

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS
CLAIMED FOR MEDICARE
REIMBURSEMENT BY HEALTH
CARE SERVICE CORPORATION**



**MAY 2001
A-07-01-00128**



Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

CIN: A-07-01-00128
May 29, 2001

Mr. John K. Jansson
Vice President, Audit and Performance Review
Health Care Service Corporation
300 East Randolph Street, 11th floor
Chicago, Illinois 60601-5099

Dear Mr. Jansson:

This report provides the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) review titled *Review of Pension Costs Claimed for Medicare Reimbursement by Health Care Service Corporation*. The purpose of our review was to determine the allowability of pension costs claimed for Medicare reimbursement for Fiscal Years (FYs) 1992 through 1998.

For FYs 1992 through 1998, we determined that Health Care Service Corporation (HCSC) underclaimed allowable Medicare pension costs. During this period, the allowable Medicare pension costs were \$11,867,167. However, HCSC claimed pension costs of \$10,575,053 for Medicare reimbursement. As a result, HCSC did not claim \$1,292,114 in allowable pension costs. This underclaim of pension costs was primarily the result of HCSC incorrectly calculating allowable pension costs.

We recommend that HCSC revise its Final Administrative Cost Proposals (FACPs) to reflect the remaining allowable pension costs. HCSC did not comment on our finding and recommendation.

INTRODUCTION

BACKGROUND

The HCSC has administered Medicare Parts A and B operations under cost reimbursement contracts until the contractual relationships terminated in 1998. Medicare contractors must follow cost reimbursement principles contained in the Cost Accounting Standards (CAS), the Federal Acquisition Regulations (FAR), and their Medicare contracts. Medicare reimburses its portion of contractors' annual pension costs. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with CAS 412 and 413, and (2) funded as specified by part 31 of the FAR.

The CAS deals with stability between contract periods and requires consistent measurement and assignment of pension costs to contract periods. The CAS costs that are allowable as charges to Medicare include (1) the normal costs and (2) the amortization of the unfunded actuarial liability.

The FAR addresses allowability of pension costs and requires that pension costs assigned to contract periods be substantiated by funding.

Additionally, the Health Care Financing Administration (HCFA) incorporated specific segmentation language into Medicare contracts. The contracts provide for either an allocation or a separate calculation of pension costs. Under an allocation method, a contractor determines total plan CAS costs and allocates a share to Medicare. Under the separate calculation method, a contractor separately identifies the normal costs and amortization for the Medicare segment. The separate calculation method must be used if there is a material difference between the two methods.

OBJECTIVE, SCOPE AND METHODOLOGY

We made our examination in accordance with generally accepted government auditing standards, except that we have not included HCSC's views concerning our finding and recommendation. We solicited, but did not receive, a response from HCSC concerning our review. HCSC's failure to comment on our finding and recommendation does not affect the results of our review. Our objective was to determine the allowability of pension costs claimed for Medicare reimbursement for Fiscal Years 1992 through 1998. Achieving the objective did not require a review of HCSC's internal control structure.

This review was done in conjunction with our audit of HCSC's Medicare segments closing (CIN: A-07-00-00112). The information obtained and reviewed during that audit was also used in performing this review.

In our audit of the Medicare segments closing, we identified HCSC's CAS pension costs for the total company and for the Medicare segments. We also determined the extent to which HCSC funded CAS pension costs with contributions to the pension trust fund. Using this information, we calculated CAS pension costs that are allowable for Medicare reimbursement for FYs 1992 through 1998. The HCSC has two defined benefit pension plans, the Union plan and the Regular plan. For presentation purposes, this report combines the pension costs of both plans. Appendices A and B separately detail the pension costs of the Union and Regular plans.

The HCFA Office of the Actuary developed the methodology used for computing allowable CAS pension costs based on HCSC's historical practices. We performed site work during June 2000 at HCSC's corporate offices in Chicago, Illinois. Subsequently, we performed audit work in the OIG, OAS, Jefferson City, Missouri Field Office.

FINDING AND RECOMMENDATION

For FYs 1992 through 1998, HCSC did not claim \$1,292,114 in pension costs that were allowable for Medicare reimbursement. The pension costs are allowable because the funded portion of CAS computed costs exceeded the costs claimed. The underclaim primarily occurred because HCSC did not correctly compute allowable pension costs.

We calculated the allowable CAS pension costs for the Medicare segments and for Medicare indirect operations. The calculations were based on separately computed CAS pension costs for the Medicare segments and total company CAS pension costs. See Appendices A and B for details.

We compared our calculated allowable CAS pension costs to the pension costs claimed on HCSC's FACPs and found:

Pension Costs Claimed Variances				
	FY	Per HCSC	Per OIG	Variance
Medicare Part A				
	1992	\$ 401,564	\$ 544,034	\$ (142,470)
	1993	386,944	605,137	(218,193)
	1994	570,203	632,328	(62,125)
	1995	748,618	641,727	106,891
	1996	873,409	1,013,816	(140,407)
	1997	622,676	902,019	(279,343)
	1998	168,057	274,134	(106,077)
Medicare Part B				
	1992	701,448	559,657	141,791
	1993	654,893	669,269	(14,376)
	1994	753,100	827,207	(74,107)
	1995	1,508,724	1,257,982	250,742
	1996	1,522,374	1,522,935	(561)
	1997	1,161,908	1,521,490	(359,582)
	1998	501,135	895,432	(394,297)
Total		<u>\$10,575,053</u>	<u>\$11,867,167</u>	<u>\$(1,292,114)</u>

For FYs 1992 through 1998, HCSC claimed pension costs of \$10,575,053 for Medicare reimbursement. However, the allowable CAS pension costs were \$11,867,167. As a result, HCSC could have claimed \$1,292,114 in additional CAS pension costs.

Recommendation

We recommend that HCSC:

Revise its FACPs to reflect the remaining allowable pension costs.

Auditee Response:

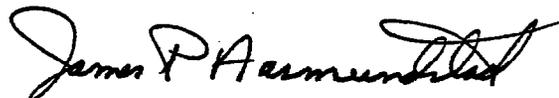
HCSC did not comment on our finding and recommendation.

INSTRUCTIONS FOR AUDITEE RESPONSE

Final determinations as to actions to be taken on all matters reported will be made by the HHS action official identified below. We request that you respond to the recommendation in this report within 30 days from the date of this report to the HHS action official, presenting any comments or additional information that you believe may have a bearing on final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS, reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to the exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5).

Sincerely,



James P. Aasmundstad
Regional Inspector General
for Audit Services, Region VII

Enclosure
HHS Action Official:
Ms. Dorothy Burk Collins
Regional Administrator, Region V
Health Care Financing Administration
233 North Michigan Avenue, Suite 600
Chicago, Illinois 60601

HEALTH CARE SERVICE CORPORATION – PLAN 001

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1992 THROUGH 1998

Year & Percentage	Description	Note	Total Company	Other	HCSC Med A	HCSC Med B	HCSA Med A	HCSA Med B
1992	Contribution(s)	1/	5,630,280	4,970,817	319,241	340,222	-	-
8.25%	Discount for Interest	2/	<u>(270,675)</u>	<u>(238,972)</u>	<u>(15,347)</u>	<u>(16,356)</u>	-	-
	Pres Val Contributions	3/	5,359,605	4,731,845	303,894	323,866	-	-
	Prepayment Credit	4/	<u>937,242</u>	<u>822,160</u>	<u>57,373</u>	<u>57,709</u>	-	-
	Pres Value of Funding	5/	6,296,847	5,554,005	361,267	381,575	-	-
	CAS Pension Cost	6/	8,034,622	7,088,238	459,800	486,584	-	-
	Absorbed Credit	7/	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	-	-
	CAS Funding Target	8/	8,034,622	7,088,238	459,800	486,584	-	-
	% Funded	9/		78.36%	78.57%	78.42%	0.00%	0.00%
	Funded Pension Cost	10/		5,554,005	361,267	381,575	-	-
	Allowable Interest	11/		<u>238,972</u>	<u>15,347</u>	<u>16,356</u>	-	-
	Allocable Pension Cost	12/		5,792,977	376,614	397,931	-	-
	Fiscal Year Pension	13/		6,173,392	410,071	426,806		
	Medicare LOB%	14/		4.32%	100.00%	100.00%	100.00%	100.00%
	Allowable Pension Cost	15/	1,103,691	266,814	410,071	426,806	-	-
1993	Contribution(s)		9,028,723	7,965,009	460,840	602,874	-	-
8.25%	Discount for Interest		<u>(526,329)</u>	<u>(464,320)</u>	<u>(26,865)</u>	<u>(35,144)</u>	-	-
	Pres Val Contributions		8,502,394	7,500,689	433,975	567,730	-	-
	Prepayment Credit		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	-	-
	Pres Value of Funding		8,502,394	7,500,689	433,975	567,730	-	-
	CAS Pension Cost		9,759,717	8,609,882	498,151	651,684	-	-
	Absorbed Credit		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	-	-
	CAS Funding Target		9,759,717	8,609,882	498,151	651,684	-	-
	% Funded			87.12%	87.12%	87.12%	0.00%	0.00%
	Funded Pension Cost			7,500,689	433,975	567,730	-	-
	Allowable Interest			<u>438,322</u>	<u>25,360</u>	<u>33,177</u>	-	-
	Allocable Pension Cost			7,939,011	459,335	600,907	-	-
	Fiscal Year Pension			7,402,503	438,655	550,163		
	Medicare LOB%			3.86%	100.00%	100.00%	100.00%	100.00%
	Allowable Pension Cost		1,274,406	285,588	438,655	550,163	-	-

HEALTH CARE SERVICE CORPORATION – PLAN 001

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1992 THROUGH 1998

Year & Percentage	Description	Note	Total Company	Other	HCSC Med A	HCSC Med B	HCSA Med A	HCSA Med B
1994	Contribution(s)		9,131,658	8,171,122	421,223	539,313	-	-
8.25%	Discount for Interest		<u>(434,688)</u>	<u>(388,964)</u>	<u>(20,051)</u>	<u>(25,673)</u>	-	-
	Pres Val Contributions		8,696,970	7,782,158	401,172	513,640	-	-
	Prepayment Credit		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Pres Value of Funding		8,696,970	7,782,158	401,172	513,640	-	-
	CAS Pension Cost		9,316,108	8,336,170	429,731	550,207	-	-
	Absorbed Credit		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	CAS Funding Target		9,316,108	8,336,170	429,731	550,207	-	-
	% Funded			93.35%	93.35%	93.35%	0.00%	0.00%
	Funded Pension Cost			7,782,158	401,172	513,640	-	-
	Allowable Interest			<u>388,964</u>	<u>20,051</u>	<u>25,673</u>	<u>-</u>	<u>-</u>
	Allocable Pension Cost			8,171,122	421,223	539,313	-	-
	Fiscal Year Pension			8,113,094	430,751	554,712		
	Medicare LOB%			3.34%	100.00%	100.00%	100.00%	100.00%
	Allowable Pension Cost		1,256,197	270,734	430,751	554,712	-	-
1995	Contribution(s)		14,998,706	13,649,786	365,922	548,453	13,285	253,853
8.25%	Discount for Interest		<u>(960,994)</u>	<u>(874,567)</u>	<u>(23,445)</u>	<u>(35,140)</u>	<u>(851)</u>	<u>(16,265)</u>
	Pres Val Contributions		14,037,712	12,775,219	342,477	513,313	12,434	237,588
	Prepayment Credit		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Pres Value of Funding		14,037,712	12,775,219	342,477	513,313	12,434	237,588
	CAS Pension Cost		9,161,855	7,899,362	342,477	513,313	12,434	237,588
	Absorbed Credit		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	CAS Funding Target		9,161,855	7,899,362	342,477	513,313	12,434	237,588
	% Funded			100.00%	100.00%	100.00%	100.00%	100.00%
	Funded Pension Cost			7,899,362	342,477	513,313	12,434	237,588
	Allowable Interest			<u>461,619</u>	<u>20,013</u>	<u>29,997</u>	<u>727</u>	<u>13,884</u>
	Allocable Pension Cost			8,360,981	362,490	543,310	13,161	251,472
	Fiscal Year Pension			8,313,516	377,173	542,311	9,871	188,604
	Medicare LOB%			4.83%	100.00%	100.00%	100.00%	100.00%
	Allowable Pension Cost		1,519,169	401,210	377,173	542,311	9,871	188,604

HEALTH CARE SERVICE CORPORATION – PLAN 001

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1992 THROUGH 1998

Year & Percentage	Description	Note	Total Company	Other	HCSC Med A	HCSC Med B	HCSA Med A	HCSA Med B
1996	Contribution(s)		10,886,070	9,960,933	362,255	375,487	29,486	157,909
8.25%	Discount for Interest		<u>(434,158)</u>	<u>(397,262)</u>	<u>(14,447)</u>	<u>(14,975)</u>	<u>(1,176)</u>	<u>(6,298)</u>
	Pres Val Contributions		10,451,912	9,563,671	347,808	360,512	28,310	151,611
	Prepayment Credit		<u>5,278,115</u>	<u>4,526,423</u>	<u>294,340</u>	<u>305,090</u>	<u>23,958</u>	<u>128,304</u>
	Pres Value of Funding		15,730,027	14,090,094	642,148	665,602	52,268	279,915
	CAS Funding Target		11,515,026	9,875,093	642,148	665,602	52,268	279,915
	% Funded			100.00%	100.00%	100.00%	100.00%	100.00%
	Funded Pension Cost			9,875,093	642,148	665,602	52,268	279,915
	Allowable Interest			<u>222,177</u>	<u>14,447</u>	<u>14,975</u>	<u>1,176</u>	<u>6,298</u>
	Allocable Pension Cost			10,097,270	656,595	680,577	53,444	286,213
	Fiscal Year Pension			9,663,198	583,069	646,260	43,373	277,528
	Medicare LOB%			4.14%	100.00%	100.00%	100.00%	100.00%
	Allowable Pension Cost		1,950,576	400,346	583,069	646,260	43,373	277,528
1997	Contribution(s)		4,953,431	4,248,102	201,320	331,520	29,592	142,897
8.25%	Discount for Interest		<u>(202,121)</u>	<u>(173,341)</u>	<u>(8,215)</u>	<u>(13,527)</u>	<u>(1,207)</u>	<u>(5,831)</u>
	Pres Val Contributions		4,751,310	4,074,761	193,105	317,993	28,385	137,066
	Prepayment Credit		<u>4,562,739</u>	<u>3,863,944</u>	<u>199,455</u>	<u>328,450</u>	<u>29,317</u>	<u>141,573</u>
	Pres Value of Funding		9,314,049	7,938,705	392,560	646,443	57,702	278,639
	CAS Funding Target		8,980,207	7,604,864	392,560	646,443	57,701	278,639
	% Funded			100.00%	100.00%	100.00%	100.00%	100.00%
	Funded Pension Cost			7,604,864	392,560	646,443	57,701	278,639
	Allowable Interest			<u>159,139</u>	<u>8,215</u>	<u>13,527</u>	<u>1,207</u>	<u>5,831</u>
	Allocable Pension Cost			7,764,003	400,775	659,970	58,908	284,470
	Fiscal Year Pension			8,347,320	464,730	665,122	57,542	284,906
	Medicare LOB%			3.68%	100.00%	100.00%	100.00%	100.00%
	Allowable Pension Cost		1,779,064	306,764	464,730	665,122	57,542	284,906

HEALTH CARE SERVICE CORPORATION - PLAN 001

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1992 THROUGH 1998

Year & Percentage	Description	Note	Total Company	Other	HCSC Med A	HCSC Med B	HCSA Med A	HCSA Med B
1998	Contribution(s)		-	-	-	-	-	-
8.25%	Discount for Interest		-	-	-	-	-	-
	Pres Val Contributions		-	-	-	-	-	-
	Prepayment Credit		<u>361,385</u>	-	-	<u>115,624</u>	<u>45,436</u>	<u>200,325</u>
	Pres Value of Funding		361,385	-	-	115,624	45,436	200,325
	CAS Funding Target		361,385	-	-	115,624	45,436	200,325
	% Funded			0.00%	0.00%	100.00%	100.00%	100.00%
	Funded Pension Cost			-	-	115,624	45,436	200,325
	Allowable Interest			-	-	-	-	-
	Allocable Pension Cost			-	-	115,624	45,436	200,325
	Fiscal Year Pension			1,941,001	100,194	251,711	48,804	221,361
	Medicare LOB%			2.48%	100.00%	100.00%	100.00%	100.00%
	Allowable Pension Cost		670,284	48,214	100,194	251,711	48,804	221,361

*HEALTH CARE SERVICE CORPORATION – PLAN 001***STATEMENT OF ALLOWABLE CAS PENSION COSTS***FOR FISCAL YEARS 1992 THROUGH 1998*FOOTNOTES

- 1/ We obtained total company contribution amounts and dates of deposit from IRS 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.
- 2/ We subtracted interest that is included in the contributions deposited after January 1 of each 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 the actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to January 1. 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.
- 4/ A prepayment credit represents the 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 may be 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 January 1 of each year.
- 6/ The CAS pension costs, computed at January 1 of each year, provide the basis to compute the allowable pension costs that can be charged to Medicare.
- 7/ The absorbed credit represents the portion of the accumulated unabsorbed credit that is used to fund the current year CAS pension costs. The credit is used first to fund the CAS pension costs before any current or prepaid contributions are considered for funding.
- 8/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of FAR 31.205-6(j)(3)(I).
- 9/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Since any funding in excess of the CAS funding target is considered premature funding in accordance with CAS 412.50(a)(7), we determined that the funded ratio might not exceed 100 percent. We computed the

*HEALTH CARE SERVICE CORPORATION – PLAN 001***STATEMENT OF ALLOWABLE CAS PENSION COSTS***FOR FISCAL YEARS 1992 THROUGH 1998*

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 two decimals. Therefore, due to the rounding, the funded pension cost shown may not be equal to the CAS funding target times the percentage funded as shown on the schedule.

- 10/ We computed the funded CAS pension costs as the CAS funding target multiplied by the percentage funded.
- 11/ We assumed interest on the funded CAS pension costs is to accrue in the same proportion as the interest on contributions bears to the present value of funding. However, we limited interest by FAR 31.205-6(j)(3)(iii) which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target were funded in four equal installments deposited within 30 days of the end of the quarter.
- 12/ The allocable CAS pension costs is the amount of pension costs which may be allocated for contract cost purposes.
- 13/ We converted the plan year allowable CAS pension costs to a fiscal year basis (October 1 through September 30). We calculated the fiscal year pension costs as one-fourth (1/4) of the prior year's costs plus three-fourths (3/4) of the current year's costs. Costs charged to the Medicare contract should consist of the Medicare segment's direct pension costs plus pension costs attributable to indirect Medicare operations.
- 14/ We calculated allowable pension costs of the Medicare and other segments based on the Medicare line of business (LOB) percentage of each segment. We obtained the percentages from documents provided by HCSC.
- 15/ We computed the Medicare pension costs as the Fiscal Year pension costs multiplied by the Medicare LOB percentage.

HEALTH CARE SERVICE CORPORATION – PLAN 002

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1992 THROUGH 1998

Year & Percentage	Description	Note	Total Company	HCSA Med A	HCSA Med B
1994	Contribution(s)	1/	277,281	60,582	216,699
8.25%	Discount for Interest	2/	<u>(21,132)</u>	<u>(4,617)</u>	<u>(16,515)</u>
	Pres Val Contributions	3/	256,149	55,965	200,184
	Prepayment Credit	4/	<u>-</u>	<u>-</u>	<u>-</u>
	Pres Value of Funding	5/	256,149	55,965	200,184
	CAS Pension Cost	6/	267,371	58,144	209,227
	Absorbed Credit	7/	<u>-</u>	<u>-</u>	<u>-</u>
	CAS Funding Target	8/	267,371	58,144	209,227
	% Funded	9/		96.25%	95.68%
	Funded Pension Cost	10/		55,965	200,184
	Allowable Interest	11/		<u>3,270</u>	<u>11,698</u>
	Allocable Pension Cost	12/		59,235	211,882
	Fiscal Year Pension	13/		44,426	158,912
	Medicare LOB %	14/		100.00%	100.00%
	Allowable Pension Cost	15/	203,338	44,426	158,912
1995	Contribution(s)		426,124	94,619	331,505
8.25%	Discount for Interest		<u>(32,476)</u>	<u>(7,211)</u>	<u>(25,265)</u>
	Pres Val Contributions		393,648	87,408	306,240
	Prepayment Credit		<u>362</u>	<u>80</u>	<u>282</u>
	Pres Value of Funding		394,010	87,488	306,522
	CAS Pension Cost		546,314	121,306	425,008
	Absorbed Credit		<u>-</u>	<u>-</u>	<u>-</u>
	CAS Funding Target		546,314	121,306	425,008
	% Funded			72.12%	72.12%
	Funded Pension Cost			87,488	306,522
	Allowable Interest			<u>5,108</u>	<u>17,896</u>
	Allocable Pension Cost			92,596	324,418
	Fiscal Year Pension			84,256	296,284
	Medicare LOB %			100.00%	100.00%
	Allowable Pension Cost		380,540	84,256	296,284

HEALTH CARE SERVICE CORPORATION – PLAN 002

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1992 THROUGH 1998

Year & Percentage	Description	Note	Total Company	HCSA Med A	HCSA Med B
1996	Contribution(s)		712,090	217,980	494,110
8.25%	Discount for Interest		<u>(42,298)</u>	<u>(12,948)</u>	<u>(29,350)</u>
	Pres Val Contributions		669,792	205,032	464,760
	Prepayment Credit		<u>-</u>	<u>-</u>	<u>-</u>
	Pres Value of Funding		669,792	205,032	464,760
	CAS Funding Target		607,086	142,326	464,760
	% Funded			100.00%	100.00%
	Funded Pension Cost			142,326	464,760
	Allowable Interest			<u>8,317</u>	<u>27,159</u>
	Allocable Pension Cost			150,643	491,919
	Fiscal Year Pension			136,131	450,044
	Medicare LOB %			100.00%	100.00%
	Allowable Pension Cost		586,175	136,131	450,044
1997	Contribution(s)		647,481	181,840	465,641
8.25%	Discount for Interest		<u>(33,427)</u>	<u>(9,388)</u>	<u>(24,039)</u>
	Pres Val Contributions		614,054	172,452	441,602
	Prepayment Credit		<u>67,879</u>	<u>13,119</u>	<u>54,760</u>
	Pres Value of Funding		681,933	185,571	496,362
	CAS Funding Target		615,274	118,912	496,362
	% Funded			100.00%	100.00%
	Funded Pension Cost			118,912	496,362
	Allowable Interest			<u>5,759</u>	<u>24,039</u>
	Allocable Pension Cost			124,671	520,401
	Fiscal Year Pension			131,164	513,281
	Medicare LOB %			100.00%	100.00%
	Allowable Pension Cost		644,445	131,164	513,281

HEALTH CARE SERVICE CORPORATION – PLAN 002

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1992 THROUGH 1998

Year & Percentage	Description	Note	Total Company	HCSA Med A	HCSA Med B
1998	Contribution(s)		387,132	57,893	329,239
8.25%	Discount for Interest		<u>(29,504)</u>	<u>(4,412)</u>	<u>(25,092)</u>
	Pres Val Contributions		357,628	53,481	304,147
	Prepayment Credit		<u>72,158</u>	<u>10,791</u>	<u>61,367</u>
	Pres Value of Funding		429,786	64,272	365,514
	CAS Funding Target		668,744	100,006	568,738
	% Funded			64.27%	64.27%
	Funded Pension Cost			64,272	365,514
	Allowable Interest			<u>3,125</u>	<u>17,774</u>
	Allocable Pension Cost			67,397	383,288
	Fiscal Year Pension			81,716	417,566
	Medicare LOB%			100.00%	100.00%
	Allowable Pension Cost		499,282	81,716	417,566

*HEALTH CARE SERVICE CORPORATION – PLAN 002***STATEMENT OF ALLOWABLE CAS PENSION COSTS***FOR FISCAL YEARS 1992 THROUGH 1998*FOOTNOTES

- 1/ We obtained total company contribution amounts and dates of deposit from IRS 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.
- 2/ We subtracted interest that is included in the contributions deposited after January 1 of each 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 the actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to January 1. 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.
- 4/ A prepayment credit represents the 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 may be 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 January 1 of each year.
- 6/ The CAS pension costs, computed at January 1 of each year, provide the basis to compute the allowable pension costs that can be charged to Medicare.
- 7/ The absorbed credit represents the portion of the accumulated unabsorbed credit that is used to fund the current year CAS pension costs. The credit is used first to fund the CAS pension costs before any current or prepaid contributions are considered for funding.
- 8/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of FAR 31.205-6(j)(3)(I).

*HEALTH CARE SERVICE CORPORATION – PLAN 002***STATEMENT OF ALLOWABLE CAS PENSION COSTS***FOR FISCAL YEARS 1992 THROUGH 1998*

- 9/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Since any funding in excess of the CAS funding target is considered premature funding in accordance with CAS 412.50(a)(7), we determined that the funded ratio might 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 two decimals. Therefore, due to the rounding, the funded pension cost shown may not be equal to the CAS funding target times the percentage funded as shown on the schedule.
- 10/ We computed the funded CAS pension costs as the CAS funding target multiplied by the percentage funded.
- 11/ We assumed interest on the funded CAS pension costs is to accrue in the same proportion as the interest on contributions bears to the present value of funding. However, we limited interest by FAR 31.205-6(j)(3)(iii) which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target were funded in four equal installments deposited within 30 days of the end of the quarter.
- 12/ The allocable CAS pension costs is the amount of pension costs which may be allocated for contract cost purposes.
- 13/ We converted the plan year allowable CAS pension costs to a fiscal year basis (October 1 through September 30). We calculated the fiscal year pension costs as one-fourth (1/4) of the prior year's costs plus three-fourths (3/4) of the current year's costs. Costs charged to the Medicare contract should consist of the Medicare segment's direct pension costs plus pension costs attributable to indirect Medicare operations.
- 14/ We calculated allowable pension costs of the Medicare and other segments based on the Medicare line of business (LOB) percentage of each segment. We obtained the percentages from documents provided by HCSC.
- 15/ We computed the Medicare pension costs as the Fiscal Year pension costs multiplied by the Medicare LOB percentage.