

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**BLUE CROSS BLUE SHIELD OF SOUTH
CAROLINA OVERSTATED ITS EXCESS
PLAN PARTIAL MEDICARE SEGMENT
PENSION ASSETS AS OF
JANUARY 1, 2017**

*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

May 2021
A-07-21-00607

Office of Inspector General

<https://oig.hhs.gov/>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These audits help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <https://oig.hhs.gov>

Section 8M of the Inspector General Act, 5 U.S.C. App., requires that
OIG post its publicly available reports on the OIG website.

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: May 2021

Report No. A-07-21-00607

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



Why OIG Did This Audit

Medicare contractors are required to separately account for Medicare segment pension plan assets based on the requirements of Cost Accounting Standards (CAS) 412 and 413.

The HHS, OIG, Office of Audit Services, Region VII pension audit team reviews 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.

Our objective was to determine whether Blue Cross Blue Shield of South Carolina (BCBS South Carolina) complied with Federal requirements and its established cost accounting practice when updating its Excess Plan Partial Medicare segment pension assets from January 1, 2015, to January 1, 2017.

How OIG Did This Audit

We reviewed BCBS South Carolina's identification of its Excess Plan Partial Medicare segment and its update of the Excess Plan Partial Medicare segment pension assets from January 1, 2015, to January 1, 2017.

Blue Cross Blue Shield of South Carolina Overstated Its Excess Plan Partial Medicare Segment Pension Assets as of January 1, 2017

What OIG Found

BCBS South Carolina did not correctly update its Excess Plan Partial Medicare segment pension assets from January 1, 2015, to January 1, 2017, in accordance with Federal requirements. BCBS South Carolina identified \$2.79 million as its Excess Plan Partial Medicare segment pension assets as of January 1, 2017; however, we determined that those assets were a negative \$10,750 as of that date. Therefore, BCBS South Carolina overstated its Excess Plan Partial Medicare segment pension assets as of January 1, 2017, by \$2.8 million. BCBS South Carolina overstated those Excess Plan pension assets because it did not have policies and procedures to ensure that it calculated those assets in accordance with Federal requirements when updating its Excess Plan Partial Medicare segment pension assets from January 1, 2015, to January 1, 2017.

What OIG Recommends and Auditee Comments

We recommend that BCBS South Carolina decrease its Excess Plan Partial Medicare segment pension assets by \$2.8 million and recognize a negative \$10,750 as the Excess Plan Partial Medicare segment pension assets as of January 1, 2017, and develop and implement policies and procedures to ensure that going forward, it calculates Medicare segment pension assets in accordance with Federal requirements.

In written comments on our draft report, BCBS South Carolina stated that it did not object to our findings and recommendations and added that it did not believe that our findings had a material impact on its submitted Incurred Cost Proposals.

TABLE OF CONTENTS

INTRODUCTION.....	1
Why We Did This Audit.....	1
Objective	1
Background	1
Blue Cross Blue Shield of South Carolina and Medicare.	1
Blue Cross Blue Shield of South Carolina Excess Plan	2
How We Conducted This Audit.....	3
FINDINGS	3
Update of Blue Cross Blue Shield of South Carolina Excess Plan Partial Medicare Segment Pension Assets	4
Benefit Payments Understated	4
Contributions and Transferred Prepayment Credits Understated.....	5
Earnings, Net of Expenses, Overstated.....	5
RECOMMENDATIONS.....	6
AUDITEE COMMENTS.....	6
APPENDICES	
A: Audit Scope and Methodology	7
B: Blue Cross Blue Shield of South Carolina Statement of Excess Plan Partial Medicare Segment Assets for the Period January 1, 2015, to January 1, 2017	9
C: Federal Requirements Related to Pension Segmentation	11
D: Blue Cross Blue Shield of South Carolina Excess Plan Cost Accounting Standards Balance Equation as of January 1, 2017	12
E: Auditee Comments	14

INTRODUCTION

WHY WE DID THIS AUDIT

Medicare contractors are required to separately account for 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, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, nonqualified defined-benefit, postretirement benefit, and any other pension-related cost elements claimed by Medicare fiscal intermediaries and carrier contractors, Medicare administrative contractors (MACs), and other CAS-covered and Federal Acquisition Regulation (FAR)-covered contracts through Final Administrative Cost Proposals, Incurred Cost Proposals (ICPs), or both.

For this audit, we focused on one entity, Blue Cross Blue Shield of South Carolina (BCBS South Carolina). In particular, 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, 2015, to January 1, 2017.

OBJECTIVE

Our objective was to determine whether BCBS South Carolina complied with Federal requirements and its established cost accounting practice when updating its Excess Plan Partial Medicare segment pension assets from January 1, 2015, to January 1, 2017.

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 Jurisdiction 1¹ and Jurisdiction 11² effective October 25, 2007, and May 21, 2010, respectively, as well as other CAS-covered and FAR-covered contracts. Currently, Palmetto is the Medicare Parts A and B contractor for Jurisdictions J³ and M (formerly Jurisdiction 11). Palmetto also continues to perform Railroad Retirement Board contract operations under a specialty MAC contract awarded on November 27, 2012. CDS was created after being awarded the Enterprise Data Center (EDC) contract effective March 10, 2006. The EDC contract was replaced by a Virtual Data Center contract on November 15, 2012, which is still in effect. CGS administered Medicare Part B carrier contract operations under cost reimbursement contracts with CMS. With the implementation of Medicare contracting reform, CGS continued to perform Medicare work after being awarded the MAC contract for Medicare Parts A and B Jurisdiction 15, effective July 8, 2010.

During our audit period, CMS and BCBS South Carolina entered into an agreement called the “Advance Agreement Regarding the Computation of Nonqualified Defined Benefit Pension Plan Costs for the Periods Beginning January 1, 2015” (agreement). This agreement allowed BCBS South Carolina to change its accounting methodology from a pay-as-you-go to an accrual method. This agreement also closed costs prior to January 1, 2015. Starting with January 1, 2015, the Excess Plan would, under the terms of this agreement, have three Medicare segments: (1) Palmetto, (2) CDS, and (3) 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. 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.⁴

¹ Medicare Parts A and B Jurisdiction 1 consisted of the States of California, Hawaii, and Nevada, and the U.S. Territories of American Samoa, Guam, and the Northern Mariana Islands.

² Medicare Parts A and B Jurisdiction 11 consisted of the States of North Carolina, South Carolina, Virginia, and West Virginia (but excluded Part B for the counties of Arlington and Fairfax in Virginia and the city of Alexandria in Virginia). Jurisdiction 11 also included 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. Service areas for Jurisdiction M (mentioned in the next sentence of this section) are the same as those for Jurisdiction 11.

³ Medicare Parts A and B Jurisdiction J consists of the states of Alabama, Georgia, and Tennessee.

⁴ 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 identification of its Excess Plan Partial Medicare segment and its update of the Excess Plan Partial Medicare segment pension assets from January 1, 2015, to January 1, 2017.

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 did not correctly update its Excess Plan Partial Medicare segment pension assets from January 1, 2015, to January 1, 2017, in accordance with Federal requirements. BCBS South Carolina identified \$2,786,127 as its Excess Plan Partial Medicare segment pension assets as of January 1, 2017; however, we determined that those assets were a negative \$10,750 as of that date.⁵ Therefore, BCBS South Carolina overstated its Excess Plan Partial Medicare segment pension assets as of January 1, 2017, by \$2,796,877. BCBS South Carolina overstated those Excess Plan pension assets because it did not have policies and procedures to ensure that it calculated those assets in accordance with Federal requirements when updating its Excess Plan Partial Medicare segment pension assets from January 1, 2015, to January 1, 2017.

Appendix B identifies the details of BCBS South Carolina's Excess Plan Partial Medicare segment pension assets from January 1, 2015, to January 1, 2017, 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.

⁵ The negative asset balance in the Partial Medicare segment reflects cumulative benefit payments that have exceeded the contributions, prepayments, and investments earnings allocated to that segment to date.

Table 1: Summary of Audit Adjustments

	Per Audit	Per BCBS South Carolina	Difference
Update of BCBS South Carolina Excess Plan Partial Medicare Segment Assets			
Benefit Payments	(\$3,730,220)	(\$988,319)	(\$2,741,901)
Contributions and Prepayment Credits	3,674,638	3,669,927	4,711
Earnings, Net of Expenses	44,832	104,519	(59,687)
Overstatement of BCBS South Carolina Excess Plan Partial Medicare Segment Assets			(\$2,796,877)

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 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, 2015, to January 1, 2017, in accordance with Federal requirements. BCBS South Carolina identified \$2,786,127 as its Excess Plan Partial Medicare segment pension assets as of January 1, 2017; however, we determined that those assets were a negative \$10,750 as of that date (footnote 5). Therefore, BCBS South Carolina overstated its Excess Plan Partial Medicare segment pension assets as of January 1, 2017, by \$2,796,877. The following are our findings regarding the update of the BCBS South Carolina Excess Plan Partial Medicare segment pension assets from January 1, 2015, to January 1, 2017. Appendix D identifies the Excess Plan’s CAS balance equation as of January 1, 2017.⁶

Benefit Payments Understated

BCBS South Carolina understated benefit payments by \$2,741,901. The understatement occurred because BCBS South Carolina did not identify the 2016 benefit payments in the Excess Plan’s actuarial valuation report. This understatement of benefit payments resulted in an overstatement of the Excess Plan Medicare segment pension assets by \$2,741,901. Table 2 on the following page shows the difference in the benefit payments proposed by BCBS South Carolina and the benefit payments that we calculated during our audit.

⁶ The CAS balance equation identifies the market value of assets, actuarial accrued liability, actuarial value of assets, accumulated value of prepayment credits, and unfunded actuarial liability in accordance with CAS 412-40(c).

Table 2: Benefit Payments

Calendar Year	Per Audit	Per BCBS South Carolina	Difference
2015	(\$988,319)	(\$988,319)	\$0
2016	(2,741,901)	0	(2,741,901)
Total	(\$3,730,220)	(\$988,319)	(\$2,741,901)

Contributions and Transferred Prepayment Credits Understated

The audited contributions and transferred prepayment credits⁷ are based on the assignable pension costs.⁸ 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 \$4,711 for its Excess Plan Partial Medicare segment for 2016. The understatement occurred primarily because of differences in the asset base used to compute the assignable pension costs.

Earnings, Net of Expenses, Overstated

BCBS South Carolina overstated investment earnings, less administrative expenses, by \$59,687 for its Excess Plan Partial Medicare segment, because it used incorrect benefit payments and incorrect contributions and transferred prepayment credits (discussed above) to develop its Excess Plan Partial Medicare segment pension asset base. In our audited update, we allocated earnings, net of expenses, based on the applicable CAS requirements.

For details on applicable Federal requirements, see Appendix C. Table 3 on the following page 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 audit.

⁷ 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.

⁸ These are assigned to a specific cost accounting period.

Table 3: Earnings, Net of Expenses

Calendar Year	Per Audit	Per BCBS South Carolina	Difference
2015	(\$9,985)	(\$7,782)	(\$2,203)
2016	54,817	112,301	(57,484)
Total	\$44,832	\$104,519	(\$59,687)

RECOMMENDATIONS

We recommend that Blue Cross Blue Shield of 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, and
- develop and implement policies and procedures to ensure that going forward, it calculates Medicare segment pension assets in accordance with Federal requirements.

AUDITEE COMMENTS

In written comments on our draft report, BCBS South Carolina stated that it did not object to our findings and recommendations and added that it did not believe that our findings had a material impact on its submitted ICPs.

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 identification of its Excess Plan Partial Medicare segment and its update of the Excess Plan Partial Medicare segment pension assets from January 1, 2015, to January 1, 2017.

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 Partial Medicare segment and to the update of the Partial Medicare segment pension assets to ensure adherence to the Medicare contracts, CAS 412, and CAS 413.

We performed fieldwork at BCBS South Carolina located in Columbia, South Carolina.

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;
- obtained and reviewed the pension plan documents used in calculating 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 its 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;
- 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, 2015, to January 1, 2017;
- reviewed the CMS actuaries' methodology and calculations; and

- provided the results of our audit to BCBS South Carolina officials on December 17, 2020.

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

- *Palmetto Government Benefits Administrator, LLC, Overstated Its Excess Plan Medicare Segment Pension Assets as of January 1, 2017 (A-07-20-00598)* and
- *Companion Data Services, LLC, Properly Updated Its Excess Plan Medicare Segment Pension Assets as of January 1, 2017 (A-07-21-00606)*.

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, 2015, TO JANUARY 1, 2017**

Description		Total Company	Other Segments	100% Palmetto Medicare Segment	100% CDS Medicare Segment	Partial Medicare Segment	Non Medicare Segment
Assets January 1, 2015	<u>1/</u>	\$60,983,838	\$60,983,838	\$0	\$0	\$0	\$0
Prepayment Credits	<u>2/</u>	0	(6,224,332)	370,809	135,068	1,863,236	3,855,219
Contributions	<u>3/</u>	3,048,002	3,048,002	0	0	0	0
Earnings	<u>4/</u>	(448,333)	(408,277)	(2,705)	(972)	(9,985)	(26,394)
Benefit Payments	<u>5/</u>	(1,460,763)	0	0	0	(988,319)	(472,444)
Assets January 1, 2016		\$62,122,744	\$57,399,231	\$368,104	\$134,096	\$864,932	\$3,356,381
Prepayment Credits		0	(6,819,542)	339,448	118,402	1,811,402	4,550,290
Contributions		17,450,949	17,450,949	0	0	0	0
Earnings		2,693,217	2,378,532	29,719	10,605	54,817	219,544
Benefit Payments		(10,759,765)	(2,660,757)	0	0	(2,741,901)	(5,357,107)
Assets January 1, 2017		\$71,507,145	\$67,748,413	\$737,271	\$263,103	(\$10,750)	\$2,769,108
Per BCBS South Carolina	<u>6/</u>	\$71,507,145	\$59,796,506	\$746,467	\$263,103	\$2,786,127	\$7,914,942
Asset Variance	<u>7/</u>	\$0	\$7,951,907	(\$9,196)	\$0	(\$2,796,877)	(\$5,145,834)

ENDNOTES

- 1/ We determined the Total Company, Medicare, and non-Medicare segments' pension assets as of January 1, 2015, based on BCBS South Carolina's actuarial valuation report. 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 the actuarial valuation reports. We allocated Total Company contributions to the Medicare and non-Medicare segments based on the ratio of the 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 investment earnings from the actuarial valuation reports. 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 segment's benefit payments on actual payments to Medicare retirees. We obtained the benefit payments from documents provided by BCBS South Carolina.

6/ We obtained segment asset amounts from documents prepared by BCBS South Carolina's actuarial consulting firm.

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

APPENDIX C: FEDERAL REQUIREMENTS RELATED TO PENSION SEGMENTATION

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, 2017**

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>	\$ 82,356,640	\$ 41,758,094	\$ 2,057,142	\$ 948,225	\$ 10,895,926	\$ 26,697,253
Less: Actuarial Value of Assets	<u>2/</u>	(75,822,822)	(71,838,740)	(781,768)	(278,982)	12,900	(2,936,232)
Unfunded Actuarial Liability	<u>3/</u>	\$ 6,533,818	\$ (30,080,646)	\$ 1,275,374	\$ 669,243	\$ 10,908,826	\$ 23,761,021
9904.412-50(a)(2) Unallowable	<u>4/</u>	\$ -	-	\$ -	\$ -	\$ -	\$ -
Prepayment Credit	<u>5/</u>	(56,247,479)	(56,247,479)	-	-	-	-
Adjustments to UAL	<u>6/</u>	\$ (56,247,479)	\$ (56,247,479)	\$ -	\$ -	\$ -	\$ -
Net Unamortized Balance	<u>7/</u>	\$ 62,781,297	\$ 26,166,833	\$ 1,275,374	\$ 669,243	\$ 10,908,826	\$ 23,761,021
Market Value of Assets	<u>8/</u>	\$ 71,507,145	\$ 67,748,413	\$ 737,271	\$ 263,103	\$ (10,750)	\$ 2,769,108

ENDNOTES

- 1/ Actuarial accrued liability (AAL) represents the pension cost attributable, under the actuarial cost method in use, to years prior to January 1, 2017. We obtained the Total Company AAL from the January 1, 2017, BCBS South Carolina Excess Plan actuarial valuation report. The AALs for the Other Segment, 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, 2017.
- 3/ The unfunded actuarial liability (UAL) is the AAL less the AVA as of January 1, 2017. 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, 2017.

- 7/ The net unamortized balance is the UAL less the adjustments to the UAL. It is the portion of the UAL yet to be amortized in accordance with CAS 412-50(a)(1) and CAS 413-50(a)(2).
- 8/ The market value of assets represents the current value of assets as of January 1, 2017, plus the current value of any accrued contributions used to fund pension costs assigned to periods prior to January 1, 2017.

May 4, 2021

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

Report Number: A-07-21-00607

Dear Mr. Cogley:

We are responding to the U.S. Department of Health and Human Services, Office of Inspector General, revised draft report dated April 27, 2021 and entitled *Blue Cross Blue Shield of South Carolina Overstated Its Excess Plan Partial Medicare Segment Pension Assets as of January 1, 2017*. This draft report replaced the one issued on February 9, 2021.

We do not object to the findings and recommendations in the above referenced report and do not believe that any findings contained therein had a material impact on Incurred Cost Proposal submissions.

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,

/Lori Hair/

Lori Hair
Vice President, Controller and Assistant Treasurer