DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

Region VII
601 East 12th Street
Room 0429
Kansas City, Missouri 64106

April 11, 2011

Report Number: A-07-11-00347

Mr. Pat Shiverdecker
Senior Vice President, Corporate Strategy
Mutual of Omaha Insurance Company
Mutual of Omaha Plaza
Omaha, NE 68175

Dear Mr. Shiverdecker:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of the Qualified Pension Plan at Mutual of Omaha Insurance Company, A Terminated Medicare Contractor, for the Period January 1, 1992, to January 1, 2008*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://oig.hhs.gov.

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or contact Jenenne Tambke, Audit Manager, at (573) 893-8338, extension 21, or through email at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-11-00347 in all correspondence.

Sincerely,

/Patrick J. Cogley/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Deborah Taylor
Acting Director & Chief Financial Officer
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Department of Health & Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF THE QUALIFIED PENSION PLAN AT MUTUAL OF OMAHA INSURANCE COMPANY, A TERMINATED MEDICARE CONTRACTOR, FOR THE PERIOD JANUARY 1, 1992, TO JANUARY 1, 2008

Daniel R. Levinson
Inspector General

April 2011
A-07-11-00347

Office of Inspector General

http://oig.hhs.gov

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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.

EXECUTIVE SUMMARY

BACKGROUND

Mutual of Omaha Insurance Company (Mutual) administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated on November 5, 2007. The effective closing date for the Medicare segment was January 1, 2008.

Since its inception, Medicare has paid a portion of contractors' contributions to their pension plans. These contributions are allowable Medicare costs subject to the criteria set forth in the Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts. Furthermore, in situations such as contract terminations, the Medicare contracts require contractors to identify excess Medicare pension assets/liabilities, in accordance with CAS 413.

Pension Segmentation

Beginning with fiscal year 1988, CMS incorporated segmentation requirements into the Medicare contracts to ensure conformance with CAS 413. The Medicare contracts define a segment and specify the methodology for the identification and initial allocation of pension assets to the segment. Additionally, the contracts require Medicare segment assets to be updated for each year after the initial allocation in accordance with CAS 412 and 413.

Pension Closing Agreement

In resolution of our prior pension segmentation report (A-07-94-00742, issued July 17, 1995), CMS prepared and provided Mutual with a pension closing agreement to establish a final settlement of the January 1, 1992, Medicare segment assets. As of the conclusion of our fieldwork, this closing agreement had not been executed.

OBJECTIVE

Our objective was to determine whether Mutual complied with Federal requirements and the Medicare contract's pension segmentation requirements when:

- using the January 1, 1992, Medicare segment asset value established by the pending pension closing agreement between Mutual and CMS,

- updating the Medicare segment's pension assets from January 1, 1992, to January 1, 2008, and

- determining Medicare's share of the Medicare segment excess pension assets/liabilities as a result of the termination of the Medicare contract.

SUMMARY OF FINDINGS

Mutual used the January 1, 1992, Medicare segment asset value established by the pending pension closing agreement between Mutual and CMS; however, Mutual did not always comply with the Medicare contracts' pension segmentation requirements when updating Medicare segment assets from January 1, 1992, to January 1, 2008. Mutual identified Medicare segment pension assets of $17,906,895; however, we determined that the Medicare segment pension assets were $22,471,233 as of January 1, 2008. As a result, Mutual understated the Medicare segment pension assets by $4,564,338. The understatement occurred primarily because Mutual understated the Medicare segment's contributions and transferred prepayment credits.

In addition, Mutual did not identify Medicare's share of the Medicare segment excess pension liabilities associated with the termination of the Medicare contract. We determined that Medicare's share of the Medicare segment's excess pension liabilities was $816,080 as of January 1, 2008.

RECOMMENDATIONS

We recommend that Mutual:

- increase Medicare segment pension assets as of January 1, 2008, by $4,564,338, and

- recognize $816,080 as Medicare's share of the Medicare segment's excess pension liabilities.

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Mutual concurred with our first recommendation but did not concur with our second recommendation. Specifically, Mutual disagreed with our calculations of Medicare's share of the Medicare segment's excess pension liabilities. Mutual's comments are included in their entirety as Appendix C.

Our calculations are based on the Medicare segment's accrued liabilities determined under the accrued benefit method as required by the CAS. Accordingly, we maintain that our findings and recommendations are valid.

TABLE OF CONTENTS

Glossary of Abbreviations and Acronyms

Mutual	Mutual of Omaha Insurance Company
CAS	Cost Accounting Standards
CMS	Centers for Medicare & Medicaid Services
FAR	Federal Acquisition Regulation
WAV	weighted average value

INTRODUCTION

BACKGROUND

Mutual of Omaha Insurance Company and Medicare

Mutual of Omaha Insurance Company (Mutual) administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated on November 5, 2007. The effective closing date for the Medicare segment was January 1, 2008.

Since its inception, Medicare has paid a portion of contractors' contributions to their pension plans. These contributions are allowable Medicare costs subject to the criteria set forth in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts. Furthermore, in situations such as contract terminations, the Medicare contracts require contractors to identify excess Medicare pension assets/liabilities, in accordance with CAS 413.

Federal Requirements

CAS 412 addresses the determination and measurement of pension cost components. It also addresses the assignment of pension costs to appropriate accounting periods.

CAS 413 addresses 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. CAS 413 also addresses the determination of segment assets and liabilities in the event of contract terminations, segment closings, or pension plan terminations.

Pension Segmentation

CMS incorporated CAS 412 and 413 into the Medicare contracts effective October 1, 1980. Beginning with fiscal year 1988, CMS incorporated segmentation requirements into Medicare contracts. The Medicare contracts define a segment and specify the methodology for the identification and initial allocation of pension assets to the segment. Additionally, the contracts require Medicare segment assets to be updated for each year after the initial allocation in accordance with CAS 412 and 413. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR, CAS, and the Medicare contracts.

Pension Closing Agreement

In resolution of our prior pension segmentation report (A-07-94-00742, issued July 17, 1995), CMS prepared and provided Mutual with a pension closing agreement to establish a final settlement of the January 1, 1992, Medicare segment assets. As of the conclusion of our fieldwork, this closing agreement had not been executed.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether Mutual complied with Federal requirements and the Medicare contracts' pension segmentation requirements when:

- using the January 1, 1992, Medicare segment asset value established by the pending pension closing agreement between Mutual and CMS,
- updating the Medicare segment's pension assets from January 1, 1992, to January 1, 2008, and
- determining Medicare's share of the Medicare segment excess pension assets/liabilities as a result of the termination of the Medicare contract.

Scope

We reviewed Mutual's use of the January 1, 1992, Medicare segment asset value established by the pending pension closing agreement; Mutual's identification of its Medicare segment; Mutual's update of Medicare segment assets from January 1, 1992, to January 1, 2008; and the Medicare segment's final liabilities as of January 1, 2008.

Achieving our objective did not require us to review Mutual's overall internal control structure. We reviewed controls relating to the identification of the Medicare segment, the update of the Medicare segment's assets, and the Medicare segment's final assets and liabilities to ensure adherence to the Medicare contracts, CAS 412, and CAS 413.

We performed fieldwork at Mutual's office in Omaha, Nebraska, during June 2008 and July 2009.

Methodology

To accomplish our objectives, we took the following steps:

- We reviewed the applicable portions of the FAR, CAS, and the Medicare contracts.
- We reviewed the information prepared by Mutual's actuarial consulting firm. This information included the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We used this information to calculate the Medicare segment assets.
- We obtained and reviewed the pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the Medicare segment assets.

- We interviewed Mutual staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts.

- We reviewed Mutual's accounting records to verify the segment identification and benefit payments made to the Medicare segment.

- We reviewed Closing Agreement PEN-01 pending between Mutual and CMS. We used this information to identify the Medicare segment assets as of January 1, 1992.

- We reviewed controls relating to the Medicare segment's final assets and liabilities as of January 1, 2008.

- We provided the CMS Office of the Actuary with the actuarial information necessary for it to calculate the Medicare segment pension assets and the Medicare segment excess pension liabilities as of January 1, 2008.

- We reviewed the CMS actuaries' methodology and calculations.

We performed this review in conjunction with our audit of Mutual's pension costs claimed for Medicare reimbursement (A-07-11-00348) and used the information obtained during that audit in this review.

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 findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATIONS

Mutual used the January 1, 1992, Medicare segment asset value established by the pending pension closing agreement between Mutual and CMS; however, Mutual did not always comply with the Medicare contracts' pension segmentation requirements when updating Medicare segment assets from January 1, 1992, to January 1, 2008. Mutual identified Medicare segment pension assets of $17,906,895; however, we determined that the Medicare segment pension assets were $22,471,233 as of January 1, 2008. As a result, Mutual understated the Medicare segment pension assets by $4,564,338. The understatement occurred primarily because Mutual understated the Medicare segment's contributions and transferred prepayment credits.

In addition, Mutual did not identify Medicare's share of the Medicare segment excess pension liabilities associated with the termination of the Medicare contract. We determined that Medicare's share of the Medicare segment's excess pension liabilities was $816,080 as of January 1, 2008.

PENSION CLOSING AGREEMENT

CMS prepared and provided Mutual with a pension closing agreement and related supporting documentation to establish a final settlement of the January 1, 1992, Medicare segment assets. Although the pension closing agreement had not been executed by the conclusion of our fieldwork, Mutual's computations used the January 1, 1992, Medicare segment asset value established by the pending agreement. Our own computations for this current review are also based on the January 1, 1992, Medicare segment asset value established by the pending agreement.

UPDATE OF MEDICARE SEGMENT PENSION ASSETS

Federal Requirements

The Medicare contracts state that "… the pension assets allocated to each Medicare Segment shall be adjusted in accordance with CAS 413.50(c)(7)." CAS 413.50(c)(7) requires that the asset base be adjusted by contributions, 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 weighted average value (WAV) of assets to total company WAV of assets.

In addition, CAS 413.50(c)(8) requires an adjustment to be made for transfers (participants who enter or leave the segment) if the transfers materially affect the segment's ratio of pension plan assets to actuarial accrued liabilities. For plan years beginning after March 30, 1995, the CAS requires that the amount of assets transferred equal the actuarial accrued liabilities as determined using the accrued benefit cost method.

Furthermore, CAS 412.50(a)(4) requires 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.

Appendix A presents details of the Medicare segment's pension assets from January 1, 1992, to January 1, 2008, as determined during our audit. Table 1 summarizes the audit adjustments required to update Medicare segment pension assets in accordance with Federal requirements.

Table 1: Summary of Audit Adjustments in Updating Medicare Segment Assets

	Per Audit	Per Mutual	Difference
Update of Medicare Segment Assets			
Contributions and Transferred Prepayment Credits	$4,780,647	$2,310,189	$2,470,458
Earnings, Net Expenses	16,315,240	14,221,360	2,093,880
Understatement of Medicare Segment Assets			**$4,564,338**

Contributions and Transferred Prepayment Credits Understated

Mutual understated contributions and transferred prepayment credits by $2,470,458 for the Medicare segment. Mutual used the segment's pension costs reimbursed by Medicare as the basis to assign contributions to the Medicare segment. However, those pension costs were incorrectly computed. As a result, contributions and transferred prepayment credits, and therefore the Medicare segment's assets, were understated.

The audited contributions and transferred prepayment credits are based on the assignable pension costs. 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.

Earnings, Net Expenses Understated

Mutual understated investment earnings, less administrative expenses, by $2,093,880 for the Medicare segment, because it used incorrect contributions and transferred prepayment credits (as discussed just above) to develop the Medicare segment pension asset base. In our audited update, we allocated earnings, net expenses based on the applicable CAS requirements.

MEDICARE SEGMENT EXCESS PENSION LIABILITIES

Federal Requirements

Medicare Contracts

In the event of a contract termination, the Medicare contracts require contractors to follow the segment closing provision of the CAS. Furthermore, in situations such as contract terminations, the Medicare contracts require contractors to identify excess Medicare pension liabilities in accordance with CAS 413.

Cost Accounting Standards

In 1980, CMS renegotiated the Medicare contracts and expressly incorporated CAS 412 and 413 into the contracts beginning October 1, 1980.

Contract terminations and segment closings are addressed by CAS 413.50(c)(12), which states:

> If a segment is closed, if there is a pension plan termination, or if there is a curtailment of benefits, the contractor shall determine the difference between the actuarial 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 ….
>
> (ii) … The market value of the assets shall be reduced by the accumulated value of prepayment credits, if any. Conversely, the market value of assets shall be increased by the current value of any unfunded actuarial liability separately identified and maintained in accordance with 9904.412-50(a)(2).
>
> (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, pension plan termination, or curtailment of benefits. 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 Segment Excess Pension Liabilities as of January 1, 2008

Mutual did not identify the Medicare segment excess pension liabilities associated with the termination of the Medicare contract as of January 1, 2008. We calculated the excess pension liabilities to be $816,080 as of that date. Table 2 summarizes our calculations of the Medicare segment excess pension liabilities.

Table 2: Medicare Segment Excess Pension Liabilities

	Per Audit
Medicare segment assets as of January 1, 2008	$22,471,233
Accrued liabilities of segment participants	(23,287,313)
Medicare segment excess pension liabilities	(816,080)

Medicare's Share of Excess Pension Liabilities as of January 1, 2008

Federal Requirements

The methodology for determining the Federal Government's share of excess pension liabilities is addressed by CAS 413.50(c)(12)(vi), which states:

> The Government's share of the adjustment amount determined for a segment shall be the product of the adjustment amount and a fraction. The adjustment amount shall be reduced for any excise tax imposed upon assets withdrawn from the funding agency of a qualified pension plan. The numerator of such fraction shall be the **sum of the pension plan costs** allocated to all contracts and subcontracts (including Foreign Military Sales) subject to this Standard during a period of years representative of the Government's participation in the pension plan. The denominator of such fraction shall be the **total pension costs** assigned to cost

> accounting periods during those same years. This amount shall represent an adjustment of contract prices or cost allowance as appropriate. The adjustment may be recognized by modifying a single contract, several but not all contracts, or all contracts, or by use of any other suitable technique. [Emphasis added.]

Medicare's Share of the Excess Pension Liabilities

Mutual did not identify Medicare's share of the Medicare segment excess pension liabilities associated with the termination of the Medicare contract as of January 1, 2008. We determined that Medicare's share of the Medicare segment excess pension liabilities was $816,080.

In accordance with CAS 413.50(c)(12)(vi), we calculated the aggregate Medicare percentage using the Medicare segment pension costs developed during both the previous and the current pension audits. Appendix B shows our calculation of the Medicare segment's aggregate Medicare percentage; Table 3 shows our calculations of Medicare's share of the excess liabilities.

Table 3: Medicare's Share of Excess Liabilities

	Excess Medicare Segment Liabilities (A)	Aggregate Medicare Percentage (B)	Excess Liabilities Attributable to Medicare (A x B)
Per Audit	($816,080)	100.00%	($816,080)

RECOMMENDATIONS

We recommend that Mutual:

- increase Medicare segment pension assets as of January 1, 2008, by $4,564,338, and
- recognize $816,080 as Medicare's share of the Medicare segment's excess pension liabilities.

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Mutual concurred with our first recommendation but did not concur with our second recommendation. Specifically, Mutual disagreed with our calculations of Medicare's share of the Medicare segment's excess pension liabilities. Mutual stated that "… the adjustment due for the closing of the Medicare segment must be calculated on the basis of a plan termination." Mutual also indicated that it will discuss with CMS the purchase of annuities to settle the benefit obligations of the Medicare segment.

Mutual's comments are included in their entirety as Appendix C.

After reviewing Mutual's comments, we maintain that our findings and recommendations are valid. Because Mutual did not terminate its pension plan, it is incorrect in stating that the adjustment must be calculated on the basis of a plan termination. Our calculations followed the segment closing provisions of the CAS. With regard to the final liabilities, we note that as of the time of our preparation of this final report, Mutual had not purchased any annuities to settle the benefit obligations of the Medicare segment. We based our calculations on the Medicare segment's accrued liabilities, determined under the accrued benefit method as required by the CAS.

APPENDIXES

APPENDIX A: STATEMENT OF MARKET VALUE OF PENSION ASSETS FOR MUTUAL OF OMAHA INSURANCE COMPANY FOR THE PERIOD JANUARY 1, 1992, TO JANUARY 1, 2008

Description		Total Company	"Other" Segment	Medicare Segment
Assets January 1, 1992	1/	$264,866,603	$258,671,145	$6,195,458
Transferred Prepayment Credits	2/	0	0	0
Contributions	3/	4,154,109	4,154,109	0
Earnings	4/	26,586,012	25,947,393	638,619
Benefit Payments	5/	(19,671,916)	(19,586,178)	(85,738)
Expenses	6/	(431,554)	(421,188)	(10,366)
Transfers	7/	0	(10,146)	10,146
Assets January 1, 1993		275,503,254	268,755,135	6,748,119
Transferred Prepayment Credits		0	0	0
Contributions		8,597,302	8,597,302	0
Earnings		27,486,224	26,795,783	690,441
Benefit Payments		(20,242,404)	(20,225,221)	(17,183)
Expenses		(430,286)	(419,477)	(10,809)
Transfers		0	(59,825)	59,825
Assets January 1, 1994		290,914,090	283,443,697	7,470,393
Transferred Prepayment Credits		0	0	0
Contributions		8,745,945	8,745,945	0
Earnings		22,730,947	22,134,233	596,714
Benefit Payments		(20,165,021)	(20,137,721)	(27,300)
Expenses		(452,961)	(441,070)	(11,891)
Transfers		0	(18,243)	18,243
Assets January 1, 1995		301,773,000	293,726,841	8,046,159
Transferred Prepayment Credits		0	0	0
Contributions		9,114,637	9,114,637	0
Earnings		35,691,282	34,726,131	965,151
Benefit Payments		(21,197,333)	(21,018,654)	(178,679)
Expenses		(456,095)	(443,761)	(12,334)
Transfers		0	(105,010)	105,010
Assets January 1, 1996		324,925,491	316,000,184	8,925,307
Transferred Prepayment Credits		0	0	0
Contributions		33,789,310	33,789,310	0
Earnings		34,350,339	33,421,797	928,542
Benefit Payments		(22,745,983)	(22,488,719)	(257,264)
Expenses		(447,337)	(435,245)	(12,092)
Transfers		0	(24,075)	24,075
Assets January 1, 1997		$369,871,820	$360,263,252	$9,608,568

Description	Total Company	"Other" Segment	Medicare Segment
Assets January 1, 1997	$369,871,820	$360,263,252	$9,608,568
Transferred Prepayment Credits	0	0	0
Contributions	7,972,335	7,972,335	0
Earnings	37,014,145	36,045,118	969,027
Benefit Payments	(24,128,260)	(23,789,333)	(338,927)
Expenses	(774,141)	(753,874)	(20,267)
Transfers	0	(141,737)	141,737
Assets January 1, 1998	389,955,899	379,595,761	10,360,138
Transferred Prepayment Credits	0	0	0
Contributions	68,068,955	68,068,955	0
Earnings	27,254,568	26,526,717	727,851
Benefit Payments	(25,900,837)	(25,471,419)	(429,418)
Expenses	(433,593)	(422,014)	(11,579)
Transfers	0	(207,410)	207,410
Assets January 1, 1999	458,944,992	448,090,590	10,854,402
Transferred Prepayment Credits	0	(650,876)	650,876
Contributions	12,971,440	12,971,440	0
Earnings	52,461,477	51,144,872	1,316,605
Benefit Payments	(26,101,400)	(25,661,374)	(440,026)
Expenses	(251,347)	(245,039)	(6,308)
Transfers	0	197,889	(197,889)
Assets January 1, 2000	498,025,162	485,847,502	12,177,660
Transferred Prepayment Credits	0	(724,947)	724,947
Contributions	38,399,115	38,399,115	0
Earnings	9,807,834	9,553,160	254,674
Benefit Payments	(26,089,901)	(25,698,810)	(391,091)
Expenses	(143,605)	(139,876)	(3,729)
Transfers	0	(140,350)	140,350
Assets January 1, 2001	519,998,605	507,095,794	12,902,811
Transferred Prepayment Credits	0	(824,316)	824,316
Contributions	12,414,462	12,414,462	0
Earnings	(1,571,741)	(1,530,103)	(41,638)
Benefit Payments	(26,696,902)	(26,305,650)	(391,252)
Expenses	(368,746)	(358,977)	(9,769)
Transfers	0	(4,748)	4,748
Assets January 1, 2002	$503,775,678	$490,486,462	$13,289,216

Description	Total Company	"Other" Segment	Medicare Segment
Assets January 1, 2002	$503,775,678	$490,486,462	$13,289,216
Transferred Prepayment Credits	0	(1,144,031)	1,144,031
Contributions	48,482,343	48,482,343	0
Earnings	(9,508,381)	(9,236,587)	(271,794)
Benefit Payments	(27,546,513)	(26,980,060)	(566,453)
Expenses	(260,789)	(253,334)	(7,455)
Transfers	0	(74,427)	74,427
Assets January 1, 2003	514,942,338	501,280,366	13,661,972
Transferred Prepayment Credits	0	(150,068)	150,068
Contributions	20,200,000	20,200,000	0
Earnings	78,784,303	76,708,947	2,075,356
Benefit Payments	(28,344,006)	(27,860,809)	(483,197)
Expenses	(262,411)	(255,499)	(6,912)
Transfers	0	(378,334)	378,334
Assets January 1, 2004	585,320,224	569,544,603	15,775,621
Transferred Prepayment Credits	0	(984,479)	984,479
Contributions	20,000,000	20,000,000	0
Earnings	68,984,384	67,014,391	1,969,993
Benefit Payments	(30,111,185)	(29,523,391)	(587,794)
Expenses	(264,960)	(257,394)	(7,566)
Transfers	0	(639,297)	639,297
Assets January 1, 2005	643,928,463	625,154,433	18,774,030
Transferred Prepayment Credits	0	0	0
Contributions	16,000,000	16,000,000	0
Earnings	53,227,127	51,675,217	1,551,910
Benefit Payments	(31,855,276)	(31,231,835)	(623,441)
Expenses	(252,555)	(245,191)	(7,364)
Transfers	0	73,898	(73,898)
Assets January 1, 2006	681,047,759	661,426,522	19,621,237
Transferred Prepayment Credits	0	0	0
Contributions	66,000,000	66,000,000	0
Earnings	84,289,445	81,868,136	2,421,309
Benefit Payments	(32,467,119)	(31,769,702)	(697,417)
Expenses	(297,073)	(288,539)	(8,534)
Transfers	0	27,037	(27,037)
Assets January 1, 2007	$798,573,012	$777,263,454	$21,309,558

Description		Total Company	"Other" Segment	Medicare Segment
Assets January 1, 2007		$798,573,012	$777,263,454	$21,309,558
Transferred Prepayment Credits		0	(301,930)	301,930
Contributions		0	0	0
Earnings		61,309,111	59,639,656	1,669,455
Benefit Payments		(37,337,262)	(36,588,091)	(749,171)
Expenses		0	0	0
Transfers		0	60,539	(60,539)
Assets January 1, 2008		$822,544,861	$800,073,628	$22,471,233
Per Mutual	8/	$822,544,861	$804,637,966	$17,906,895
Asset Variance	9/	$0	($4,564,338)	$4,564,338

FOOTNOTES

1/ In resolution of our prior pension segmentation report (A-07-94-00742, issued July 17, 1995), the Centers for Medicare & Medicaid Services prepared and provided Mutual of Omaha Insurance Company (Mutual) with a pension closing agreement and related supporting documentation. We obtained the January 1, 1992, Medicare segment asset value from those documents. 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/ Prepayment credits represent funds available to satisfy future funding requirements and are applied to future funding requirements before current year contributions in order to reduce interest costs to the Federal Government. Prepayment credits are transferred to the Medicare segment as needed to cover funding requirements.

3/ We obtained Total Company contribution amounts from the actuarial valuation reports and Department of Labor/Internal Revenue Service Forms 5500. We allocated Total Company contributions to the Medicare segment based on the ratio of the Medicare segment 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 prepared by Mutual's actuarial consulting firm. We allocated investment earnings based on the ratio of the segment's weighted average value (WAV) of assets to Total Company WAV of assets as required by the Cost Accounting Standards (CAS). For years 1992 through 1995 we accepted Mutual's methodology of allocating investment earnings based on the WAV method.

5/ We accepted the Medicare segment benefit payments provided by Mutual.

6/ We allocated administrative expenses to the Medicare segment in proportion to investment earnings.

7/ We accepted the Medicare segment participant transfer adjustments provided by Mutual.

8/ We obtained total asset amounts as of January 1, 2008, from documents prepared by Mutual's actuarial consulting firm.

9/ The asset variance represents the difference between our calculation of Medicare segment assets and Mutual's calculation of Medicare segment assets.

APPENDIX B: CALCULATION OF AGGREGATE MEDICARE PERCENTAGE

Fiscal Year	Medicare Segment Pension Costs Charged to Medicare	Total Medicare Segment Pension Costs	Medicare Aggregate Percentage
1/	(A)	(B)	(A/B) 2/
1989	$0	$0	
1990	0	0	
1991	0	0	
1992	0	0	
1993	0	0	
1994	0	0	
1995	0	0	
1996	0	0	
1997	0	0	
1998	0	0	
1999	488,157	488,157	
2000	706,429	706,429	
2001	799,474	799,474	
2002	1,064,102	1,064,102	
2003	398,559	398,559	
2004	775,876	775,876	
2005	246,120	246,120	
2006	-	-	
2007	226,448	226,448	
Total	$4,705,165	$4,705,165	100%

FOOTNOTES

1/ In resolution of our prior pension costs claimed report (A-07-94-00743), the Centers for Medicare & Medicaid Services prepared and provided Mutual of Omaha Insurance Company with a pension closing agreement and related supporting documentation. We obtained information for fiscal years (FY) 1989-1991 from those documents. We obtained information for FYs 1992-2007 during our current pension costs claimed audit (A-07-11-00348).

2/ We calculated the aggregate Medicare percentage by dividing the Medicare segment pension costs charged to Medicare by the total Medicare segment pension costs pursuant to Cost Accounting Standard 413.

APPENDIX C: AUDITEE COMMENTS

MUTUAL of OMAHA INSURANCE COMPANY
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Mutual of Omaha

March 15, 2011

By U.S. Mail and Email

Mr. Patrick J. Cogley
Regional Inspector General for Audit Services
601 East 12th Street
Room 0429
Kansas City, MO 64106

Re: Report Number A-07-11-00347

Dear Mr. Cogley:

This letter provides the written comments of Mutual of Omaha Insurance Company to the draft Report referenced above issued by the Office of Inspector General regarding the OIG's review of the assets and liabilities of the Medicare segment of Mutual's pension plan for the period of January 1, 1992 to January 1, 2008.

Mutual concurs with the recommendation in the Report that Mutual increase the assets allocated to the Medicare segment by $4,564,338. Mutual will include the recommended amount in the total assets of the pension plan that are allocated to the Medicare segment.

Mutual does not concur with the recommendation that Mutual recognize $816,080 as CMS' share of the Medicare segment's excess pension liabilities associated with the termination of the Medicare contract. As Mutual and CMS have discussed on a number of occasions, it was and is Mutual's intention to terminate the portion of the pension plan attributable to the Medicare segment by purchasing annuities to cover the liabilities of that segment. Mutual believes that the adjustment due for the closing of the Medicare segment must be calculated on the basis of a plan termination. Mutual intends to discuss with CMS the purchase of annuities to irrevocably settle all benefit obligations of the Medicare segment and CMS' share of the excess pension liabilities based on the annuity purchase cost.

Thank you for the opportunity to provide our comments on the Report.

Sincerely,

Pat Shiverdecker

Pat Shiverdecker
Senior Vice President
Corporate Strategy