



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

February 1, 2012

Report Number: A-07-11-00369

Ms. Jared A. Adair
Senior Vice President, Medicare Division
Wisconsin Physicians Service Insurance Corporation
P.O. Box 8190
Madison, WI 53708

Dear Ms. Adair:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Pension Costs Claimed for Wisconsin Physicians Service Insurance Corporation for Fiscal Years 1990 to 2007*. 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.

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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-07-11-00369 in all correspondence.

Sincerely,

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

Enclosure

Page 2 – Ms. Jared A. Adair

Direct Reply to HHS Action Official:

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Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF
PENSION COSTS CLAIMED FOR
WISCONSIN PHYSICIANS SERVICE
INSURANCE CORPORATION FOR
FISCAL YEARS 1990 TO 2007**



Daniel R. Levinson
Inspector General

February 2012
A-07-11-00369

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

Wisconsin Physicians Service Insurance Corporation (WPS) administered Medicare Part A and Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). In addition, WPS administered Medicare operations under a Medicare administrative contractors (MAC) contract with CMS.

During the audit period, WPS had four defined benefit pension plans. This report will address the pension costs claimed for all four of these pension plans.

CMS reimburses a portion of the annual contributions that contractors make to their pension plans. In claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts.

The Medicare contracts require contractors to allocate or separately calculate pension costs. Contractors must use the separate calculation method if there is a material difference between the results of the two methods.

OBJECTIVE

Our objective was to determine the allowability of pension costs that WPS claimed for Medicare reimbursement for fiscal years (FY) 1990 through 2007.

SUMMARY OF FINDING

WPS claimed \$934,847 of unallowable Medicare pension costs for FYs 1990 through 2007. This overstatement occurred primarily because WPS calculated the indirect ("Other" segment) pension expense using Financial Accounting Standard pension expense, a standard intended for financial reporting. Using this standard, WPS claimed \$25,338,059 in Medicare reimbursement. We calculated allowable pension costs for this period in accordance with CAS 412 and 413, as required by the Medicare contracts, to be \$24,403,212, a difference of \$934,847.

RECOMMENDATIONS

We recommend that WPS:

- reduce its Final Administrative Cost Proposal (FACP) pension costs by \$934,847 or refund this amount to CMS and
- ensure that future pension cost claims are in accordance with the Medicare contracts.

AUDITEE COMMENTS

In written comments on our draft report, WPS concurred with our report but offered two exceptions.

- WPS disagreed with our treatment of certain participants as part of the “Other” segment instead of as part of the “Direct” segment in our related segmentation report (A-07-11-00357). WPS said that based on the “appropriate treatment” of these participants, the allowable pension costs claimed for this current audit should have been increased by \$88,000.
- In addition, WPS stated that it used a different method to allocate costs from the “Other” segment to Medicare than the method we had employed. WPS said that its method was reasonable and more accurate than our method and should have been the basis to allocate costs to Medicare. According to WPS, its allocation method would increase allowable costs during the audit period by \$322,000.

WPS added that on the basis of these exceptions, “... WPS asserts that allowable cost during the audit should be increased by \$410,000 from \$24,403,212 to \$24,813,212. This would result in WPS needing to reduce its FACP pension cost by \$524,847.”

WPS’s comments are included in their entirety as Appendix F.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing WPS’s comments, we maintain that our findings and recommendations remain valid. We computed the pension costs based on the identification of the Medicare segment and the segmentation of the pension plan assets (as discussed in our related segmentation report). Therefore, the allowable pension costs for the Managerial Retirement Pension Plan that we determined for the current review are valid and require no change.

Furthermore, the FAR determines the allowability of the pension costs claimed for Medicare reimbursement. WPS’s methodology for computing the allowable pension costs did not comply with the provisions of the FAR and therefore did not constitute a reasonable basis for determining costs. By contrast, our computations of the allowable pension costs complied with the provisions of the FAR.

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INTRODUCTION

BACKGROUND

Wisconsin Physicians Service Insurance Corporation and Medicare

Wisconsin Physicians Service Insurance Corporation (WPS) administered Medicare Part A and Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). With the award to WPS of the CMS Parts A and B Medicare administrative contractors (MAC) Jurisdiction 5 contract, WPS acquired Mutual of Omaha's Medicare Part A business segment in November 2007.¹

During the audit period, WPS had four defined benefit pension plans. The Employees' Pension Plan and the Managerial Pension Plan were ongoing pension plans that we reviewed in the prior audit.² On August 1, 1998, WPS established two additional defined benefit pension plans: the Represented Employees' Retirement Income Plan and the Managerial Retirement Program for Michigan, Illinois, and Minnesota Employees of WPS. Effective December 31, 2007, WPS merged the Represented Employees' Retirement Income Plan and the Managerial Retirement Program for Michigan, Illinois, and Minnesota Employees of WPS and renamed the plan WPS Managerial Retirement Program for Selected Locations. This report will address the pension costs claimed for all four pension plans.

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the annual contributions that contractors make to their pension plans. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with Cost Accounting Standards (CAS) 412 and 413 and (2) funded as specified by part 31 of the Federal Acquisition Regulation (FAR).

The Medicare contracts require contractors to allocate or separately calculate pension costs. Contractors must use the separate calculation method if there is a material difference between the results of the two methods.

¹ Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173, required CMS to transfer the functions of fiscal intermediaries and carriers to MACs between October 2005 and October 2011. Most, but not all, of the MACs are fully operational; for jurisdictions where the MACs are not fully operational, the fiscal intermediaries and carriers continue to process claims. For purposes of this report, the term "Medicare contractor" means the fiscal intermediary, carrier, or MAC, whichever is applicable.

² We performed a prior pension segmentation audit (A-05-92-00048, issued October 1992), which brought the Medicare segment pension assets to December 31, 1989.

E: CALCULATION OF THE ALLOWABLE MEDICARE PENSION COSTS FOR
WISCONSIN PHYSICIANS SERVICE INSURANCE CORPORATION FOR
FISCAL YEARS 1990 THROUGH 2007

F: AUDITEE COMMENTS

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the allowability of pension costs that WPS claimed for Medicare reimbursement for fiscal years (FY) 1990 through 2007.

Scope

We reviewed \$25,338,059 of pension costs that WPS claimed for reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 1990 through 2007. Achieving our objective did not require that we review WPS's overall internal control structure. We limited our review to the internal controls related to the pension costs claimed for reimbursement to ensure that the pension costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed fieldwork at WPS's office in Madison, Wisconsin, during July 2009.

Methodology

We reviewed the applicable portions of the FAR, CAS, and Medicare contracts. Additionally, we reviewed WPS's FACPs to identify the amount of pension costs claimed for Medicare Part A and Part B reimbursement for FYs 1990 through 2007. We also determined the extent to which WPS funded CAS pension costs with contributions to the pension trust fund and accumulated prepayment credits.

We based our calculations on separately computed CAS pension costs for the Medicare segments and the "Other" segment. The CMS Office of the Actuary calculated each segment's allocable CAS pension costs based on WPS's historical practices and on the results of our review of WPS's pension segmentation requirements in each of the four pension plans. The Employee Pension Plan (A-07-10-00335) and the Managerial Pension Plan (A-07-10-00336) reports audited pension assets from January 1, 1990, to January 1, 2008. The Represented Employees' Retirement Income Plan (A-07-11-00356) report audited pension assets from August 1, 1998, to December 31, 2007, and the Managerial Retirement Program for Michigan, Illinois, and Minnesota Employees of WPS (A-07-11-00357) report audited pension assets from August 1, 1998, to January 1, 2008.

In performing our review, we used information that WPS's actuarial consulting firm provided. The information included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We examined WPS's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Form 5500s.

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 objective.

FINDING AND RECOMMENDATIONS

WPS claimed \$934,847 of unallowable Medicare pension costs for FYs 1990 through 2007. This overstatement occurred primarily because WPS calculated the indirect (“Other” segment) pension expense using Financial Accounting Standard pension expense, a standard intended for financial reporting. Using this standard, WPS claimed \$25,338,059 in Medicare reimbursement. We calculated allowable pension costs for this period in accordance with CAS 412 and 413, as required by the Medicare contracts, to be \$24,403,212, a difference of \$934,847.

FEDERAL REQUIREMENTS

FAR 31.205-6(j) addresses allowability of pension costs and requires that plan contributions substantiate pension costs assigned to contract periods.

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.

UNALLOWABLE PENSION COSTS CLAIMED

WPS claimed \$934,847 of unallowable Medicare pension costs for FYs 1990 through 2007. During that period, WPS claimed pension costs of \$25,338,059 for Medicare reimbursement. We calculated allowable pension costs based on separately computed CAS pension costs for the Medicare segment and the “Other” segment in accordance with CAS 412 and 413. Based on the terms of the Medicare contracts, the allowable CAS pension costs for this period totaled \$24,403,212.

The table on the following page compares allowable CAS pension costs with the pension costs claimed on WPS’s FACPs. Appendixes A thru D show the development of the allocable pension costs for each pension plan and Appendix E contains details on allowable pension costs.

Comparison of Allowable Pension Costs and Claimed Pension Costs

Fiscal Year	Allowable Per Audit	Claimed by WPS	Difference
1990	\$94,028	\$0	\$94,028
1991	31,343	0	31,343
1992	0	0	0
1993	0	0	0
1994	575	0	575
1995	192	0	192
1996	0	0	0
1997	0	0	0
1998	236,620	194,792	41,828
1999	1,514,554	1,489,578	24,976
2000	1,621,659	1,391,357	230,302
2001	1,813,604	1,746,428	67,176
2002	2,055,228	1,844,453	210,775
2003	3,168,887	3,453,370	(284,483)
2004	3,348,551	3,817,691	(469,140)
2005	3,507,152	4,157,585	(650,433)
2006	3,877,863	4,062,347	(184,484)
2007	3,132,956	3,180,458	(47,502)
Total	\$24,403,212	\$25,338,059	(\$934,847)

The Medicare contracts require WPS to calculate pension costs for Medicare reimbursement pursuant to CAS 412 and 413. However, WPS based its claim for the indirect (“Other” segment) on Financial Accounting Standard pension expense, a standard intended for financial reporting. As a result, WPS claimed \$934,847 of unallowable pension costs.

RECOMMENDATIONS

We recommend that WPS:

- reduce its FACP pension costs by \$934,847 or refund this amount to CMS and
- ensure that future pension cost claims are in accordance with the Medicare contracts.

AUDITEE COMMENTS

In written comments on our draft report, WPS concurred with our report but offered two exceptions.

First, WPS disagreed with our treatment of certain participants as part of the “Other” segment instead of as part of the “Direct” segment in our related segmentation report (A-07-11-00357). WPS said that based on the “appropriate treatment” of these participants, the allowable pension costs claimed for this current audit should have been increased by \$88,000.

Second, WPS stated that it used a different method to allocate costs from the “Other” segment to Medicare than the method we had employed. WPS said that its method was reasonable and more accurate than our method in three significant ways that, taken together, would have increased allowable costs during the audit period by \$322,000. Specifically, WPS stated that the method it used to allocate costs:

- used, as the basis for the allocation, the pension pay from the valuation data files by cost center rather than overall company payroll dollars, a method which, according to WPS, complied with CAS 413.50(c)(1);
- used the January allocation data rather than December’s allocation data to determine the percentage within each cost center to charge Medicare; and
- determined the Medicare cost on a plan-by-plan basis rather than by using all plans combined.

WPS added that on the basis of these exceptions, “... WPS asserts that allowable cost during the audit should be increased by \$410,000 from \$24,403,212 to \$24,813,212. This would result in WPS needing to reduce its FACP pension cost by \$524,847.”

WPS’s comments are included in their entirety as Appendix F.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing WPS’s comments, we maintain that our computation of the allowable pension costs complies with the FAR and that our finding and recommendations therefore remain valid.

With respect to the two “exceptions” that WPS offered in its comments, we agree that the principles by which allowable costs were determined for our related segmentation review (A-07-11-00357) affect the determination of allowable pension costs claims for this current review. Accordingly, the response we provided in our segmentation report is equally applicable to this report, beginning with the fact that the Medicare contracts require that the Medicare segment be determined based upon the organizational structure of the company, not on the basis of the status of individual participants in the pension plan. We identified the Medicare segment based upon the contract language. We maintain that the identification of the Medicare segment complied with the Medicare contracts and that therefore, no change was necessary. We computed the pension costs based on the identification of the Medicare segment and the segmentation of the pension plan assets. Therefore, the allowable pension costs for the Managerial Retirement Pension Plan that we determined for the current review are valid and require no change.

In addition, although we noted that WPS cited to the CAS as the basis for the methodology it used to allocate and compute the allowable pension costs, we point out that the CAS determines only the allocability of the pension costs. The FAR determines the allowability of the pension costs claimed for Medicare reimbursement. WPS’s use of the pension pay from the valuation data files by cost center as the basis for the allocation did not comply with the FAR regarding the

reasonableness of the costs claimed. FAR 31.201-3(a) states: “A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business.”

Specifically, WPS’s methodology, which used the pension pay from the valuation data files as an allocation basis, incorrectly excluded a portion of the Total Company, which resulted in an incorrectly inflated Medicare percentage for the “Other” segment. Furthermore, WPS agreed with the use of the Total Company salary files for the “Direct” segment; however, it proposed using a different methodology (valuation pay) for the “Other” segment. Therefore, WPS did not treat the calculation of the allowable pension costs on a consistent basis between segments.

We used the actual year-to-date salaries charged to each cost center provided to us by WPS to compute the allocation percentage used in our determination of the allowable “Other” segment pension costs. Using the actual year-to-date information, we determined the actual amount of Medicare work performed by the “Other” segment. In so doing, we used December allocation data because January allocation data would not have allowed us to determine the actual amount of Medicare work performed for that year.

With respect to the third element of WPS’s allocation method, WPS stated that its methodology determined the allowable pension costs on a plan-by-plan basis rather than on a combined basis. However, the four pension plans we reviewed did not have dedicated cost centers for each plan; rather, the cost centers are shared between the four plans. Therefore, it was not possible for us to determine the Medicare percent for each plan. If WPS used the Total Company salary files instead of the valuation pay, the computation of the allowable pension costs for each pension plan should have resulted in materially the same outcome as would have been the case with the computation of the allowable pension costs on a combined basis.

In light of the considerations described above, we disagree with WPS’s assertion that allowable cost during the audit should be increased by \$410,000.

APPENDIXES

**APPENDIX A: ALLOCABLE MEDICARE PENSION COSTS FOR THE EMPLOYEE PENSION
PLAN FOR WISCONSIN PHYSICIANS SERVICE INSURANCE CORPORATION
FOR CALENDAR YEARS 1990 THROUGH 2007**

Date	Description		Total	"Other"	Medicare
1990	Contributions	<u>1/</u>	\$0	\$0	\$0
7.50%	Discount for Interest	<u>2/</u>	\$0	\$0	\$0
January 1, 1990	Present Value Contributions	<u>3/</u>	\$0	\$0	\$0
	Prepayment Credit Applied	<u>4/</u>	\$158,678	\$30,971	\$127,707
	Present Value of Funding	<u>5/</u>	\$158,678	\$30,971	\$127,707
January 1, 1990	CAS Funding Target	<u>6/</u>	\$158,678	\$0	\$158,678
	Percentage Funded	<u>7/</u>		0.00%	80.4819%
	Funded Pension Cost	<u>8/</u>		\$0	\$127,707
	Allowable Interest	<u>9/</u>		\$0	\$0
	Allocable Pension Cost	<u>10/</u>		\$0	\$127,707
1991	Contributions		\$0	\$0	\$0
7.50%	Discount for Interest		\$0	\$0	\$0
January 1, 1991	Present Value Contributions		\$0	\$0	\$0
	Prepayment Credit Applied		\$0	\$0	\$0
	Present Value of Funding		\$0	\$0	\$0
January 1, 1991	CAS Funding Target		\$0	\$0	\$0
	Percentage Funded			0.00%	0.00%
	Funded Pension Cost			\$0	\$0
	Allowable Interest			\$0	\$0
	Allocable Pension Cost			\$0	\$0

Date	Description	Total	"Other"	Medicare
1992	Contributions	\$0	\$0	\$0
7.50%	Discount for Interest	\$0	\$0	\$0
January 1, 1992	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 1992	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0
1993	Contributions	\$0	\$0	\$0
7.50%	Discount for Interest	\$0	\$0	\$0
January 1, 1993	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 1993	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0

Date	Description	Total	"Other"	Medicare
1994	Contributions	\$0	\$0	\$0
7.50%	Discount for Interest	\$0	\$0	\$0
January 1, 1994	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 1994	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0
1995	Contributions	\$0	\$0	\$0
7.50%	Discount for Interest	\$0	\$0	\$0
January 1, 1995	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 1995	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0

Date	Description	Total	"Other"	Medicare
1996	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	\$0	\$0	\$0
January 1, 1996	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 1996	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0
1997	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	\$0	\$0	\$0
January 1, 1997	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 1997	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0

Date	Description	Total	"Other"	Medicare
1998	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	\$0	\$0	\$0
January 1, 1998	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 1998	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0
1999	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	\$0	\$0	\$0
January 1, 1999	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 1999	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0

Date	Description	Total	"Other"	Medicare
2000	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	\$0	\$0	\$0
January 1, 2000	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 2000	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0
2001	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	\$0	\$0	\$0
January 1, 2001	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 2001	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0

Date	Description	Total	"Other"	Medicare
2002	Contributions	\$0	\$0	\$0
8.00%	Discount for Interest	\$0	\$0	\$0
January 1, 2002	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 2002	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0
2003	Contributions	\$0	\$0	\$0
7.50%	Discount for Interest	\$0	\$0	\$0
January 1, 2003	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 2003	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0

Date	Description	Total	"Other"	Medicare
2004	Contributions	\$0	\$0	\$0
7.50%	Discount for Interest	\$0	\$0	\$0
January 1, 2004	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 2004	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0
2005	Contributions	\$1,845,000	\$1,845,000	\$0
7.50%	Discount for Interest	(\$81,467)	(\$81,467)	\$0
January 1, 2005	Present Value Contributions	\$1,763,533	\$1,763,533	\$0
	Prepayment Credit Applied	\$391,602	\$391,602	\$0
	Present Value of Funding	\$2,155,135	\$2,155,135	\$0
January 1, 2005	CAS Funding Target	\$1,673,509	\$1,673,509	\$0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		\$1,673,509	\$0
	Allowable Interest		\$59,218	\$0
	Allocable Pension Cost		\$1,732,727	\$0

Date	Description	Total	"Other"	Medicare
2006	Contributions	\$2,165,000	\$2,165,000	\$0
7.50%	Discount for Interest	(\$83,363)	(\$83,363)	\$0
January 1, 2006	Present Value Contributions	\$2,081,637	\$2,081,637	\$0
	Prepayment Credit Applied	\$517,747	\$517,747	\$0
	Present Value of Funding	\$2,599,384	\$2,599,384	\$0
January 1, 2006	CAS Funding Target	\$2,047,654	\$2,047,654	\$0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		\$2,047,654	\$0
	Allowable Interest		\$61,268	\$0
	Allocable Pension Cost		\$2,108,922	\$0
2007	Contributions	\$2,700,000	\$2,700,000	\$0
7.50%	Discount for Interest	(\$75,895)	(\$75,895)	\$0
January 1, 2007	Present Value Contributions	\$2,624,105	\$2,624,105	\$0
	Prepayment Credit Applied	\$593,110	\$593,110	\$0
	Present Value of Funding	\$3,217,215	\$3,217,215	\$0
January 1, 2007	CAS Funding Target	\$2,130,552	\$2,130,552	\$0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		\$2,130,552	\$0
	Allowable Interest		\$44,466	\$0
	Allocable Pension Cost		\$2,175,018	\$0

ENDNOTES

- 1/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-10-00335). The amounts shown for the “Other” segment represent the difference between the Total Company and the Medicare segment.
- 2/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the valuation interest rate) and actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the plan year. For purposes of this Appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year, consistent with the method mandated by the Employee Retirement Income Security Act.
- 4/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year Cost Accounting Standards (CAS) funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.
- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the plan year.
- 6/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the Federal Acquisition Regulation (FAR) 31.205-6(j)(2)(i).
- 7/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1) (as amended), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to six decimals.
- 8/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 9/ We assumed that interest on the funded CAS pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.
- 10/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

**APPENDIX B: ALLOCABLE MEDICARE PENSION COSTS FOR THE MANAGERIAL PENSION
PLAN FOR WISCONSIN PHYSICIANS SERVICE INSURANCE CORPORATION
FOR CALENDAR YEARS 1990 THROUGH 2007**

Date	Description		Total	"Other"	Medicare
1990	Contributions	<u>1/</u>	\$0	\$0	\$0
7.50%	Discount for Interest	<u>2/</u>	\$0	\$0	\$0
January 1, 1990	Present Value Contributions	<u>3/</u>	\$0	\$0	\$0
	Prepayment Credit Applied	<u>4/</u>	\$0	\$0	\$0
	Present Value of Funding	<u>5/</u>	\$0	\$0	\$0
January 1, 1990	CAS Funding Target	<u>6/</u>	\$165,463	\$0	\$165,463
	Percentage Funded	<u>7/</u>		0.00%	0.00%
	Funded Pension Cost	<u>8/</u>		\$0	\$0
	Allowable Interest	<u>9/</u>		\$0	\$0
	Allocable Pension Cost	<u>10/</u>		\$0	\$0
1991	Contributions		\$0	\$0	\$0
7.50%	Discount for Interest		\$0	\$0	\$0
January 1, 1991	Present Value Contributions		\$0	\$0	\$0
	Prepayment Credit Applied		\$0	\$0	\$0
	Present Value of Funding		\$0	\$0	\$0
January 1, 1991	CAS Funding Target		\$0	\$0	\$0
	Percentage Funded			0.00%	0.00%
	Funded Pension Cost			\$0	\$0
	Allowable Interest			\$0	\$0
	Allocable Pension Cost			\$0	\$0

Date	Description	Total	"Other"	Medicare
1992	Contributions	\$0	\$0	\$0
7.50%	Discount for Interest	\$0	\$0	\$0
January 1, 1992	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 1992	CAS Funding Target	\$176,415	\$0	\$176,415
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0
1993	Contributions	\$0	\$0	\$0
7.50%	Discount for Interest	\$0	\$0	\$0
January 1, 1993	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 1993	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0

Date	Description	Total	"Other"	Medicare
1994	Contributions	\$0	\$0	\$0
7.50%	Discount for Interest	\$0	\$0	\$0
January 1, 1994	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$25,745	\$25,745	\$0
	Present Value of Funding	\$25,745	\$25,745	\$0
January 1, 1994	CAS Funding Target	\$1,802,276	\$1,802,276	\$0
	Percentage Funded		1.4285%	0.00%
	Funded Pension Cost		\$25,745	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$25,745	\$0
1995	Contributions	\$0	\$0	\$0
7.50%	Discount for Interest	\$0	\$0	\$0
January 1, 1995	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 1995	CAS Funding Target	\$2,834,483	\$2,834,483	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0

Date	Description	Total	"Other"	Medicare
1996	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	\$0	\$0	\$0
January 1, 1996	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 1996	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0
1997	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	\$0	\$0	\$0
January 1, 1997	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 1997	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0

Date	Description	Total	"Other"	Medicare
1998	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	\$0	\$0	\$0
January 1, 1998	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 1998	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0
1999	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	\$0	\$0	\$0
January 1, 1999	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 1999	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0

Date	Description	Total	"Other"	Medicare
2000	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	\$0	\$0	\$0
January 1, 2000	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 2000	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0
2001	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	\$0	\$0	\$0
January 1, 2001	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 2001	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0

Date	Description	Total	"Other"	Medicare
2002	Contributions	\$0	\$0	\$0
8.00%	Discount for Interest	\$0	\$0	\$0
January 1, 2002	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 2002	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
	Allocable Pension Cost		\$0	\$0
2003	Contributions	\$9,590,306	\$9,239,213	\$351,093
7.50%	Discount for Interest	(\$504,829)	(\$486,348)	(\$18,481)
January 1, 2003	Present Value Contributions	\$9,085,477	\$8,752,865	\$332,612
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$9,085,477	\$8,752,865	\$332,612
January 1, 2003	CAS Funding Target	\$4,765,285	\$4,432,673	\$332,612
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$4,432,673	\$332,612
	Allowable Interest		\$235,486	\$17,670
	Allocable Pension Cost		\$4,668,159	\$350,282

Date	Description	Total	"Other"	Medicare
2004	Contributions	\$6,944,000	\$6,874,046	\$69,954
7.50%	Discount for Interest	(\$364,705)	(\$361,031)	(\$3,674)
January 1, 2004	Present Value Contributions	\$6,579,295	\$6,513,015	\$66,280
	Prepayment Credit Applied	\$4,644,207	\$4,217,780	\$426,427
	Present Value of Funding	\$11,223,502	\$10,730,795	\$492,707
January 1, 2004	CAS Funding Target	\$5,366,059	\$4,873,352	\$492,707
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$4,873,352	\$492,707
	Allowable Interest		\$34,827	\$3,521
	Allocable Pension Cost		\$4,908,179	\$496,228
2005	Contributions	\$8,618,000	\$8,502,419	\$115,581
7.50%	Discount for Interest	(\$394,003)	(\$388,719)	(\$5,284)
January 1, 2005	Present Value Contributions	\$8,223,997	\$8,113,700	\$110,297
	Prepayment Credit Applied	\$6,296,751	\$5,713,728	\$583,023
	Present Value of Funding	\$14,520,748	\$13,827,428	\$693,320
January 1, 2005	CAS Funding Target	\$7,487,980	\$6,794,660	\$693,320
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$6,794,660	\$693,320
	Allowable Interest		\$51,786	\$5,284
	Allocable Pension Cost		\$6,846,446	\$698,604

Date	Description	Total	"Other"	Medicare
2006	Contributions	\$12,327,000	\$12,126,403	\$200,597
7.50%	Discount for Interest	(\$248,375)	(\$244,333)	(\$4,042)
January 1, 2006	Present Value Contributions	\$12,078,625	\$11,882,070	\$196,555
	Prepayment Credit Applied	\$7,560,226	\$6,978,543	\$581,683
	Present Value of Funding	\$19,638,851	\$18,860,613	\$778,238
January 1, 2006	CAS Funding Target	\$10,114,891	\$9,336,653	\$778,238
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$9,336,653	\$778,238
	Allowable Interest		\$48,490	\$4,042
	Allocable Pension Cost		\$9,385,143	\$782,280
2007	Contributions	\$14,600,000	\$14,551,724	\$48,276
7.50%	Discount for Interest	(\$294,479)	(\$293,505)	(\$974)
January 1, 2007	Present Value Contributions	\$14,305,521	\$14,258,219	\$47,302
	Prepayment Credit Applied	\$10,238,257	\$9,482,625	\$755,632
	Present Value of Funding	\$24,543,778	\$23,740,844	\$802,934
January 1, 2007	CAS Funding Target	\$10,879,165	\$10,076,231	\$802,934
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$10,076,231	\$802,934
	Allowable Interest		\$12,219	\$974
	Allocable Pension Cost		\$10,088,450	\$803,908

ENDNOTES

- 1/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-10-00336). The amounts shown for the “Other” segment represent the difference between the Total Company and the Medicare segment.
- 2/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the valuation interest rate) and actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the plan year. For purposes of this Appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year, consistent with the method mandated by the Employee Retirement Income Security Act.
- 4/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year Cost Accounting Standards (CAS) funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.
- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the plan year.
- 6/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the Federal Acquisition Regulation (FAR) 31.205-6(j)(2)(i).
- 7/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1) (as amended), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimals.
- 8/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 9/ We assumed that interest on the funded CAS pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.
- 10/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

**APPENDIX C: ALLOCABLE MEDICARE PENSION COSTS FOR THE REPRESENTED EMPLOYEES'
RETIREMENT INCOME PENSION PLAN FOR WISCONSIN PHYSICIANS SERVICE INSURANCE
CORPORATION FOR CALENDAR YEARS 1998 THROUGH 2007**

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Date	Description	Total Company	"Other"	Medicare Part A	Medicare Part B
1998	Contributions <u>1/</u>	\$254,673	\$0	\$0	\$254,673
9.00%	Discount for Interest <u>2/</u>	(\$19,171)	\$0	\$0	(\$19,171)
August 1, 1998	Present Value Contributions <u>3/</u>	\$235,502	\$0	\$0	\$235,502
	Prepayment Credit Applied <u>4/</u>	\$0	\$0	\$0	\$0
	Present Value of Funding <u>5/</u>	\$235,502	\$0	\$0	\$235,502
August 1, 1998	CAS Funding Target <u>6/</u>	\$242,528	\$0	\$0	\$242,528
	Percentage Funded <u>7/</u>		0.00%	0.00%	97.10%
	Funded Pension Cost <u>8/</u>		\$0	\$0	\$235,502
	Allowable Interest <u>9/</u>		\$0	\$0	\$15,013
	Allocable Pension Cost <u>10/</u>		\$0	\$0	\$250,515
1999	Contributions	\$771,900	\$0	\$153,039	\$618,861
9.00%	Discount for Interest	(\$39,681)	\$0	(\$7,867)	(\$31,814)
January 1, 1999	Present Value Contributions	\$732,219	\$0	\$145,172	\$587,047
	Prepayment Credit Applied	\$5,302	\$0	\$1,051	\$4,251
	Present Value of Funding	\$737,521	\$0	\$146,223	\$591,298
January 1, 1999	CAS Funding Target	\$726,213	\$0	\$143,980	\$582,233
	Percentage Funded		0.00%	100.00%	100.00%
	Funded Pension Cost		\$0	\$143,980	\$582,233
	Allowable Interest		\$0	\$7,745	\$31,323
	Allocable Pension Cost		\$0	\$151,725	\$613,556

Date	Description	Total Company	"Other"	Medicare Part A	Medicare Part B
2000	Contributions	\$805,334	\$0	\$167,314	\$638,020
9.00%	Discount for Interest	(\$36,885)	\$0	(\$7,663)	(\$29,222)
January 1, 2000	Present Value Contributions	\$768,449	\$0	\$159,651	\$608,798
	Prepayment Credit Applied	\$12,325	\$0	\$2,561	\$9,764
	Present Value of Funding	\$780,774	\$0	\$162,212	\$618,562
January 1, 2000	CAS Funding Target	\$758,461	\$0	\$157,576	\$600,885
	Percentage Funded		0.00%	100.00%	100.00%
	Funded Pension Cost		\$0	\$157,576	\$600,885
	Allowable Interest		\$0	\$7,440	\$28,374
	Allocable Pension Cost		\$0	\$165,016	\$629,259
2001	Contributions	\$700,872	\$0	\$146,992	\$553,880
9.00%	Discount for Interest	(\$27,558)	\$0	(\$5,780)	(\$21,778)
January 1, 2001	Present Value Contributions	\$673,314	\$0	\$141,212	\$532,102
	Prepayment Credit Applied	\$24,321	\$0	\$5,101	\$19,220
	Present Value of Funding	\$697,635	\$0	\$146,313	\$551,322
January 1, 2001	CAS Funding Target	\$661,671	\$0	\$138,771	\$522,900
	Percentage Funded		0.00%	100.00%	100.00%
	Funded Pension Cost		\$0	\$138,771	\$522,900
	Allowable Interest		\$0	\$5,471	\$20,615
	Allocable Pension Cost		\$0	\$144,242	\$543,515

Date	Description	Total Company	"Other"	Medicare Part A	Medicare Part B
2002	Contributions	\$762,688	\$0	\$144,697	\$617,991
8.00%	Discount for Interest	(\$30,892)	\$0	(\$5,861)	(\$25,031)
January 1, 2002	Present Value Contributions	\$731,796	\$0	\$138,836	\$592,960
	Prepayment Credit Applied	\$39,201	\$0	\$8,338	\$30,863
	Present Value of Funding	\$770,997	\$0	\$147,174	\$623,823
January 1, 2002	CAS Funding Target	\$691,926	\$0	\$147,174	\$544,752
	Percentage Funded		0.00%	100.00%	100.00%
	Funded Pension Cost		\$0	\$147,174	\$544,752
	Allowable Interest		\$0	\$5,861	\$21,693
	Allocable Pension Cost		\$0	\$153,035	\$566,445
2003	Contributions	\$868,418	\$106,784	\$0	\$761,634
7.50%	Discount for Interest	(\$30,966)	(\$3,808)	\$0	(\$27,158)
January 1, 2003	Present Value Contributions	\$837,452	\$102,976	\$0	\$734,476
	Prepayment Credit Applied	\$85,397	\$0	\$0	\$85,397
	Present Value of Funding	\$922,849	\$102,976	\$0	\$819,873
January 1, 2003	CAS Funding Target	\$819,872	\$0	\$0	\$819,872
	Percentage Funded		0.00%	0.00%	100.00%
	Funded Pension Cost		\$0	\$0	\$819,872
	Allowable Interest		\$0	\$0	\$27,158
	Allocable Pension Cost		\$0	\$0	\$847,030

Date	Description	Total Company	"Other"	Medicare Part A	Medicare Part B
2004	Contributions	\$762,098	\$119,353	\$0	\$642,745
7.50%	Discount for Interest	(\$28,547)	(\$4,472)	\$0	(\$24,075)
January 1, 2004	Present Value Contributions	\$733,551	\$114,881	\$0	\$618,670
	Prepayment Credit Applied	\$110,700	\$0	\$0	\$110,700
	Present Value of Funding	\$844,251	\$114,881	\$0	\$729,370
January 1, 2004	CAS Funding Target	\$729,370	\$0	\$0	\$729,370
	Percentage Funded		0.00%	0.00%	100.00%
	Funded Pension Cost		\$0	\$0	\$729,370
	Allowable Interest		\$0	\$0	\$24,075
	Allocable Pension Cost		\$0	\$0	\$753,445
2005	Contributions	\$755,000	\$191,515	\$0	\$563,485
7.50%	Discount for Interest	(\$27,870)	(\$7,070)	\$0	(\$20,800)
January 1, 2005	Present Value Contributions	\$727,130	\$184,445	\$0	\$542,685
	Prepayment Credit Applied	\$123,498	\$9,782	\$0	\$113,716
	Present Value of Funding	\$850,628	\$194,227	\$0	\$656,401
January 1, 2005	CAS Funding Target	\$712,866	\$56,465	\$0	\$656,401
	Percentage Funded		100.00%	0.00%	100.00%
	Funded Pension Cost		\$56,465	\$0	\$656,401
	Allowable Interest		\$1,789	\$0	\$20,800
	Allocable Pension Cost		\$58,254	\$0	\$677,201

Date	Description	Total Company	"Other"	Medicare Part A	Medicare Part B
2006	Contributions	\$709,000	\$140,698	\$0	\$568,302
7.50%	Discount for Interest	(\$25,089)	(\$4,980)	\$0	(\$20,109)
January 1, 2006	Present Value Contributions	\$683,911	\$135,718	\$0	\$548,193
			\$0		
	Prepayment Credit Applied	\$148,094	\$12,358	\$0	\$135,736
	Present Value of Funding	\$832,005	\$148,076	\$0	\$683,929
January 1, 2006	CAS Funding Target	\$746,198	\$62,269	\$0	\$683,929
	Percentage Funded		100.00%	0.00%	100.00%
	Funded Pension Cost		\$62,269	\$0	\$683,929
	Allowable Interest		\$1,831	\$0 #	\$20,109
	Allocable Pension Cost		\$64,100	\$0	\$704,038
2007	Contributions	\$259,322	\$259,322	\$0	\$0
7.50%	Discount for Interest	(\$9,046)	(\$9,046)	\$0	\$0
January 1, 2007	Present Value Contributions	\$250,276	\$250,276	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0	\$0
	Present Value of Funding	\$250,276	\$250,276	\$0	\$0
January 1, 2007	CAS Funding Target	\$0	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%	0.00%
	Funded Pension Cost		\$0	\$0	\$0
	Allowable Interest		\$0	\$0	\$0
	Allocable Pension Cost		\$0	\$0	\$0

ENDNOTES

- 1/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-11-00356). The amounts shown for the “Other” segment represent the difference between the Total Company and the Medicare segment.
- 2/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the valuation interest rate) and actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the plan year. For purposes of this Appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year, consistent with the method mandated by the Employee Retirement Income Security Act.
- 4/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year Cost Accounting Standards (CAS) funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.
- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the plan year.
- 6/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the Federal Acquisition Regulation (FAR) 31.205-6(j)(2)(i).
- 7/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1) (as amended), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded.
- 8/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 9/ We assumed that interest on the funded CAS pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the
- 10/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

**APPENDIX D: ALLOCABLE MEDICARE PENSION COSTS FOR THE
MANAGERIAL RETIREMENT PENSION PLAN FOR WISCONSIN PHYSICIANS SERVICE INSURANCE
CORPORATION FOR CALENDAR YEARS 1998 THROUGH 2007**

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Date	Description	Total Company	"Other"	Medicare Part A	Medicare Part B
1998	Contributions <u>1/</u>	\$344,759	\$0	\$0	\$344,759
9.00%	Discount for Interest <u>2/</u>	(\$24,162)	\$0	\$0	(\$24,162)
August 1, 1998	Present Value Contributions <u>3/</u>	\$320,597	\$0	\$0	\$320,597
	Prepayment Credit Applied <u>4/</u>	\$0	\$0	\$0	
	Present Value of Funding <u>5/</u>	\$320,597	\$0	\$0	\$320,597
August 1, 1998	CAS Funding Target <u>6/</u>	\$332,778	\$0	\$0	\$332,778
	Percentage Funded <u>7/</u>		0.00%	0.00%	96.34%
	Funded Pension Cost <u>8/</u>		\$0	\$0	\$320,597
	Allowable Interest <u>9/</u>		\$0	\$0	\$20,438
	Allocable Pension Cost <u>10/</u>		\$0	\$0	\$341,035
1999	Contributions	\$851,677	\$79,490	\$29,703	\$742,484
9.00%	Discount for Interest	(\$38,347)	(\$3,580)	(\$1,337)	(\$33,430)
January 1, 1999	Present Value Contributions	\$813,330	\$75,910	\$28,366	\$709,054
	Prepayment Credit Applied	\$4,506	\$220	\$165	\$4,121
	Present Value of Funding	\$817,836	\$76,130	\$28,531	\$713,175
January 1, 1999	CAS Funding Target	\$779,840	\$38,134	\$28,531	\$713,175
	Percentage Funded		100.00%	100.00%	100.00%
	Funded Pension Cost		\$38,134	\$28,531	\$713,175
	Allowable Interest		\$1,788	\$1,337	\$33,430
	Allocable Pension Cost		\$39,922	\$29,868	\$746,605

Date	Description	Total Company	"Other"	Medicare Part A	Medicare Part B
2000	Contributions	\$910,209	\$103,642	\$38,575	\$767,992
9.00%	Discount for Interest	(\$41,042)	(\$4,674)	(\$1,739)	(\$34,629)
January 1, 2000	Present Value Contributions	\$869,167	\$98,968	\$36,836	\$733,363
	Prepayment Credit Applied	\$41,416	\$2,467	\$1,863	\$37,086
	Present Value of Funding	\$910,583	\$101,435	\$38,699	\$770,449
January 1, 2000	CAS Funding Target	\$860,404	\$51,257	\$38,699	\$770,448
	Percentage Funded		100.00%	100.00%	100.00%
	Funded Pension Cost		\$51,257	\$38,699	\$770,448
	Allowable Interest		\$2,304	\$1,739	\$34,629
	Allocable Pension Cost		\$53,561	\$40,438	805,077
2001	Contributions	\$1,216,990	\$90,652	\$38,796	\$1,087,542
9.00%	Discount for Interest	(\$55,016)	(\$4,098)	(\$1,754)	(\$49,164)
January 1, 2001	Present Value Contributions	\$1,161,974	\$86,554	\$37,042	\$1,038,378
	Prepayment Credit Applied	\$54,695	\$726	\$1,859	\$52,110
	Present Value of Funding	\$1,216,669	\$87,280	\$38,901	\$1,090,488
January 1, 2001	CAS Funding Target	\$1,144,588	\$15,199	\$38,901	\$1,090,488
	Percentage Funded		100.00%	100.00%	100.00%
	Funded Pension Cost		\$15,199	\$38,901	\$1,090,488
	Allowable Interest		\$685	\$1,754	\$49,164
	Allocable Pension Cost		\$15,884	\$40,655	\$1,139,652

Date	Description	Total Company	"Other"	Medicare Part A	Medicare Part B
2002	Contributions	\$1,440,914	\$122,763	\$45,570	\$1,272,581
8.00%	Discount for Interest	(\$61,650)	(\$5,252)	(\$1,950)	(\$54,448)
January 1, 2002	Present Value Contributions	\$1,379,264	\$117,511	\$43,620	\$1,218,133
	Prepayment Credit Applied	\$78,569	\$987	\$2,682	\$74,900
	Present Value of Funding	\$1,457,833	\$118,498	\$46,302	\$1,293,033
January 1, 2002	CAS Funding Target	\$1,356,365	\$17,030	\$46,302	\$1,293,033
	Percentage Funded		100.00%	100.00%	100.00%
	Funded Pension Cost		\$17,030	\$46,302	\$1,293,033
	Allowable Interest		\$717	\$1,950	\$54,448
	Allocable Pension Cost		\$17,747	\$48,252	\$1,347,481
2003	Contributions	\$1,904,619	\$209,952	\$0	\$1,694,667
7.50%	Discount for Interest	(\$67,477)	(\$7,439)	\$0	(\$60,038)
January 1, 2003	Present Value Contributions	\$1,837,142	\$202,513	\$0	\$1,634,629
	Prepayment Credit Applied	\$109,585	\$2,901	\$0	\$106,684
	Present Value of Funding	\$1,946,727	\$205,414	\$0	\$1,741,313
January 1, 2003	CAS Funding Target	\$1,788,666	\$47,353	\$0	\$1,741,313
	Percentage Funded		100.00%	0.00%	100.00%
	Funded Pension Cost		\$47,353	\$0	\$1,741,313
	Allowable Interest		\$1,633	\$0	\$60,038
	Allocable Pension Cost		\$48,986	\$0	\$1,801,351

Date	Description	Total Company	"Other"	Medicare Part A	Medicare Part B
2004	Contributions	\$1,766,580	\$245,863	\$0	\$1,520,717
7.50%	Discount for Interest	(\$67,122)	(\$9,343)	\$0	(\$57,779)
January 1, 2004	Present Value Contributions	\$1,699,458	\$236,520	\$0	\$1,462,938
	Prepayment Credit Applied	\$169,916	\$6,206	\$0	\$163,710
	Present Value of Funding	\$1,869,374	\$242,726	\$0	\$1,626,648
January 1, 2004	CAS Funding Target	\$1,688,311	\$61,663	\$0	\$1,626,648
	Percentage Funded		100.00%	0.00%	100.00%
	Funded Pension Cost		\$61,663	\$0	\$1,626,648
	Allowable Interest		\$2,191	\$0	\$57,779
	Allocable Pension Cost		\$63,854	\$0	\$1,684,427
2005	Contributions	\$1,853,000	\$349,594	\$0	\$1,503,406
7.50%	Discount for Interest	(\$51,906)	(\$9,794)	\$0	(\$42,112)
January 1, 2005	Present Value Contributions	\$1,801,094	\$339,800	\$0	\$1,461,294
	Prepayment Credit Applied	\$194,643	\$14,427	\$0	\$180,216
	Present Value of Funding	\$1,995,737	\$354,227	\$0	\$1,641,510
January 1, 2005	CAS Funding Target	\$1,772,919	\$131,409	\$0	\$1,641,510
	Percentage Funded		100.00%	0.00%	100.00%
	Funded Pension Cost		\$131,409	\$0	\$1,641,510
	Allowable Interest		\$3,372	\$0	\$42,112
	Allocable Pension Cost		\$134,781	\$0	\$1,683,622

Date	Description	Total Company	"Other"	Medicare Part A	Medicare Part B
2006	Contributions	\$1,836,000	\$342,873	\$0	\$1,493,127
7.50%	Discount for Interest	(\$70,080)	(\$13,088)	\$0	(\$56,992)
January 1, 2006	Present Value Contributions	\$1,765,920	\$329,785	\$0	\$1,436,135
			\$0		
	Prepayment Credit Applied	\$239,530	\$17,042	\$0	\$222,488
	Present Value of Funding	\$2,005,450	\$346,827	\$0	\$1,658,623
January 1, 2006	CAS Funding Target	\$1,785,667	\$127,044	\$0	\$1,658,623
	Percentage Funded		100.00%	0.00%	100.00%
	Funded Pension Cost		\$127,044	\$0	\$1,658,623
	Allowable Interest		\$4,366	\$0	\$56,992
	Allocable Pension Cost		\$131,410	\$0	\$1,715,615
2007	Contributions	\$1,344,257	\$352,652	\$0	\$991,605
7.50%	Discount for Interest	(\$46,893)	(\$12,302)	\$0	(\$34,591)
January 1, 2007	Present Value Contributions	\$1,297,364	\$340,350	\$0	\$957,014
	Prepayment Credit Applied	\$236,267	\$25,007	\$0	\$211,260
	Present Value of Funding	\$1,533,631	\$365,357	\$0	\$1,168,274
January 1, 2007	CAS Funding Target	\$1,306,564	\$138,290	\$0	\$1,168,274
	Percentage Funded		100.00%	0.00%	100.00%
	Funded Pension Cost		\$138,290	\$0	\$1,168,274
	Allowable Interest		\$4,095	\$0	\$34,591
	Allocable Pension Cost		\$142,385	\$0	\$1,202,865

ENDNOTES

- 1/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-11-00357). The amounts shown for the “Other” segment represent the difference between the Total Company and the Medicare segment.
- 2/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the valuation interest rate) and actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the plan year. For purposes of this Appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year, consistent with the method mandated by the Employee Retirement Income Security Act.
- 4/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year Cost Accounting Standards (CAS) funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.
- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the plan year.
- 6/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the Federal Acquisition Regulation (FAR) 31.205-6(j)(2)(i).
- 7/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1) (as amended), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimals.
- 8/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 9/ We assumed that interest on the funded CAS pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.
- 10/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

**APPENDIX E: CALCULATION OF THE ALLOWABLE MEDICARE PENSION COSTS FOR WISCONSIN PHYSICIANS SERVICE
INSURANCE CORPORATION FOR FISCAL YEARS 1990 THROUGH 2007**

Date	Description	"Other"	Medicare Part B	Total
January 1, 1990	Employee Pension Plan Allocable <u>1/</u>	\$0	\$127,707	
	Managerial Pension Plan Allocable <u>2/</u>	\$0	\$0	
	Total Calendar Year Allocable Pension Costs <u>3/</u>	\$0	\$127,707	
	LOB* Percentage <u>4/</u>	6.23%	98.17%	
	Calendar Year Allowable Pension Costs <u>5/</u>	\$0	\$125,370	
1990	Fiscal Year Allowable Pension Costs <u>6/</u>	\$0	\$94,028	\$94,028

Date	Description	"Other"	Medicare Part B	Total
January 1, 1991	Employee Pension Plan Allocable	\$0	\$0	
	Managerial Pension Plan Allocable	\$0	\$0	
	Total Calendar Year Allocable Pension Costs	\$0	\$0	
	LOB* Percentage	3.97%	100.00%	
	Calendar Year Allowable Pension Costs	\$0	\$0	
1991	Fiscal Year Allowable Pension Costs <u>7/</u>	\$0	\$31,343	\$31,343

Date	Description	"Other"	Medicare Part B	Total
January 1, 1992	Employee Pension Plan Allocable	\$0	\$0	
	Managerial Pension Plan Allocable	\$0	\$0	
	Total Calendar Year Allocable Pension Costs	\$0	\$0	
	LOB* Percentage	3.56%	100.00%	
	Calendar Year Allowable Pension Costs	\$0	\$0	
1992	Fiscal Year Allowable Pension Costs	\$0	\$0	\$0

Date	Description	"Other"	Medicare Part B	Total
January 1, 1993	Employee Pension Plan Allocable	\$0	\$0	
	Managerial Pension Plan Allocable	\$0	\$0	
	Total Calendar Year Allocable Pension Costs	\$0	\$0	
	LOB* Percentage	3.42%	100.00%	
	Calendar Year Allowable Pension Costs	\$0	\$0	
1993	Fiscal Year Allowable Pension Costs	\$0	\$0	\$0

Date	Description	"Other"	Medicare Part B	Total
January 1, 1994	Employee Pension Plan Allocable	\$0	\$0	
	Managerial Pension Plan Allocable	\$25,745	\$0	
	Total Calendar Year Allocable Pension Costs	\$25,745	\$0	
	LOB* Percentage	2.98%	100.00%	
	Calendar Year Allowable Pension Costs	\$767	\$0	
1994	Fiscal Year Allowable Pension Costs	\$575	\$0	\$575

Date	Description	"Other"	Medicare Part B	Total
January 1, 1995	Employee Pension Plan Allocable	\$0	\$0	
	Managerial Pension Plan Allocable	\$0	\$0	
	Total Calendar Year Allocable Pension Costs	\$0	\$0	
	LOB* Percentage	3.14%	100.00%	
	Calendar Year Allowable Pension Costs	\$0	\$0	
1995	Fiscal Year Allowable Pension Costs	\$192	\$0	\$192

Date	Description	"Other"	Medicare Part B	Total
January 1, 1996	Employee Pension Plan Allocable	\$0	\$0	
	Managerial Pension Plan Allocable	\$0	\$0	
	Total Calendar Year Allocable Pension Costs	\$0	\$0	
	LOB* Percentage	3.13%	100.00%	
	Calendar Year Allowable Pension Costs	\$0	\$0	
1996	Fiscal Year Allowable Pension Costs	\$0	\$0	\$0

Date	Description	"Other"	Medicare Part B	Total
January 1, 1997	Employee Pension Plan Allocable	\$0	\$0	
	Managerial Pension Plan Allocable	\$0	\$0	
	Total Calendar Year Allocable Pension Costs	\$0	\$0	
	LOB* Percentage	4.13%	99.60%	
	Calendar Year Allowable Pension Costs	\$0	\$0	
1997	Fiscal Year Allowable Pension Costs	\$0	\$0	\$0

Date	Description	"Other"	Medicare Part B	Medicare Part A	Total
January 1, 1998	Employee Pension Plan Allocable	\$0	\$0		
January 1, 1998	Managerial Pension Plan Allocable	\$0	\$0		
August 1, 1998	Employees' Retirement Income Pension Plan Allocable <u>8/</u>	\$0	\$250,515	\$0	
August 1, 1998	Managerial Retirement Pension Plan Allocable <u>9/</u>	\$0	\$341,035	\$0	
	Total Calendar Year Allocable Pension Costs	\$0	\$591,550	\$0	
	LOB* Percentage	6.96%	100.00%	100%	
	Calendar Year Allowable Pension Costs	\$0	\$591,550	\$0	
1998	Fiscal Year Allowable Pension Costs <u>10/</u>	\$0	\$236,620	\$0	\$236,620

Date	Description	"Other"	Medicare Part B	Medicare Part A	Total
January 1, 1999	Employee Pension Plan Allocable	\$0	\$0		
	Managerial Pension Plan Allocable	\$0	\$0		
	Employees' Retirement Income Pension Plan Allocable	\$0	\$613,556	\$151,725	
	Managerial Retirement Pension Plan Allocable	\$39,922	\$746,605	\$29,868	
	Total Calendar Year Allocable Pension Costs	\$39,922	\$1,360,161	\$181,593	
	LOB* Percentage	11.05%	100.00%	100.00%	
	Calendar Year Allowable Pension Costs	\$4,411	\$1,360,161	\$181,593	
1999	Fiscal Year Allowable Pension Costs	<u>11/</u> \$3,308	\$1,375,051	\$136,195	\$1,514,554

Date	Description	"Other"	Medicare Part B	Medicare Part A	Total
January 1, 2000	Employee Pension Plan Allocable	\$0	\$0		
	Managerial Pension Plan Allocable	\$0	\$0		
	Employees' Retirement Income Pension Plan Allocable	\$0	\$629,259	\$165,016	
	Managerial Retirement Pension Plan Allocable	\$53,561	\$805,077	\$40,438	
	Total Calendar Year Allocable Pension Costs	\$53,561	\$1,434,336	\$205,454	
	LOB* Percentage	13.13%	100.00%	100.00%	
	Calendar Year Allowable Pension Costs	\$7,033	\$1,434,336	\$205,454	
2000	Fiscal Year Allowable Pension Costs	\$6,378	\$1,415,792	\$199,489	\$1,621,659

Date	Description	"Other"	Medicare Part B	Medicare Part A	Total
January 1, 2001	Employee Pension Plan Allocable	\$0	\$0		
	Managerial Pension Plan Allocable	\$0	\$0		
	Employees' Retirement Income Pension Plan Allocable	\$0	\$543,515	\$144,242	
	Managerial Retirement Pension Plan Allocable	\$15,884	\$1,139,652	\$40,655	
	Total Calendar Year Allocable Pension Costs	\$15,884	\$1,683,167	\$184,897	
	LOB* Percentage	10.66%	99.97%	99.97%	
	Calendar Year Allowable Pension Costs	\$1,693	\$1,682,662	\$184,842	
2001	Fiscal Year Allowable Pension Costs	\$3,028	\$1,620,581	\$189,995	\$1,813,604

Date	Description	"Other"	Medicare Part B	Medicare Part A	Total
January 1, 2002	Employee Pension Plan Allocable	\$0	\$0		
	Managerial Pension Plan Allocable	\$0	\$0		
	Employees' Retirement Income Pension Plan Allocable	\$0	\$566,445	\$153,035	
	Managerial Retirement Pension Plan Allocable	\$17,747	\$1,347,481	\$48,252	
	Total Calendar Year Allocable Pension Costs	\$17,747	\$1,913,926	\$201,287	
	LOB* Percentage	11.41%	100.00%	100.00%	
	Calendar Year Allowable Pension Costs	\$2,025	\$1,913,926	\$201,287	
2002	Fiscal Year Allowable Pension Costs	\$1,942	\$1,856,110	\$197,176	\$2,055,228

Date	Description	"Other"	Medicare Part B	Medicare Part A	Total
January 1, 2003	Employee Pension Plan Allocable	\$0	\$0		
	Managerial Pension Plan Allocable	\$4,668,159	\$350,282		
	Employees' Retirement Income Pension Plan Allocable	\$0	\$847,030		
	Managerial Retirement Pension Plan Allocable	\$48,986	\$1,801,351		
	Total Calendar Year Allocable Pension Costs	\$4,717,145	\$2,998,663		
	LOB* Percentage	11.04%	100.00%		
	Calendar Year Allowable Pension Costs	\$520,773	\$2,998,663		
2003	Fiscal Year Allowable Pension Costs <u>12/</u>	\$391,086	\$2,727,479	\$50,322	\$3,168,887

Date	Description	"Other"	Medicare Part B	Total
January 1, 2004	Employee Pension Plan Allocable	\$0	\$0	
	Managerial Pension Plan Allocable	\$4,908,179	\$496,228	
	Employees' Retirement Income Pension Plan Allocable	\$0	\$753,445	
	Managerial Retirement Pension Plan Allocable	\$63,854	\$1,684,427	
	Total Calendar Year Allocable Pension Costs	\$4,972,033	\$2,934,100	
	LOB* Percentage	7.19%	100.00%	
	Calendar Year Allowable Pension Costs	\$357,489	\$2,934,100	
2004	Fiscal Year Allowable Pension Costs	\$398,310	\$2,950,241	\$3,348,551

Date	Description	"Other"	Medicare Part B	Total
January 1, 2005	Employee Pension Plan Allocable	\$1,732,727	\$0	
	Managerial Pension Plan Allocable	\$6,846,446	\$698,604	
	Employees' Retirement Income Pension Plan Allocable	\$58,254	\$677,201	
	Managerial Retirement Pension Plan Allocable	\$134,781	\$1,683,622	
	Total Calendar Year Allocable Pension Costs	\$8,772,208	\$3,059,427	
	LOB* Percentage	5.93%	99.98%	
	Calendar Year Allowable Pension Costs	\$520,192	\$3,058,815	
2005	Fiscal Year Allowable Pension Costs	\$479,516	\$3,027,636	\$3,507,152

Date	Description	"Other"	Medicare Part B	Total
January 1, 2006	Employee Pension Plan Allocable	\$2,108,922	\$0	
	Managerial Pension Plan Allocable	\$9,385,143	\$782,280	
	Employees' Retirement Income Pension Plan Allocable	\$64,100	\$704,038	
	Managerial Retirement Pension Plan Allocable	\$131,410	\$1,715,615	
	Total Calendar Year Allocable Pension Costs	\$11,689,575	\$3,201,933	
	LOB* Percentage	6.64%	99.98%	
	Calendar Year Allowable Pension Costs	\$776,188	\$3,201,293	
2006	Fiscal Year Allowable Pension Costs	\$712,189	\$3,165,674	\$3,877,863

Date	Description	"Other"	Medicare Part B	Total
January 1, 2007	Employee Pension Plan Allocable	\$2,175,018	\$0	
	Managerial Pension Plan Allocable	\$10,088,450	\$803,908	
	Employees' Retirement Income Pension Plan Allocable	\$0	\$0	
	Managerial Retirement Pension Plan Allocable	\$142,385	\$1,202,865	
	Total Calendar Year Allocable Pension Costs	\$12,405,853	\$2,006,773	
	LOB* Percentage	7.04%	98.57%	
	Calendar Year Allowable Pension Costs	\$873,372	\$1,978,076	
2007	Fiscal Year Allowable Pension Costs	\$849,076	\$2,283,880	\$3,132,956

* Line of Business.

ENDNOTES

- 1/ The allocable Cost Accounting Standards (CAS) pension costs is the amount of pension cost that may be allocated for contract cost purposes. The calculation of the Employee Pension Plan allocable pension cost appears in Appendix A.
- 2/ The allocable Cost Accounting Standards (CAS) pension costs is the amount of pension cost that may be allocated for contract cost purposes. The calculation of the Managerial Pension Plan allocable pension cost appears in Appendix B.
- 3/ The total calendar year allocable pension costs is the total of segments cost from each pension plan.
- 4/ We calculated allowable pension costs of the Medicare and "Other" segments based on the Medicare line of business (LOB) percentage of each segment. We determined the LOB percentages based upon information provided by Wisconsin Physicians Service Insurance Corporation (WPS).
- 5/ We computed the allowable Medicare pension cost as the calendar year (CY) pension cost multiplied by the Medicare LOB percentage. Pursuant to CAS 412 and 413, the total Medicare allowable pension costs charged to the Medicare contract consisted of the Medicare segment's direct pension costs plus "Other" segment pension costs attributable to indirect Medicare operations.
- 6/ The full year allowable pension costs for calendar year 1989 was calculated and claimed during the prior review (A-05-92-00048). Therefore, fiscal year (FY) 1990 only calculated allowable pension costs for January 1, 1990, through September 30, 1990.
- 7/ We converted the plan year (January 1 through December 31) allocable pension costs to a fiscal year (FY) basis (October 1 through September 30). We calculated the FY pension costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs.
- 8/ The allocable CAS pension costs is the amount of pension cost that may be allocated for contract cost purposes. The calculation of the Employees' Retirement Income Pension Plan allocable pension cost appears in Appendix C. This plan was established on August 1, 1998.
- 9/ The allocable CAS pension costs is the amount of pension cost that may be allocated for contract cost purposes. The calculation of the Managerial Retirement Pension Plan allocable pension cost appears in Appendix D. This plan was established on August 1, 1998.
- 10/ There were only 5 months of allocable pension costs for the Employees' Retirement Income Pension Plan and Managerial Retirement Pension Plan; as a result, we calculated the FY 1998 allowable as 2/5 of the 1998 allocable pension costs.
- 11/ There were only 5 months of allocable pension costs for the Employees' Retirement Income Pension Plan and Managerial Retirement Pension Plan; as a result, we calculated the FY 1999 allowable as 3/5 of the 1998 allocable pension costs.
- 12/ The Medicare Part A contract was terminated on December 31, 2002. The October through December 2002 allowable pension costs for Medicare Part A were included in the FY 2003 allowable pension costs.

APPENDIX F: AUDITEE COMMENTS



Medicare

December 2, 2011

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

RE: OIG Draft Report Number A-07-11-00369

Dear Mr. Cogley:

This letter is in response to Report Number A-07-11-00369, the Draft Audit Report Review of Pension Costs Claimed for Wisconsin Physicians Service Insurance Corporation for Fiscal Years 1990 to 2007.

WPS concurs with the audit report with two exceptions, as follows:

1. WPS disagrees with the treatment of certain participants as "Other" as opposed to "Direct" in Report Number A-07-11-00357 entitled *Review of the Pension Segmentation for the Managerial Retirement Program for Michigan, Illinois, and Minnesota Employees of Wisconsin Physicians Service Insurance Corporation for the Period of August 1, 1998 to January 1, 2008*. Based on the appropriate treatment of these individuals, WPS believes allowable cost for this plan would be increased by \$88,000 during the audit.
2. WPS used a different method of allocating cost from the "Other" segment to Medicare than was used in the audit by OIG. WPS believes that its method is reasonable and in fact more accurate than the method employed by OIG and should be the basis for allocating costs to Medicare. The use of WPS' allocation method would increase allowable cost during the audit period by \$322,000.

In total, WPS asserts that allowable cost during the audit should be increased by \$410,000 from \$24,403,212 to \$24,813,212. This would result in WPS needing to reduce its FACP pension costs by \$524,847.

Additional information regarding these two exceptions is included in the remainder of this letter.



Wisconsin Physicians Service Insurance Corporation serving as a CMS contractor
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1) Treatment of Participants as Direct in Report Number A-07-11-00357

In 1998, WPS acquired the Illinois and Michigan Medicare business from Health Care Service Corporation. In the initial years after this acquisition, the data files used for the actuarial valuation of that plan had some missing data, including cost center information that is used to identify whether participants should be included in the Medicare segment. In the audit of that plan (from report A-07-11-00357), OIG excluded certain participants from the Medicare Direct segment. WPS provided documentation showing that these participants should be included in the Direct segment. WPS' cost calculation includes these participants in the Direct segment.

The OIG auditors responded to WPS that making these changes would be immaterial to the asset segmentation because these participants were later identified as Medicare employees at which time OIG transferred assets and liabilities to the Medicare segment. WPS agrees that the assets and liabilities in the segmentation report are not materially impacted by this treatment. However, excluding these participants from the Medicare segment lowers allowable pension cost by \$88,000.

2) Allocation of "Other" Cost to Medicare

Using the premise that "Other" segment is comprised of all the participants not in the Medicare segment, including indirect areas, WPS' allocation method differs from OIG's method in three significant ways. WPS:

- a. Uses the pension pay from the valuation data files by cost center as the basis for the allocation instead of overall company payroll dollars.
- b. Uses the January allocation data to determine the percentage within each cost center to charge Medicare instead of December's allocation data.
- c. Determines the Medicare cost on a plan-by-plan basis rather than using all plans combined.

WPS believes our method improves the accuracy of the Medicare costs claimed from the "Other" segment and recommends OIG adopt the same processes.

a. Use of pension pay instead of overall payroll

The pension cost is calculated based on the people that are actually in the pension plans. Likewise, the pension cost should be allocated based on those same people's wages that are in the pension plans.

The allocation method WPS uses is consistent with CAS 413.50(c)(1) which states that "... the base to be used for allocating such costs shall be representative of the factors on which the pension benefits are based;...". Because the allocation method used by WPS is consistent with the regulations within CAS, it should be considered as an acceptable method of performing the allocation. If the government intended WPS to allocate based on overall payroll and not the salary and wages used in the annual valuation, the regulations should be written to state that the method of allocating pay related plans shall be overall payroll.

In addition, using the overall WPS payroll instead of the actual pension pay from the valuation reduces the accuracy of the Medicare allocation of pension expense for the following reasons:

- One of the WPS pension plans is voluntary and not all eligible employees elect to participate in the plan, but their pay is included in the overall WPS payroll.
- Some WPS employees are not eligible to participate in the pension plans, such as part-time and summer employees, but their pay is included in the overall WPS payroll.
- Because pension expense is calculated annually using census data as of the beginning of each year, the use of overall payroll is inconsistent with the calculation of annual cost in situations where the size of the WPS organization is changing. Consistency would be achieved by using the pension pay that was used in the calculation of pension expense. For example, in calendar year 2004 the non-Medicare portion of WPS' business was expanding. Due to the pension valuation being performed annually, the CAS Cost only reflects the population at the beginning of the year, but overall payroll would reflect the growth and thus allocate too much expense to the non-Medicare portion of the business. In this particular example, the method employed by OIG results in an allocation to Medicare of 7% but the WPS recommended method results in an allocation to Medicare of 15%, which more accurately reflect actual events.
- Annual bonus payments are not included in pension pay but are included in total payroll causing a difference between the two allocation methods.
- Beginning in 2008/2009 pension plan changes were implemented closing three plans to new participants and freezing benefits for certain participants. Continuing to allocate based on overall payroll will increasingly distort the Medicare pension expense from the actual Medicare expense based on the actual participants continuing to earn benefits in the plans.

Using pension pay as the basis for allocation instead of overall payroll as the basis would increase allowable claimed pension cost by \$59,000.

b. Use January allocation data

Because the calculation of CAS allowable cost is based on a valuation as of January 1st of each year, the pension expense allocation should be based on data as of the same point in time and therefore be determined using the January allocations. The OIG used the December allocations in allocating the pension expense.

WPS believes the January allocation is the consistent approach with the calculation of the pension cost. Matching the January pension pay to the January allocation is the most reasonable method to measure cost. FAR 31.201-3(a) defines reasonable as "A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business."

Using the January allocations has the added benefit that for the September Interim Expenditure Report (IER) and the December Final Administrative Cost Proposal (FACP) submissions, the final Medicare pension amounts will be included. The December allocations will not be determined until December's reporting is final, sometime during the following

January and about a month after the FACP is due to CMS. Therefore, if the December allocations are used the FACP will not reflect the final pension costs as it should.

Using January allocation data instead of December allocation data would increase allowable claimed pension cost by \$174,000.

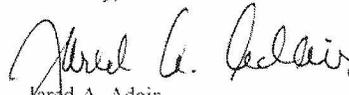
c. Allocation on a plan-by-plan basis

WPS recommends determining the Medicare pension expense plan by plan, rather than creating an aggregate allocable amount and an aggregate allocation percentage. Using the pension pay within the valuation as the basis for allocation, the allocation on a plan-by-plan basis is more accurate, simpler to perform, and less prone to error than using a combined percentage for all plans.

Allocating on a plan-by-plan basis instead of using all plans combined would increase allowable claimed pension cost by \$89,000.

Thank you for the opportunity to comment. If you have any questions, please contact me at (608) 301-2639 or by e-mail at Jared.Adair@wpsic.com.

Sincerely,



Jared A. Adair
Senior Vice President
Medicare Division