

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL AND LIMITED MARKET CONDUCT EXAMINATION

OF

**VISION CARE OF OREGON, INC.
dba VISION SERVICE PLAN
Portland, Oregon**

NAIC COMPANY CODE 53732

AS OF

December 31, 1998

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August 2, 1999

Honorable Michael Greenfield, Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE, Room 440-4
Salem, Oregon 97310

Dear Director:

In accordance with your instructions and pursuant to ORS 731.300, we have examined the business affairs and financial condition of

**Vision Care of Oregon, Inc.
dba Vision Service Plan
825 NE Multnomah Street, Suite 956
Portland, Oregon 97232**

NAIC Company Code 53732

hereinafter referred to as the "Company." The following report of examination as of December 31, 1998, is respectfully submitted.

SCOPE OF EXAMINATION

The examination of the Company was conducted as of December 31, 1998, covering the four-year period then ended, and included a review of material transactions or events which occurred subsequent to the examination cut-off date and were noted during the examination.

The examination was conducted pursuant to the provisions of ORS 731.300 and in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC) for the purpose of determining the Company's financial condition, ability to fulfill its obligations, the nature of its operations, and compliance with the Insurance Code. Accounting methods, internal control procedures, records, and other supporting evidences were examined or tested by appropriate methods to the extent deemed necessary and appropriate for the type, volume, and complexity of the accounting system and operations utilized by the Company. The record testing included, but was not limited to, assets, liabilities, income and expense related items. A review was also made of the corrective actions taken by the Company with respect to comments and/or recommendations made in the previous financial report of examination as of December 31, 1994.

The CPA audit of Vision Service Plan as of December 31, 1998, was not completed at the start of this examination. As a result, no CPA work papers have been incorporated into the work papers of this examination.

Mr. Ralph Kopp, FSA, MAAA, actuary for the State of Oregon, Department of Consumer and Business Services, participated in this examination by evaluating unpaid claims and unpaid claims adjustment expenses. The results of his analyses are found under the relevant section of this report.

A management affirmation attesting to the Company's compliance with Oregon laws relating to location of accounts and records, conduct of the Company's affairs in a nonhazardous manner, and exercise of managerial control by a duly qualified and constituted Board of Directors was signed by and received from the Chairman of the Board of Directors.

COMPANY HISTORY

Vision Care of Oregon, Inc., was organized as an Oregon nonprofit corporation in 1971 to provide and administer vision care plans in order to make available professional optometric services to eligible members of participating groups. On September 30, 1976, the Company was issued a Certificate of Authority by the Oregon Insurance Division to transact business as a health care service contractor in the State of Oregon.

AFFILIATED COMPANIES

The Company is managed and controlled by Vision Service Plan (VSP) (a California nonprofit corporation). VSP is the sole voting member of the Company and as such, elects the Board of Directors and officers. The Company is affiliated with 24 other vision plans nationwide, with VSP being the ultimate controlling entity of these plans. The organizational chart attached to the end of this report depicts the composition of the group.

MANAGEMENT AND CONTROL

Board of Directors

Members of the Board of Directors, duly elected and serving as of December 31, 1998, were:

Name and Address

Principal Affiliation

John T. Alenius
8801 Bold Ruler Way
Fair Oaks, CA 95628

Senior Vice President
Vision Service Plan

Patricia Cochran
5928 Bar Harbour Court
Elk Grove, CA 95758

Vice President/CFO
Vision Service Plan

Roger J. Valine
201 Delta Oaks Way
Sacramento, CA 95831

President/CEO
Vision Service Plan

All three Board members are employees of Vision Service Plan. This is contrary to the provision of ORS 750.015(1). This code section states in part: “that not less than one-third of the group of persons vested with the management of the affairs of a healthcare service contractor ...shall be representatives of the public who are not participating doctors or employees or trustees of a participant hospital.” The public member should represent the community and state in which it operates. **I recommend the Board appoint a member from the public who represents the local community and hereby comply with ORS 750.015(1).**

Officers

The following officers were appointed to serve in the indicated positions at a special meeting of the Board of Directors held on February 1, 1994, and were serving at year end 1998:

Name

Position

Roger J. Valine	President
Gary N. Brooks	Vice President
John T. Alenius	Secretary
Patricia Cochran	Treasurer

Each officer is also an officer of Vision Service Plan.

MANAGEMENT AFFIRMATION

CONFLICT OF INTEREST

The Company, through its parent, has an established policy for disclosure of any material interest or affiliation on the part of any of its directors and officers which is in, or is likely to, conflict with official duties. No exceptions were noted in a review of such forms for the period under the examination.

CORPORATE RECORDS

Board Minutes

Minutes of the Board of Directors meetings were reviewed for the period under examination. Meetings were held in accordance with the Company's Bylaws and a quorum was achieved at all meetings.

Articles of Incorporation

Articles of Incorporation appeared to be in conformance with Oregon statutes. No amendments were made to the Articles of Incorporation during the period covered by this examination.

Bylaws

The Bylaws appeared to be in conformance with Oregon statutes and were amended once during the period covered by this examination. The Board of Directors made the following change to the Bylaws at their annual meeting on May 26, 1998.

Article VIII was amended and renamed to: Professional Services:

Participating doctors shall render services to subscribers, as well as recipients and beneficiaries of the Corporation's Social welfare and community benefit programs in accordance with their professional skill, and shall look solely to the available funds of the Corporation for compensation for said services, except for deductibles or copayments which may be collected from the subscriber pursuant to the subscriber's individual contract.

The previous Article VIII was renumbered to Article IV and retained the title “Amendments.”

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The Company has adequate insurance coverages in all significant areas of risk. The examination of these coverages involved adequacy of limits and retentions, and solvency of the insurers providing the coverages.

The Company is a named insured on policies issued to Vision Service Plan that protect against liability and property loss.

In addition to the Company's general property and liability coverages, the Company, through its parent, is insured up to \$2,000,000 per occurrence with \$75,000 deductible against losses from acts of dishonesty and fraud by its employees. The fidelity bond limit exceeds the recommended NAIC minimum coverage. In addition, the Company has a directors and officers policy and a professional liability policy for \$10,000,000.

RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS

Vision Service Plan, the parent, maintains a defined contribution retirement plan for substantially all employees. Contributions to the plan are based on 15% of the qualified compensation paid to the participants, up to certain limits. The plan is administered by Vision Service Plan for the entire affiliated group. The expenses of the plan are charged to affiliates in accordance with an intercompany cost sharing agreement.

In the past, Vision Service Plan sponsors other health care benefit plans for retired employees. Employees retiring from Vision Service Plan on or after attaining age 55 who have rendered at least 20 years of service, decreasing incrementally to 10 years of service, are entitled to certain health care benefits at age 65. The plan was unfunded

and the expenses of this plan were charged to affiliates in accordance with an intercompany cost sharing arrangement. During the course of this examination, all past and future liabilities for the post-retirement benefits were assumed by Vision Service Plan. According to a management affirmation provided to the examiner, the Company will no longer charge any liability for the post-retirement benefit to Vision Care of Oregon, Inc. Consequently, no accruals for the post-retirement benefit are necessary.

TERRITORY AND PLAN OF OPERATION

The Company offers prepaid vision care to Oregon employers and union groups with at least ten members. Individual plans are not offered. Vision services are limited to conditions of the visual system as treated by licensed doctors of ophthalmology and optometry (eye examinations, lenses and frames). Coverage is not provided for diseases or surgery of the eye.

In addition to insured groups, the Company administers the vision care programs of various self-insured groups. The Company is reimbursed for claims paid on a monthly basis and receives an administrative fee based on a charge per enrolled individual.

The Company's plans are marketed through its account executive and licensed independent insurance agents.

INTERCOMPANY AGREEMENT

The Company maintains an "Administration and Marketing Agreement" with Vision Service Plan (VSP). VSP agrees to provide the services necessary for the business operations of the Company. These services include marketing, underwriting, pricing, accounting, and data processing. In exchange, the Company agrees to reimburse VSP in accordance with a fee schedule contained in the agreement.

GROWTH OF THE COMPANY

The following exhibit reflects the growth of the Company since 1994. The stated amounts were compiled from copies of the Company's filed annual statements and, where indicated, from the current and previous examination reports.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus as regards Policyholders</u>	<u>Net Income</u>
1994*	\$3,941,178	\$1,444,189	\$2,496,989	\$ 473,954
1995	4,383,307	1,695,061	2,688,246	(3,170)
1996	5,497,968	1,805,389	3,692,579	1,177,150
1997	7,335,932	1,945,611	5,390,321	1,740,654
1998*	8,993,157	1,317,866	7,675,291	2,198,277

*Per examination (see financial statements and notes to financial statements for details).

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Company since 1994. The amounts were compiled from copies of the Company's filed annual statements.

<u>Year</u>	<u>Premiums Earned</u>	<u>LAE & Losses Incurred</u>	<u>Combined Loss Ratio</u>
1994*	\$5,020,226	\$4,528,474	90.20%
1995	5,662,605	5,461,110	96.44
1996	6,289,936	5,108,680	81.21
1997	6,921,863	5,569,148	80.45
1998*	7,072,130	4,812,990	68.06

*Per examination

A 12.39% decrease in the loss ratio between 1997 and 1998 is attributable to an examination adjustment made in the amount of \$707,992 (see Note 3 and Note 4 for more details).

HOLDING COMPANY REGISTRATION

The Company is a member of a holding company system and filed a registration statement with the Insurance Division pursuant to the provisions of ORS 732.551, ORS 732.552, OAR 836-27-010, and OAR 836-27-012. No exceptions were noted in the registration statement. The Company has maintained a current registration statement with the Insurance Division each year under the examination, therefore, it is in compliance with the provisions of ORS 732.554.

STATUTORY DEPOSIT

As of the date of the examination, the Company maintained a deposit with the Oregon Insurance Division, Department of Consumer and Business Services, in the sum of \$50,000. (Certificate of Deposit - maturity 7/6/99) pursuant to the provisions of ORS 750.045. The deposit was verified from the records of the Insurance Division.

DIVIDENDS

The Company is a non-profit organization, therefore, dividends are not paid or declared.

REINSURANCE

The Company has no reinsurance agreements.

LIMITED MARKET CONDUCT

Claims

To determine the overall claim processing time and compliance with applicable Oregon Administrative Rules, the examiner obtained a sample of 50 claims and compared them to the following claims standards, as set forth by the Insurance Division.

Claims Standard #1: The initial contact by the Company with claimant is within 30 days. ORS 746.230(1)(b) and OAR 836-080-0225.

Claims Standard #3: Claims are resolved in 30 days unless a delay letter (45 days) has been sent. OAR 836-080-0225(1) & (3).

Claims Standard #5: Claims files are adequately documented. ORS 733.170 and OAR 836-080-0215.

Results: It was determined the Company was 100% compliant with the above standards.

Complaints

Examination of complaints is normally conducted in two parts: Insurance Division Complaints and Noncommissioner Complaints. However, neither the Company nor the Insurance Division recorded any complaints submitted against the Company through the Insurance Division during the period of the examination. The Company provided a list of 105 complaints received during the year 1998, of which four were written.

The items were tested for compliance with the following standards based upon Oregon Revised Statutes and Oregon Administrative Rules.

Complaint Handling Standard #1 - (Non-Insurance Division) – The Company furnished a response within 30 days of any inquiry from an insured. (OAR 836-80-0225(3)).

Complaint Handling Standard #2 - (Non-Insurance Division) – The Company's response was appropriate. (OAR 836-080-0225).

Results:

It was determined the Company was 100% compliant with the above standards.

None of the samples included testing of Company denials, therefore, no conclusions were reached with respect to denials.

ACCOUNTS AND RECORDS

Disbursements were evidenced by bills, invoices, or statements pursuant to the provisions of ORS 732.320. Investment guideline revisions and approval of investment transactions were conducted by the Board of Directors pursuant to the provisions of ORS 733.730 and such investments were properly recorded pursuant to the provisions of 733.740. As of December 31, 1998, invested assets of \$7,829,791 or 87.1% of the total assets were invested in amply secured obligations of the United States, a state, a political subdivision of this state or FDIC insured certificates of deposit, which exceeded the amount required by ORS 733.580.

In general, the Plan's records and source documentation supported the amounts presented in the Company's December 31, 1998, annual statement. The following exceptions were noted:

Funds Subject To Escheat

The Company has a system in place to report unclaimed property to the State in accordance with the provisions of ORS 98.302 to ORS 98.436

Custodial Agreement

During the course of this examination, the Company revised its custodial agreement to incorporate the recommendations from the previous examination. However, the revised agreement does not meet all the safeguards as required by the NAIC. The agreement should include safeguards that the bank as custodian is obligated to indemnify the Company for any loss of the Company's securities in the bank's custody occasioned by the negligence or dishonesty of the bank's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction. No recommendation will be as made as the Company has subsequently secured a new custodial agreement incorporating the required safeguards.

Cash and Short-term Investments

As of December 31, 1998, the Company's short-term investments, which included Federal Farm Credit Discount Notes, Federal Home Loan Board Discount Notes, exceeded 10% of total assets as limited by ORS 733.770. The provision of this code section states in part "an insurer shall not have any combination of investments in or secured by the stocks, obligations, and property of one person, corporation or political subdivision in excess of 10% of the insurer's assets." No recommendation will be made as subsequent to year-end and prior to the last day of fieldwork, the Company sold these investments and the proceeds from the sale have been reinvested in US Treasury Notes which are not subject to any investment limitation.

Amounts Receivable Relating to Uninsured Accident and Health Plans – This asset, as reported in the 1998 annual statement, included receivables from both insured groups and affiliated vision care programs. Only the amounts receivable from insured groups are premiums. The amount receivable from affiliates is reimbursement to the Company for benefits paid on behalf of members of the affiliated vision care plans. As a result, amounts to affiliates has been reclassified to "Amounts due from parent, subsidiary, and affiliates." This recommendation had been brought to the Company's attention in the previous examination but no corrective measures were taken. No recommendation will be made as the Company has taken corrective action subsequent to year end and prior to the last day of fieldwork.

Documentation - A review of subsequent cash disbursements revealed a check in the amount of \$1,000,000 (14.6% of total reserves and unassigned funds) was issued without proper documentation. This is contrary to the provision of ORS 732.302(1)&(2)

I recommend the Company, in the future, provide proper documentation on

all expenditures of \$100 or greater and hereafter comply with the provisions of the above code section.

Recordkeeping Practices

Even though numerous records are maintained in the Portland, Oregon office, a certain amount of the accounting records and supporting work papers and documents for the annual statements are maintained in Rancho Cordova, California, the home office of the Vision Service Plan. At the start of the examination, the following accounts and records were not readily available as outlined below:

1. Custodial Account Bank Statements

Custodial account bank statements were available only for the last six months of the examination period.

2. Provider Contracts

All provider contracts were being maintained in California.

3. Administrative Service Plan and Risk Contracts

The majority of these contracts were located in Portland, however a small amount of the contracts were located in California.

This is contrary to the provision of ORS 732.245. This code section, in essence, states that every domestic insurer shall have and maintain its principal place of business and home office in the State of Oregon, and shall keep therein accurate and complete accounts and records of its assets, transactions and affairs. Furthermore, ORS 733.170 requires, in part, that an insurer shall keep its books, records, accounts and transactions, and source data in such a manner that the Commissioner may readily verify its statements of financial condition. **I recommend the Company, at all times, comply with the provisions of ORS 732.245(1) by maintaining all records in the**

State of Oregon and to keep records in a form that is readily verifiable by the director pursuant to ORS 733.170.

It should be noted that the requirement for the maintenance of all records in Oregon was brought to the Company's attention in previous examinations and over the years the Company has made significant improvement towards keeping its records in Oregon.

Physician Withholding

Member physicians contract directly with the parent company which, in turn, processes all claim payments. The amount of such claims are charged back to the Company. In 1980, the parent company began withholding a percentage (1% in 1994) of all paid claims for physicians. The Board of Directors of the parent company decided, after the end of the calendar year, the amount, if any the withholds for that calendar year which will be returned to member physicians. For 1994, 90% of the amount withheld was returned to member physicians during 1996.

As of the date of this report, the Company has returned all except 10% of the amounts withheld from the member physicians since 1980. The amount of withholds as of December 31,1998, was \$187,193 or a decrease of \$41,022 from the previous examination. At present, the parent company has discontinued the practice of physician withhold and the Board of Directors do not have any plans to pay the remaining 10% withhold to the physicians.

In addition to the comments and recommendations noted above, several observations considered housekeeping in nature were mentioned in a separate management letter

issued on July 23, 1999. These findings do not warrant a comment in the report and have been brought to the Company's attention.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The recommendations presented in the 1994 report of examination are reproduced below followed by the Company's resolution of these issues as of December 31, 1998:

1. I recommend the Company comply with the provisions of ORS 733.170 by maintaining all claims at Company premises.

The Company is presently maintaining all claims data in Oregon.

2. I recommend the Company comply with the provisions of ORS 733.170 and OAR 836-80-215 by maintaining complete and accurate claims data.

The Company is presently maintaining complete and accurate claims data in Oregon.

3. I recommend the Company comply with the provisions of ORS 746.230(1)(b) and OAR 836-80-225(1) by acknowledging or paying all claims within 20 working days.

The OAR's have changed in the number of days allowed to 30 days. The Company was found to be in compliance with the provisions of ORS 746.230(1)(b).

4. I recommend the Company take the necessary corrective measures to ensure that all agents are properly appointed and hereafter comply with the provisions of ORS 744.051(b).

Per the Chief Market Conduct Examiner and the Examiner In Charge, it was decided that the scope of the limited market conduct examination would not include sampling of agents appointments and therefore no follow-up to this recommendation was performed.

5. I recommend the Company report stale dated checks as an annual statement liability, "amounts withheld or retained for accounts of others," in accordance of ORS 744.051 (b)

The Company is now recording stale dated checks as an annual statement liability.

6. I recommend the Company comply with the provisions of ORS 732.245 and 733.170 by maintaining in the State of Oregon its broker advices and remittances; detail accounts receivable aging report, unearned premiums detail, cost by incurred month reports; and claims detail information. In addition, the

Company should have personnel available in the Portland office, with sufficient qualifications and insurance company managerial experience, at all times during the future examinations.

The Company has made significant improvements towards keeping its records in Oregon, however, some records are still located in California. (See Accounts & Records – Recordkeeping practices (pg. 15)).

7. I recommend the Company not invest more than 10% of its assets in one entity and hereafter comply with ORS 733.770.

The Company no longer maintains more than 10% of its assets in any one entity.

8. I recommend the Company submit the physician withholding arrangement to the Oregon Insurance Division for regulatory approval to reflect these amounts as equity rather than as a liability and develop a supplement to the provider agreement that requires the member provider to sign an agreement showing acceptance of a subordinate position of the withheld compensation. This recommendation is supported by the NAIC Accounting Practices and Procedures Manual for HMOs, page 9-1, and ORS 733.210(2).

The Company discontinued the practice of a physician withhold during the course of this examination as noted in the Board Minutes of March 1, 1996.

9. I recommend the Company record 100% of such withholding as a liability for the amount of unpaid incurred claims and report as such in all the future quarterly and annual statements as “other expenses due and accrued” to comply with the provisions of ORS 733.030 and 731.574.

The Company discontinued the practice of a physicians withhold and paid the physicians 90% of the liability. The remaining 10% is reflected as a liability “other expenses due and accrued.”

10. I recommend the Company immediately comply with the provisions of ORS 750.005(a) by contracting directly with the physicians under its own name and hereafter maintain such compliance at all times.

During the course of this examination, the Company has changed the provider contracts to incorporate the changes recommended in the last examination.

11. I recommend the Company’s Board of Directors be involved in such decisions by recording such action in the minutes of its meetings, and hereafter comply with the provisions ORS 732.215.

Since the Company has discontinued the practice of physicians withhold, no follow up was performed.

12. The Company executed a new custodial agreement with Union Bank which complied with the provisions of ORS 732.245.

The Company's custodial agreement as of the annual statement did not contain the proper safeguards as required by the NAIC Examiners Handbook. (see Accounts & Records – Custodial Agreement)

VISION CARE OF OREGON, INC.
STATEMENT OF ASSETS, LIABILITIES, RESERVES AND OTHER FUNDS
As of December 31, 1998

<u>ASSETS</u>	<u>Ledger Assets</u>	<u>Adjustments</u>	<u>Net Admitted Assets</u>
Bonds (Note 1)	\$3,252,702		\$3,252,702
Cash & short-term investments	4,577,089		4,577,089
Uncollected premiums	179,387		179,387
Amount receivable relating to uninsured accident & health plan (Note 2)	896,922	(180,310)	716,612
Investment income due & accrued Receivable from parent, subsidiaries and affiliates (Note 3)	87,057		87,057
		180,310	180,310
Total Assets	<u>\$8,993,157</u>	<u>\$ 0</u>	<u>\$8,993,157</u>
 <u>LIABILITIES</u>			
Claims unpaid (Note 4)	\$1,127,009	\$(667,575)	\$ 459,434
Unpaid claims adjustment (Note 5)	68,167	(40,417)	27,750
Unearned premium	16,418		16,418
Other expenses due or accrued	205,994	2,002	207,996
Amounts withheld or retained On account of others	45,932		45,932
Liability for amount held under Uninsured accident & health plans (Note 6)	448,589	(137,967)	310,622
Aggregate write-ins for other liabilities	<u>249,714</u>	<u>0</u>	<u>249,714</u>
Total Liabilities	<u>\$2,161,823</u>	<u>\$(843,957)</u>	<u>\$1,317,866</u>
 <u>RESERVES & OTHER FUNDS</u>			
Statutory reserve	\$ 235,790		\$ 235,790
Unassigned funds	<u>6,595,544</u>	<u>843,957</u>	<u>7,439,501</u>
Total reserves and unassigned funds	<u>6,831,334</u>	<u>843,957</u>	<u>7,675,291</u>
Total Liabilities and Reserves	<u>\$8,993,157</u>	<u>\$ 0</u>	<u>\$8,993,157</u>

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE
FINANCIAL STATEMENTS**

VISION CARE OF OREGON, INC.
UNDERWRITING AND INVESTMENT EXHIBIT
For the Year Ended December 31, 1998

UNDERWRITING INCOME

Premiums earned	\$ 7,072,130
Claims incurred (Note 4, 5, 6)	4,812,990
Expenses incurred:	
a. Claims adjustment	223,349
b. Administration	71,758
c. Soliciting (Note 7)	<u>135,686</u>
Total underwriting deductions	<u>5,243,783</u>
Net underwriting gain	<u>1,828,347</u>

INVESTMENT INCOME

Investment income earned	<u>369,930</u>
Net gain before Federal income tax	<u>2,198,277</u>
Federal income tax incurred	<u>0</u>
Net gain	<u>\$ 2,198,277</u>

RESERVES AND UNASSIGNED FUNDS

Reserves and unassigned funds December 31, 1997	<u>\$ 5,390,321</u>
Net gain	2,198,277
Change in nonadmitted	<u>86,693</u>
Change in reserves and unassigned funds	<u>2,284,970</u>
Reserves and unassigned funds as of December 31, 1998	<u>\$ 7,675,291</u>

**THE ACCOMPANYING NOTES ARE AND INTEGRAL PART OF THE
FINANCIAL STATEMENTS**

VISION CARE OF OREGON, INC.
RECONCILIATION OF EXAMINATION CHANGES
Examination as of December 31, 1998

After evaluation of the assets and providing for all known liabilities and unassigned funds, the following reflect examination changes to the reserves and unassigned funds reported by the Company as of December 31, 1998.

Reserves and unassigned funds reported
per Company, December 31, 1998
\$6,831,334

<u>Examination Changes</u>	<u>Increase</u>	<u>Decrease</u>	
<u>Assets</u>			
Amounts receivable Relating to accident and Health plans (Note 2)		180,310	
Receivable from parent, Subsidiary, and affiliate (Note 3)	\$180,310		
<u>Liabilities</u>			
Unpaid claims (Note 4)		667,575	
Unpaid claims (Note 5) Adjustment expenses		40,417	
Other expenses due or Accrued (Note 6)	2,002		
Amounts held under Uninsured Accident and Health plans (Note 7)		137,967	
Total	<u>182,312</u>	<u>1,026,269</u>	<u>\$ 843,957</u>
Reserves and unassigned funds reported per examination, December 31, 1998			<u>\$7,675,291</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds

Bond values were generally stated at amortized cost using the scientific method. The Company's assets are invested in primarily high quality US government bonds, States, Territories, and possessions, and investment grade industrial bonds. A quality distribution of bonds is presented below:

<u>Year</u>	<u>Total Book Value</u>	<u>Market Value</u>	<u>Noninvestment Grade Securities*</u>	<u>Percentage of Portfolio</u>
1994*	\$2,003,546	\$1,970,000	-0-	0.00%
1995	2,504,344	2,535,222	-0-	0.00
1996	3,401,861	3,395,555	-0-	0.00
1997	4,649,586	4,651,875	-0-	0.00
1998*	3,252,702	3,270,000	-0-	0.00

*Investment grade is defined by the NAIC as those securities with an NAIC Security Valuation Office (SVO) rating of "1" or "2." Noninvestment grade securities are those with an (SVO) rating of "3" to "6."

Investments in bonds and stocks represent 36.15% of the total assets of the Company.

Note 2 - Amounts Receivable Relating to Uninsured Accident and Health Plan

Per Company	\$896,922
Per examination	<u>(716,612)</u>
Difference	<u>\$180,310</u>

This asset included receivables from both uninsured accident and health plans and affiliated vision care programs. The amounts receivable from affiliated vision care programs should be recorded as a receivable from parent, subsidiary, and affiliates. This reclassification is facilitated by the NAIC Annual Statement Instructions for Health, Hospital, and Dental Services or Indemnity Companies (Pgs. 25 and 26) and ORS 731.574. (See Note 3)

Note 3 - Receivable from Parent, Subsidiaries, and Affiliates

Per Company	\$ 0
Per examination	<u>180,310</u>
Difference	<u>\$ 180,310</u>

A reclassification of \$180,310 is being made from amounts receivable relating to uninsured accident and health plans. (See Note 2)

Note 4 - Claims Unpaid

Per Company	\$ 1,127,009
Per examination	<u>(459,434)</u>
Difference	<u>\$ 667,575</u>

Unpaid claims reserves were determined to be redundant by \$667,575 by Mr. Ralph Kopp, actuary for the State of Oregon Department of Consumer and Business Services and the examination staff. As a result an adjustment has been made to the reported balance.

Note 5 - Unpaid Claim Adjustment Expenses

Per Company	\$ 68,167
Per examination	<u>(27,750)</u>
Difference	<u>\$ 40,417</u>

Reserves for unpaid claim adjustment expenses were determined to be redundant by \$40,417 by Mr. Ralph Kopp, actuary for the State of Oregon Department of Consumer and Business Services, and the examination staff. As a result an adjustment has been made to the reported balance.

Note 6 - Other Expense Due or Accrued

Per Company	\$205,993
Per Examiner	<u>(207,995)</u>
Difference	<u>\$ 2,002</u>

The monthly commissions register ending December 31, 1998, contained several credits which represented commission corrections that have never been cleared. The difference represents the total credits appearing on the register.

Note 7 - Liability for Amounts Held Under Uninsured Accident and Health Plans

Per Company	\$ 448,589
Per examination	<u>(310,622)</u>
Difference	<u>\$ 137,967</u>

The Company reported administrative service plans lab and material fees in the amount of \$137,967. According to the provisions of ORS 731.574 and the NAIC Annual Statement Instructions for Health, Medical, Dental Service or Indemnity Corporations, (Pg. 28) such fees should be excluded.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Following is a summary of the comments and recommendations made as a result of this examination.

Page

- 7 I recommend the Company secure a Board member from the public who represents the local community and comply with ORS 750.015.
- 17 I recommend the Company, in the future, provide proper documentation on all expenditures of \$100 or greater and hereafter comply with the provisions of the above code section.
- 18 I recommend the Company, at all times, comply with the provisions of ORS732.245(1) by maintaining all records in the State of Oregon and to keep records in a form that is readily verifiable by the director pursuant to ORS 733.170.

CONCLUSION

During the four year period covered by this examination, the reserves and unassigned funds of the Company has increased from \$2,496,989 as presented in the December 31, 1994, report of examination, to \$7,675,291 as shown in this report of examination.

The comparative assets and liabilities are shown below:

	<u>December 31,</u>		<u>Change</u>
	<u>1998</u>	<u>1994</u>	
Assets	\$8,993,157	\$3,941,178	\$5,051,979
Liabilities	<u>1,317,866</u>	<u>1,444,189</u>	<u>(126,323)</u>
Surplus	<u>\$7,675,291</u>	<u>\$2,496,989</u>	<u>\$5,178,302</u>

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, David L. Daulton, CFE, Patricia G. Neesham, CPA, CFE, insurance examiners, Thomas G. Moeller, RHU, CLU, AIE, market conduct examiner and Ralph Kopp, FSA, MAAA, actuary for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,

Timothy R. Hurley, CFE
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Timothy Hurley, CFE, being duly sworn, deposes and says that the preceding report of financial examination as of December 31, 1998, of Vision Care of Oregon, Inc., dba Vision Service Plan, Portland, Oregon, subscribed by him is true and correct to the best of his knowledge and belief.

Timothy R. Hurley, CFE
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to before me this _____ day of _____, 1999.

Notary Public for the State of Oregon
Linda J. Rothenberger

My Commission Expires: _____