



DEPARTMENT OF HEALTH AND HUMAN SERVICES

## OFFICE OF INSPECTOR GENERAL



OFFICE OF AUDIT SERVICES, REGION VII  
601 EAST 12<sup>TH</sup> STREET, ROOM 0429  
KANSAS CITY, MO 64106

April 4, 2012

Report Number: A-07-12-00379

Mr. Peter S. Moore  
Vice President of Government Programs  
GHI Medicare  
25 Broadway  
New York, NY 10004

Dear Mr. Moore:

Enclosed is the U.S. Department of Health and Human Services, Office of Inspector General (OIG), final report entitled *Review of Medicare Part B Pension Costs Claimed by Group Health Incorporated for Plan Years 1987 Through 2008*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

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

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

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or contact Jenenne Tambke, Audit Manager, at (573) 893-8338, extension 21, or through email at [Jenenne.Tambke@oig.hhs.gov](mailto:Jenenne.Tambke@oig.hhs.gov). Please refer to report number A-07-12-00379 in all correspondence.

Sincerely,

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

Enclosure

**Direct Reply to HHS Action Official:**

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Director & Chief Financial Officer  
Office of Financial Management  
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Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF MEDICARE PART B  
PENSION COSTS CLAIMED BY  
GROUP HEALTH INCORPORATED  
FOR PLAN YEARS 1987 THROUGH 2008**



Daniel R. Levinson  
Inspector General

April 2012  
A-07-12-00379

# *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**

Group Health Incorporated (GHI), an EmblemHealth Company, administered Medicare Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS), which terminated July 18, 2008. GHI also administers Medicare operations under a Coordination of Benefits contract with CMS. In addition, GHI is a subcontractor on the Medicare Secondary Payer Recovery and Retiree Drug Subsidy contracts.

During our audit period, GHI had three defined benefit pension plans. This report will address the Medicare Part B pension costs claimed for all three defined benefit 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, 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 Medicare Part B pension costs that GHI claimed for Medicare reimbursement for plan years (PY) 1987 through 2008.

### **SUMMARY OF FINDING**

GHI did not claim \$1,101,097 of allowable Medicare Part B pension costs on its Final Administrative Cost Proposal (FACP) for PYs 1987 through 2008. The underclaim occurred primarily because GHI based its claim for Medicare reimbursement on an amount that did not comply with the provisions of CAS 412 and 413. GHI claimed \$1,050,149 of Medicare Part B pension costs for Medicare reimbursement; however, we determined that the allowable Medicare Part B pension costs were \$2,151,246. As a result, GHI did not claim \$1,101,097 of allowable pension costs for PYs 1987 through 2008.

### **RECOMMENDATION**

We recommend that GHI revise its FACP for PYs 1987 through 2008 to increase Medicare Part B pension costs by \$1,101,097.

## **AUDITEE COMMENTS**

In written comments on our draft report, GHI agreed with our recommendation.

GHI's comments are included in their entirety as Appendix E.

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## **INTRODUCTION**

### **BACKGROUND**

#### **Group Health Incorporated and Medicare**

Group Health Incorporated (GHI), an EmblemHealth Company, administered Medicare Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS), which terminated July 18, 2008. As of November 1, 1999, GHI also administers Medicare operations under a Coordination of Benefits (COB) contract with CMS. In addition, GHI performs Medicare work as a subcontractor on the Retiree Drug Subsidy and Medicare Secondary Payer Recovery contracts as of February 17, 2005, and August 15, 2006, respectively.

During our audit period, GHI had three defined benefit pension plans: the GHI Local 153 Pension Plan, the GHI Cash Balance Pension Plan, and the EmblemHealth Services Company, LLC, Employees' Retirement Plan. Medicare segment employees participated in all three defined benefit pension plans. This report will address the Medicare Part B pension costs claimed for all three defined benefit pension plans.

#### **Medicare Reimbursement**

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).

Beginning with fiscal year (FY) 1988, CMS incorporated specific segmentation language into Medicare contracts that requires contractors to use either an allocation method or a separate calculation method to identify and claim pension costs for Medicare reimbursement. Under the allocation method, the contractor determines total plan CAS pension costs and allocates a share to Medicare. Under the separate calculation method, the contractor separately identifies the pension cost components for the Medicare segment. The contractor must use the separate calculation method if its result is materially different from that of the allocation method.

### **OBJECTIVE, SCOPE, AND METHODOLOGY**

#### **Objective**

Our objective was to determine the allowability of Medicare Part B pension costs that GHI claimed for Medicare reimbursement for plan years (PY) 1987 through 2008.

#### **Scope**

We reviewed \$1,050,149 of Medicare Part B pension costs that GHI claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for PYs 1987 through 2008.

Achieving our objective did not require that we review GHI's overall internal control structure. We limited our review to the internal controls related to the pension costs claimed for Medicare 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 GHI in New York, New York, during September 2008 and July 2010.

## **Methodology**

We reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit. We identified the amount of pension costs claimed for Medicare reimbursement for PYs 1987 through 2008 by reviewing GHI's FACP's and information from its accounting systems. We also determined the extent to which GHI funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits.

We based our calculations of allowable pension costs on CMS Office of the Actuary's (OACT) computation of CAS-based pension costs for the Medicare segment and the "Other" segment. OACT separately computed each segment's CAS-based pension costs. OACT based its computations on the results of our review of GHI's pension segmentation requirements for each of the three pension plans: the Local 153 Pension Plan for the period April 1, 1987, to January 1, 2009 (A-07-11-00358), the GHI Cash Balance Pension Plan for the period September 1, 2003, to January 1, 2009 (A-07-12-00374), the EmblemHealth Services Company, LLC, Employees' Retirement Plan for the period January 1, 2008, to January 1, 2009 (A-07-12-00378), and our reviews of GHI's unfunded pension costs for the Local 153 Pension Plan for PYs 1987 through 2007 (A-07-12-00375) and the GHI Cash Balance Pension Plan for PYs 2003 through 2007 (A-07-12-00376).

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

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 RECOMMENDATION**

GHI did not claim \$1,101,097 of allowable Medicare Part B pension costs on its FACP's for PYs 1987 through 2008. The underclaim occurred primarily because GHI based its claim for Medicare reimbursement on an amount that did not comply with the provisions of CAS 412 and 413. GHI claimed \$1,050,149 of Medicare Part B pension costs for Medicare reimbursement;

however, we determined that the allowable Medicare Part B pension costs were \$2,151,246. As a result, GHI did not claim \$1,101,097 of allowable pension costs for PYs 1987 through 2008.

## **FEDERAL REQUIREMENTS**

The GHI Medicare contracts state: “The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413.”

FAR 31.205-6(j) addresses allowability of pension costs by requiring 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.

## **ALLOWABLE PENSION COSTS NOT CLAIMED**

GHI did not claim \$1,101,097 of Medicare Part B pension costs that were allowable for Medicare reimbursement for PYs 1987 through 2008. For that period, GHI claimed Medicare Part B pension costs of \$1,050,149 for Medicare reimbursement. We calculated the allowable Medicare Part B pension costs based on separately computed CAS-based pension costs for the Medicare segment and the “Other” segment in accordance with CAS 412 and 413. Based on the terms of the Medicare contract, the allowable Medicare Part B CAS-based pension costs for PYs 1987 through 2008 were \$2,151,246.

The table on the following page compares allowable Medicare Part B CAS-based pension costs with the pension costs claimed on GHI’s FACPs. Appendix D contains additional details on allowable pension costs.

**Comparison of Allowable Medicare Part B Pension Costs and Claimed Pension Costs**

<b>Plan Year</b>	<b>Medicare Part B Pension Costs</b>		<b>Difference</b>
	<b>Allowable Per Audit</b>	<b>Claimed by GHI</b>	
1987	\$0	\$0	\$0
1988	1,417	0	1,417
1989	0	0	0
1990	0	0	0
1991	0	0	0
1992	0	0	0
1993	0	0	0
1994	0	0	0
1995	205,786	27,570	178,216
1996	0	0	0
1997	13,649	11,563	2,086
1998	15,534	13,160	2,374
1999	41,802	35,199	6,603
2000	51,124	37,711	13,413
2001	68,493	33,631	34,862
2002	69,126	56,722	12,404
2003	130,715	67,826	62,889
2004	328,572	60,506	268,066
2005	328,981	115,770	213,211
2006	431,296	292,253	139,043
2007	386,431	11,797	374,634
2008	78,320	286,441	(208,121)
<b>Total</b>	<b>\$2,151,246</b>	<b>\$1,050,149</b>	<b>\$1,101,097</b>

The Medicare contracts require GHI to calculate pension costs for Medicare reimbursement in accordance with the provisions of CAS 412 and 413. However, GHI based its claim for Part B Medicare reimbursement on an amount that did not comply with these CAS provisions. As a result, GHI did not claim \$1,101,097 of allowable pension costs.

**RECOMMENDATION**

We recommend that GHI revise its FACPs for PYs 1987 through 2008 to increase Medicare Part B pension costs by \$1,101,097.

**AUDITEE COMMENTS**

In written comments on our draft report, GHI agreed with our recommendation.

GHI's comments are included in their entirety as Appendix E.

# **APPENDIXES**

**APPENDIX A: ALLOCABLE MEDICARE PENSION COSTS FOR THE  
LOCAL 153 PENSION PLAN FOR GROUP HEALTH INCORPORATED  
FOR PLAN YEARS 1987 THROUGH 2008**

<b>Date</b>	<b>Description</b>	<b>Total Company</b>	<b>“Other” Segment</b>	<b>Medicare Segment</b>
1987	Contributions <u>1/</u>	\$88,331	\$88,331	\$0
7.00%	Discount for Interest <u>2/</u>	(\$2,889)	(\$2,889)	\$0
April 1, 1987	Present Value Contributions <u>3/</u>	\$85,442	\$85,442	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding <u>4/</u>	\$85,442	\$85,442	\$0
April 1, 1987	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
1987	Allocable Pension Cost		\$0	\$0
1988	Contributions	\$0	\$0	\$0
7.00%	Discount for Interest	\$0	\$0	\$0
April 1, 1988	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied <u>5/</u>	\$91,423	\$91,423	\$0
	Present Value of Funding	\$91,423	\$91,423	\$0
April 1, 1988	CAS Funding Target <u>6/</u>	\$376,355	\$376,355	\$0
	Percentage Funded <u>7/</u>		24.29%	0.00%
	Funded Pension Cost <u>8/</u>		\$91,417	\$0
	Allowable Interest		\$0	\$0
1988	Allocable Pension Cost <u>9/</u>		\$91,417	\$0
1989	Contributions	\$0	\$0	\$0
7.00%	Discount for Interest	\$0	\$0	\$0
January 1, 1989	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 1989	CAS Funding Target	\$934,743	\$846,224	\$88,519
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
1989	Allocable Pension Cost		\$0	\$0
1990	Contributions	\$0	\$0	\$0
7.00%	Discount for Interest	\$0	\$0	\$0
January 1, 1990	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 1990	CAS Funding Target	\$867	\$867	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
1990	Allocable Pension Cost		\$0	\$0

<b>Date</b>	<b>Description</b>	<b>Total Company</b>	<b>“Other” Segment</b>	<b>Medicare Segment</b>
1991	Contributions	\$0	\$0	\$0
7.00%	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	\$1,566,401	\$1,566,401	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
1991	Allocable Pension Cost		\$0	\$0
1992	Contributions	\$0	\$0	\$0
7.00%	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	\$2,121,379	\$2,121,379	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
1992	Allocable Pension Cost		\$0	\$0
1993	Contributions	\$0	\$0	\$0
7.00%	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	\$2,349,569	\$2,349,569	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
1993	Allocable Pension Cost		\$0	\$0
1994	Contributions	\$0	\$0	\$0
7.00%	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	\$2,529,922	\$2,529,922	\$0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		\$0	\$0
	Allowable Interest		\$0	\$0
1994	Allocable Pension Cost		\$0	\$0

Date	Description	Total Company	"Other" Segment	Medicare Segment
1995	Contributions	\$2,408,626	\$2,233,457	\$175,169
7.00%	Discount for Interest	(\$157,574)	(\$146,114)	(\$11,460)
January 1, 1995	Present Value Contributions	\$2,251,052	\$2,087,343	\$163,709
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$2,251,052	\$2,087,343	\$163,709
January 1, 1995	CAS Funding Target	\$3,285,767	\$3,046,807	\$238,960
	Percentage Funded		68.51%	68.51%
	Funded Pension Cost		\$2,087,367	\$163,711
	Allowable Interest <u>10/</u>		\$103,499	\$8,117
1995	Allocable Pension Cost		\$2,190,866	\$171,828
1996	Contributions	\$0	\$0	\$0
8.00%	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
1996	Allocable Pension Cost		\$0	\$0
1997	Contributions	\$900,032	\$900,032	\$0
8.00%	Discount for Interest	(\$66,669)	(\$66,669)	\$0
January 1, 1997	Present Value Contributions	\$833,363	\$833,363	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$833,363	\$833,363	\$0
January 1, 1997	CAS Funding Target	\$833,363	\$833,363	\$0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		\$833,363	\$0
	Allowable Interest		\$47,224	\$0
1997	Allocable Pension Cost		\$880,587	\$0
1998	Contributions	\$1,024,332	\$1,024,332	\$0
8.00%	Discount for Interest	(\$75,672)	(\$75,672)	\$0
January 1, 1998	Present Value Contributions	\$948,660	\$948,660	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$948,660	\$948,660	\$0
January 1, 1998	CAS Funding Target	\$948,456	\$948,456	\$0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		\$948,456	\$0
	Allowable Interest		\$53,746	\$0
1998	Allocable Pension Cost		\$1,002,202	\$0

<b>Date</b>	<b>Description</b>	<b>Total Company</b>	<b>“Other” Segment</b>	<b>Medicare Segment</b>
1999	Contributions	\$2,741,584	\$2,741,584	\$0
8.50%	Discount for Interest	(\$198,176)	(\$198,176)	\$0
January 1, 1999	Present Value Contributions	\$2,543,408	\$2,543,408	\$0
	Prepayment Credit Applied	\$221	\$221	\$0
	Present Value of Funding	\$2,543,629	\$2,543,629	\$0
January 1, 1999	CAS Funding Target	\$2,645,607	\$2,645,607	\$0
	Percentage Funded		96.15%	0.00%
	Funded Pension Cost		\$2,543,751	\$0
	Allowable Interest		\$153,142	\$0
1999	Allocable Pension Cost		\$2,696,893	\$0
2000	Contributions	\$3,361,467	\$3,361,467	\$0
8.50%	Discount for Interest	(\$247,303)	(\$247,303)	\$0
January 1, 2000	Present Value Contributions	\$3,114,164	\$3,114,164	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$3,114,164	\$3,114,164	\$0
January 1, 2000	CAS Funding Target	\$3,111,009	\$3,111,009	\$0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		\$3,111,009	\$0
	Allowable Interest		\$187,309	\$0
2000	Allocable Pension Cost		\$3,298,318	\$0
2001	Contributions	\$4,461,143	\$4,461,143	\$0
8.50%	Discount for Interest	(\$272,498)	(\$272,498)	\$0
January 1, 2001	Present Value Contributions	\$4,188,645	\$4,188,645	\$0
	Prepayment Credit Applied	\$3,423	\$3,423	\$0
	Present Value of Funding	\$4,192,068	\$4,192,068	\$0
January 1, 2001	CAS Funding Target	\$4,115,076	\$4,115,076	\$0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		\$4,115,076	\$0
	Allowable Interest		\$247,556	\$0
2001	Allocable Pension Cost		\$4,362,632	\$0
2002	Contributions	\$5,859,236	\$5,859,236	\$0
8.50%	Discount for Interest	(\$340,087)	(\$340,087)	\$0
January 1, 2002	Present Value Contributions	\$5,519,149	\$5,519,149	\$0
	Prepayment Credit Applied	\$83,536	\$83,536	\$0
	Present Value of Funding	\$5,602,685	\$5,602,685	\$0
January 1, 2002	CAS Funding Target	\$5,483,754	\$5,483,754	\$0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		\$5,483,754	\$0
	Allowable Interest		\$325,138	\$0
2002	Allocable Pension Cost		\$5,808,892	\$0

Date	Description	Total Company	"Other" Segment	Medicare Segment
2003	Contributions	\$7,664,540	\$7,664,540	\$0
8.25%	Discount for Interest	(\$428,754)	(\$428,754)	\$0
January 1, 2003	Present Value Contributions	\$7,235,786	\$7,235,786	\$0
	Prepayment Credit Applied	\$129,040	\$129,040	\$0
	Present Value of Funding	\$7,364,826	\$7,364,826	\$0
January 1, 2003	CAS Funding Target	\$8,230,907	\$8,230,907	\$0
	Percentage Funded		89.48%	0.00%
	Funded Pension Cost		\$7,365,016	\$0
	Allowable Interest		\$422,852	\$0
2003	Allocable Pension Cost		\$7,787,868	\$0
2004	Contributions	\$26,765,678	\$26,363,666	\$402,012
8.25%	Discount for Interest	(\$1,844,662)	(\$1,816,956)	(\$27,706)
January 1, 2004	Present Value Contributions	\$24,921,016	\$24,546,710	\$374,306
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$24,921,016	\$24,546,710	\$374,306
January 1, 2004	CAS Funding Target	\$8,044,606	\$7,670,300	\$374,306
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$7,670,300	\$374,306
	Allowable Interest		\$448,233	\$21,874
2004	Allocable Pension Cost		\$8,118,533	\$396,180
2005	Contributions	\$6,000,000	\$6,000,000	\$0
8.25%	Discount for Interest	(\$457,275)	(\$457,275)	\$0
January 1, 2005	Present Value Contributions	\$5,542,725	\$5,542,725	\$0
	Prepayment Credit Applied	\$7,757,042	\$7,248,219	\$508,823
	Present Value of Funding	\$13,299,767	\$12,790,944	\$508,823
January 1, 2005	CAS Funding Target	\$7,757,042	\$7,248,219	\$508,823
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$7,248,219	\$508,823
	Allowable Interest		\$0	\$0
2005	Allocable Pension Cost		\$7,248,219	\$508,823
2006	Contributions	\$4,174,556	\$4,174,556	\$0
8.25%	Discount for Interest	(\$318,153)	(\$318,153)	\$0
January 1, 2006	Present Value Contributions	\$3,856,403	\$3,856,403	\$0
	Prepayment Credit Applied	\$6,787,383	\$5,879,966	\$907,417
	Present Value of Funding	\$10,643,786	\$9,736,369	\$907,417
January 1, 2006	CAS Funding Target	\$6,787,383	\$5,879,966	\$907,417
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$5,879,966	\$907,417
	Allowable Interest		\$0	\$0
2006	Allocable Pension Cost		\$5,879,966	\$907,417

Date	Description	Total Company	"Other" Segment	Medicare Segment
2007	Contributions	\$13,488,137	\$13,488,137	\$0
8.25%	Discount for Interest	(\$717,211)	(\$717,211)	\$0
January 1, 2007	Present Value Contributions	\$12,770,926	\$12,770,926	\$0
	Prepayment Credit Applied	\$6,029,009	\$5,024,910	\$1,004,099
	Present Value of Funding	\$18,799,935	\$17,795,836	\$1,004,099
January 1, 2007	CAS Funding Target	\$6,029,009	\$5,024,910	\$1,004,099
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$5,024,910	\$1,004,099
	Allowable Interest		\$0	\$0
2007	Allocable Pension Cost		\$5,024,910	\$1,004,099
2008	Contributions	\$11,000,000	\$11,000,000	\$0
8.25%	Discount for Interest	(\$556,572)	(\$556,572)	\$0
January 1, 2008	Present Value Contributions	\$10,443,428	\$10,443,428	\$0
	Prepayment Credit Applied	\$126,151	\$0	\$126,151
	Present Value of Funding	\$10,569,579	\$10,443,428	\$126,151
January 1, 2008	CAS Funding Target	\$126,151	\$0	\$126,151
	Percentage Funded		0.00%	100.00%
	Funded Pension Cost		\$0	\$126,151
	Allowable Interest		\$0	\$0
2008	Allocable Pension Cost		\$0	\$126,151

#### **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 reviews (A-07-11-00358, A-07-12-00374, and A-07-12-00378). 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/ 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 Cost Accounting Standards (CAS) funding target measured at the first day of the plan year.
- 5/ 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 CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.

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/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

10/ 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.

**APPENDIX B: ALLOCABLE MEDICARE PENSION COSTS FOR THE  
CASH BALANCE PENSION PLAN FOR GROUP HEALTH INCORPORATED  
FOR PLAN YEARS 2003 THROUGH 2008**

<b>Date</b>	<b>Description</b>	<b>Total Company</b>	<b>“Other” Segment</b>	<b>Medicare Segment</b>
2003	Contributions <u>1/</u>	\$1,200,000	\$1,098,769	\$101,231
8.00%	Discount for Interest <u>2/</u>	(\$88,889)	(\$81,390)	(\$7,499)
September 1, 2003	Present Value Contributions <u>3/</u>	\$1,111,111	\$1,017,379	\$93,732
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding <u>4/</u>	\$1,111,111	\$1,017,379	\$93,732
September 1, 2003	CAS Funding Target <u>5/</u>	\$906,321	\$807,654	\$98,667
	Percentage Funded <u>6/</u>		100.00%	95.00%
	Funded Pension Cost <u>7/</u>		\$807,654	\$93,734
	Allowable Interest <u>8/</u>		\$45,767	\$5,312
2003	Allocable Pension Cost <u>9/</u>		\$853,421	\$99,046
2004	Contributions	\$2,804,772	\$2,494,658	\$310,114
7.50%	Discount for Interest	(\$195,682)	(\$174,046)	(\$21,636)
January 1, 2004	Present Value Contributions	\$2,609,090	\$2,320,612	\$288,478
	Prepayment Credit Applied <u>10/</u>	\$270,128	\$240,261	\$29,867
	Present Value of Funding	\$2,879,218	\$2,560,873	\$318,345
January 1, 2004	CAS Funding Target	\$2,887,566	\$2,568,298	\$319,268
	Percentage Funded		99.71%	99.71%
	Funded Pension Cost		\$2,560,850	\$318,342
	Allowable Interest		\$123,281	\$15,325
2004	Allocable Pension Cost		\$2,684,131	\$333,667
2005	Contributions	\$3,134,294	\$2,775,009	\$359,285
7.50%	Discount for Interest	(\$218,672)	(\$193,606)	(\$25,066)
January 1, 2005	Present Value Contributions	\$2,915,622	\$2,581,403	\$334,219
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$2,915,622	\$2,581,403	\$334,219
January 1, 2005	CAS Funding Target	\$2,909,452	\$2,575,233	\$334,219
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$2,575,233	\$334,219
	Allowable Interest		\$136,809	\$17,755
2005	Allocable Pension Cost		\$2,712,042	\$351,974
2006	Contributions	\$3,134,296	\$2,786,950	\$347,346
7.50%	Discount for Interest	(\$140,016)	(\$124,499)	(\$15,517)
January 1, 2006	Present Value Contributions	\$2,994,280	\$2,662,451	\$331,829
	Prepayment Credit Applied	\$6,633	\$5,857	\$776
	Present Value of Funding	\$3,000,913	\$2,668,308	\$332,605
January 1, 2006	CAS Funding Target	\$2,843,012	\$2,510,407	\$332,605
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$2,510,407	\$332,605
	Allowable Interest		\$117,115	\$15,517
2006	Allocable Pension Cost		\$2,627,522	\$348,122

Date	Description	Total Company	"Other" Segment	Medicare Segment
2007	Contributions	\$5,568,673	\$5,178,969	\$389,704
7.50%	Discount for Interest	(\$320,445)	(\$298,020)	(\$22,425)
January 1, 2007	Present Value Contributions	\$5,248,228	\$4,880,949	\$367,279
	Prepayment Credit Applied	\$169,744	\$148,978	\$20,766
	Present Value of Funding	\$5,417,972	\$5,029,927	\$388,045
January 1, 2007	CAS Funding Target	\$3,171,913	\$2,783,868	\$388,045
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$2,783,868	\$388,045
	Allowable Interest		\$139,979	\$19,512
2007	Allocable Pension Cost		\$2,923,847	\$407,557
2008	Contributions	\$900,000	\$900,000	\$0
7.50%	Discount for Interest	(\$62,791)	(\$62,791)	\$0
January 1, 2008	Present Value Contributions	\$837,209	\$837,209	\$0
	Prepayment Credit Applied	\$223,107	\$194,928	\$28,179
	Present Value of Funding	\$1,060,316	\$1,032,137	\$28,179
January 1, 2008	CAS Funding Target	\$223,107	\$194,928	\$28,179
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$194,928	\$28,179
	Allowable Interest		\$0	\$0
2008	Allocable Pension Cost		\$194,928	\$28,179

## **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 reviews (A-07-11-00358, A-07-12-00374, and A-07-12-00378). 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/ 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 Cost Accounting Standards (CAS) funding target measured at the first day of the plan year.
- 5/ 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).

6/ 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.

7/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.

8/ 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.

9/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

10/ 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 CAS funding target.  
A prepayment credit is carried forward, with interest, to fund future CAS pension costs.

**APPENDIX C: ALLOCABLE MEDICARE PENSION COSTS FOR THE  
EMBLEMHEALTH SERVICES COMPANY, LLC, EMPLOYEES' RETIREMENT PLAN  
FOR GROUP HEALTH INCORPORATED  
FOR PLAN YEAR 2008**

Date	Description	Total Company	"Other" Segment	Medicare Segment
2008	Contributions	1/ \$15,712,164	\$15,264,731	\$447,433
7.50%	Discount for Interest	2/ (\$769,092)	(\$747,191)	(\$21,901)
January 1, 2008	Present Value Contributions	3/ \$14,943,072	\$14,517,540	\$425,532
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	4/ \$14,943,072	\$14,517,540	\$425,532
January 1, 2008	CAS Funding Target	5/ \$425,532	\$0	\$425,532
	Percentage Funded	6/	0.00%	100.00%
	Funded Pension Cost	7/	\$0	\$425,532
	Allowable Interest	8/	\$0	\$21,901
2008	Allocable Pension Cost	9/	\$0	\$447,433

**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 reviews (A-07-11-00358, A-07-12-00374, and A-07-12-00378). 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/ 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 Cost Accounting Standards (CAS) funding target measured at the first day of the plan year.
- 5/ 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).
- 6/ 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.
- 7/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.

8/ 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.

9/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

**APPENDIX D: MEDICARE PART B ALLOWABLE MEDICARE PENSION COSTS  
FOR GROUP HEALTH INCORPORATED  
FOR PLAN YEARS 1987 THROUGH 2008**

Date	Description	"Other" Segment	Medicare Segment	Total
April 1, 1987	Local 153 Pension Plan Allocable Pension Cost	\$0	\$0	
	Total PY* Allocable Pension Cost	\$0	\$0	
	Medicare Part B LOB** Percentage	<u>1/</u> 1.55%	100.00%	
1987	PY* Part B Allowable Pension Costs	\$0	\$0	\$0

April 1, 1988	Local 153 Pension Plan Allocable Pension Cost	<u>2/</u> \$91,417	\$0	
	Total PY* Allocable Pension Cost	<u>3/</u> \$91,417	\$0	
	Medicare Part B LOB** Percentage	1.55%	100.00%	
1988	PY* Part B Allowable Pension Costs	<u>4/</u> \$1,417	\$0	\$1,417

January 1, 1989	Local 153 Pension Plan Allocable Pension Cost	\$0	\$0	
	Total PY* Allocable Pension Cost	\$0	\$0	
	Medicare Part B LOB** Percentage	1.55%	100.00%	
1989	PY* Part B Allowable Pension Costs	\$0	\$0	\$0

January 1, 1990	Local 153 Pension Plan Allocable Pension Cost	\$0	\$0	
	Total PY* Allocable Pension Cost	\$0	\$0	
	Medicare Part B LOB** Percentage	1.55%	100.00%	
1990	PY* Part B Allowable Pension Costs	\$0	\$0	\$0

January 1, 1991	Local 153 Pension Plan Allocable Pension Cost	\$0	\$0	
	Total PY* Allocable Pension Cost	\$0	\$0	
	Medicare Part B LOB** Percentage	1.55%	100.00%	
1991	PY* Part B Allowable Pension Costs	\$0	\$0	\$0

Date	Description	"Other" Segment	Medicare Segment	Total
January 1, 1992	Local 153 Pension Plan Allocable Pension Cost	\$0	\$0	
	Total PY* Allocable Pension Cost	\$0	\$0	
	Medicare Part B LOB** Percentage	1.55%	100.00%	
1992	PY* Part B Allowable Pension Costs	\$0	\$0	\$0

January 1, 1993	Local 153 Pension Plan Allocable Pension Cost	\$0	\$0	
	Total PY* Allocable Pension Cost	\$0	\$0	
	Medicare Part B LOB** Percentage	1.55%	100.00%	
1993	PY* Part B Allowable Pension Costs	\$0	\$0	\$0

January 1, 1994	Local 153 Pension Plan Allocable Pension Cost	\$0	\$0	
	Total PY* Allocable Pension Cost	\$0	\$0	
	Medicare Part B LOB** Percentage	1.55%	100.00%	
1994	PY* Part B Allowable Pension Costs	\$0	\$0	\$0

January 1, 1995	Local 153 Pension Plan Allocable Pension Cost	\$2,190,866	\$171,828	
	Total PY* Allocable Pension Cost	\$2,190,866	\$171,828	
	Medicare Part B LOB** Percentage	1.55%	100.00%	
1995	PY* Part B Allowable Pension Costs	\$33,958	\$171,828	\$205,786

January 1, 1996	Local 153 Pension Plan Allocable Pension Cost	\$0	\$0	
	Total PY* Allocable Pension Cost	\$0	\$0	
	Medicare Part B LOB** Percentage	1.55%	100.00%	
1996	PY* Part B Allowable Pension Costs	\$0	\$0	\$0

Date	Description	"Other" Segment	Medicare Segment	Total
January 1, 1997	Local 153 Pension Plan Allocable Pension Cost	\$880,587	\$0	
	Total PY* Allocable Pension Cost	\$880,587	\$0	
	Medicare Part B LOB** Percentage	1.55%	100.00%	
1997	PY* Part B Allowable Pension Costs	\$13,649	\$0	\$13,649

January 1, 1998	Local 153 Pension Plan Allocable Pension Cost	\$1,002,202	\$0	
	Total PY* Allocable Pension Cost	\$1,002,202	\$0	
	Medicare Part B LOB** Percentage	1.55%	100.00%	
1998	PY* Part B Allowable Pension Costs	\$15,534	\$0	\$15,534

January 1, 1999	Local 153 Pension Plan Allocable Pension Cost	\$2,696,893	\$0	
	Total PY* Allocable Pension Cost	\$2,696,893	\$0	
	Medicare Part B LOB** Percentage	1.55%	99.53%	
1999	PY* Part B Allowable Pension Costs	\$41,802	\$0	\$41,802

January 1, 2000	Local 153 Pension Plan Allocable Pension Cost	\$3,298,318	\$0	
	Total PY* Allocable Pension Cost	\$3,298,318	\$0	
	Medicare Part B LOB** Percentage	1.55%	65.20%	
2000	PY* Part B Allowable Pension Costs	\$51,124	\$0	\$51,124

January 1, 2001	Local 153 Pension Plan Allocable Pension Cost	\$4,362,632	\$0	
	Total PY* Allocable Pension Cost	\$4,362,632	\$0	
	Medicare Part B LOB** Percentage	1.57%	35.54%	
2001	PY* Part B Allowable Pension Costs	\$68,493	\$0	\$68,493

Date	Description	"Other" Segment	Medicare Segment	Total
January 1, 2002	Local 153 Pension Plan Allocable Pension Cost	\$5,808,892	\$0	
	Total PY* Allocable Pension Cost	\$5,808,892	\$0	
	Medicare Part B LOB** Percentage	1.19%	32.29%	
2002	PY* Part B Allowable Pension Costs	\$69,126	\$0	\$69,126

January 1, 2003	Local 153 Pension Plan Allocable Pension Cost	\$7,787,868	\$0	
	Cash Balance Pension Plan Allocable Pension Cost	<u>5/</u> \$853,421	\$99,046	
	Total PY* Allocable Pension Cost	\$8,641,289	\$99,046	
	Medicare Part B LOB** Percentage	1.20%	27.28%	
2003	PY* Part B Allowable Pension Costs	\$103,695	\$27,020	\$130,715

January 1, 2004	Local 153 Pension Plan Allocable Pension Cost	\$8,118,533	\$396,180	
	Cash Balance Pension Plan Allocable Pension Cost	\$2,684,131	\$333,667	
	Total PY* Allocable Pension Cost	\$10,802,664	\$729,847	
	Medicare Part B LOB** Percentage	0.96%	30.81%	
2004	PY* Part B Allowable Pension Costs	\$103,706	\$224,866	\$328,572

January 1, 2005	Local 153 Pension Plan Allocable Pension Cost	\$7,248,219	\$508,823	
	Cash Balance Pension Plan Allocable Pension Cost	\$2,712,042	\$351,974	
	Total PY* Allocable Pension Cost	\$9,960,261	\$860,797	
	Medicare Part B LOB** Percentage	1.03%	26.30%	
2005	PY* Part B Allowable Pension Costs	\$102,591	\$226,390	\$328,981

January 1, 2006	Local 153 Pension Plan Allocable Pension Cost	\$5,879,966	\$907,417	
	Cash Balance Pension Plan Allocable Pension Cost	\$2,627,522	\$348,122	
	Total PY* Allocable Pension Cost	\$8,507,488	\$1,255,539	
	Medicare Part B LOB** Percentage	1.02%	27.44%	
2006	PY* Part B Allowable Pension Costs	\$86,776	\$344,520	\$431,296

Date	Description	“Other” Segment	Medicare Segment	Total
January 1, 2007	Local 153 Pension Plan Allocable Pension Cost	\$5,024,910	\$1,004,099	
	Cash Balance Pension Plan Allocable Pension Cost	\$2,923,847	\$407,557	
	Total PY* Allocable Pension Cost	\$7,948,757	\$1,411,656	
	Medicare Part B LOB** Percentage	0.53%	24.39%	
2007	PY* Part B Allowable Pension Costs	\$42,128	\$344,303	\$386,431

January 1, 2008	Local 153 Pension Plan Allocable Pension Cost	\$0	\$126,151	
	Cash Balance Pension Plan Allocable Pension Cost	\$194,928	\$28,179	
	EmblemHealth Services Company, LLC, Employees Retirement Plan Allocable Pension Cost <u>6/</u>	\$0	\$447,433	
	Total PY* Allocable Pension Cost	\$194,928	\$601,763	
	Medicare Part B LOB** Percentage	0.19%	22.25%	
2008	PY* Part B Allowable Pension Costs <u>7/</u>	\$216	\$78,104	\$78,320

\*Plan Year

\*\*Line of Business

## **ENDNOTES**

- 1/ We calculated the allowable Part B pension costs of the Medicare and “Other” segments based on the Medicare Part B line of business (LOB) percentage of each segment. We determined the Medicare Part B LOB percentages based upon information provided by Group Health Incorporated (GHI).
- 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 Local 153 Pension Plan allocable pension cost appears in Appendix A.
- 3/ The total plan year (PY) (April 1, 1988 to December 31, 1988) Medicare Part B allocable pension costs is the total of the segments’ costs from each pension plan. Beginning January 1, 1989, GHI’s PY changed to January 1 through December 31.
- 4/ We computed the allowable Medicare Part B pension cost as the PY pension cost multiplied by the Medicare Part B LOB percentage. Pursuant to CAS 412 and 413, the total Medicare Part B 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.
- 5/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes. The calculation of the GHI Cash Balance Pension Plan allocable pension cost appears in Appendix B.
- 6/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes. The calculation of the EmblemHealth Services Company, LCC, Employees’ Retirement Plan allocable pension cost appears in Appendix C.
- 7/ The Medicare Part B contract was terminated on July 18, 2008. Therefore, the 2008 allowable pension costs were for a 7-month period only (January 1, 2008 through August 1, 2008).

## APPENDIX E: AUDITEE COMMENTS



February 17, 2012

Mr. Patrick J. Cogley  
Regional Inspector General for Audit Services  
Office of Inspector General  
Office of Audit Services  
Region VII  
601 East 12<sup>th</sup> Street, Room 0429  
Kansas City, Missouri 64106

**Re:   OIG Report Number: A-07-12-00379**  
***Review of Medicare Part B Pension Costs Claimed by Group Health Incorporated for***  
***Plan Years 1987 through 2008.***

Dear Mr. Cogley:

This response is in regard to the subject report. GHI and its actuaries have carefully reviewed the report and supporting work papers. As recommended by the OIG, GHI agrees to revise its FACP for Plan Years 1987 through 2008 to increase the Medicare Part B pension costs by \$1,101,097.

Please let me know if you have any questions regarding this letter.

Sincerely,

A handwritten signature in blue ink that reads "Peter S. Moore". The signature is written in a cursive style.

Peter S. Moore  
Vice President

*Group Health, Incorporated*  
25 Broadway, New York, NY 10004-1010  
[www.ghimedicare.com](http://www.ghimedicare.com)