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August 2025 | OAS-25-07-026

Blue Cross Blue Shield of South Carolina Overstated Its Excess Plan Partial 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.
- HHS, OIG, Office of Audit Services, reviews the Medicare segment pension assets to ensure compliance with Federal regulations.
- Previous OIG audits found that Medicare contractors did not always correctly identify and update the segmented pension assets.
- This audit examined whether BCBS South Carolina complied with Federal requirements and its established cost accounting practice when (1) implementing the prior audit recommendation to decrease the BCBS South Carolina Excess Plan Partial Medicare segment assets as of January 1, 2017, and (2) updating its Excess Plan Partial Medicare segment pension assets from January 1, 2017, to January 1, 2022.

What OIG Found

- BCBS South Carolina implemented our prior audit recommendation to decrease the Excess Plan Partial Medicare segment pension assets by \$2.8 million as of January 1, 2017.
- BCBS South Carolina did not correctly update its Excess Plan Partial Medicare segment pension assets from January 1, 2017, to January 1, 2022, in accordance with Federal requirements. BCBS South Carolina identified \$11 million as its Excess Plan Partial Medicare segment pension assets as of January 1, 2022; however, we determined that those assets were \$8.2 million as of that date. Therefore, BCBS South Carolina overstated its Excess Plan Partial Medicare segment pension assets as of January 1, 2022, by \$2.8 million.
- BCBS South Carolina's policies and procedures did not always ensure that it calculated those pension assets in accordance with Federal requirements when updating its Excess Plan Partial Medicare segment pension assets from January 1, 2017, to January 1, 2022.

What OIG Recommends

We recommend that BCBS South Carolina decrease its Excess Plan Partial Medicare segment pension assets by \$2.8 million and recognize \$8.2 million as the Excess Plan Partial Medicare segment pension assets as of January 1, 2022, and improve policies and procedures to ensure that going forward, it calculates Excess Plan Partial Medicare segment pension assets in accordance with Federal requirements.

BCBS South Carolina concurred with our findings but did not specifically indicate concurrence or nonconcurrence with our recommendations. BCBS South Carolina 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 Blue Cross Blue Shield of South Carolina (BCBS South Carolina), we examined the Blue Cross Blue Shield of South Carolina Excess Plan (Excess Plan) Partial Medicare segment pension assets that were updated from January 1, 2017, to January 1, 2022.

OBJECTIVES

Our objectives were to determine whether BCBS South Carolina complied with Federal requirements and its established cost accounting practice when (1) implementing the prior audit recommendation to decrease the Excess Plan Partial Medicare segment assets as of January 1, 2017, and (2) updating its Excess Plan Partial Medicare segment pension assets from January 1, 2017, to January 1, 2022.

BACKGROUND

Blue Cross Blue Shield of South Carolina and Medicare

During our audit period, Palmetto Government Benefits Administrator, LLC (Palmetto), CGS Administrators, LLC (CGS), and Companion Data Services, LLC (CDS), were subsidiaries of BCBS South Carolina, whose home office is in Columbia, South Carolina; these subsidiaries administered Medicare functions for CMS. Specifically, 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.^{1, 2} Palmetto also continues to perform Railroad Retirement Board contract operations under a specialty MAC contract awarded on November 27, 2012. CDS administers a Virtual Data Center contract effective November 15, 2012, which is still in effect. CGS administers the MAC contracts for Medicare Durable Medical Equipment (DME) Jurisdiction C and Medicare Parts A and B Jurisdiction 15 effective August 31, 2012, and September 17, 2015, respectively.^{3, 4}

During our audit period, the Excess Plan had three Medicare segments: Palmetto, CDS, and Partial Medicare. The Partial Medicare segment allocates costs to three Medicare segments: Palmetto, CDS, and CGS. This report addresses BCBS South Carolina's compliance with the pension segmentation language under the provisions of Federal requirements and its Medicare contracts. We are addressing the Excess Plan Medicare segment pension assets for the Palmetto and CDS segments in separate audits.

Blue Cross Blue Shield of South Carolina Excess Plan

BCBS South Carolina sponsors the Excess Plan, which uses the accrual method to calculate its Medicare segment pension assets and costs. The purpose of the Excess Plan is to provide benefits in excess of the limits imposed by the Employee Retirement Income Security Act of 1974 for participants in BCBS South Carolina's qualified defined-benefit plan.⁵

Prior Excess Plan Segmentation Audit

We performed a prior segmentation audit of BCBS South Carolina's Excess Plan (A-07-21-00607, May 25, 2021), which brought the Excess Plan Partial Medicare segment pension assets to January 1, 2017. We recommended that BCBS South Carolina decrease its Excess Plan Partial Medicare segment pension assets by \$2,796,877 and recognize a negative \$10,750 as the Excess Plan Partial Medicare segment pension assets as of January 1, 2017.

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

² 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.

³ Medicare DME Jurisdiction C consists of the States of Alabama, Arkansas, Colorado, Florida, Georgia, Louisiana, Mississippi, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia, and the U.S. Territories of Puerto Rico and the U.S. Virgin Islands.

⁴ Medicare Parts A and B Jurisdiction 15 consists of the States of Kentucky and Ohio. Jurisdiction 15 also includes home health and hospice services provided in the States of Colorado, Delaware, Iowa, Kansas, Maryland, Missouri, Montana, Nebraska, North Dakota, Pennsylvania, South Dakota, Utah, Virginia, West Virginia, and Wyoming, and in the District of Columbia.

⁵ The Employee Retirement Income Security Act of 1974, P.L. No 93-406 (Sept. 2, 1974).

HOW WE CONDUCTED THIS AUDIT

We reviewed BCBS South Carolina's implementation of the prior audit recommendation, its identification of its Excess Plan Partial Medicare segment, and its update of the Excess Plan Partial 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.

FINDINGS

BCBS South Carolina implemented our prior audit recommendation to decrease the Excess Plan Partial Medicare segment pension assets by \$2,796,877 as of January 1, 2017.⁶ Regarding our second objective, BCBS South Carolina did not correctly update its Excess Plan Partial Medicare segment pension assets from January 1, 2017, to January 1, 2022, in accordance with Federal requirements. BCBS South Carolina identified \$11,042,588 as its Excess Plan Partial Medicare segment pension assets as of January 1, 2022; however, we determined that those assets were \$8,216,442 as of that date. Therefore, BCBS South Carolina overstated its Excess Plan Partial Medicare segment pension assets as of January 1, 2022, by \$2,826,146. BCBS South Carolina overstated those Excess Plan pension assets because its policies and procedures did not always ensure that it calculated those assets in accordance with Federal requirements when updating its Excess Plan Partial Medicare segment pension assets from January 1, 2017, to January 1, 2022.

Appendix B identifies the details of the BCBS South Carolina's Excess Plan Partial Medicare segment pension assets from January 1, 2017, to January 1, 2022, as determined during our audit.

Table 1 on the following page summarizes the audit adjustments required to update BCBS South Carolina's Excess Plan Partial Medicare segment pension assets in accordance with Federal requirements.

⁶ Implementation of our prior audit recommendation required the restatement of BCBS South Carolina's Excess Plan annual valuation report. BCBS South Carolina stated that it did not object with our prior audit findings and recommendations and chose to update the Excess Plan Partial Medicare segment assets in its January 1, 2021, valuation report.

Table 1: Summary of Audit Adjustments

	Per Audit	Per BCBS South Carolina	Difference
Prior Audit Recommendation	(\$10,750)	\$2,786,127	(\$2,796,877)
Update of BCBS South Carolina Excess Plan Partial Medicare Segment Assets			
Prior Audit Adjustment ⁷	0	(1,951,198)	1,951,198
Benefit Payments	(4,145,907)	(5,963)	(4,139,944)
Contributions and Prepayment Credits	11,475,801	8,614,890	2,860,911
Earnings, Net of Expenses	897,298	1,598,732	(701,434)
Overstatement of BCBS South Carolina Excess Plan Partial Medicare Segment Assets			(\$2,826,146)

PRIOR AUDIT RECOMMENDATION

We performed a prior pension segmentation audit on BCBS South Carolina’s Excess Plan Partial Medicare segment pension assets (A-07-21-00607, May 25, 2021), which recommended that BCBS South Carolina decrease its Excess Plan Partial Medicare segment pension assets by \$2,796,877 and, as a result, recognize a negative \$10,750 as the Excess Plan Partial Medicare segment assets as of January 1, 2017.⁸ In its comments on our prior report, BCBS South Carolina stated that it did not object to our prior audit recommendation.

BCBS South Carolina implemented the prior audit recommendation during 2020 in its January 1, 2021, valuation report (footnotes 6 and 7). To do so, BCBS South Carolina made a net adjustment of \$1,951,198 (*i.e.*, a \$2,796,877 decrease because of the prior audit recommendation plus an increase of \$845,679 that reflected the cumulative assets’ impacts of the prior audit recommendation).

UPDATE OF BLUE CROSS BLUE SHIELD OF SOUTH CAROLINA EXCESS PLAN PARTIAL 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

⁷ The prior audit adjustment refers to the adjustment for the prior audit recommendation, identified in the prior audit report (A-07-21-00607, May 25, 2021). Instead of revising each year’s CAS valuation, BCBS South Carolina chose to make a cumulative adjustment in the January 1, 2021, valuation. This 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.

⁸ The negative asset balance in the Partial Medicare segment, as we recommended in our prior audit, reflected cumulative benefit payments that exceeded the contributions, prepayments, and investments earnings allocated to that segment to date.

contributions, income, benefit payments, and expenses. For details on the Federal requirements, see Appendix C.

BCBS South Carolina did not correctly update its Excess Plan Partial Medicare segment pension assets from January 1, 2017, to January 1, 2022, in accordance with Federal requirements. BCBS South Carolina identified \$11,042,588 as its Excess Plan Partial Medicare segment pension assets as of January 1, 2022; however, we determined that those assets were \$8,216,442 as of that date. Therefore, BCBS South Carolina overstated its Excess Plan Partial Medicare segment pension assets as of January 1, 2022, by \$2,826,146. The following are our findings regarding the update of the Excess Plan Partial Medicare segment pension assets from January 1, 2017, to January 1, 2022. Appendix D identifies the Excess Plan's CAS balance equation as of January 1, 2022.⁹

Benefit Payments Understated

BCBS South Carolina understated benefit payments by \$4,139,944. The understatement occurred because BCBS South Carolina incorrectly reported the Excess Plan Partial Medicare segment benefit payments in its actuarial valuation reports. This understatement of benefit payments resulted in an overstatement of the Excess Plan Partial Medicare segment pension assets by \$4,139,944. A comparison of BCBS South Carolina's and our calculations of benefit payments for the Excess Plan Partial Medicare segment appears in Table 2.

Table 2: Benefit Payments

Calendar Year	Per Audit	Per BCBS South Carolina	Difference
2017	(\$423,071)	\$0	(\$423,071)
2018	(1,441,712)	0	(1,441,712)
2019	(1,912,967)	(5,963)	(1,907,004)
2020	(61,882)	0	(61,882)
2021	(306,275)	0	(306,275)
Total	(\$4,145,907)	(\$5,963)	(\$4,139,944)

⁹ 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).

Contributions and Transferred Prepayment Credits Understated

The audited contributions and transferred prepayment credits are based on the assignable pension costs.^{10, 11} In compliance with the CAS, we applied prepayment credits first to current-year assignable pension costs (because the credits were available at the beginning of the year) and then updated any remaining credits with interest to the next measurement (valuation) date. We then allocated contributions to assigned pension costs, as needed, as of the date of deposit. For additional details on these Federal requirements, see Appendix C.

BCBS South Carolina understated contributions and transferred prepayment credits by \$2,860,911 for its Excess Plan Partial Medicare segment. The understatement occurred primarily because of differences in the asset base used to compute the assignable pension costs.

Table 3 shows the differences between the Excess Plan Partial Medicare segment contributions and transferred prepayment credits proposed by BCBS South Carolina and the Excess Plan Partial Medicare segment contributions and transferred prepayment credits that we calculated during our audit.

Table 3: Contributions and Transferred Prepayment Credits

Calendar Year	Per Audit	Per BCBS South Carolina	Difference
2017	\$1,924,857	\$1,534,185	\$390,672
2018	2,035,410	1,599,532	435,878
2019	2,263,929	1,287,764	976,165
2020	2,616,271	2,032,725	583,546
2021	2,635,334	2,160,684	474,650
Total	\$11,475,801	\$8,614,890	\$2,860,911

Earnings, Net of Expenses, Overstated

BCBS South Carolina overstated investment earnings, less administrative expenses, by \$701,434 for its Excess Plan Partial Medicare segment. This occurred because of BCBS South Carolina's implementation of our prior audit recommendation and the cumulative assets' impacts of the prior audit recommendation, and because BCBS South Carolina used incorrect benefit payments and incorrect contributions and transferred prepayment credits (all discussed above) to develop its Excess Plan Partial Medicare segment pension asset base. We allocated earnings,

¹⁰ 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.

¹¹ These are assigned to a specific cost accounting period.

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 4 shows the difference in the earnings, net of expenses, proposed by BCBS South Carolina and the earnings, net of expenses, that we calculated during our review.

Table 4: Earnings, Net of Expenses

Calendar Year	Per Audit	Per BCBS South Carolina	Difference
2017	\$100,685	\$256,195	(\$155,510)
2018	(19,711)	(41,997)	22,286
2019	296,554	624,519	(327,965)
2020	405,842	607,786	(201,944)
2021	113,928	152,229	(38,301)
Total	\$897,298	\$1,598,732	(\$701,434)

RECOMMENDATIONS

We recommend that Blue Cross Blue Shield of South Carolina:

- decrease its Excess Plan Partial Medicare segment pension assets by \$2,826,146 and recognize \$8,216,442 as the Excess Plan Partial Medicare segment pension assets as of January 1, 2022, and
- improve policies and procedures to ensure that going forward, it calculates Excess Plan Partial Medicare segment pension assets in accordance with Federal requirements.

AUDITEE COMMENTS

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

BCBS South Carolina's comments appear in their entirety as Appendix E.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed BCBS South Carolina's implementation of the prior audit recommendation, its identification of its Excess Plan Partial Medicare segment, and its update of the Excess Plan Partial Medicare segment pension assets from January 1, 2017, to January 1, 2022.

Achieving our objective did not require that we review BCBS South Carolina's overall internal control structures. We reviewed controls relating to the identification of the Excess Plan Partial Medicare segment and to the update of the Excess Plan Partial 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 Excess Plan Partial Medicare segment assets;
- reviewed the annual trust statements, which included the pension plan's assets, contributions, benefit payments, investment earnings, and administrative expenses, and used this information to calculate the Excess Plan Partial Medicare segment assets;
- interviewed BCBS South Carolina staff responsible for identifying the Excess Plan Partial Medicare segment to determine whether the segment was properly identified in accordance with BCBS South Carolina's established cost accounting practice;
- reviewed BCBS South Carolina's accounting records to verify the Excess Plan Partial Medicare segment identification as well as the benefit payments made from the Excess Plan Partial Medicare segment;
- reviewed the prior segmentation audit performed at BCBS South Carolina (A-07-21-00607, May 25, 2021) to determine the beginning market value of assets for the Excess Plan Partial Medicare segment;

- provided the CMS Office of the Actuary, which provides technical actuarial advice, with the actuarial information necessary for it to calculate the Excess Plan Partial 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 BCBS South Carolina officials.

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

- *Companion Data Services, LLC, Overstated Its Excess Plan Medicare Segment Pension Assets as of January 1, 2022 (OAS-25-07-027), and*
- *Palmetto Government Benefits Administrator, LLC, Understated Its Excess Plan Medicare Segment Pension Assets as of January 1, 2022 (OAS-25-07-028).*

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: BLUE CROSS BLUE SHIELD OF SOUTH CAROLINA
STATEMENT OF EXCESS PLAN PARTIAL MEDICARE SEGMENT ASSETS
FOR THE PERIOD JANUARY 1, 2017, TO JANUARY 1, 2022**

Description		Total Company	Other Segments	100% Palmetto Medicare Segment	100% CDS Medicare Segment	Partial Medicare Segment	Non-Medicare Segment
Assets January 1, 2017	<u>1/</u>	\$71,507,145	\$67,748,413	\$737,271	\$263,103	(\$10,750)	\$2,769,108
Prepayment credits	<u>2/</u>	0	(6,729,342)	310,031	130,308	1,924,857	4,364,146
Contributions	<u>3/</u>	3,069,116	3,069,116	0	0	0	0
Earnings	<u>4/</u>	4,229,217	3,686,629	61,934	23,265	100,685	356,704
Benefit payments	<u>5/</u>	(3,069,116)	(443,160)	0	0	(423,071)	(2,202,885)
Assets January 1, 2018		\$75,736,362	\$67,331,656	\$1,109,236	\$416,676	\$1,591,721	\$5,287,073
Prepayment credits		0	(7,280,220)	369,709	155,153	2,035,410	4,719,948
Contributions		47,010,084	47,010,084	0	0	0	0
Earnings		(604,242)	(516,548)	(10,031)	(3,562)	(19,711)	(54,390)
Benefit payments		(5,510,084)	0	0	(93,383)	(1,441,712)	(3,974,989)
Assets January 1, 2019		\$116,632,120	\$106,544,972	\$1,468,914	\$474,884	\$2,165,708	\$5,977,642
Prepayment credits		0	(7,954,130)	423,550	124,032	2,263,929	5,142,619
Contributions		4,278,702	4,278,702	0	0	0	0
Earnings		9,670,819	8,544,758	158,529	50,884	296,554	620,094
Benefit payments		(11,042,702)	(1,336,330)	(71,634)	(5,963)	(1,912,967)	(7,715,808)
Assets January 1, 2020		\$119,538,939	\$110,077,972	\$1,979,359	\$643,837	\$2,813,224	\$4,024,547
Prepayment credits		0	(9,175,246)	482,802	139,525	2,616,271	5,936,648
Contributions		10,027,431	10,027,431	0	0	0	0
Earnings		8,972,771	7,837,324	185,095	58,890	405,842	485,620
Benefit payments		(8,885,431)	(1,820,719)	0	0	(61,882)	(7,002,830)
Assets January 1, 2021		\$129,653,710	\$116,946,762	\$2,647,256	\$842,252	\$5,773,455	\$3,443,985

Description		Total Company	Other Segments	100% Palmetto Medicare Segment	100% CDS Medicare Segment	Partial Medicare Segment	Non-Medicare Segment
Assets January 1, 2021		\$129,653,710	\$116,946,762	\$2,647,256	\$842,252	\$5,773,455	\$3,443,985
Prepayment credits		0	(8,871,083)	438,365	176,884	2,635,334	5,620,500
Contributions		16,460,433	16,460,433	0	0	0	0
Earnings		1,863,899	1,581,685	39,240	14,064	113,928	114,982
Benefit payments		(2,347,763)	(92,378)	(484,242)	0	(306,275)	(1,464,868)
Assets January 1, 2022		\$145,630,279	\$126,025,419	\$2,640,619	\$1,033,200	\$8,216,442	\$7,714,599
Per BCBS South Carolina	6/	\$145,642,129	\$126,023,213	\$2,471,173	\$1,056,372	\$11,042,588	\$5,048,783
Asset variance	7/	(\$11,850)	\$2,206	\$169,446	(\$23,172)	(\$2,826,146)	\$2,665,816

ENDNOTES

- 1/ We determined the Total Company, Medicare, and non-Medicare segments' pension assets as of January 1, 2017, based on our prior segmentation audit of BCBS South Carolina's Excess Plan Assets (A-07-21-00607; May 25, 2021). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare and non-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 and non-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 Partial Medicare segment based on the ratio of the Partial 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 BCBS South Carolina.
- 6/ We obtained total asset amounts from documents prepared by BCBS South Carolina's actuarial consulting firm.

77 The asset variance represents the difference between our calculation of BCBS South Carolina's Excess Plan Partial Medicare segment pension assets and BCBS South Carolina's calculation of the Partial 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 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.

**APPENDIX D: BLUE CROSS BLUE SHIELD OF SOUTH CAROLINA
EXCESS PLAN COST ACCOUNTING STANDARDS BALANCE EQUATION
AS OF JANUARY 1, 2022**

Description		Total Company	Other Segments	100% Palmetto Medicare Segment	100% CDS Medicare Segment	Partial Medicare Segment	Non-Medicare Segment
Actuarial Accrued Liability	<u>1/</u>	\$ 104,078,725	\$ 59,864,878	\$ 3,656,250	\$ 1,464,379	\$ 15,849,612	\$ 23,243,606
Less: Actuarial Value of Assets	<u>2/</u>	(150,273,139)	(130,043,253)	(2,724,805)	(1,066,140)	(8,478,392)	(7,960,549)
Unfunded Actuarial Liability	<u>3/</u>	\$ (46,194,414)	\$ (70,178,375)	\$ 931,445	\$ 398,239	\$ 7,371,220	\$ 15,283,057
9904.412-50(a)(2) Unallowable	<u>4/</u>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Prepayment Credit	<u>5/</u>	(81,248,116)	(81,248,116)	-	-	-	-
Adjustments to UAL	<u>6/</u>	\$ (81,248,116)	\$ (81,248,116)	\$ -	\$ -	\$ -	\$ -
Net Unamortized Balance	<u>7/</u>	\$ 35,053,702	\$ 11,069,741	\$ 931,445	\$ 398,239	\$ 7,371,220	\$ 15,283,057
Market Value of Assets	<u>8/</u>	\$ 145,630,279	\$ 126,025,419	\$ 2,640,619	\$ 1,033,200	\$ 8,216,442	\$ 7,714,599

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 Excess Plan actuarial valuation report. The AALs for the Other, Medicare, and non-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).

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 8/ assigned to periods prior to January 1, 2022.



BlueCross BlueShield of South Carolina
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 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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