

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**GROUP HEALTH INCORPORATED
UNDERSTATED ITS CASH
BALANCE PENSION PLAN
MEDICARE SEGMENT PENSION
ASSETS AS OF JANUARY 1, 2011**

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Deputy Inspector General
for Audit Services**

**July 2019
A-07-19-00557**

Office of Inspector General

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operating divisions will make final determination on these matters.

Report in Brief

Date: July 2019

Report No. A-07-19-00557

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



Why OIG Did This Review

Certain Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements of their Medicare contracts and Cost Accounting Standards (CAS) 412 and 413.

The HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the Medicare segment pension assets to ensure compliance with Federal regulations.

Previous OIG reviews found that Medicare contractors did not always correctly identify and update the segmented pension assets.

Our objectives were to determine whether Group Health Incorporated (GHI) complied with Federal requirements and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendation to increase the GHI Cash Balance Plan Medicare segment pension assets as of January 1, 2009, and (2) updating the GHI Cash Balance Plan Medicare segment pension assets from January 1, 2009, to January 1, 2011.

How OIG Did This Review

We reviewed GHI's implementation of the prior audit recommendation, its identification of its GHI Cash Balance Plan Medicare segment, and its update of the GHI Cash Balance Plan Medicare segment pension assets from January 1, 2009, to January 1, 2011.

Group Health Incorporated Understated Its Cash Balance Pension Plan Medicare Segment Pension Assets as of January 1, 2011

What OIG Found

GHI implemented our prior audit recommendation to recognize \$678,667 as the GHI Cash Balance Plan Medicare segment pension assets as of January 1, 2009. Regarding our second objective, GHI did not correctly update the GHI Cash Balance Plan Medicare segment pension assets from January 1, 2009, to January 1, 2011, in accordance with Federal requirements and the Medicare contracts' pension segmentation requirements. GHI identified \$572,866 as the GHI Cash Balance Plan Medicare segment pension assets as of January 1, 2011; however, we determined that those assets were \$939,629 as of that date. Therefore, GHI understated the GHI Cash Balance Plan Medicare segment pension assets as of January 1, 2011, by \$366,763. GHI understated those pension assets because it did not have quality assurance procedures to ensure that it calculated those assets in accordance with Federal requirements when updating the Cash Balance Plan Medicare segments' pension assets from January 1, 2009, to January 1, 2011.

What OIG Recommends and Auditee Comments

We recommend that GHI increase the GHI Cash Balance Plan Medicare segment pension assets by \$366,763 and recognize \$939,629 as the Cash Balance Plan Medicare segment pension assets as of January 1, 2011.

GHI did not directly address our recommendation, and referred to our disagreement with the long-term interest rate assumption that it used to compute accrued liabilities and normal cost. GHI cited this disagreement as a reason for the differences between GHI's and our calculations as conveyed in some of our findings associated with the update of the GHI Cash Balance Plan pension assets.

We maintain that all of our calculations of the Medicare segment pension assets remain valid. Therefore, we maintain that our findings and recommendation remain valid as well. These revised calculations relate only to our companion reports, and not to the calculation of the Medicare segment assets conveyed in this report. The disagreement with the long-term interest rate assumption is not relevant to this report.

TABLE OF CONTENTS

INTRODUCTION..... 1

 Why We Did This Review 1

 Objectives..... 1

 Background 1

 Group Health Incorporated and Medicare 1

 Prior Pension Segmentation Audit..... 2

 How We Conducted This Review 2

FINDINGS..... 3

 Prior Audit Recommendation 3

 Update of Cash Balance Plan Medicare Segment Pension Assets..... 4

 Contributions and Transferred Prepayment Credits Understated 4

 Net Transfers Out Overstated..... 4

 Benefit Payments Understated..... 5

 Earnings, Net of Expenses, Understated 5

RECOMMENDATION 5

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE 6

 Contributions and Transferred Prepayment Credits 6

 Auditee Comments 6

 Office of Inspector General Response 7

 Net Transfers Out..... 7

 Auditee Comments 7

 Office of Inspector General Response 7

 Benefit Payments 8

 Auditee Comments 8

 Office of Inspector General Response 8

Earnings, Net of Expenses.....	8
Auditee Comments	8
Office of Inspector General Response	8

APPENDICES

A: Audit Scope and Methodology.....	9
B: Statement of Market Value of Pension Assets for the Group Health Incorporated Cash Balance Plan for the Period January 1, 2009, to January 1, 2011	11
C: Federal Requirements Related to Pension Segmentation	13
D: Auditee Comments	14

INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements of their Medicare contracts and Cost Accounting Standards (CAS) 412 and 413. The Centers for Medicare & Medicaid Services (CMS) incorporated this requirement into the Medicare contracts beginning with fiscal year 1988. Previous Office of Inspector General reviews found that Medicare contractors did not always correctly identify and update the segmented pension assets.

At CMS's request, the Office of Inspector General, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, nonqualified defined-benefit, postretirement benefit, and any other pension-related cost elements claimed by Medicare fiscal intermediaries and carrier contractors, Medicare administrative contractors (MACs), and other CAS-covered and Federal Acquisition Regulation (FAR)-covered contracts through Final Administrative Cost Proposals and/or Incurred Cost Proposals.

For this review, we focused on one entity, Group Health Incorporated (GHI). In particular, we examined the Other segment and Group Health Incorporated Cash Balance Pension Plan (GHI Cash Balance Plan) Medicare segment pension assets that GHI updated from January 1, 2009, to January 1, 2011.

OBJECTIVES

Our objectives were to determine whether GHI complied with Federal requirements and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendation to increase the GHI Cash Balance Plan Medicare segment pension assets as of January 1, 2009, and (2) updating the GHI Cash Balance Plan Medicare segment pension assets from January 1, 2009, to January 1, 2011.

BACKGROUND

Group Health Incorporated and Medicare

GHI, a subsidiary of EmblemHealth, LLC, administered Medicare operations under a Coordination of Benefits contract with CMS. During our audit period, GHI also performed Medicare work on the Medicare Secondary Payer Recovery and Benefit Coordination and

Recovery contracts.¹ Early in our audit period, GHI also performed work as a subcontractor on the Retiree Drug Subsidy contract.

During our audit period, GHI had three defined benefit pension plans: the GHI Local 153 Pension Plan; the GHI Cash Balance Pension Plan; and the EmblemHealth Services Company, LLC, Employees' Retirement Plan.

Effective January 1, 2008, GHI froze the GHI Cash Balance Pension Plan to new entrants and future benefit accruals. GHI employees were given an opportunity to participate in the EmblemHealth Services Company, LLC, Employees' Retirement Plan effective January 1, 2008. All active employees elected to participate in the EmblemHealth Services Company, LLC, Employees' Retirement Plan and continued to earn a benefit similar to the benefit earned under the GHI Cash Balance Pension Plan. Effective January 1, 2011, the GHI Cash Balance Pension Plan merged into the EmblemHealth Services Company, LLC, Employees' Retirement Plan.

This report addresses the Medicare segment pension assets for the GHI Cash Balance Pension Plan for the period of January 1, 2009, through January 1, 2011. We are addressing the Medicare segment pension assets for the EmblemHealth Services Company, LLC, Employees' Retirement Plan and the GHI Local 153 Pension Plan in separate reviews.

Prior Pension Segmentation Audit

We performed a prior pension segmentation audit for GHI (A-07-12-00374, Apr. 3, 2012), which brought the GHI Cash Balance Plan Medicare segment pension assets to January 1, 2009. We recommended that GHI recognize \$678,667 as the Medicare segment pension assets as of January 1, 2009.

HOW WE CONDUCTED THIS REVIEW

We reviewed GHI's implementation of the prior audit recommendation, its identification of its GHI Cash Balance Plan Medicare segment, and its update of the GHI Cash Balance Plan Medicare segment pension assets from January 1, 2009, to January 1, 2011.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

¹ Before September 2011, GHI performed Medicare work as a subcontractor on the Medicare Secondary Payer Recovery contract and the Retiree Drug Subsidy contract. From September 2011 through February 2014, GHI performed Medicare work as the prime contractor on the Medicare Secondary Payer Recovery and Benefit Coordination and Recovery contracts.

Appendix A contains details of our audit scope and methodology.

FINDINGS

GHI implemented our prior audit recommendation to recognize \$678,667 as the GHI Cash Balance Plan Medicare segment pension assets as of January 1, 2009. Regarding our second objective, GHI did not correctly update the GHI Cash Balance Plan Medicare segment pension assets from January 1, 2009, to January 1, 2011, in accordance with Federal requirements and the Medicare contracts' pension segmentation requirements. GHI identified \$572,866 as the GHI Cash Balance Plan Medicare segment pension assets as of January 1, 2011; however, we determined that those assets were \$939,629 as of that date. Therefore, GHI understated the GHI Cash Balance Plan Medicare segment pension assets as of January 1, 2011, by \$366,763. GHI understated those pension assets because it did not have quality assurance procedures to ensure that it calculated those assets in accordance with Federal requirements when updating the Cash Balance Plan Medicare segment's pension assets from January 1, 2009, to January 1, 2011.

Appendix B identifies the details of GHI's Cash Balance Plan Medicare segment pension assets from January 1, 2009, to January 1, 2011, as determined during our audit. Table 1 below summarizes the audit adjustments required to update GHI's Cash Balance Plan Medicare segment pension assets in accordance with Federal requirements.

Table 1: Summary of Audit Adjustments

	Per Audit	Per GHI	Difference
Prior Audit Recommendation	\$678,667	\$678,667	\$0
Update of GHI Cash Balance Plan Medicare Segment Assets			
Contributions and Prepayment Credits	177,748	166,279	11,469
Net Transfers	(32,885)	(395,032)	362,147
Benefit Payments	(85,404)	(72,689)	(12,715)
Earnings, Net of Expenses	201,503	195,641	5,862
Understatement of GHI Cash Balance Plan Medicare Segment Assets			\$366,763

PRIOR AUDIT RECOMMENDATION

GHI implemented the prior audit recommendation (A-07-12-00374, Apr. 3, 2012), which recommended that GHI recognize \$678,667 as the GHI Cash Balance Medicare segment pension assets as of January 1, 2009.

UPDATE OF CASH BALANCE PLAN MEDICARE SEGMENT PENSION ASSETS

The Medicare contracts require Medicare contractors to update the Medicare segment pension assets yearly in accordance with the CAS. The CAS requires that the asset base be adjusted by contributions, income, benefit payments, and expenses. For details on the Federal requirements, see Appendix C.

GHI did not correctly update the GHI Cash Balance Plan Medicare segment pension assets from January 1, 2009, to January 1, 2011, in accordance with Federal requirements and the Medicare contracts' pension segmentation requirements. GHI identified \$572,866 as the GHI Cash Balance Plan Medicare segment pension assets as of January 1, 2011; however, we determined that those assets were \$939,629 as of that date. Therefore, GHI understated the Cash Balance Plan Medicare segment pension assets as of January 1, 2011, by \$366,763. The following are our findings regarding the update of the GHI Cash Balance Plan Medicare segment pension assets from January 1, 2009, to January 1, 2011.

Contributions and Transferred Prepayment Credits Understated

The audited contributions and transferred prepayment credits² are based on the assignable pension costs.³ In compliance with the CAS, we applied prepayment credits first to current-year assignable pension costs (because the credits were available at the beginning of the year) and then updated any remaining credits with interest to the next measurement (valuation) date. We then allocated contributions to assigned pension costs, as needed, as of the date of deposit. For additional details on these Federal requirements, see Appendix C.

GHI understated contributions and transferred prepayment credits by \$11,469 for its Cash Balance Plan Medicare segment. The understatement occurred primarily because of differences in the asset base used to compute the assignable pension costs.

Net Transfers Out Overstated

GHI overstated net transfers out of its Cash Balance Plan Medicare segment by \$362,147. The overstatement occurred because GHI incorrectly identified the participants who transferred in or out of its Cash Balance Plan Medicare segment. This overstatement of the net transfer adjustment resulted in an understatement of the GHI Cash Balance Plan Medicare segment pension assets by \$362,147. Table 2 on the following page shows the differences between the net transfers proposed by GHI and the net transfers that we calculated during our review.

² A prepayment credit is the amount funded in excess of the pension costs assigned to a cost accounting period that is carried forward for future recognition.

³ These are assigned to a specific cost accounting period.

Table 2: Net Transfers Out of the GHI Cash Balance Plan Medicare Segment

Calendar Year (CY)	Per Audit	Per GHI	Difference
2009	\$31,140	\$0	\$31,140
2010	(64,025)	(395,032)	331,007
Total	(\$32,885)	(\$395,032)	\$362,147

Benefit Payments Understated

GHI understated the Cash Balance benefit payments by \$12,715 for the Medicare segment. This understatement occurred primarily because GHI incorrectly identified benefit payments for Medicare segment participants during CY 2010. This understatement of benefit payments resulted in an overstatement of the GHI Cash Balance Plan Medicare segment pension assets by \$12,715. A comparison of GHI's and our calculations of benefit payments for the Medicare segment appears in Table 3 below.

Table 3: Benefit Payments

CY	Per Audit	Per GHI	Difference
2009	(\$21,028)	(\$28,335)	\$7,307
2010	(64,376)	(44,354)	(20,022)
Total	(\$85,404)	(\$72,689)	(\$12,715)

Earnings, Net of Expenses, Understated

GHI understated investment earnings, less administrative expenses, by \$5,862 for its Cash Balance Plan Medicare segment, because it used incorrect contributions and transferred prepayment credits and incorrect net transfers and benefit payments (all discussed above) to develop the Cash Balance Plan Medicare segment pension asset base. In our audited update, we allocated earnings, net of expenses, based on the applicable CAS requirements. For details on applicable Federal requirements, see Appendix C.

RECOMMENDATION⁴

We recommend that GHI increase the GHI Cash Balance Plan Medicare segment pension assets by \$366,763 and recognize \$939,629 as the Cash Balance Plan Medicare segment pension assets as of January 1, 2011.

⁴ In light of the fact that the GHI Cash Balance Pension Plan merged into the EmblemHealth Services Company, LLC, Employees' Retirement Plan in CY 2011, a procedural recommendation (along the lines of developing quality assurance procedures for the calculation of Medicare segment pension assets) is not practical for this report.

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, GHI did not directly address our recommendation. However, GHI's comments suggest that it disagreed with our recommendation to increase the GHI Cash Balance Plan Medicare segment pension assets by \$366,763 and recognize \$939,629 as the Cash Balance Plan Medicare segment pension assets as of January 1, 2011. GHI's comments (which also apply to our two companion reports cited in Appendix A) address our four findings associated with the update of GHI's Cash Balance Plan Medicare segment pension assets.⁵

A summary of GHI's main points and our responses follows. GHI referred to our disagreement with the long-term interest rate assumption that it used to compute accrued liabilities and normal cost, and cited this disagreement as a reason for the differences between GHI's and our calculations of both the contributions and transferred prepayment credits and the net transfers out. With respect to our finding on participants who transferred in or out of the GHI Cash Balance Plan Medicare segment and our finding on benefit payments for Medicare segment participants, GHI asked us to provide more detailed information.

GHI's comments appear in their entirety as Appendix D.

After reviewing GHI's comments, we maintain that all of our calculations of the Medicare segment pension assets remain valid. Therefore, we maintain that our findings and recommendation remain valid as well. The disagreement with the long-term interest rate assumption is relevant only to our two companion reports. (GHI chose to submit a single set of written comments in response to all three of our reports.)

We provided our preliminary audit findings to GHI over a month before the issuance of our draft report. With that communication, we gave GHI opportunities to request any detailed data related to the differences between GHI's and our calculations of the Medicare segment pension assets. We did explain in the report how we determined our calculations and identified the causes of the differences. We will separately provide GHI with a list of participant transfers and a list of benefit payments.

CONTRIBUTIONS AND TRANSFERRED PREPAYMENT CREDITS

Auditee Comments

GHI referred to our disagreement with the long-term interest rate assumption that GHI employed to compute accrued liabilities, which affect GHI's calculation of contributions and

⁵ The last portion of GHI's comments (involving assets transferred into the EmblemHealth Services Company, LLC, Employees' Retirement Plan after the merger of plans)—that is, the fifth of the "five broad categories" that GHI refers to in its comments—relates only to companion report A-07-19-00561.

prepayment credits. In this respect, GHI said that its position regarding the appropriate long-term interest assumption has not changed since its October 13, 2016, letter to us.

Office of Inspector General Response

The letter to which GHI referred attributes the change in the long-term interest assumption that we used to the cause of the variances between the contributions and prepayment credits that GHI proposed and those that we calculated and conveyed in this report. However, the change in the long-term interest rate, used in the calculation of GHI's accrued liabilities and normal cost during this timeframe, is not relevant to this audit. We did, however, ask GHI to give us its revised calculations of the accrued liabilities and normal costs for CYs 2012 through 2015. These revised calculations relate only to our companion audit reports, A-07-19-00561 and A-07-19-00562, and not to the calculation of the Medicare segment assets conveyed in this report.

The understated contributions and transferred prepayment credits resulted from differences in the asset base, which in turn resulted from differences in the Medicare segment participants. We discussed with GHI the differences we noted in the identification of the Medicare segment participants, and obtained GHI's agreement with those differences, before we began to calculate the Medicare segment pension assets.

NET TRANSFERS OUT

Auditee Comments

GHI said that it was unclear from the draft report whether our finding was based entirely on the impact of our disagreement with GHI's long-term interest rate assumption or whether it was also based on disagreement between GHI and us regarding the identity of participants transferred in or out of the Medicare segment. GHI asked that, if the identity of the participants was a factor in this finding, we identify the participants and the segment that we believed those individuals transferred in or out of for each year.

Office of Inspector General Response

The overstatement occurred because GHI incorrectly identified the participants who transferred in or out of its Cash Balance Plan Medicare segment. To be more specific, GHI's established practice was to maintain inactive employees in the Medicare segment, but GHI did not follow that practice during our audit period.

BENEFIT PAYMENTS

Auditee Comments

GHI made no comment on this finding other than to request that we give it an electronic listing of the benefit payments, by participant, that we believe are the correct benefit payments for each year.

Office of Inspector General Response

We will separately provide GHI with a list of the Medicare segment benefit payments as determined during our review.

EARNINGS, NET OF EXPENSES

Auditee Comments

GHI said that it regards our finding on investment earnings, net of expenses, to have derived from other findings. GHI further requested that we identify additional concerns, if any, on which we based this finding.

Office of Inspector General Response

Our report identifies differences between GHI's and our calculations of contributions and prepayment credits, participant transfers, and benefit payments, as the cause for the difference between GHI's and our calculations of earnings, net of expenses.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed GHI's implementation of the prior audit recommendation, its identification of its GHI Cash Balance Plan Medicare segment, and its update of the GHI Cash Balance Plan Medicare segment pension assets from January 1, 2009, to January 1, 2011.

Achieving our objective did not require that we review GHI's overall internal control structures. We reviewed controls relating to the identification of the Medicare segment and to the update of the Medicare segment pension assets to ensure adherence to the Medicare contracts, CAS 412, and CAS 413.

We performed our fieldwork at GHI located in New York, New York.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed the annual actuarial valuation reports prepared by EmblemHealth's actuarial consulting firms, which included the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses, and used this information to calculate the Cash Balance Plan Medicare segment assets;
- obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the Cash Balance Plan Medicare segment assets;
- interviewed EmblemHealth and GHI staff responsible for identifying the Cash Balance Plan Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts;
- reviewed GHI's accounting records to verify the Cash Balance Plan Medicare segment identification as well as the benefit payments made from the Cash Balance Plan Medicare segment;
- reviewed the prior segmentation audit performed at GHI (A-07-12-00374) to determine the beginning market value of assets;

- provided the CMS Office of the Actuary, which provides technical actuarial advice, with the actuarial information necessary for it to calculate the Cash Balance Plan Medicare segment pension assets from January 1, 2009, to January 1, 2011;
- reviewed the CMS actuaries' methodology and calculations; and
- provided the results of our review to GHI officials on March 19, 2019.

We performed this review in conjunction with the following audits and used the information obtained during this audit:

- *Group Health Incorporated Understated Its EmblemHealth Services Company, LLC, Employees' Retirement Plan Medicare Segment Pension Assets as of January 1, 2015 (A-07-19-00561) and*
- *Group Health Incorporated Overstated Its Local 153 Pension Plan Medicare Segment Pension Assets as of January 1, 2015 (A-07-19-00562).*

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

**APPENDIX B: STATEMENT OF MARKET VALUE OF PENSION ASSETS
FOR THE GROUP HEALTH INCORPORATED CASH BALANCE PLAN
FOR THE PERIOD JANUARY 1, 2009, TO JANUARY 1, 2011**

Description		Total Company	Other Segments	Medicare Segment
Assets January 1, 2009	<u>1/</u>	\$12,490,568	\$11,811,901	\$678,667
Prepayment credits	<u>2/</u>	0	(94,743)	94,743
Contributions	<u>3/</u>	0	0	0
Accrued Contributions	<u>4/</u>	1,790,000	1,790,000	0
Earnings	<u>5/</u>	1,923,518	1,804,455	119,063
Benefit payments	<u>6/</u>	(331,248)	(310,220)	(21,028)
Administrative expenses	<u>7/</u>	(281,523)	(264,097)	(17,426)
Transfers	<u>8/</u>	0	(31,140)	31,140
Assets January 1, 2010		\$15,591,315	\$14,706,156	\$885,159
Prepayment credits		0	(83,005)	83,005
Contributions		0	0	0
Accrued contributions		0	0	0
Other transactions		0	0	0
Earnings		1,800,254	1,690,381	109,873
Benefit payments		(511,063)	(446,687)	(64,376)
Administrative expenses		(163,959)	(153,952)	(10,007)
Transfers		0	64,025	(64,025)
Assets January 1, 2011		\$16,716,547	\$15,776,918	\$939,629
Per GHI	<u>9/</u>	16,716,547	\$16,143,681	572,866
Asset variance	<u>10/</u>	0	(366,763)	366,763

ENDNOTES

- 1/ We determined the GHI Cash Balance Plan Medicare segment pension assets as of January 1, 2009, based on our prior segmentation audit of GHI (A-07-12-00374). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segment. All pension assets are shown at market value.
- 2/ Transferred prepayment credits represent funds available to satisfy future funding requirements and are applied to future funding requirements before current-year contributions in order to avoid incurring unallowable interest. Prepayment credits are transferred to the Medicare segment as needed to cover funding requirements.
- 3/ We obtained Total Company contribution amounts from the actuarial valuation reports and Department of Labor/Internal Revenue Service Forms 5500. We allocated Total Company contributions to the Medicare segment based on the ratio of the Medicare segment funding target divided by the Total Company funding target. Contributions in excess of the funding targets were treated as prepayment credits and accounted for in the Other segment until needed to fund pension costs in the future.
- 4/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions include accrued contributions deposited after the end of the CY but within the time allowed for filing tax returns.

- 5/ We obtained net investment earnings from the actuarial valuation reports. We allocated net investment earnings based on the ratio of each segment's weighted average value (WAV) of assets to Total Company WAV of assets as required by the CAS.
- 6/ We based the Medicare segment's benefit payments on actual payments to Medicare retirees. We obtained the benefit payments from documents provided by GHI.
- 7/ In accordance with the CAS, we allocated administrative expenses to each Medicare segment in proportion to investment earnings.
- 8/ We identified participant transfers between segments by comparing valuation data files provided by GHI. Asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS.
- 9/ We obtained total asset amounts from documents prepared by GHI's actuarial consulting firm.
- 10/ The asset variance represents the difference between our calculation of GHI's Cash Balance Plan Medicare segment pension assets and GHI's calculation of the Cash Balance Plan Medicare segment pension assets.

APPENDIX C: FEDERAL REQUIREMENTS RELATED TO PENSION SEGMENTATION

FEDERAL REGULATIONS

Federal regulations (CAS 412.50(a)(4)) require that contributions in excess of the pension cost assigned to the period be recognized as prepayment credits and accumulated at the assumed valuation interest rate until applied to future period costs. Prepayment credits that have not been applied to fund pension costs are excluded from the value of assets used to compute pension costs.

Federal regulations (CAS 413.50(c)(7)) require that the asset base be adjusted by contributions, permitted unfunded accruals, income, benefit payments, and expenses. For plan years beginning after March 30, 1995, the CAS requires investment income and expenses to be allocated among segments based on the ratio of the segment's WAV of assets to Total Company WAV of assets.

Federal regulations (CAS 413.50(c)(8)) require an adjustment to be made for transfers (participants who enter or leave the segment) if the transfers materially affect the segment's ratio of pension plan assets to actuarial accrued liabilities.

MEDICARE CONTRACTS

The Medicare contracts identify a Medicare segment as:

. . . any organizational component of the contractor, such as a division, department, or other similar subdivision, having a significant degree of responsibility and accountability for the Medicare contract/agreement, in which:

1. The majority of the salary dollars is allocated to the Medicare agreement/contract; or,
2. Less than a majority of the salary dollars are charged to the Medicare agreement/contract, and these salary dollars represent 40% or more of the total salary dollars charged to the Medicare agreement/contract.

Furthermore, the Medicare contracts state that “. . . the pension assets allocated to each Medicare Segment shall be adjusted in accordance with CAS 413.50(c)(7).”

APPENDIX D: AUDITEE COMMENTS



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May 30, 2019

By Email

Mr. Patrick Cogley
Regional Inspector General for Audit Services
Office of Audit Services, Region VII
Office of the Inspector General
Department of Health & Human Services
601 East 12th Street, Room 0429
Kansas City, MO 64106

Re: GHI Response to Draft Report Nos. A-07-19-00557, 00561, & -00562 regarding Medicare Segment Pension Assets

Mr. Cogley:

Group Health Inc. (“GHI”) respectfully provides the following responses to the above-referenced Office of the Inspector General (“OIG”) draft reports regarding GHI’s Medicare Segment Pension Assets for its Cash Balance Plan as of January 1, 2011 (Report No. -00557), the Employees’ Retirement Plan as of January 1, 2015 (Report No. -00561), and the Local 153 Pension Plan as of January 1, 2015 (Report No. -00562). GHI welcomes OIG’s completion of these segmentation audits, and looks forward to the prompt completion of OIG’s audits of GHI’s pension costs for the periods covered in these reports.

The above-referenced draft reports make findings in five broad categories. GHI’s responses to each category of findings is set forth below:

Contributions and Transferred Prepayment Credits (All Reports). OIG disagrees with the long-term interest rate assumptions that GHI employed to compute accrued liabilities, which affect GHI’s calculation of contributions and prepayment credits. GHI’s position regarding the appropriate long-term interest rate assumption has not changed since its October 13, 2016 letter to you.

Net Transfers Out (All Reports). It is unclear from the draft reports whether OIG’s concerns regarding net transfers out is based entirely on the impact of OIG’s disagreement with GHI’s long-term interest rate assumption, or if OIG also disputes which participants transferred to/from the Medicare segment. If OIG’s position is based, in part, on a dispute regarding the identity of the transferred plan participants, please identify the participants in dispute and which segment OIG believes those individuals transferred to/from for each year.

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Benefit Payments (All Reports). Please provide an electronic listing of the benefit payments, by participant, that OIG believes are the correct benefit payments for each year.

Earnings, Net of Expenses (All Reports). GHI understands OIG's position regarding investment earnings, net of expenses, to be derivative of OIG's other findings. Accordingly, GHI incorporates its responses to OIG's other findings here. If OIG's position regarding earnings, net of expenses, is based on additional concerns not captured within OIG's other findings, please identify those concerns.

Asset Transferred Into the EmblemHealth Services, LLC Employee's Retirement Plan After Merger of Plans (Report No. -00561). OIG states that the correct transfer amount is \$939,629, but provides no explanation or support for that calculation. GHI therefore is unable to comment meaningfully on this finding.

Please let me know if you have any questions regarding GHI's response to your draft reports.

Sincerely,



Daniel P. Graham

cc: Daniel Byrne
Tony Angi