Memorandum

Date SEP 28 2000

From June Gibbs Brown
Inspector General

Subject Audit of the Pension Plan at a Terminated Medicare Contractor, General American Life Insurance Company (A-07-00-00109)

To Nancy-Ann Min DeParle
Administrator
Health Care Financing Administration

This memorandum is to alert you to the issuance on September 29, 2000, of our final audit report identifying about $3.5 million in excess pension assets at General American Life Insurance Company (General American) which should be remitted to Medicare because of the closing of General American's Medicare segment of their pension plan. A copy is attached and copies of the report have been distributed to your staff for adjudication of the finding.

General American was a Medicare Part B contractor until their contract was terminated in 1998. As part of their contract, they were allowed to claim Medicare reimbursement for their Medicare employees' pension costs. Regulations and the Medicare contracts provide, however, that pension gains which occur when a Medicare segment of a pension plan closes should be credited to the Medicare program. Accordingly, we are recommending that General American remit about $3.5 million in excess pension assets to the Medicare program.

General American agreed with our computations of the assets and liabilities. However, they reserved comment as to the correctness of the cost accounting and legal conclusions set forth in our report, pending negotiations with the Health Care Financing Administration aimed at resolution of all issues relating to the termination of its Medicare contract.

If you need additional information about this report, please contact Barbara A. Bennett, Regional Inspector General for Audit Services, Region VII, 816-426-3591.

Attachment

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

AUDIT OF THE PENSION PLAN AT A TERMINATED MEDICARE CONTRACTOR, GENERAL AMERICAN LIFE INSURANCE COMPANY



JUNE GIBBS BROWN
Inspector General

SEPTEMBER 2000
A-07-00-00109

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

CIN: A-07-00-00109

Mr. Walter Schultz
Group Information Systems VP
GenAmerica Corporation - F1-40
Post Office Box 14490
St. Louis, Missouri 63178

Dear Mr. Schultz:

This report provides the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) review entitled, "*Audit of the Pension Plan at a Terminated Medicare Contractor, General American Life Insurance Company.*" The purpose of our review was to determine the excess assets that should be remitted to Medicare by General American Life Insurance Company (General American) because of the termination of the Medicare contractual relationship in 1998.

We computed excess Medicare pension assets of $3,505,560 as of January 1, 1999 which General American should remit to the Federal government. General American agreed with our computations, but reserved comment as to the correctness of the cost accounting and legal conclusions set forth in our report. General American's response is included in its entirety as Appendix B.

INTRODUCTION

BACKGROUND

General American administered Medicare Part B under cost reimbursement contracts since the start of the Medicare program. The contracts, the Federal Acquisition Regulations (FAR), which superseded the Federal Procurement Regulations (FPR), and the Cost Accounting Standards (CAS) contain reimbursement principles for cost reimbursement contracts.

Since its inception, Medicare has paid a portion of the annual contributions made by contractors to their pension plans. These payments represented allowable pension costs under the FPR and/or the FAR. In 1980, both the FPR and Medicare contracts incorporated CAS 412 and 413.

The CAS 412 regulates the determination and measurement of the components of pension costs. It also regulates the assignment of pension costs to appropriate accounting periods. The CAS 413 regulates 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.

The Health Care Financing Administration (HCFA) incorporated segmentation requirements into Medicare contracts starting with Fiscal Year 1988. The contractual language specifies segmentation requirements and also provides for the separate identification of the pension assets for a Medicare segment.

In our report (A-07-99-02540) entitled, *"Review of Medicare Contractor's Pension Segmentation, General American Life Insurance Company,"* we addressed the computation of the asset fraction, the identification of the segment's assets as of January 1, 1986, and updated the segment's assets to January 1, 1998.

General American's Medicare Part B contract was terminated effective December 31, 1998. Consequently, the majority of General American's Medicare segment employees were terminated and the Medicare segment was closed on that date. Contract terminations and segment closings are addressed by CAS at 9904.413-50(c)(12), which states:

> *"If a segment is closed,...the contractor shall determine the difference between the actuarial accrued liability for the segment and the market value of the assets allocated to the segment, irrespective of whether or not the pension plan is terminated. The difference between the market value of the assets and the actuarial accrued liability for the segment represents an adjustment of previously-determined pension costs.*
>
> *(i) The determination of the actuarial accrued liability shall be made using the accrued benefit cost method. The actuarial assumptions employed shall be consistent with the current and prior long term assumptions used in the measurement of pension costs....*
>
> *(iii) The calculation of the difference between the market value of the assets and the actuarial accrued liability shall be made as of the date of the event (e.g. contract termination, plan amendment, plant closure) that caused the closing of the segment...If such a date is not readily determinable, or if its use can result in an inequitable calculation, the contracting parties shall agree on an appropriate date."*

Medicare contracts specifically prohibit any profit (gain) from Medicare activities. Therefore, according to the contract, pension gains which occur when a Medicare segment terminates should be credited to the Medicare program. In addition, FAR addresses dispositions of gains in situations such as segment closings. When excess or surplus assets revert to a contractor as a result of termination of a defined benefit pension plan, or such assets are constructively received by it for any reason, the contractor shall make a refund or give credit to the Government for its equitable share (FAR, section 31.205-6(j)(4)).

OBJECTIVE, SCOPE, AND METHODOLOGY

We made our examination in accordance with generally accepted government auditing standards. Our objective was to determine the amount of excess pension assets that should be remitted to Medicare as a result of the contract termination and Medicare segment closing. Achieving the objective did not require a review of General American's internal control structure.

General American's Medicare contract was terminated and the Medicare segment was closed on December 31, 1998. Accordingly, we agreed with General American that January 1, 1999 would be an appropriate settlement date for the closing of the segment.

In performing the review, we used information provided by General American's consulting actuarial firm. The information included liabilities, normal costs, contributions, expenses, and earnings. We reviewed General American's accounting records, pension plan documents, annual actuarial valuation reports, and the Department of Labor/Internal Revenue Service Form 5500s. Using these documents, we updated General American's Medicare segment assets from January 1, 1998 to January 1, 1999. The HCFA pension actuarial staff reviewed our methodology and calculations.

We performed site work at General American's corporate offices in St. Louis, Missouri during September and October of 1999. Subsequently, we performed audit work in our Jefferson City, Missouri office.

FINDING AND RECOMMENDATION

When General American's Medicare segment closed, Medicare's share of the excess pension assets was $3,505,560, which we are recommending be remitted to HCFA. To determine Medicare's share it was necessary to (1) update segment assets from January 1, 1998 to January 1, 1999, and (2) calculate the actuarial liability for accrued benefits for the segment, and the excess Medicare assets.

Using information provided by General American, we updated the Medicare segment pension assets from January 1, 1998 to January 1, 1999. We determined the Medicare segment pension assets to be $7,274,160 as of January 1, 1999. See Appendix A for details on our update of segment assets.

As of January 1, 1999, General American identified the Medicare segment's actuarial liability for accrued benefits as $3,768,600. We reviewed and accepted General American's calculation of the segment's actuarial liability for accrued benefits. Therefore, we computed Medicare's share of excess pension assets to be $3,505,560 ($7,274,160 less $3,768,600) as of January 1, 1999.

Recommendation:

We recommend that General American:

Remit $3,505,560 in excess Medicare segment pension assets to HCFA.

Auditee Response

General American agreed with our computations of the assets and liabilities. However, they reserved comment as to the correctness of the cost accounting and legal conclusions set forth in our report, pending negotiations with HCFA aimed at resolution of all issues relating to the termination of its Medicare contract. General American's response is included in its entirety as Appendix B.

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INSTRUCTIONS FOR AUDITEE RESPONSE

Final determinations as to actions to be taken on all matters reported will be made by the HHS action official identified below. We request that you respond to the recommendation in this report within 30 days from the date of this report to the HHS action official, presenting any comments or additional information that you believe may have a bearing on final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise (see 45 CFR Part 5).

Sincerely,

Barbara A. Bennett

Barbara A. Bennett
Regional Inspector General
for Audit Services, Region VII

Enclosures

HHS Action Official:

Mr. Joe L. Tilghman
Regional Administrator, Region VII
Health Care Financing Administration
601 East 12th Street, Room 235
Kansas City, Missouri 64106

GENERAL AMERICAN LIFE INSURANCE CO.
A-07-00-00109

STATEMENT OF MEDICARE PENSION ASSETS JANUARY 1, 1998 TO JANUARY 1, 1999

		Total	Other	Medicare
Assets January 1, 1998	1/	**$150,500,444**	**$144,294,880**	**$6,205,564**
Contributions	2/	$51,578	$51,578	$0
Investment Return	3/	$29,473,285	$28,258,017	$1,215,268
Benefit Payments	4/	($4,965,243)	($4,875,945)	($124,740)
Administrative Expenses	5/	($531,910)	($509,978)	($21,932)
Assets December 31, 1998		**$174,528,154**	**$167,218,552**	**$7,274,160**
Assets January 1, 1999		**$174,528,154**	**$167,218,552**	**$7,274,160**

FOOTNOTES

1/ We determined the Medicare segment assets as of January 1, 1998 in our review of General American's pension segmentation (A-07-99-02540). The amounts shown for the other segment represent the difference between the total company and the Medicare segment. All pension assets are shown at market value.

2/ We obtained total contribution amounts from IRS Form 5500 reports. The contributions made for plan year 1998 were totally attributable to the "other" segment. Therefore, no portion of the year's contribution were assigned to the Medicare segment.

3/ We obtained the total investment return from the 1999 actuarial valuation report. We allocated investment return to the Medicare segment based on the ratio of Medicare segment assets to total company assets.

4/ We obtained total benefit payments from the 1999 actuarial valuation report. We based the Medicare segment's benefit payments on actual payments to Medicare retirees.

5/ We obtained total plan expenses from the 1999 actuarial valuation report. We allocated expenses to the segment based on the ratio of Medicare segment assets to total company assets.

GenAmerica

Barry C. Cooper, CPA, FLMI
Vice President
Finance

July 17, 2000

Ms. Barbara A. Bennett
Regional Inspector General
for Audit Services, Region VII
601 East 12th Street, Room 284A
Kansas City, MO 64106

Dear Ms. Bennett:

CIN: A-07-00-00109

General American concurs with the computations of Plan assets and liabilities stated in the above-captioned report based on the methodologies used. However, pending negotiations with HCFA aimed at resolution of all issues relating to the termination of General American's Part B Carrier contract and the closing of its Medicare segment, the company reserves comment as to the correctness of the cost accounting and legal conclusions set out in the report.

Sincerely,

Barry C. Cooper

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