



Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Report Number 2023-SAG-014

July 28, 2023

Memorandum for Dennis N. Hodges
Program Manager, FEDVIP

From: James L. Tuel, JR.
Group Chief, Special Audits Group

**JAMES
TUEL**

Digitally signed by
JAMES TUEL
Date: 2023.07.28
13:48:07 -04'00'

Subject: Audit of EmblemHealth Dental's 2024 Premium Rate Proposal for the
Federal Employees Dental and Vision Insurance Program

The U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG) conducted a limited-scope audit of EmblemHealth Dental's (Carrier) 2024 premium rate proposal for the Federal Employees Dental and Vision Insurance Program (FEDVIP). Our objective was to determine whether premium rates proposed for contract year (CY) 2024 were in accordance with the terms of Contract Number OPM02-FEDVIP-02AP-07 (Contract) and Federal regulations. The audit included a review of the Carrier's 2024 premium rate proposal and 2022 certified annual accounting statement (AAS) for FEDVIP operations.

The results of our audit identified one finding related to overestimated claims and higher than needed premium increases in the Carrier's 2024 rate proposal. We recommend that three unsupported loadings be removed from within the completion, trend, and enrollment change factors used by the Carrier in its rating sheet, thereby limiting the premium increase to [REDACTED] for the high option and [REDACTED] for the standard option to meet the [REDACTED] consolidated retention guarantee. Final selection of premium rates is OPM's responsibility, and our recommendation is solely based on the best supported estimates needed to accurately predict the required premium rates at the retention level guaranteed by the Carrier.

We are providing this memorandum to OPM's Healthcare and Insurance Office (HIO) to be used by OPM's Office of Actuaries in negotiating the Carrier's 2024 premium rates. Under section 8M of The Inspector General Act of 1978, as amended (5 U.S.C. §§ 401-424), the OIG makes redacted versions of its final reports available to the public on its webpage. Since this was a limited-scope audit, the OIG reserves the right to perform a full-scope audit of the Carrier in the future; however, any future audit would exclude a review of the Carrier's initial 2024 FEDVIP premium rate proposal. Due to the nature of this audit, a draft report/memorandum was not issued.

Background

The FEDVIP was created on December 23, 2004, by the *Federal Employee Dental and Vision Benefits Enhancement Act of 2004* (Act). The Act provided for the establishment of programs under which supplemental dental and vision benefits are made available to Federal employees, retirees, and their dependents.

OPM has overall responsibility to maintain the FEDVIP website, be a liaison with Federal agencies, facilitate the promotion of the FEDVIP through Federal agencies, be responsive on a timely basis to the Carrier's requests for information and assistance, and perform, as provided by the Act, functions typically associated with insurance commissions. These functions include the review and approval of rates, forms, and education materials. OPM contracts with the Carrier to provide dental insurance benefits to FEDVIP participants. The Carrier's responsibilities under the Contract are carried out primarily at its offices located in New York, New York. Section I.11 of the Contract includes a provision, Inspection of Services – Fixed Price, that allows for audits of the Carrier's FEDVIP operations.

Our previous full-scope audit of the Carrier (Report Number 1J-0L-00-17-051) was dated September 21, 2018. All findings related to that audit have been satisfactorily resolved.

Objective, Scope, and Methodology

We conducted a limited-scope performance audit of the Carrier's 2024 premium rate proposal for the FEDVIP. Our audit objective was to determine whether premium rates proposed for CY 2024 were in accordance with the terms of the Contract and Federal regulations.

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

The audit included a review of the Carrier's 2024 premium rate proposal (as of May 31, 2023) and its 2022 certified AAS for FEDVIP operations. Audit fieldwork was conducted remotely from our Jacksonville, Florida and Cranberry Township, Pennsylvania offices from June to July 2023.

In planning the audit, we obtained an understanding of the Carrier's internal control structure to help determine the nature, timing, and extent of our auditing procedures. This was determined to be the most effective approach to select areas of audit. For those areas selected, we primarily relied on substantive tests of transactions and not tests of controls. Additionally, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on the Carrier's system of internal controls taken as a whole.

In conducting the audit, we relied to varying degrees on computer-generated data provided by the Carrier. Due to time constraints, we did not verify the reliability of the data generated by the

various information systems involved. However, while utilizing the computer-generated data during our audit, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objectives.

To determine whether the costs proposed for CY 2024 were in accordance with the terms of the Contract and Federal regulations, we performed the following audit steps:

2024 Premium Rate Proposal Review

- We traced the premium, enrollment, and claims data used to develop the Carrier's 2024 proposed rates to supporting documentation to ensure accuracy.
- We reviewed the benefit changes, trends, completion factors, and other actuarial assumptions to ensure that they were properly supported.

2022 Annual Accounting Statement Review

- We reconciled the premiums received, as reported in the Carrier's AAS, to the BENEFEDS cash transfer reports to determine if the information was accurate. Additionally, we reconciled the paid claims reported in the AAS to supporting documentation to ensure the claims were accurately reported.
- We reviewed the Carrier's supporting documentation to determine whether the administrative expenses were allowable, allocable, and reasonable in compliance with FAR Subpart 31.2.
- We recalculated the Carrier's dental loss ratio and profit based on the supporting documentation provided by the Carrier to determine if the percentage and amounts were accurately calculated and disclosed to OPM in the 2022 certified AAS.

Results of the Audit

2024 Premium Rate Proposal Review

The results of our review showed that the Carrier's initial 2024 FEDVIP premium rate proposal contained three unsupported loadings that overestimated claims and the required premium needed to reach the [REDACTED] retention guaranteed by the Carrier. The following three factors were unsupported and considered unreasonable in obtaining the most accurate pricing.

1. The Carrier applied an additional [REDACTED] to the 2022 base year's completion factor as a [REDACTED]
2. The Carrier applied an additional [REDACTED] to the fully supported trend factors already used for both 2023 and 2024 claim projections.

3. The Carrier applied a "[REDACTED]" for the high option and "[REDACTED]" for the standard option to both its 2023 and 2024 claim projections [REDACTED].

The Certificate of Accurate Pricing states that cost or pricing data submitted to OPM in support of the 2024 FEDVIP rates must be developed in accordance with the requirements of the Contract and are accurate, complete, and current as of the date the certificate is executed.

Additionally, section II part K of the Contract states, "The Federal Government shall have the right to examine and audit all records and other evidence sufficient to reflect properly all costs claimed to have been incurred or anticipated to be incurred directly or indirectly in performance of the contract." The allowable costs chargeable to the contract for a fiscal year will be the actual, necessary, reasonable, and allocable amounts incurred with proper justification and accounting support, determined in accordance with Subpart 31.2 of the Federal Acquisition Regulation.

Finally, section VII states, "Carriers are required to provide supporting documentation detailing the rating practices used to develop their FEDVIP rates and any underlying assumptions. Carriers must also explain their proposed methodology for estimating factors used within the Rating Sheet provided by OPM, such as claims completion factors and prospective factors (enrollment factors, benefit factors, trend factors, etc.). Along with FEDVIP experience, you must adhere to the practices and methodologies provided in the application to support future premium rates. In the application, any actuarial assumptions must be certified as reasonable by an Actuary. Any future premium rate not supported by these practices and methodologies must be approved by OPM."

We requested justification for why the Carrier was applying these three additional loadings to the premium rates and found that there was no reasonable support documentation to show that applying these factors resulted in the most accurate pricing. Additionally, prior periods showed that the Carrier exceeded its retention guarantees as a direct result of overstating its claim projections while making additional profits. [REDACTED]

Recommendation 1:

OPM and the Carrier should remove the [REDACTED] added to the 2022 base year's completion factor that allows for a [REDACTED] since the loading is unsupported and unreasonable in obtaining the most accurate pricing.

Recommendation 2:

OPM and the Carrier should remove the additional [REDACTED] applied to both the 2023 and 2024 trends since the loading is unsupported and unreasonable in obtaining the most accurate pricing.

Recommendation 3:

OPM and the Carrier should remove the [REDACTED] as applied to both the 2023 and 2024 claim projections [REDACTED]

2022 Annual Accounting Statement Review

The results of our review showed that the Carrier had sufficient policies and procedures in place to ensure that its 2022 AAS was accurately reported to OPM. During the verification of the AAS figures, we did find that a comparison of the 2022 Premium Rate Proposal to the 2022 AAS showed that the Carrier overestimated its claims by [REDACTED] for 2022, thereby exceeding its retention guarantee and gaining that additional amount as profit. OPM should consider the Carrier's history of overestimating its claims each year when negotiating the rates since any shortfall in anticipated claims results in [REDACTED]

The results of the audit were discussed with Carrier officials at an exit conference on July 21, 2023. OPM's HIO and Office of Actuaries may discuss the results of the audit with Carrier officials. We notified the Carrier that this memorandum is issued directly to the contracting officer to assist in finalizing the Carrier's 2024 premium rates for FEDVIP.

If I can be of assistance during your review of this memorandum, please contact me at [REDACTED] or Luke Z. Johnson at [REDACTED]

cc: The Honorable Kiran A. Ahuja
Director

The Honorable Robert H. Shriver
Deputy Director

Alethea M. Predeoux
Chief of Staff

Jonathan R. Foley
Senior Advisor for Health Care

Webb Lyons
General Counsel

Lisa M. Loss
Acting Chief Management Officer

Erica D. Roach
Acting Chief Financial Officer

Mark W. Lambert
Associate Director, Merit System Accountability and Compliance

Michelle D. Dawson
Internal Oversight and Compliance

Laurie E. Bodenheimer
Associate Director, Healthcare and Insurance

Edward M. DeHarde
Deputy Associate Director, Federal Employee Insurance Operations

Cindy L. Butler
Deputy Assistant Director, Federal Employee Insurance Operations

James Muetzel
Deputy Assistant Director, Federal Employee Insurance Operations

Angela M. Calarco
Program Manager, Audit Resolution and Compliance

Joseph Young
Branch Chief, Audit Resolution and Compliance

Steve Niu
Chief Actuary, Office of Actuaries

Rebecca F. Kander
Actuary, Office of Actuaries

Melanie M. Pagani
Actuary, Office of Actuaries