.5	249	-60.4
2011	2.3	53.6	46.2	629	.2
2010	18.7	58.0	23.0	628	55.4
2009	3.7	55.1	27.1	404	13.2

* There were no premiums earned in 2014, so expense ratios and profit margins do not apply to fiscal year 2014.

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, 2014, as modified for examination adjustments is as follows:

Assets	\$34,834	
Irrevocable letter of credit	<u>75,000</u>	
Amount available to satisfy surplus requirements		
Less:		
Liabilities	0	
Examination adjustments	<u>0</u>	
Net amount available to satisfy surplus requirements		\$109,834
Net premium earned	0	
Compulsory factor	<u>3%</u>	
	0	
Compulsory surplus		<u>75,000</u>
Compulsory Excess/(Deficit)		<u>\$ 34,834</u>
Net amount available to satisfy surplus requirements		\$109,834
Compulsory surplus	\$75,000	
Security surplus factor	<u>140%</u>	
Security surplus		<u>105,000</u>
Security Excess/(Deficit)		<u>\$ 4,834</u>

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 VCN.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2014, is accepted.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were eight 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. Management and Control—It is again recommended that the bylaws be amended to indicate the appropriate date of the annual meeting.

Action—Compliance

2. Management and Control—It is again recommended that the company file with the Commissioner of Insurance all amendments and modifications to its business plan in compliance with s. Ins 9.06, Wis. Adm. Code.

Action—Compliance

3. Management and Control—It is recommended that the Treasurer perform his duties as set forth in the company's bylaws in compliance with s. 180.0841, Wis. Stat.

Action—Compliance

4. Accounts and Records—It is again recommended that VCN report the portion of capitation fees for administrative fees under general administrative expenses in the annual statements in accordance with NAIC Annual Statement Instructions – Health.

Action—Compliance

5. Accounts and Records—It is again recommended that the company establish tax liabilities or receivables in accordance with SSAP No. 10 and in accordance with NAIC Annual Statement Instructions – Health.

Action – Compliance

6. Accounts and Records—It is recommended that the company maintains the minimum requirements of accounting records, to include General Ledger, and Cash Receipts and Disbursements Journal, in compliance with s. Ins 6.80 (4), Wis. Adm. Code..

Action—Compliance

7. Holding Company—It is recommended that the company file an Insurance Holding System Annual Registration Statement showing Dr. Bruce Savin as the controlling person. It is considered not necessary to include the financial report of Vision Clinic in the filing.

Action—Compliance

8. Holding Company—It is also recommended that the company shall report the affiliated transactions with Vision Clinic in Schedule Y of the annual statements in accordance to NAIC Annual Statements Instructions – Health.

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.

Fidelity Bond

The examination noted that the company does not have fidelity bond coverage. During review of insurance coverage, there was no evidence of officer and directors dishonesty insurance for VCN. When discussed with the company, they could not provide evidence of coverage. It is recommended that the company obtain employee dishonesty insurance (i.e., fidelity bond) and develop a procedure to ensure the company maintains the minimum level of coverage as suggested by the NAIC. Subsequent to the date of this examination, VCN did acquire employee dishonesty insurance to meet the minimum level of coverage as suggested by the NAIC.

VII. CONCLUSION

The Vision Care Network Insurance Corporation is a for-profit group model limited service health organization (LSHO) insurer. VCN was incorporated August 8, 1989, and commenced business January 1, 1990. The company currently does not provide vision care benefits to any employers, is not currently writing any premiums, and has no significant operations.

The company's assets and capital and surplus have changed very little over the last five years, primarily due to its management strategy to remain at status quo. After losing its final insured employer group in 2013, the company has since attempted to market its vision care benefit package to new prospective employer groups.

The current examination has resulted in no adjustments to surplus.

Although the company has a board of directors, it is run solely by the President. Several recommendations from past examinations were not acted upon, which resulted in the issuance of a forfeiture of \$5,000 during the period covered by the current examination.

All eight prior examination report recommendations were complied with. The current examination resulted in one new recommendation, summarized in the next page.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 18 - Fidelity Bond—It is recommended that the company obtain employee dishonesty insurance (i.e., fidelity bond) and develop a procedure to ensure the company maintains the minimum level of coverage as suggested by the NAIC.

IX. ACKNOWLEDGMENT

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

Respectfully submitted,

James R. Lindell
Examiner-in-Charge