

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS CLAIMED
FOR MEDICARE REIMBURSEMENT BY
TRAVELERS INSURANCE COMPANY**



JUNE GIBBS BROWN
Inspector General

DECEMBER 1998
A-07-98-02533



Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106
CIN: A-07-98-02533

DEC 29 1998

Ms. Marissa Crean
Deputy General Auditor
Travelers Property Casualty Corp.
One Tower Square, Floor 11MS
Hartford, Connecticut 06183

Dear Ms. Crean:

This report provides you with the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) review titled *Review of Pension Costs Claimed for Medicare Reimbursement by Travelers Insurance Company*. The purpose of our review was to determine the allowability of pension costs claimed for 1990.

We determined that Travelers Insurance Company (Travelers) claimed Medicare pension costs for Fiscal Year (FY) 1990 that were not allowable. During this period, the allowable Medicare pension costs were \$1,004,512. However, Travelers claimed pension costs of \$1,858,726 for Medicare reimbursement. As a result, Travelers claimed \$854,214 in pension costs that were not allowable. The over claim occurred primarily because Travelers incorrectly assigned contributions towards funding the qualified plan pension costs for the Medicare segment.

We recommend Travelers revise its claim to eliminate the unallowable pension costs. Travelers agreed with our finding and recommendation. The Travelers response is included in its entirety as Appendix C.

INTRODUCTION

BACKGROUND

Travelers administered Medicare Part A, Part B, and Railroad Retirement operations under cost reimbursement contracts until its Medicare segment closed in 1994. Medicare Contractors must follow cost reimbursement principles contained in the Cost Accounting Standards (CAS), the Federal Acquisition Regulations (FAR) and their Medicare contracts.

Medicare reimburses its portion of contractors' annual pension costs for both qualified and non-qualified pension plans. To be allowable for Medicare reimbursement, pension costs of

qualified and non-qualified pension plans must be measured, assigned, and allocated in accordance with CAS 412 and 413. Additionally, pension costs of qualified pension plans must be funded as specified by part 31 of the FAR.

The CAS deals with stability between contract periods and requires consistent measurement and assignment of both qualified and non-qualified plan pension costs to contract periods. The CAS costs that are allowable as charges to Medicare include (1) the normal cost and (2) the amortization of the unfunded actuarial liability. The FAR addresses allowability of pension costs and requires that qualified plan pension costs assigned to contract periods be substantiated by funding. For non-qualified pension plans, pension costs assigned to contract periods are not required to be funded if the payment of benefits earned by plan participants can be compelled. If such payments cannot be compelled, the amount of allowable costs for a period is limited to the amount of benefits actually paid in that period.

Additionally, the Health Care Financing Administration (HCFA) incorporated specific segmentation language into Medicare contracts. The contracts provide for either an allocation or separate calculation of qualified plan pension costs. Under an allocation method, a contractor determines total plan CAS costs and allocates a share to Medicare. Under the separate calculation method, a contractor separately identifies the normal costs and amortization for the Medicare segment. The separate calculation method must be used if there is a material difference between the two methods. In our prior report on Travelers' compliance with Medicare contract segmentation requirements (CIN: A-07-93-00634, dated October 28, 1993) we recommended that Travelers separately compute the Medicare segment's pension costs. Travelers agreed with our recommendation.

OBJECTIVES, SCOPE AND METHODOLOGY

We made our examination in accordance with generally accepted government auditing standards. Our objective was to determine the allowability of pension costs claimed for FY 1990. Achieving the objective did not require a review of Travelers' internal control structure.

In performing the review, we used information provided by Travelers and its consulting actuary. The information included liabilities, normal costs, contributions, and earnings. We reviewed Travelers' accounting records, pension plan documents, annual actuarial valuation reports, and the Department of Labor/Internal Revenue Service Form 5500s. Using these documents, we computed (1) CAS pension costs for the total company and Medicare segment and (2) the extent to which Travelers funded costs with contributions to their qualified plan pension trust fund.

The HCFA Office of the Actuary developed the methodology used for computing allowable CAS pension costs based on Travelers' historical practices. Appendix A contains the details on the pension costs and contributions.

Travelers has two defined benefit pension plans. One is a qualified (funded) plan, and the other is a non-qualified (unfunded) plan. Travelers claimed Medicare reimbursement for a portion of the pension costs from both plans on its Final Administrative Cost Proposals (FACP). For presentation purposes, this report combines the pension costs for the qualified and non-qualified pension plans. The annual pension costs for both plans are shown separately on Appendix A.

This review was done in conjunction with our audits of Travelers' Medicare segment closing (CIN: A-07-97-01213) and pension costs claimed for Medicare reimbursement for FYs 1991 through 1995 (CIN: A-07-98-01214). The information obtained and reviewed during those audits was also used in performing this review. We also used information obtained during our prior audits of Travelers' compliance with Medicare contract segmentation requirements (CIN: A-07-93-00634) and unfunded pension costs (CIN: A-07-93-00665).

Site work at Travelers' corporate offices in Hartford, Connecticut was performed during May and October 1997. We performed subsequent audit work in our OIG, OAS Jefferson City, Missouri field office.

FINDING AND RECOMMENDATION

For FY 1990, Travelers claimed \$854,214 for pension costs for its qualified and non-qualified pension plans which were not allowable for Medicare reimbursement. The over claim occurred primarily because Travelers incorrectly assigned contributions towards funding the qualified plan pension costs for the Medicare segment. Travelers should revise its claim to eliminate the unallowable pension costs.

For FY 1990, Travelers initially claimed pension costs of \$773,835 for its qualified and non-qualified pension plans for Medicare reimbursement on its FACP. Travelers based its claim on an allocation of the total company pension costs for both plans. Travelers assigned a portion of the total company pension costs to Medicare direct and indirect operations using cost center and line of business information.

Subsequently, Travelers submitted a claim for additional Medicare reimbursement of \$1,084,891 for FY 1990 pension costs attributed to their qualified pension plan. The additional claim was based on the Medicare segment's separately computed CAS pension costs, as identified and set forth in our 1993 audit report on Travelers unfunded pension costs. However, Travelers' computations of the allowable CAS pension costs incorrectly assigned contributions towards the funding of the FY 1990 pension costs.

We calculated the allowable CAS pension costs for the Medicare segment and for indirect Medicare operations. The calculations for the qualified pension plan were based on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs.

For the non-qualified pension plan we allocated total company costs to Medicare based on the ratio of Medicare salaries to total company salaries, similar to Travelers' methodology. See Appendix A for details.

For FY 1990, Travelers claimed pension costs of \$1,858,726 for Medicare reimbursement (\$773,835 on the FACP plus the additional claim of \$1,084,891). However, the allowable CAS pension costs for FY 1990 were \$1,004,512. As a result, Travelers claimed pension costs of \$854,214 that were in excess of the allowable CAS pension costs.

Recommendation

We recommend that Travelers:

Revise its claim for additional Medicare reimbursement for FY 1990 to eliminate the unallowable costs of \$854,214.

Auditee Response

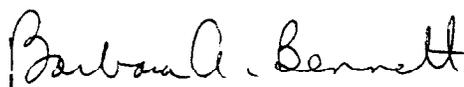
Travelers agreed with our finding and recommendation. Travelers indicated that its claim for additional Medicare reimbursement for FY 1990 would be revised to eliminate the unallowable costs of \$854,214. The Travelers response is included in its entirety as Appendix C.

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
Regional Inspector General for
Audit Services, Region VII

Enclosures

HHS Action Official:

Mr. George F. Jacobs, II

Regional Administrator, Region I

Health Care Financing Administration

John F. Kennedy Federal Building, Room 2325

Boston, Massachusetts 02203-0003

Travelers Insurance Company
Hartford, Connecticut
CIN: A-07-97-01213

STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1991 TO JANUARY 1, 1996

Description		Total Company	Other Segment	Medicare
Assets January 1, 1991	<u>1/</u>	\$1,479,821,213	\$1,462,392,789	\$17,428,424
Contributions	<u>2/</u>	\$27,180,000	\$26,414,813	\$765,187
Earnings	<u>3/</u>	\$131,876,774	\$130,280,284	\$1,596,490
Benefits	<u>4/</u>	(\$85,515,501)	(\$85,265,069)	(\$250,432)
Expenses	<u>5/</u>	\$0	\$0	\$0
Transfers	<u>6/</u>	\$0	(\$245,091)	\$245,091
Assets January 1, 1992		\$1,553,362,486	\$1,533,577,726	\$19,784,760
Contributions		\$0	\$0	\$0
Earnings		\$181,305,453	\$178,937,100	\$2,368,353
Benefits		(\$97,621,200)	(\$97,290,395)	(\$330,805)
Expenses		\$0	\$0	\$0
Transfers		\$0	(\$300,545)	\$300,545
Assets January 1, 1993		\$1,637,046,739	\$1,614,923,886	\$22,122,853
Contributions		\$0	\$0	\$0
Earnings		\$158,230,010	\$156,040,911	\$2,189,099
Benefits		(\$105,800,038)	(\$105,291,317)	(\$508,721)
Expenses		\$0	\$0	\$0
Transfers		\$0	\$5,577	(\$5,577)
Assets January 1, 1994		\$1,689,476,711	\$1,665,679,057	\$23,797,654

Travelers Insurance Company
Hartford, Connecticut
CIN: A-07-97-01213

STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1991 TO JANUARY 1, 1996

Description	Total Company	Other Segment	Medicare
Assets January 1, 1994	\$1,689,476,711	\$1,665,679,057	\$23,797,654
Contributions	\$0	\$0	\$0
Earnings	\$114,361,760	\$112,717,750	\$1,644,010
Benefits	(\$117,178,445)	(\$116,417,782)	(\$760,663)
Expenses	\$0	\$0	\$0
Transfers	\$0	(\$36,124)	\$36,124
Assets January 1, 1995	\$1,686,660,026	\$1,661,942,901	\$24,717,125
Contributions	\$0	\$0	\$0
Earnings	\$212,110,650	\$208,940,186	\$3,170,464
Benefits	(\$121,575,461)	(\$120,658,622)	(\$916,839)
Expenses	\$0	\$0	\$0
Transfers	\$0	(\$228,523)	\$228,523
Assets January 1, 1996	\$1,777,195,215	\$1,749,995,942	\$27,199,273
1/1/96 Assets Per Travelers 7/	\$1,777,195,215	\$1,750,871,267	\$26,323,948
Variance 8/	\$0	(\$875,325)	\$875,325

Travelers Insurance Company
Hartford, Connecticut
CIN: A-07-97-01213

STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1991 TO JANUARY 1, 1996

FOOTNOTES

- 1/ Total actuarial asset values were obtained from Travelers' valuation reports. We computed the Medicare segment assets based on our identification of the segment. The January 1, 1991 Medicare segment assets were established during our previous review (CIN: A-07-93-00634). The amounts shown for the other segment represent the difference between the total company and the Medicare segment.
- 2/ We obtained total contribution amounts, and dates of deposit, from IRS Form 5500 reports. We assigned contributions to the Medicare segment based on the segment's separately computed CAS funding target. Travelers used this same methodology.
- 3/ We calculated total company rates of return on pension investments from information obtained from Travelers' valuation reports and IRS Forms 5500. We assigned earnings to the Medicare segment using the total company rates of return. We calculated and applied the total company rates of return based on the average value of assets during each year. Pension administrative expenses were included in our calculations of the rates of return.
- 4/ Travelers provided benefit payment amounts and we verified them to IRS Form 5500 reports. We used the actual benefit payments for Medicare segment retirees.
- 5/ Travelers did not separately identify plan administrative expenses, but instead included the expenses as a reduction in plan earnings. We used the same methodology.
- 6/ Travelers transferred assets equal to the net transfer of the actuarial accrued liability of the participants who moved from the Medicare segment to the other segment, and vice versa. We verified Travelers' transfer adjustments by comparing annual participant listings provided by Travelers consulting actuary.
- 7/ We obtained the total assets as of January 1, 1996 from Travelers' update of assets provided by its actuary.
- 8/ The asset variance represents the difference between the OIG calculation of assets as of January 1, 1996 and the assets calculated by Travelers' actuary.

TRAVELERS INSURANCE COMPANY
CIN: A-07-98-02533

STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR THE NON-QUALIFIED PENSION PLAN
FOR FISCAL YEAR 1990

Year	Description	Notes	
Plan Year 1989	Non-Qualified Plan Costs	<u>1/</u>	\$1,732,070
Plan Year 1990	Non-Qualified Plan Costs		\$5,787,151
Fiscal Year 1990	Non Qualified Plan Costs	<u>2/</u>	\$4,773,381
	Medicare LOB Percentage	<u>3/</u>	2.6475%
	Medicare Non-Qualified Plan Costs	<u>4/</u>	\$126,375

FOOTNOTES

- 1/ We obtained the total company non-qualified plan CAS costs from a special actuarial valuation report prepared by Travelers actuary. The valuation report was prepared to determine non-qualified pension costs under CAS 412 and 413, and included only accrued benefits.
- 2/ We converted non-qualified plan CAS pension costs allocable to the plan year (January 1 through December 31) to a fiscal year basis (October 1 through September 30).
- 3/ We calculated allowable non-qualified plan CAS pension costs for Medicare based on the total Medicare line of business (LOB) percentages. We obtained the Medicare LOB percentage from documents provided by Travelers.
- 4/ The Medicare non-qualified plan costs are the amounts of CAS pension costs for the non-qualified plan which may be claimed for Medicare reimbursement.



One Tower Square
Hartford, CT 06183-1080

Marissa F. Crean
General Auditor
Internal Audit, 11 MS
(860) 954-5018
(860) 954-6818 (fax)

November 30, 1998

VIA FACSIMILE (816) 426-3655
Ms. Barbara A. Bennett
Regional Inspector General for
Audit Services, Region VII
HHS-OIG-OAS
Room 284A
601 East 12th Street
Kansas City, MO 64106

Re: CIN: A-07-97-01213

Dear Ms. Bennett:

We have completed our review of the draft audit report titled *Review of Pension Costs Claimed for Medicare Reimbursement by Travelers Insurance Company*.

We agree with your findings that the allowable CAS pension costs for FY 1990 are \$1,004,512. We will revise our claim for additional Medicare reimbursement for FY 1990 to eliminate the unallowable costs of \$854,214. The revised claim will show an amount due to Travelers in the amount of \$230,677.

Please do not hesitate to call me if you have any questions regarding this subject.

Very truly yours,

Marissa F. Crean
General Auditor

cc: J. Michener, Travelers Property Casualty Corp.
C. McGowan, United HealthCare Corp.
J. Latta, PriceWaterhouseCoopers LLP
M. Cristophy, United HealthCare Corp.