

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**GROUP HEALTH INCORPORATED
DID NOT CLAIM SOME ALLOWABLE
MEDICARE PENSION COSTS FOR
CALENDAR YEARS 2009 THROUGH 2016**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



Amy J. Frontz
Deputy Inspector General
for Audit Services

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Office of Inspector General

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

Report in Brief

Date: September 2020
Report No. A-07-19-00581

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



Why OIG Did This Audit

The Centers for Medicare & Medicaid Services (CMS) reimburses Medicare contractors for a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans.

At CMS's request, the HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, postretirement benefit, and any other pension-related cost elements claimed by Medicare contractors through Incurred Cost Proposals (ICPs).

Previous OIG audits found that Medicare contractors did not always correctly identify and claim pension costs.

Our objective was to determine whether the calendar years (CYs) 2009 through 2016 qualified defined-benefit plan pension costs that Group Health Incorporated (GHI) claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

How OIG Did This Audit

We reviewed \$14 million of Medicare pension costs that GHI claimed for Medicare reimbursement on its ICPs for CYs 2009 through 2016.

Group Health Incorporated Did Not Claim Some Allowable Medicare Pension Costs for Calendar Years 2009 Through 2016

What OIG Found

GHI claimed pension costs of \$14 million for Medicare reimbursement, through its ICPs, for CYs 2009 through 2016; however, we determined that the allowable Cost Accounting Standards-based pension costs during this period were \$15.1 million. The difference, \$1.1 million, represented allowable Medicare pension costs that GHI did not claim on its ICPs for CYs 2009 through 2016. This underclaim occurred specifically because GHI based its claim for Medicare reimbursement on incorrect pension costs included in the indirect cost rates on the ICPs.

What OIG Recommends and Auditee Comments

We recommend that GHI work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare pension costs of \$1.1 million for CYs 2009 through 2016.

GHI did not directly address our recommendation. However, GHI's comments disagreeing with our findings in this and related reports suggested that it disagreed with our recommendation. Specifically, GHI disagreed with our disallowance of quarterly interest and with the indirect cost rates that we used. We maintain that all of our calculations of the Medicare pension costs remain valid and that our findings and recommendation remain valid as well.

TABLE OF CONTENTS

INTRODUCTION	1
Why We Did This Audit	1
Objective	1
Background	1
Group Health Incorporated and Medicare	1
Medicare Reimbursement of Pension Costs	2
Incurred Cost Proposal Audits	2
How We Conducted This Audit	3
FINDING.....	3
Allocable Medicare Segment Pension Costs Overstated.....	3
Allocable Other Segment Pension Costs Overstated.....	4
Calculation of Allowable Pension Costs	5
RECOMMENDATION	6
AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE	6
Calculation of Interest on Prepayment Credits	6
Auditee Comments	6
Office of Inspector General Response	7
Indirect Cost Rates	7
Auditee Comments	7
Office of Inspector General Response	8
APPENDICES	
A: Audit Scope and Methodology	9
B: Federal Requirements Related to Reimbursement of Pension Costs.....	11

C: Allocable Medicare Pension Costs for the EmblemHealth Services Company, LLC, Employees' Retirement Plan for Group Health Incorporated for Calendar Years 2009 Through 2015	12
D: Allocable Medicare Pension Costs for the Local 153 Pension Plan for Group Health Incorporated for Calendar Years 2009 Through 2016	17
E: Allocable Medicare Pension Costs for the Cash Balance Pension Plan for Group Health Incorporated for Calendar Years 2009 Through 2010	22
F: Allocable Medicare Pension Costs for Group Health Service Company for Calendar Years 2009 Through 2016	24
G: Auditee Comments	26

INTRODUCTION

WHY WE DID THIS AUDIT

Medicare contractors are eligible to be reimbursed a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the allocability and cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), the Cost Accounting Standards (CAS), and the Medicare contracts. Previous Office of Inspector General (OIG) audits found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

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

For this audit, we focused on one Medicare contractor, Group Health Incorporated (GHI). In particular, we examined the GHI Medicare segment and Other segment pension costs that GHI claimed for Medicare reimbursement and reported on its ICPs.

OBJECTIVE

Our objective was to determine whether the calendar years (CYs) 2009 through 2016 qualified defined-benefit plan pension costs (herein referred to as "pension costs") that GHI claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

BACKGROUND

Group Health Incorporated and Medicare

GHI, a subsidiary of EmblemHealth Services Company, LLC, administered Medicare operations under a Coordination of Benefits (COB) contract with CMS. During our audit period, GHI also performed Medicare work on the Medicare Secondary Payer Recovery and Benefit Coordination and Recovery (MSPRC) contracts.¹ GHI also performed work as a subcontractor on the Retiree Drug Subsidy (RDS) contract.

¹ Before September 2011, GHI performed Medicare work as a subcontractor on the MSPRC contract and the RDS contract. From September 2011 through February 2014, GHI performed Medicare work as the prime contractor on the MSPRC contracts.

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. Medicare segment employees of GHI participated in all three of these pension plans. This report addresses the allowable pension costs claimed by GHI under the provisions of its MAC contracts and CAS- and FAR-covered contracts.

The disclosure statement that GHI submits to CMS states that GHI uses pooled cost accounting. Medicare contractors use pooled cost accounting to calculate the indirect cost rates (whose computations include pension, PRB, and Supplemental Executive Retirement Plan costs) that they submit on their ICPs. Medicare contractors use the indirect cost rates to calculate the contract costs that they report on their ICPs. In turn, CMS uses these indirect cost rates in determining the final indirect cost rates for each contract.²

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the annual contributions that contractors make to their pension plans. The pension costs are included in the computation of the indirect cost rates reported on the ICPs. In turn, CMS uses indirect cost rates in reimbursing costs under cost-reimbursement contracts. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with CAS 412 and 413 and (2) funded as specified by part 31 of the FAR. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR, the CAS, and the Medicare contracts.

Incurred Cost Proposal Audits

At CMS's request, Figliozi & Company, P.C. (Figliozi), Kearney & Company, P.C. (Kearney), and Davis Farr, LLP (Farr), performed audits of the ICPs that GHI submitted for CYs 2009 through 2016. The objectives of the Figliozi, Kearney, and Farr audits were to determine whether costs were allowable in accordance with the FAR, the U.S. Department of Health and Human Services Acquisition Regulation, and the CAS.

For our current audit, we relied on the Figliozi, Kearney, and Farr audit findings and recommendations when computing the allowable pension costs discussed in this report.

We incorporated the results of the Figliozi, Kearney, and Farr audits into our computations of the audited indirect cost rates, and ultimately the pension costs claimed, for the contracts subject to the FAR. CMS will use our report on allowable pension costs, as well as the Figliozi, Kearney, and Farr audit reports, to determine the final indirect cost rates and the total allowable contract costs for GHI for CYs 2009 through 2016. The cognizant Contracting Officer

² For each CY, each Medicare contractor submits to CMS an ICP that reports the Medicare direct and indirect costs that the contractor incurred during that year. The ICP and supporting data provide the basis for the CMS Contracting Officer and the Medicare contractor to determine the final billing rates for allowable Medicare costs.

will perform a final settlement with the contractor to determine the final indirect cost rates. These rates ultimately determine the final costs of each contract.³

HOW WE CONDUCTED THIS AUDIT

We reviewed \$13,951,927 of Medicare pension costs that GHI claimed for Medicare reimbursement on its ICPs for CYs 2009 through 2016.

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.

FINDING

GHI claimed pension costs of \$13,951,927 for Medicare reimbursement, through its ICPs, for CYs 2009 through 2016; however, we determined that the allowable CAS-based pension costs during this period were \$15,053,569. The difference, \$1,101,642, represented allowable Medicare pension costs that GHI did not claim on its ICPs for CYs 2009 through 2016. This underclaim occurred specifically because GHI based its claim for Medicare reimbursement on incorrect pension costs included in the indirect cost rates on the ICPs.

ALLOCABLE MEDICARE SEGMENT PENSION COSTS OVERSTATED

During this audit, we calculated the allocable Medicare segment pension costs for CYs 2009 through 2016 in accordance with Federal requirements. We determined that the allocable Medicare segment pension costs for CYs 2009 through 2016 totaled \$16,000,413. GHI reported that its allocable pension costs, as identified in its actuarial computations, totaled \$25,535,967. Therefore, GHI overstated the Medicare segment allocable pension costs by \$9,535,554. This overstatement occurred because of differences in the calculations of the assignable pension costs. More specifically, differences in the long-term interest rate resulted in different assignable pension cost calculations.

Table 1 on the following page shows the differences between the allocable Medicare segment CAS-based pension costs that we determined for CYs 2009 through 2016 and the Medicare segment pension costs that GHI calculated for the same time period.

³ In accordance with FAR 42.705-1(b)(5)(ii) and FAR 42.705-1(b)(5)(iii)(B), the cognizant Contracting Officer shall “[p]repare a written indirect cost rate agreement conforming to the requirements of the contracts” and perform a “[r]econciliation of all costs questioned, with identification of items and amounts allowed or disallowed in the final settlement,” respectively.

Table 1: Allocable Medicare Segment Pension Costs

CY	Allocable Per Audit	Per GHI	Difference
2009	\$2,223,035	\$2,244,004	(\$20,969)
2010	2,822,476	2,868,587	(46,111)
2011	2,259,144	2,416,405	(157,261)
2012	2,131,333	3,413,674	(1,282,341)
2013	2,014,178	4,107,376	(2,093,198)
2014	2,214,205	3,363,823	(1,149,618)
2015	1,407,906	3,861,548	(2,453,642)
2016	928,136	3,260,550	(2,332,414)
Total	\$16,000,413	\$25,535,967	(\$9,535,554)

ALLOCABLE OTHER SEGMENT PENSION COSTS OVERSTATED

During the current audit, we calculated the allocable Other segment pension costs for CYs 2009 through 2016 in accordance with Federal requirements. We determined that the allocable Other segment pension costs for CYs 2009 through 2016 totaled \$196,756,682. GHI reported that its allocable pension costs, as identified in its actuarial computations, totaled \$291,726,370. Therefore, GHI overstated the allocable Other segment pension costs by \$94,969,688. This overstatement occurred because of differences in the assignable pension costs. More specifically, differences in the long-term interest rate resulted in different assignable pension cost calculations.

Table 2 below shows the allocable Other segment pension costs that we determined for CYs 2009 through 2016.

Table 2: Allocable Other Segment Pension Costs

CY	Allocable Per Audit	Per GHI	Difference
2009	\$25,893,357	\$27,221,710	(\$1,328,353)
2010	29,115,831	30,731,383	(1,615,552)
2011	26,675,215	27,911,914	(1,236,699)
2012	26,397,114	37,788,538	(11,391,424)
2013	23,748,136	42,402,459	(18,654,323)
2014	31,132,838	47,546,845	(16,414,007)
2015	26,514,243	53,361,148	(26,846,905)
2016	7,279,948	24,762,373	(17,482,425)
Total	\$196,756,682	\$291,726,370	(\$94,969,688)

CALCULATION OF ALLOWABLE PENSION COSTS

We used both the Medicare segment and the Other segment (Appendix C) allocable pension costs to adjust the indirect cost rates (i.e., the fringe benefit and general and administrative rates) to determine the allowable pension costs for Medicare reimbursement for CYs 2009 through 2016.

GHI claimed Medicare pension costs of \$13,951,927 on its ICPs for CYs 2009 through 2016. After incorporating the results of the ICP audits and our adjustments to the indirect cost rates, we determined that the allowable CAS-based pension costs for CYs 2009 through 2016 were \$15,053,569. Thus, GHI did not claim \$1,101,642 of allowable Medicare pension costs on its ICPs for CYs 2009 through 2016. This underclaim occurred specifically because GHI based its claim for Medicare reimbursement on incorrect pension costs included in the indirect cost rates on the ICPs.

We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs in accordance with CAS 412 and 413. (Our calculation does not appear in this report because those indirect cost rate computations that GHI used in its ICPs, and to which we referred as part of our review, are proprietary information.) For details on the Federal requirements, see Appendix B.

Table 3 below compares the Medicare pension costs that we calculated (using our adjusted indirect cost rates) to the pension costs that GHI claimed for Medicare reimbursement for CYs 2009 through 2016.

Table 3: Comparison of Allowable Pension Costs and Claimed Pension Costs

CY	Allowable Per Audit	Per GHI	Difference
2009	\$2,184,637	\$1,432,960	\$751,677
2010	1,965,437	1,534,687	430,750
2011	2,164,183	2,682,065	(517,882)
2012	2,175,334	3,811,822	(1,636,488)
2013	2,008,121	3,705,976	(1,697,855)
2014	2,233,061	2,484,303	(251,242)
2015	1,397,567	(983,059)	2,380,626
2016	925,229	(716,827)	1,642,056
Total	\$15,053,569	\$13,951,927	\$1,101,642

RECOMMENDATION

We recommend that Group Health Incorporated work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare pension costs of \$1,101,642 for CYs 2009 through 2016.

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 disagreeing with our findings in this and related reports (Appendix A) suggested that it disagreed with our recommendation. Specifically, GHI disagreed with our related reports' findings regarding contributions and transferred prepayment credits; net transfers; benefit payments; earnings, net of expenses; and Medicare's share of excess pension assets and liabilities; those findings figure into our calculations for this report (Appendices C and D). With respect to this report, GHI disagreed with our disallowance of quarterly interest and with the indirect cost rates that we used.

GHI's comments (which also apply to our two current related reports cited in Appendix A as well as other current audit reports) appear in their entirety as Appendix G.

After reviewing GHI's comments, we maintain that all of our calculations of the Medicare pension costs remain valid and that our findings and recommendation remain valid as well.

CALCULATION OF INTEREST ON PREPAYMENT CREDITS

Auditee Comments

GHI stated that we improperly disallowed quarterly interest because of the existence of prepayment credits. GHI quoted the language that appears in endnote 10 of Appendices C, D, and E of this report:⁴

We assumed that interest on the funded CAS-based pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.

⁴ These endnotes refer to appendix entries for "Allowable Interest." GHI's written comments ascribe this quoted text to Appendix F. Because that appendix does not have an endnote 10, we assume that was a typographical error in GHI's comments.

GHI stated that FAR 31.205-6(j)(2)(iii) does not support our position that quarterly interest cannot accrue if the contractor has prepayment credits. GHI added that this provision of the FAR does not refer to prepayment credits. GHI also stated that FAR 31.205-6(j)(2)(iii) provides that “[i]ncreased pension costs are unallowable if the increase is caused by a delay in funding beyond 30 days after each quarter of the year to which they are assignable.” GHI said that EmblemHealth submitted quarterly cash contribution within 30 days after the end of each quarter and that therefore, the interest is allowable in accordance with the “plain language” of FAR 31.205-6(j)(2)(iii).

Office of Inspector General Response

We disagree with GHI’s statement that we improperly disallowed quarterly interest because of the existence of prepayment credits. The provision of FAR 31.205-6(j)(2)(iii) that GHI cited applies to all cash contributions made to the pension trust—and that provision is applicable to prepayment credits. Because GHI had made contributions in excess of the CAS funding target in previous years, the resulting prepayment credits were available on the first day of the CY to cover the assignable pension costs.

GHI had already decided to fund these costs with contributions it made into the pension trust fund, and for that reason, these funds were unavailable to the contractor for any other purpose than to fund pension costs. Under the provisions of FAR 31.201-2 and 31.201-3, it would not be reasonable for a prudent person in the conduct of competitive business to ignore the existence of available funds, earmarked for a specific purpose only, and thereby incur additional interest costs. By using current-period cash contributions in lieu of the available prepayment credits to liquidate its pension costs, GHI would effectively be incurring additional costs by delaying the funding of the assignable pension costs.

INDIRECT COST RATES

Auditee Comments

GHI stated that we incorrectly incorporated ceiling rates when determining GHI’s final indirect cost rates for CYs 2009 through 2016. GHI’s comments included a table, which we have added to this report as Table 4 below, detailing the ceiling rates that we used in our calculations.

Table 4: Ceiling Rates Used by OIG

	Fringe	Overhead
2010 COB	64.93%	
2010 RDS	65.93%	
2011 COB	68.37%	34.15%
2011 RDS		35.15%
2011 MSPRC		35.15%

GHI said that it agreed with our use of the 35.15 percent ceiling rate for the MSPRC contract. However, GHI disagreed with our use of the ceiling rates shown in Table 4 when we determined the pension costs for the COB and RDS contracts. GHI stated that both the COB and RDS contracts did not have ceiling rates during CYs 2010 and 2011.

Office of Inspector General Response

The ceiling rates that GHI mentioned, and that we depicted in Table 4, are the rates we used when calculating the allowable pension costs for CYs 2010 and 2011. However, we disagree that those ceiling rates were inaccurate. We incorporated the results of the Kearney ICP audit for CYs 2010 and 2011, which recommended these ceiling rates, into our computations of the audited indirect cost rates. In GHI's response to the Kearney ICP audit recommendation, GHI agreed that its actual expenses for all contracts were higher than the ceiling that CMS had reviewed and approved. We therefore maintain that we correctly incorporated ceiling rates when determining GHI's final indirect cost rates for CYs 2009 through 2016.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$13,951,927 of Medicare pension costs that GHI claimed for Medicare reimbursement on its ICPs for CYs 2009 through 2016.

Achieving our objective did not require that we review GHI's overall internal control structures. We reviewed the internal controls related to the pension costs that were included in GHI's ICPs and ultimately used as the basis for Medicare reimbursement, to ensure that these costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed fieldwork at GHI 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 information provided by GHI to identify the amounts of pension costs used in GHI's calculation of indirect cost rates for CYs 2009 through 2016;
- reviewed the results of the Figliozi, Kearney, and Farr ICP audits and incorporated those results into our calculations of allowable pension costs;
- engaged the CMS Office of the Actuary, which provides technical actuarial advice, to calculate the allocable pension costs based on the CAS (the calculations were based on separately computed CAS-based pension costs for the Medicare segment and the Other segment);
- reviewed the CMS actuaries' methodology and calculations; and
- provided the results of our audit to GHI officials on April 23, 2020.

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

- *Group Health Incorporated Understated Its Cash Balance Pension Plan Medicare Segment Pension Assets as of January 1, 2011* (A-07-19-00557, July 25, 2019);

- *Group Health Incorporated Overstated Its Local 153 Pension Plan Medicare Segment Assets and Understated Medicare's Share of the Medicare Segment Pension Assets as of August 31, 2016 (A-07-19-00580); and*
- *Group Health Incorporated Overstated Its EmblemHealth Services Company, LLC, Employees' Retirement Plan Medicare Segment Pension Assets and Understated Medicare's Share of the Medicare Segment Pension Assets as of December 31, 2015 (A-07-19-00579).*

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: FEDERAL REQUIREMENTS RELATED TO REIMBURSEMENT OF PENSION COSTS

FEDERAL REGULATIONS

Federal regulations (FAR 31.205-6(j)) require Medicare contractors to measure, assign, and allocate the costs of all defined-benefit pension plans in accordance with CAS 412 and 413.

Federal regulations (FAR 52.216-7(a)(1)) address the invoicing requirements and the allowability of payments as determined by the Contracting Officer in accordance with FAR subpart 31.2.

Federal regulations (CAS 412) (as amended) address the determination and measurement of pension cost components. These regulations also address the assignment of pension costs to appropriate accounting periods.

Federal regulations (CAS 413) (as amended) address the valuation of pension assets, allocation of pension costs to segments of an organization, adjustment of pension costs for actuarial gains and losses, and assignment of gains and losses to cost accounting periods.

MEDICARE CONTRACTS

The Medicare contracts require GHI to submit invoices in accordance with FAR 52.216-7, “Allowable Cost & Payment.” (See our citation to FAR 52.216-7(a)(1) in “Federal Regulations” above.)

**APPENDIX C: ALLOCABLE MEDICARE PENSION COSTS FOR THE
EMBLEMHEALTH SERVICES COMPANY, LLC, EMPLOYEES' RETIREMENT PLAN FOR
GROUP HEALTH INCORPORATED FOR CALENDAR YEARS 2009 THROUGH 2015**

Date	Description	End Note	Total Company	Other Segment	Medicare Segment
2009	Contributions	<u>1/</u>	\$7,888,095	\$7,888,095	\$0
	Contributions Accrued	<u>2/</u>	\$21,910,793	\$21,910,793	\$0
	Discount for Interest	<u>3/</u>	(\$1,806,384)	(\$1,806,384)	\$0
January 1, 2009	Present Value Contributions	<u>4/</u>	\$27,992,504	\$27,992,504	\$0
	Prepayment Credit Applied	<u>5/</u>	\$14,989,022	\$14,532,574	\$456,448
	Present Value of Funding	<u>6/</u>	\$42,981,526	\$42,525,078	\$456,448
January 1, 2009	CAS Funding Target	<u>7/</u>	\$14,989,022	\$14,532,574	\$456,448
	Percentage Funded	<u>8/</u>		100.00%	100.00%
	Funded Pension Cost	<u>9/</u>		\$14,532,574	\$456,448
	Allowable Interest	<u>10/</u>		\$0	\$0
2009	CY Allocable Pension Cost	<u>11/</u>		\$14,532,574	\$456,448

Date	Description	Total Company	Other Segment	Medicare Segment
2010	Contributions		\$0	\$0
	Contributions Accrued	\$15,602,957	\$15,602,957	\$0
	Discount for Interest	(\$1,088,578)	(\$1,088,578)	\$0
January 1, 2010	Present Value Contributions	\$14,514,379	\$14,514,379	\$0
	Prepayment Credit Applied	\$15,622,187	\$15,005,287	\$616,900
	Present Value of Funding	\$30,136,566	\$29,519,666	\$616,900
January 1, 2010	CAS Funding Target	\$15,622,187	\$15,005,287	\$616,900
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$15,005,287	\$616,900
	Allowable Interest		\$0	\$0
2010	CY Allocable Pension Cost		\$15,005,287	\$616,900

Date	Description	Total Company	Other Segment	Medicare Segment
2011	Contributions	\$11,057,778	\$11,057,778	\$0
	Contributions Accrued	\$37,009,185	\$37,009,185	\$0
	Discount for Interest	(\$2,810,793)	(\$2,810,793)	\$0
January 1, 2011	Present Value Contributions	\$45,256,170	\$45,256,170	\$0
	Prepayment Credit Applied	\$14,409,448	\$13,837,630	\$571,818
	Present Value of Funding	\$59,665,618	\$59,093,800	\$571,818
January 1, 2011	CAS Funding Target	\$14,409,448	\$13,837,630	\$571,818
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$13,837,630	\$571,818
	Allowable Interest		\$0	\$0
2011	CY Allocable Pension Cost		\$13,837,630	\$571,818

Date	Description	Total Company	Other Segment	Medicare Segment
2012	Contributions	\$12,921,137	\$12,921,137	\$0
	Contributions Accrued	\$25,103,651	\$25,103,651	\$0
	Discount for Interest	(\$2,096,221)	(\$2,096,221)	\$0
January 1, 2012	Present Value Contributions	\$35,928,567	\$35,928,567	\$0
	Prepayment Credit Applied	\$17,142,125	\$16,557,973	\$584,152
	Present Value of Funding	\$53,070,692	\$52,486,540	\$584,152
January 1, 2012	CAS Funding Target	\$17,142,125	\$16,557,973	\$584,152
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$16,557,973	\$584,152
	Allowable Interest		\$0	\$0
2012	CY Allocable Pension Cost		\$16,557,973	\$584,152

Date	Description	Total Company	Other Segment	Medicare Segment
2013	Contributions	\$8,135,950	\$8,135,950	\$0
	Contributions Accrued	\$25,140,000	\$25,140,000	\$0
	Discount for Interest	(\$2,822,438)	(\$2,822,438)	\$0
January 1, 2013	Present Value Contributions	\$30,453,512	\$30,453,512	\$0
	Prepayment Credit Applied	\$16,794,798	\$16,222,737	\$572,061
	Present Value of Funding	\$47,248,310	\$46,676,249	\$572,061
January 1, 2013	CAS Funding Target	\$16,794,798	\$16,222,737	\$572,061
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$16,222,737	\$572,061
	Allowable Interest		\$0	\$0
2013	CY Allocable Pension Cost		\$16,222,737	\$572,061

Date	Description	Total Company	Other Segment	Medicare Segment
2014	Contributions	\$0	\$0	\$0
	Contributions Accrued	\$10,445,000	\$10,445,000	\$0
	Discount for Interest	(\$1,067,925)	(\$1,067,925)	\$0
January 1, 2014	Present Value Contributions	\$9,377,075	\$9,377,075	\$0
	Prepayment Credit Applied	\$19,639,242	\$19,070,486	\$568,756
	Present Value of Funding	\$29,016,317	\$28,447,561	\$568,756
January 1, 2014	CAS Funding Target	\$19,639,242	\$19,070,486	\$568,756
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$19,070,486	\$568,756
	Allowable Interest		\$0	\$0
2014	CY Allocable Pension Cost		\$19,070,486	\$568,756

Date	Description	Total Company	Other Segment	Medicare Segment
2015	Contributions	\$0	\$0	\$0
	Contributions Accrued	\$0	\$0	\$0
	Discount for Interest	\$0	\$0	\$0
January 1, 2015	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$18,111,667	\$18,013,390	\$98,277
	Present Value of Funding	\$18,111,667	\$18,013,390	\$98,277
January 1, 2015	CAS Funding Target	\$18,111,667	\$18,013,390	\$98,277
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$18,013,390	\$98,277
	Allowable Interest		\$0	\$0
2015	CY Allocable Pension Cost		\$18,013,390	\$98,277

ENDNOTES

- 1/ We obtained these Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. These contributions include deposits made during the CY. We determined the contributions allocated to the Medicare segment during our prior pension segmentation audit (A-07-19-00561; Jul. 25, 2019) and our current pension segmentation audit (A-07-19-00579).
- 2/ We obtained these Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. These contributions include accrued contributions deposited after the end of the CY but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during our prior pension segmentation audit (A-07-19-00561) and our current pension segmentation audit (A-07-19-00579).
- 3/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the CAS valuation interest rate) and actual contribution amounts.
- 4/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the CY. For purposes of this Appendix, we deemed deposits made after the end of the CY to have been made on the final day of the CY, consistent with the method established by the Employee Retirement Income Security Act prior to the implementation of the Pension Protection Act.
- 5/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.
- 6/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the CY.

- 7/ The CAS funding target must be funded by contributions made during the current accounting period or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).
- 8/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the CY. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimal places.
- 9/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.
- 10/ We assumed that interest on the funded CAS-based pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.
- 11/ The CY allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

**APPENDIX D: ALLOCABLE MEDICARE PENSION COSTS
FOR THE LOCAL 153 PENSION PLAN FOR GROUP HEALTH INCORPORATED
FOR CALENDAR YEARS 2009 THROUGH 2016**

Date	Description	End Note	Total Company	Other Segment	Medicare Segment
2009	Contributions	<u>1/</u>	\$2,283,998	\$2,283,998	\$0
	Contributions Accrued	<u>2/</u>	\$0	\$0	\$0
	Discount for Interest	<u>3/</u>	(\$42,984)	(\$42,984)	\$0
January 1, 2009	Present Value Contributions	<u>4/</u>	\$2,241,014	\$2,241,014	\$0
	Prepayment Credit Applied	<u>5/</u>	\$12,234,760	\$10,562,916	\$1,671,844
	Present Value of Funding	<u>6/</u>	\$14,475,774	\$12,803,930	\$1,671,844
January 1, 2009	CAS Funding Target	<u>7/</u>	\$12,234,760	\$10,562,916	\$1,671,844
	Percentage Funded	<u>8/</u>		100.00%	100.00%
	Funded Pension Cost	<u>9/</u>		\$10,562,916	\$1,671,844
	Allowable Interest	<u>10/</u>		\$0	\$0
2009	CY Allocable Pension Cost	<u>11/</u>		\$10,562,916	\$1,671,844

Date	Description	Total Company	Other Segment	Medicare Segment
2010	Contributions	\$2,000,000	\$2,000,000	\$0
	Contributions Accrued	\$4,406,124	\$4,406,124	\$0
	Discount for Interest	(\$358,511)	(\$358,511)	\$0
January 1, 2010	Present Value Contributions	\$6,047,613	\$6,047,613	\$0
	Prepayment Credit Applied	\$15,505,644	\$13,383,073	\$2,122,571
	Present Value of Funding	\$21,553,257	\$19,430,686	\$2,122,571
January 1, 2010	CAS Funding Target	\$15,505,644	\$13,383,073	\$2,122,571
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$13,383,073	\$2,122,571
	Allowable Interest		\$0	\$0
2010	CY Allocable Pension Cost		\$13,383,073	\$2,122,571

Date	Description	Total Company	Other Segment	Medicare Segment
2011	Contributions	\$7,433,853	\$7,402,942	\$30,911
	Contributions Accrued	\$56,420,625	\$56,186,017	\$234,608
	Discount for Interest	(\$3,948,223)	(\$3,931,806)	(\$16,417)
January 1, 2011	Present Value Contributions	\$59,906,255	\$59,657,153	\$249,102
	Prepayment Credit Applied	\$12,274,256	\$10,848,383	\$1,425,873
	Present Value of Funding	\$72,180,511	\$70,505,536	\$1,674,975
January 1, 2011	CAS Funding Target	\$14,418,588	\$12,743,613	\$1,674,975
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$12,743,613	\$1,674,975
	Allowable Interest		\$93,972	\$12,351
2011	CY Allocable Pension Cost		\$12,837,585	\$1,687,326

Date	Description	Total Company	Other Segment	Medicare Segment
2012	Contributions	\$10,920,932	\$10,920,932	\$0
	Contributions Accrued	\$37,097,883	\$37,097,883	\$0
	Discount for Interest	(\$2,799,601)	(\$2,799,601)	\$0
January 1, 2012	Present Value Contributions	\$45,219,214	\$45,219,214	\$0
	Prepayment Credit Applied	\$11,386,322	\$9,839,141	\$1,547,181
	Present Value of Funding	\$56,605,536	\$55,058,355	\$1,547,181
January 1, 2012	CAS Funding Target	\$11,386,322	\$9,839,141	\$1,547,181
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$9,839,141	\$1,547,181
	Allowable Interest		\$0	\$0
2012	CY Allocable Pension Cost		\$9,839,141	\$1,547,181

Date	Description	Total Company	Other Segment	Medicare Segment
2013	Contributions	\$7,149,774	\$7,149,774	\$0
	Contributions Accrued	\$12,250,000	\$12,250,000	\$0
	Discount for Interest	(\$1,483,795)	(\$1,483,795)	\$0
January 1, 2013	Present Value Contributions	\$17,915,979	\$17,915,979	\$0
	Prepayment Credit Applied	\$8,967,516	\$7,525,399	\$1,442,117
	Present Value of Funding	\$26,883,495	\$25,441,378	\$1,442,117
January 1, 2013	CAS Funding Target	\$8,967,516	\$7,525,399	\$1,442,117
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$7,525,399	\$1,442,117
	Allowable Interest		\$0	\$0
2013	CY Allocable Pension Cost		\$7,525,399	\$1,442,117

Date	Description	Total Company	Other Segment	Medicare Segment
2014	Contributions	\$0	\$0	\$0
	Contributions Accrued	\$0	\$0	\$0
	Discount for Interest	\$0	\$0	\$0
January 1, 2014	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$13,707,801	\$12,062,352	\$1,645,449
	Present Value of Funding	\$13,707,801	\$12,062,352	\$1,645,449
January 1, 2014	CAS Funding Target	\$13,707,801	\$12,062,352	\$1,645,449
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$12,062,352	\$1,645,449
	Allowable Interest		\$0	\$0
2014	CY Allocable Pension Cost		\$12,062,352	\$1,645,449

Date	Description	Total Company	Other Segment	Medicare Segment
2015	Contributions	\$0	\$0	\$0
	Contributions Accrued	\$0	\$0	\$0
	Discount for Interest	\$0	\$0	\$0
January 1, 2015	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$9,810,482	\$8,500,853	\$1,309,629
	Present Value of Funding	\$9,810,482	\$8,500,853	\$1,309,629
January 1, 2015	CAS Funding Target	\$9,810,482	\$8,500,853	\$1,309,629
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$8,500,853	\$1,309,629
	Allowable Interest		\$0	\$0
2015	CY Allocable Pension Cost		\$8,500,853	\$1,309,629

Date	Description	Total Company	Other Segment	Medicare Segment
2016	Contributions	\$0	\$0	\$0
	Contributions Accrued	\$0	\$0	\$0
	Discount for Interest	\$0	\$0	\$0
January 1, 2016	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$8,208,084	\$7,279,948	\$928,136
	Present Value of Funding	\$8,208,084	\$7,279,948	\$928,136
January 1, 2016	CAS Funding Target	\$8,208,084	\$7,279,948	\$928,136
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$7,279,948	\$928,136
	Allowable Interest		\$0	\$0
2016	CY Allocable Pension Cost		\$7,279,948	\$928,136

ENDNOTES

- 1/ We obtained these Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. These contributions include deposits made during the CY. We determined the contributions allocated to the Medicare segment during our prior pension segmentation audit (A-07-19-00562; Jul. 25, 2019) and our current pension segmentation audit (A-07-19-00580).
- 2/ We obtained these Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. These contributions include accrued contributions deposited after the end of the CY but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during our prior pension segmentation audit (A-07-19-00562) and our current pension segmentation audit (A-07-19-00580).

- 3/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the CAS valuation interest rate) and actual contribution amounts.
- 4/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the CY. For purposes of this Appendix, we deemed deposits made after the end of the CY to have been made on the final day of the CY, consistent with the method established by the Employee Retirement Income Security Act prior to the implementation of the Pension Protection Act.
- 5/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.
- 6/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the CY.
- 7/ The CAS funding target must be funded by contributions made during the current accounting period or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).
- 8/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the CY. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimal places.
- 9/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.
- 10/ We assumed that interest on the funded CAS-based pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.
- 11/ The CY allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

**APPENDIX E: ALLOCABLE MEDICARE PENSION COSTS
FOR THE CASH BALANCE PENSION PLAN FOR GROUP HEALTH INCORPORATED
FOR CALENDAR YEARS 2009 THROUGH 2010**

Date	Description	End Note	Total Company	Other Segment	Medicare Segment
2009	Contributions	<u>1/</u>	\$0	\$0	\$0
	Contributions Accrued	<u>2/</u>	\$1,790,000	\$1,790,000	\$0
	Discount for Interest	<u>3/</u>	(\$124,884)	(\$124,884)	\$0
January 1, 2009	Present Value Contributions	<u>4/</u>	\$1,665,116	\$1,665,116	\$0
	Prepayment Credit Applied	<u>5/</u>	\$892,610	\$797,867	\$94,743
	Present Value of Funding	<u>6/</u>	\$2,557,726	\$2,462,983	\$94,743
January 1, 2009	CAS Funding Target	<u>7/</u>	\$892,610	\$797,867	\$94,743
	Percentage Funded	<u>8/</u>		100.00%	100.00%
	Funded Pension Cost	<u>9/</u>		\$797,867	\$94,743
	Allowable Interest	<u>10/</u>		\$0	\$0
2009	CY Allocable Pension Cost	<u>11/</u>		\$797,867	\$94,743

Date	Description	Total Company	Other Segment	Medicare Segment
2010	Contributions	\$0	\$0	\$0
	Contributions Accrued	\$0	\$0	\$0
	Discount for Interest	\$0	\$0	\$0
January 1, 2010	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$810,476	\$727,471	\$83,005
	Present Value of Funding	\$810,476	\$727,471	\$83,005
January 1, 2010	CAS Funding Target	\$810,476	\$727,471	\$83,005
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$727,471	\$83,005
	Allowable Interest		\$0	\$0
2010	CY Allocable Pension Cost		\$727,471	\$83,005

ENDNOTES

1/ We obtained these Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. These contributions include deposits made during the CY. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-19-00557; Jul. 25, 2019).

- 2/ We obtained these Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. These contributions include accrued contributions deposited after the end of the CY but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-19-00557).
- 3/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the CAS valuation interest rate) and actual contribution amounts.
- 4/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the CY. For purposes of this Appendix, we deemed deposits made after the end of the CY to have been made on the final day of the CY, consistent with the method established by the Employee Retirement Income Security Act prior to the implementation of the Pension Protection Act.
- 5/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.
- 6/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the CY.
- 7/ The CAS funding target must be funded by contributions made during the current accounting period or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).
- 8/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the CY. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimal places.
- 9/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.
- 10/ We assumed that interest on the funded CAS-based pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.
- 11/ The CY allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

**APPENDIX F: ALLOCABLE MEDICARE PENSION COSTS
FOR GROUP HEALTH SERVICE COMPANY
FOR CALENDAR YEARS 2009 THROUGH 2016**

Date	Description	End Note	Other Segment	Medicare Segment	Total Allocable
January 1, 2009	EmblemHealth Services Company, LLC, Employees' Retirement Plan Allocable Cost	<u>1/</u>	\$14,532,574	\$456,448	
	Local 153 Pension Plan Allocable Cost	<u>2/</u>	\$10,562,916	\$1,671,844	
	Cash Balance Pension Plan Allocable Cost	<u>3/</u>	\$797,867	\$94,743	
	Total Calendar Year Allocable Pension Costs	<u>4/</u>	\$25,893,357	\$2,223,035	\$28,116,392

Date	Description	Other Segment	Medicare Segment	Total Allocable
January 1, 2010	EmblemHealth Services Company, LLC, Employees' Retirement Plan Allocable Cost	\$15,005,287	\$616,900	
	Local 153 Pension Plan Allocable Cost	\$13,383,073	\$2,122,571	
	Cash Balance Pension Plan Allocable Cost	\$727,471	\$83,005	
	Total Calendar Year Allocable Pension Costs	\$29,115,831	\$2,822,476	\$31,938,307

Date	Description	Other Segment	Medicare Segment	Total Allocable
January 1, 2011	EmblemHealth Services Company, LLC, Employees' Retirement Plan Allocable Cost	\$13,837,630	\$571,818	
	Local 153 Pension Plan Allocable Cost	\$12,837,585	\$1,687,326	
	Total Calendar Year Allocable Pension Costs	\$26,675,215	\$2,259,144	\$28,934,359

Date	Description	Other Segment	Medicare Segment	Total Allocable
January 1, 2012	EmblemHealth Services Company, LLC, Employees' Retirement Plan Allocable Cost	\$16,557,973	\$584,152	
	Local 153 Pension Plan Allocable Cost	\$9,839,141	\$1,547,181	
	Total Calendar Year Allocable Pension Costs	\$26,397,114	\$2,131,333	\$28,528,447

Date	Description	Other Segment	Medicare Segment	Total Allocable
January 1, 2013	Employees' Pension Plan Allocable Cost	\$16,222,737	\$572,061	
	Managerial Pension Plan Allocable Cost	\$7,525,399	\$1,442,117	
	Total Calendar Year Allocable Pension Costs	\$23,748,136	\$2,014,178	\$25,762,314

Date	Description	Other Segment	Medicare Segment	Total Allocable
January 1, 2014	EmblemHealth Services Company, LLC, Employees' Retirement Plan Allocable Cost	\$19,070,486	\$568,756	
	Local 153 Pension Plan Allocable Cost	\$12,062,352	\$1,645,449	
	Total Calendar Year Allocable Pension Costs	\$31,132,838	\$2,214,205	\$33,347,043

Date	Description	Other Segment	Medicare Segment	Total Allocable
January 1, 2015	EmblemHealth Services Company, LLC, Employees' Retirement Plan Allocable Cost	\$18,013,390	\$98,277	
	Local 153 Pension Plan Allocable Cost	\$8,500,853	\$1,309,629	
	Total Calendar Year Allocable Pension Costs	\$26,514,243	\$1,407,906	\$27,922,149

Date	Description	Other Segment	Medicare Segment	Total Allocable
January 1, 2016	Local 153 Pension Plan Allocable Cost	\$7,279,948	\$928,136	\$8,208,084

ENDNOTES

- 1/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes. The calculation of the EmblemHealth Services Company, LLC, Employees' Retirement Plan allocable pension cost appears in Appendix C.
- 2/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes. The calculation of the Local 153 Pension Plan allocable pension cost appears in Appendix D.
- 3/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes. The calculation of the Cash Balance Pension Plan allocable pension cost appears in Appendix E.
- 4/ The total CY allocable pension cost is the total of segments' cost from each pension plan.



Daniel P. Graham danielgraham@velaw.com
Tel +1.202.639.6652 Fax +1.202.318.8462

June 25, 2020

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-07-19-00579-00583

Dear 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 Employees’ Retirement Plan as of December 31, 2015 (Report No. -00579), Medicare Segment Pension Assets for its Local 153 Pension Plan as of August 31, 2016 (Report No. -00580), Medicare Pension Costs for 2009-2016 (Report No. -00581), Medicare Supplemental Executive Retirement Plan Costs for 2009-2016 (Report No. -00582), and Medicare Postretirement benefit costs for 2009-2016 (Report No. -00583). GHI welcomes OIG’s completion of these audits, and looks forward to the prompt completion of OIG’s audits of GHI’s pension and post-retirement benefit costs for the periods covered in these reports.

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

Implementation of Prior Audit Reports (Report Nos. -00579 and -00580). GHI disagrees with the findings in OIG Audit Report Nos. A-07-19-00561 and -00562, for the reasons that GHI identified in response to the drafts of those reports. GHI therefore disagrees that it was required to implement the findings of those reports in subsequent periods, including the periods covered by draft Report Nos. -00579 and -00580.

Contributions and Transferred Prepayment Credits (Report Nos. -00579 to -00581). 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, and, ultimately, allowable pension cost. GHI’s position regarding the appropriate long-term interest rate assumptions is set forth in

Vinson & Elkins LLP Attorneys at Law
Austin Beijing Dallas Dubai Hong Kong Houston London
New York Richmond Riyadh San Francisco Tokyo Washington

2200 Pennsylvania Avenue NW, Suite 500 West
Washington, DC 20037-1701
Tel +1.202.639.6500 Fax +1.202.639.6604 **velaw.com**

the Complaint that GHI filed in *Group Health Inc. v. United States*, No. 19-499, which is pending before the United States Court of Federal Claims, and the submissions that GHI has made to the Court and the Government in that case. OIG has provided no support for the 7.00% long term interest rate assumption that it has employed. OIG claims that this is the “historical long-term interest rate,” but provides no support for that statement. Regardless, a “historical” assumption necessarily would not reflect an “estimate of future conditions affecting pension costs” that considers the actual investment strategy and asset allocation of the plans at any time during the period being reviewed by the draft Reports. Indeed, OIG’s draft reports contain no discussion whatsoever regarding the plans’ asset allocation or the expected return on plan assets during the relevant periods. OIG’s 7.00% long term interest rate assumption is therefore an arbitrary number chosen by OIG, apparently for the sole purpose of artificially lowering the adjustment of previously determined pension costs required by CAS 413. It therefore cannot be a reasonable actuarial assumption under 48 C.F.R. §§ 9904.412-30(3) and 9904.413-50(c)(12). 48 C.F.R. § 9904.413-50(c)(i) requires that the actuarial assumptions used to calculate an adjustment of previously determined costs required by CAS 413 be “consistent with the prior and long term assumptions used in the measurement of pension cost.” But as GHI has explained in the certified claim that is the subject of Case No. 19-499 and in our submissions in that case, this requirement only states that different assumptions be reconcilable with one another, not that assumptions in one period be arbitrarily pegged to the assumptions in prior periods.

Net Transfers (Report Nos. -00579 to -00581). We requested that OIG identify the plan participants that OIG claims transferred into the Medicare segment during the periods in question, but OIG declined to do so. GHI is therefore unable to respond to OIG’s findings, which also impact OIG’s calculation of allowable pension cost.

Benefit Payments (Report Nos. -00579 to -00581). We requested that OIG provide support for its calculation of benefit payments, but OIG declined to do so. GHI is therefore unable to respond to OIG’s findings, which also impact OIG’s calculation of allowable pension cost.

Earnings, Net of Expenses (Report Nos. -00579 to -00581). 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.

Medicare’s Share of Excess Pension Assets/(Liabilities) (Report Nos. -00579 to -00581). OIG did not calculate the Government’s share of the adjustment of previously determined pension costs in accordance with 48 C.F.R. § 9904.413-50(c)(12). OIG divided allowable Medicare segment pension costs by allocable Medicare segment pension costs. CAS requires that the numerator include all pension costs allocated to CAS covered contracts. GHI did not allocate Medicare segment pension costs to any cost

objectives that were not CAS-covered contracts. Allowable costs could only have been lower than allocable costs in a given year because of indirect rate ceilings or other cost limitations applicable to specific CAS-covered contracts, but this does not change the fact that 100% of Medicare segment pension costs were allocable to CAS-covered contracts and therefore Medicare's share of the adjustment of previously determined pension costs is 100%.

Calculation of Interest on Prepayment Credits (Report No. -00581). OIG improperly disallowed quarterly interest because of the existence of prepayment credits. Draft Report No. -00581 explains OIG's rationale for disallowing quarterly interest in Appendix F, endnote 10:

We assumed that interest on the funded CAS-based pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.

FAR 31.205-6(j)(2)(iii) does not support OIG's position that quarterly interest cannot accrue if the contractor has prepayment credits. FAR 31.205-6(j)(2)(iii) does not even reference prepayment credits. Instead, FAR 31.205-6(j)(2)(iii) simply provides that "[i]ncreased pension costs are unallowable if the increase is caused by a delay in funding beyond 30 days after each quarter of the year to which they are assignable." Accordingly, interest is only unallowable if payment is made 30 days after the end of each quarter. EmblemHealth submitted quarterly cash contributions within 30 days after the end of each quarter. The accrued interest on EmblemHealth's quarterly pension payments is therefore allowable in accordance with the plain language of FAR 31.205-6(j)(2)(iii).

Calculations of GHI's Indirect Cost Rates and Allowable and Unallowable Costs (Report Nos. -00581 to -00583). OIG states that it "incorporated the rate ceilings associated with the Coordination of Benefits contracts" in determining GHI's final indirect cost rates for 2009-2016. In reviewing OIG's calculations, it appears that OIG imposed the following ceilings for GHI's fringe and overhead rates in 2010 and 2011:

	Fringe	Overhead
2010 COB	64.93%	
2010 RDS	65.93%	
2011 COB	68.37%	34.15%
2011 RDS		35.15%
2011 MSPRC		35.15%

GHI agrees that the Medicare Secondary Payer Recovery Contractor (“MSPRC”) prime contract imposed a 35.15% ceiling on GHI’s overhead rate for 2011; however, GHI disagrees with the other rate ceilings identified by OIG. Under the Coordination of Benefits (“COB”) Contract, indirect rate ceilings were established for 2008 by Modification 66, but indirect rate ceilings were not established for any other years. No indirect rate ceilings were established for the Retiree Drug Subsidy (“RDS”) subcontract.

Postretirement (“PRB”) costs (Report No. -00583). GHI disagrees with OIG’s finding that GHI claimed \$1.6 million in unallowable Medicare PRB costs. Although OIG’s draft report identifies the amounts that it determined were unallowable in each year between 2009 and 2016, OIG’s draft report does not disclose how OIG calculated this amount, and OIG did not provide support for its calculation in response to GHI’s request. During 2009-2016, GHI accounted for PRB costs using the same accounting practices that GHI used, and OIG accepted, for years prior to 2009.

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

Sincerely,

/Daniel P. Graham/

Daniel P. Graham

cc: Daniel Byrne
Tony Angi