

Department of Health and Human Services  
**Office of Inspector General**



Office of Audit Services

August 2025 | A-07-23-00638

# **Palmetto Government Benefits Administrator, LLC, Overstated Its Medicare Segment Pension Assets as of January 1, 2022**

# REPORT HIGHLIGHTS



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### **Why OIG Did This Audit**

- 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 412 and 413.
- Previous OIG audits found that Medicare contractors did not always correctly identify and update the segmented pension assets.
- This audit examined whether Palmetto complied with Federal requirements when (1) implementing the prior audit recommendation to decrease the Medicare segment assets as of January 1, 2017, and (2) updating its Medicare segment pension assets from January 1, 2017, to January 1, 2022.

### **What OIG Found**

- Palmetto concurred with and implemented our prior audit recommendation to decrease the Medicare segment pension assets by \$2.1 million as of January 1, 2017.
- Palmetto did not correctly update its Medicare segment pension assets from January 1, 2017, to January 1, 2022, in accordance with Federal requirements. Palmetto identified \$89.9 million as its Medicare segment pension assets as of January 1, 2022; however, we determined that those assets were \$88 million as of that date. Therefore, Palmetto overstated its Medicare segment pension assets as of January 1, 2022, by \$1.8 million.
- Palmetto's policies and procedures did not always ensure that it calculated those pension assets in accordance with Federal requirements when updating its Medicare segment pension assets from January 1, 2017, to January 1, 2022.

### **What OIG Recommends**

We recommend that Palmetto decrease its Medicare segment pension assets by \$1.8 million and recognize \$88 million as the Medicare segment pension assets as of January 1, 2022, and improve policies and procedures to ensure that going forward, it calculates Medicare segment pension assets in accordance with Federal requirements.

Palmetto concurred with our findings but did not specifically indicate concurrence or nonconcurrence with our recommendations. Palmetto said that it would work with CMS to ensure the final settlement and collection of contract costs.

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## **INTRODUCTION**

### **WHY WE DID THIS AUDIT**

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

At CMS's request, the Department of Health and Human Services, Office of Inspector General, Office of Audit Services, reviews the cost elements related to qualified defined-benefit, nonqualified defined-benefit, postretirement benefit, and any other pension-related cost elements claimed by Medicare administrative contractors (MACs) and other CAS-covered and Federal Acquisition Regulation (FAR)-covered contracts through Incurred Cost Proposals (ICPs).

For this audit of Palmetto Government Benefits Administrator, LLC (Palmetto), a Medicare contractor, we examined the Other segment and Medicare segment pension assets that Palmetto updated from January 1, 2017, to January 1, 2022.

### **OBJECTIVES**

Our objectives were to determine whether Palmetto complied with Federal requirements when (1) implementing the prior audit recommendation to decrease the Medicare segment assets as of January 1, 2017, and (2) updating its Medicare segment pension assets from January 1, 2017, to January 1, 2022.

### **BACKGROUND**

#### **Palmetto Government Benefits Administrator, LLC, and Medicare**

During our audit period, Palmetto was a subsidiary of Blue Cross Blue Shield of South Carolina (BCBS South Carolina), whose home office is in Columbia, South Carolina. Palmetto administers Medicare operations under the MAC contracts for Medicare Parts A and B Jurisdictions J and M effective September 7, 2017, and April 1, 2015, respectively, as well as other CAS-covered and

FAR-covered contracts.<sup>1, 2</sup> Palmetto also continues to perform Railroad Retirement Board contract operations under a specialty MAC contract awarded on November 27, 2012.

During our audit period, BCBS South Carolina had two Medicare segments that participated in its qualified defined-benefit pension plan: Palmetto and Companion Data Services, LLC (CDS). This report addresses Palmetto's compliance with the pension segmentation language under the provisions of Federal requirements and its Medicare contracts. We are addressing CDS's compliance with Federal requirements in a separate audit.

### **Prior Pension Segmentation Audit**

We performed a prior pension segmentation audit of Palmetto's Medicare segment (A-07-20-00586, Apr. 17, 2020), which brought the Palmetto Medicare segment pension assets to January 1, 2017. We recommended that Palmetto decrease the Medicare segment pension assets by \$2,126,821 and, as a result, recognize \$73,630,103 as the Medicare segment pension assets as of January 1, 2017.

### **HOW WE CONDUCTED THIS AUDIT**

We reviewed Palmetto's implementation of the prior audit recommendation, its identification of its Medicare segment, and its update of the Medicare segment pension assets from January 1, 2017, to January 1, 2022.

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 A contains details of our audit scope and methodology.

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<sup>1</sup> Medicare Parts A and B Jurisdiction J consists of the States of Alabama, Georgia, and Tennessee.

<sup>2</sup> Medicare Parts A and B Jurisdiction M consists of the States of North Carolina, South Carolina, Virginia, and West Virginia (but excludes Part B for the counties of Arlington and Fairfax in Virginia and the city of Alexandria in Virginia). Jurisdiction M also includes home health and hospice services provided in the States of Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Kentucky, Louisiana, Mississippi, New Mexico, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, and Texas.

## FINDINGS

Palmetto implemented our prior audit recommendation to decrease the Medicare segment pension assets by \$2,126,821 as of January 1, 2017.<sup>3</sup> Regarding our second objective, Palmetto did not correctly update its Medicare segment pension assets from January 1, 2017, to January 1, 2022, in accordance with Federal requirements and its established cost accounting practice. Palmetto identified \$89,857,616 as its Medicare segment pension assets as of January 1, 2022; however, we determined that those assets were \$88,028,452 as of that date. Therefore, Palmetto overstated its Medicare segment pension assets as of January 1, 2022, by \$1,829,164. Palmetto overstated those pension assets because its policies and procedures did not always ensure that it calculated those assets in accordance with Federal requirements when updating its Medicare segment pension assets from January 1, 2017, to January 1, 2022.

Appendix B identifies the details of Palmetto's Medicare segment pension assets from January 1, 2017, to January 1, 2022, as determined during our audit.

Table 1 summarizes the audit adjustments required to update Palmetto's Medicare segment pension assets in accordance with Federal requirements.

**Table 1: Summary of Audit Adjustments**

	Per Audit	Per Palmetto	Difference
<b>Prior Audit Recommendation</b>	\$73,630,103	\$75,756,924	(\$2,126,821)
<b>Update of Medicare Segment Assets</b>			
Prior Audit Adjustment—2021 Valuation Report <sup>4</sup>	0	(2,950,869)	2,950,869
Contributions and Prepayment Credits	14,481,633	12,469,880	2,011,753
Participant Transfers	(14,716,103)	(14,315,316)	(400,787)
Benefit Payments	(22,494,034)	(19,445,905)	(3,048,129)
Earnings, Net of Expenses	37,126,853	38,342,902	(1,216,049)
<b>Overstatement of Medicare Segment Assets</b>			<b>(\$1,829,164)</b>

<sup>3</sup> Implementation of our prior audit recommendation required the restatement of Palmetto's annual valuation report. Palmetto concurred with our prior audit findings and recommendations and chose to update the assets in its January 1, 2021, valuation report.

<sup>4</sup> The prior audit adjustment is the adjustment for the prior audit recommendation. This adjustment was made in the January 1, 2021, valuation. The adjustment incorporated the prior audit finding plus the cumulative assets' impacts of the prior audit recommendation. See also "Prior Audit Recommendation" just below for additional details.

## **PRIOR AUDIT RECOMMENDATION**

We performed a prior pension segmentation audit on Palmetto's Medicare segment pension assets (A-07-20-00586, Apr. 17, 2020), which recommended that Palmetto decrease its Medicare segment pension assets by \$2,126,821 and, as a result, recognize \$73,630,103 as the Medicare segment assets as of January 1, 2017. Palmetto concurred with our prior audit recommendation.

Palmetto implemented the prior audit recommendation during 2020 in its January 1, 2021, valuation report (footnotes 3 and 4). To do so, Palmetto made an adjustment of \$2,950,869 (*i.e.*, \$2,126,821 for the prior audit recommendation plus \$824,048 that reflected the cumulative assets' impacts of the prior audit recommendation).

## **UPDATE OF MEDICARE SEGMENT PENSION ASSETS**

Federal requirements 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.

Palmetto did not correctly update its Medicare segment pension assets from January 1, 2017, to January 1, 2022, in accordance with Federal requirements and its established cost accounting practice. Palmetto identified \$89,857,616 as its Medicare segment pension assets as of January 1, 2022; however, we determined that those assets were \$88,028,452 as of that date. Therefore, Palmetto overstated its Medicare segment pension assets as of January 1, 2022, by \$1,829,164. The following are our findings regarding the update of the Palmetto Medicare segment pension assets from January 1, 2017, to January 1, 2022. Appendix D identifies Palmetto's CAS balance equation for the pension assets as of January 1, 2022.<sup>5</sup>

### **Contributions and Transferred Prepayment Credits Understated**

The audited contributions and transferred prepayment credits are based on the assignable pension costs.<sup>6, 7</sup> 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)

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<sup>5</sup> The CAS balance equation identifies the market value of assets, actuarial accrued liability, actuarial value of assets, accumulated value of prepayment credits, and the unfunded actuarial liability in accordance with CAS 412-40(c).

<sup>6</sup> 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.

<sup>7</sup> These are assigned to a specific cost accounting period.

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.

Palmetto understated contributions and transferred prepayment credits by \$2,011,753 for its Medicare segment. The understatement occurred primarily because of differences in the asset base used to compute the assignable pension costs.

Table 2 shows the differences between the contributions and transferred prepayment credits proposed by Palmetto and the contributions and transferred prepayment credits that we calculated during our audit.

**Table 2: Contributions and Transferred Prepayment Credits**

<b>Calendar Year</b>	<b>Per Audit</b>	<b>Per Palmetto</b>	<b>Difference</b>
2017	\$912,518	\$0	\$912,518
2018	1,806,323	1,053,837	752,486
2019	2,254,175	1,808,057	446,118
2020	3,695,230	3,715,527	(20,297)
2021	5,813,387	5,892,459	(79,072)
<b>Total</b>	<b>\$14,481,633</b>	<b>\$12,469,880</b>	<b>\$2,011,753</b>

### **Net Transfers Out Understated**

Palmetto understated net transfers out of its Medicare segment by \$400,787. The understatement occurred because Palmetto incorrectly identified the participants who transferred in or out of its Medicare segment. This understatement of the net transfer adjustment resulted in an overstatement of the Medicare segment pension assets by \$400,787. Table 3 shows the differences between the net transfers proposed by Palmetto and the net transfers that we calculated during our audit.

**Table 3: Net Transfers**

<b>Calendar Year</b>	<b>Per Audit</b>	<b>Per Palmetto</b>	<b>Difference</b>
2017	(\$3,311,586)	(\$3,376,171)	\$64,585
2018	2,274,557	2,747,387	(472,830)
2019	(4,042,770)	(4,132,835)	90,065
2020	(4,510,893)	(4,523,063)	12,170
2021	(5,125,411)	(5,030,634)	(94,777)
<b>Total</b>	<b>(\$14,716,103)</b>	<b>(\$14,315,316)</b>	<b>(\$400,787)</b>



## Benefit Payments Understated

Palmetto understated benefit payments by \$3,048,129. The understatement occurred because Palmetto incorrectly identified benefit payments for Medicare segment participants. This understatement of benefit payments resulted in an overstatement of the Medicare segment pension assets by \$3,048,129. A comparison of Palmetto's and our calculations of benefit payments for the Medicare segment appears in Table 4.

**Table 4: Benefit Payments**

<b>Calendar Year</b>	<b>Per Audit</b>	<b>Per Palmetto</b>	<b>Difference</b>
2017	(\$2,905,386)	(\$2,437,250)	(\$468,136)
2018	(3,736,363)	(2,640,391)	(1,095,972)
2019	(4,985,063)	(4,386,495)	(598,568)
2020	(3,898,312)	(3,501,149)	(397,163)
2021	(6,968,910)	(6,480,620)	(488,290)
<b>Total</b>	<b>(\$22,494,034)</b>	<b>(\$19,445,905)</b>	<b>(\$3,048,129)</b>

## Earnings, Net of Expenses, Overstated

Palmetto overstated investment earnings, less administrative expenses, by \$1,216,049, because it used incorrect contributions and transferred prepayment credits, incorrect net transfers, and incorrect benefit payments (all discussed above) to develop the Medicare segment pension asset base. We allocated earnings, net of expenses, based on the applicable CAS requirements when we audited the update of the Medicare segment assets. For details on applicable Federal requirements, see Appendix C.

Table 5 shows the difference in the earnings, net of expenses, proposed by Palmetto and the earnings, net of expenses, that we calculated during our audit.

**Table 5: Earnings, Net of Expenses**

<b>Calendar Year</b>	<b>Per Audit</b>	<b>Per Palmetto</b>	<b>Difference</b>
2017	\$14,385,327	\$14,845,716	(\$460,389)
2018	(6,432,782)	(6,799,708)	366,926
2019	19,297,164	20,340,073	(1,042,909)
2020	5,831,788	5,866,963	(35,175)
2021	4,045,356	4,089,858	(44,502)
<b>Total</b>	<b>\$37,126,853</b>	<b>\$38,342,902</b>	<b>(\$1,216,049)</b>

## RECOMMENDATIONS

We recommend that Palmetto Government Benefits Administrator, LLC:

- decrease its Medicare segment pension assets by \$1,829,164 and recognize \$88,028,452 as the Medicare segment pension assets as of January 1, 2022, and
- improve policies and procedures to ensure that going forward, it calculates Medicare segment pension assets in accordance with Federal requirements.

## AUDITEE COMMENTS

In written comments on our draft report, Palmetto, through its parent company, BCBS South Carolina, concurred with our findings but did not specifically indicate concurrence or nonconcurrence with our recommendations. Palmetto said that it would work with its actuarial firm to ensure that the recommendations are implemented prospectively, beginning with calendar year 2025. Palmetto also stated that it would work with CMS to ensure the final settlement and collection of contract costs.

Palmetto's comments appear in their entirety as Appendix E.<sup>8</sup>

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<sup>8</sup> Although BCBS South Carolina, of which Palmetto is a subsidiary, provided written comments on this draft report, for consistency we associate these comments with Palmetto.

## **APPENDIX A: AUDIT SCOPE AND METHODOLOGY**

### **SCOPE**

We reviewed Palmetto's implementation of the prior audit recommendation, its identification of its Medicare segment, and its update of the Medicare segment pension assets from January 1, 2017, to January 1, 2022.

Achieving our objective did not require that we review Palmetto'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 CAS 412 and CAS 413.

We performed our audit work from August 2023 to June 2025.

### **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 BCBS South Carolina'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 Medicare segment assets;
- obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the Medicare segment assets;
- interviewed BCBS South Carolina and Palmetto staff responsible for identifying the Medicare segment to determine whether the segment was properly identified;
- reviewed Palmetto's accounting records to verify the Medicare segment's identification as well as the benefit payments made from the Medicare segment;
- reviewed the prior segmentation audit performed at Palmetto (A-07-20-00586, Apr. 17, 2020) to determine the beginning market value of assets for the Medicare segment;
- provided the CMS Office of the Actuary, which provides technical actuarial advice, with the actuarial information necessary for it to calculate the Medicare segment pension assets from January 1, 2017, to January 1, 2022;
- reviewed the CMS actuaries' methodology and calculations; and

- provided the results of our audit to Palmetto officials.

We performed this audit in conjunction with the following audit and used the information obtained during it: *Companion Data Services, LLC, Understated Its Medicare Segment Pension Assets as of January 1, 2022* (OAS 25-07-023).

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: PALMETTO GOVERNMENT BENEFITS ADMINISTRATOR, LLC,  
STATEMENT OF MEDICARE SEGMENT PENSION ASSETS  
FOR THE PERIOD JANUARY 1, 2017, TO JANUARY 1, 2022**

Description		Total Company	Other Segments	Palmetto Medicare Segment	CDS Medicare Segment
Assets January 1, 2017	<u>1/</u>	\$1,076,997,009	\$986,090,452	\$73,630,103	\$17,276,454
Prepayment credits	<u>2/</u>	0	(2,086,790)	912,518	1,174,272
Contributions	<u>3/</u>	50,000,000	50,000,000	0	0
Earnings	<u>4/</u>	201,629,424	183,720,583	14,434,379	3,474,462
Benefit payments	<u>5/</u>	(112,052,314)	(107,432,056)	(2,905,386)	(1,714,872)
Administrative Expenses	<u>6/</u>	(685,191)	(624,332)	(49,052)	(11,807)
Transfers	<u>7/</u>	0	4,905,803	(3,311,586)	(1,594,217)
Discount on Accrued Contributions	<u>8/</u>	(1,375,019)	(1,375,019)	0	0
Assets January 1, 2018		\$1,214,513,909	\$1,113,198,641	\$82,710,976	\$18,604,292
Prepayment credits		0	(3,039,869)	1,806,323	1,233,546
Contributions		70,000,000	70,000,000	0	0
Earnings		(90,231,944)	(82,456,063)	(6,372,980)	(1,402,901)
Benefit payments		(88,649,815)	(81,625,326)	(3,736,363)	(3,288,126)
Administrative Expenses		(846,714)	(773,748)	(59,802)	(13,164)
Transfers		0	1,198,157	2,274,557	(3,472,714)
Discount on Accrued Contributions		(2,135,223)	(2,135,223)	0	0
Assets January 1, 2019		\$1,102,650,213	\$1,014,366,569	\$76,622,711	\$11,660,933
Prepayment credits		0	(3,224,378)	2,254,175	970,203
Contributions		70,000,000	70,000,000	0	0
Earnings		268,111,463	245,644,004	19,334,254	3,133,205
Benefit payments		(86,830,155)	(81,339,693)	(4,985,063)	(505,399)
Administrative Expenses		(514,334)	(471,233)	(37,090)	(6,011)
Transfers		-	4,195,226	(4,042,770)	(152,456)
Discount on Accrued Contributions		(2,068,869)	(2,068,869)	-	-
Assets January 1, 2020		\$1,351,348,318	\$1,247,101,626	\$89,146,217	\$15,100,475
Prepayment credits		0	(4,877,130)	3,695,230	1,181,900
Contributions		75,000,000	75,000,000	0	0
Earnings		84,906,224	78,001,108	5,875,101	1,030,015
Benefit payments		(75,568,789)	(70,975,948)	(3,898,312)	(694,529)
Administrative Expenses		(625,954)	(575,047)	(43,313)	(7,594)
Transfers		0	5,095,797	(4,510,893)	(584,904)
Discount on Accrued Contributions		(1,160,238)	(1,160,238)	0	0
Assets January 1, 2021		\$1,433,899,561	\$1,327,610,168	\$90,264,030	\$16,025,363

Description		Total Company	Other Segments	Palmetto Medicare Segment	CDS Medicare Segment
Assets January 1, 2021		\$1,433,899,561	\$1,327,610,168	\$90,264,030	\$16,025,363
Prepayment credits		0	(7,275,521)	5,813,387	1,462,134
Contributions		55,000,000	55,000,000	0	0
Earnings		61,221,233	56,411,826	4,059,497	749,910
Benefit payments		(75,011,818)	(67,277,262)	(6,968,910)	(765,646)
Administrative Expenses		(213,253)	(196,500)	(14,141)	(2,612)
Transfers		0	6,074,497	(5,125,411)	(949,086)
Discount on Accrued Contributions		(1,028,392)	(1,028,392)	0	0
Assets January 1, 2022		\$1,473,867,331	\$1,369,318,816	\$88,028,452	\$16,520,063
Per BCBS South Carolina	9/	\$1,444,888,066	\$1,338,780,030	\$89,857,616	\$16,250,420
Asset variance	10/	\$28,979,265	\$30,538,786	(\$1,829,164)	\$269,643

## ENDNOTES

- 1/ We determined the Medicare segment pension assets as of January 1, 2017, based on our prior segmentation audit of Palmetto (A-07-20-00586; Apr. 17, 2020). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segments. 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 segments as needed to cover funding requirements.
- 3/ We obtained Total Company contribution amounts from documents provided by BCBS South Carolina. We allocated Total Company contributions to the Medicare segment based on the ratio of the Medicare segment's 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 net investment earnings from documents provided by BCBS South Carolina. 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.
- 5/ We based the Medicare segments benefit payments on actual payments to Medicare segment retirees. We obtained the benefit payments from documents provided by Palmetto.
- 6/ In accordance with the CAS, we allocated administrative expenses to each Medicare segment in proportion to investment earnings.
- 7/ We identified participant transfers between segments by comparing valuation data files provided by Palmetto. Asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS.
- 8/ In accordance with the CAS, actual contributions are discounted, at the effective interest rate, from the date of each contribution to the beginning of the program year.
- 9/ We obtained total asset amounts from documents prepared by Palmetto's actuarial consulting firm.
- 10/ The asset variance represents the difference between our calculation of the Palmetto Medicare segment pension assets and Palmetto's calculation of the Medicare segment pension assets.

## **APPENDIX C: FEDERAL REQUIREMENTS RELATED TO PENSION SEGMENTATION**

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 412.50(b)(7)(i)) require that in any period for which the sum of the minimum actuarial liability and the minimum normal cost exceeds the sum of the actuarial accrued liability and the normal cost, the contractor shall measure and assign the pension cost for the period in accordance with CAS 412 and 413 by using the minimum actuarial liability and minimum normal cost as the actuarial accrued liability and normal cost, respectively, for all purposes unless otherwise excepted.

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.

**APPENDIX D: PALMETTO GOVERNMENT BENEFITS ADMINISTRATOR, LLC,  
COST ACCOUNTING STANDARDS BALANCE EQUATION  
AS OF JANUARY 1, 2022**

Description		Total Company	Other Segment	Palmetto Medicare Segment	CDS Medicare Segment
Actuarial Accrued Liability	<u>1/</u>	\$ 1,129,893,775	\$ 1,003,017,291	\$ 108,205,016	\$ 18,671,468
Less: Actuarial Value of Assets	<u>2/</u>	(1,443,697,306)	(1,341,288,897)	(86,226,512)	(16,181,897)
Unfunded Actuarial Liability	<u>3/</u>	\$ (313,803,531)	\$ (338,271,606)	\$ 21,978,504	\$ 2,489,571
9904.412-50(a)(2) Unallowable	<u>4/</u>	\$ -	\$ -	\$ -	\$ -
Prepayment Credit	<u>5/</u>	(462,729,134)	(462,729,134)	\$ -	-
Adjustments to UAL	<u>6/</u>	\$ (462,729,134)	\$ (462,729,134)	\$ -	\$ -
Net Unamortized Balance	<u>7/</u>	\$ 148,925,603	\$ 124,457,528	\$ 21,978,504	\$ 2,489,571
Market Value of Assets	<u>8/</u>	\$ 1,473,867,331	\$ 1,369,318,816	\$ 88,028,452	\$ 16,520,063

**ENDNOTES**

- 1/ Actuarial accrued liability (AAL) represents the pension cost attributable, under the actuarial cost method in use, to years prior to January 1, 2022. We obtained the total company AAL from the January 1, 2022, BCBS South Carolina actuarial valuation report. The AALs for the Other Segment and Medicare segments were determined as a result of our audit.
- 2/ The actuarial value of assets (AVA) is the value of cash, investments, and other property belonging to a pension plan, as used by the actuary for the purpose of an actuarial valuation. The AVA shown here was computed by the CMS Office of the Actuary based on audited values as of January 1, 2022.
- 3/ The unfunded actuarial liability (UAL) is the AAL less the AVA as of January 1, 2022. An actuarial surplus, or negative UAL, is created whenever the AVA exceeds the AAL.
- 4/  
The 9904.412-50(a)(2) Unallowable represents the prior-period pension costs determined to be unallowable in accordance with Government contractual provisions in effect at the time or pension costs assigned to a cost accounting period that were not funded in that period. This is an adjustment to the UAL required by CAS 412-50(a)(2).
- 5/ The prepayment credit represents funds available to satisfy future funding requirements. This is an adjustment to the AVA for premature funding of future pension costs required by CAS 412-50(a)(4).
- 6/ Adjustments to the UAL represent the sum of the unallowable and prepayment balances as of January 1, 2022.
- 7/ The net unamortized balance is the UAL less the adjustments to the UAL. It is the portion of the UAL yet to be amortized in accordance with CAS 412-50(a)(1) and CAS 413-50(a)(2).
- 8/ The market value of assets represents the current value of assets as of January 1, 2022, plus the current value of any accrued contributions used to fund pension costs assigned to periods prior to January 1, 2022.





BlueCross BlueShield of South Carolina  
 I-20 at Alpine Road  
 Columbia SC 29219-0001  
 803.788.0222

SouthCarolinaBlues.com

July 8, 2025

James I. Korn  
 Regional Inspector General for Audit Services  
 Office of Audit Services, Region VII  
 1201 Walnut Street, Suite 1309  
 Kansas City, MO 64106

Report Numbers:

A-07-23-00638	OAS-25-07-020	OAS-25-07-022
OAS-25-07-023	OAS-25-07-026	OAS-25-07-027
OAS-25-07-028	OAS-25-07-046	OAS-25-07-047
OAS-25-07-052	OAS-25-07-051	

Dear Mr. Korn:

We are responding to the U.S. Department of Health and Human Services, Office of Inspector General, draft reports referenced above which pertain to the BlueCross BlueShield South Carolina sponsored qualified-defined benefit pension plan and excess plan.

We concur with findings in each report, we will work with our actuarial firm to ensure we implement the recommendations prospectively beginning with calendar year 2025, consistent with the timing of receipt of reports referenced above. The findings collectively resulted in underbilling costs for each of our companies for calendar years 2017-2021. We will work with CMS to ensure final settlement and collection of these costs.

We appreciate the opportunity to comment on the recommendations. Please let me know if you have any questions or need additional information regarding our response.

Sincerely,

/Jennifer Capell/

Jennifer Capell  
 Vice President, Corporate Controller  
 BlueCross BlueShield South Carolina

Cc: Bruce Hughes, Celerian Group  
 Lori Hair, BlueCross BlueShield South Carolina  
 Jamie Keller, Companion Data Services, LLC  
 Michael Logan, CGS Administrators, LLC  
 Nancy Lybrand, Palmetto GBA, LLC

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